

INVESTOR FACT BOOK 2007-2008



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Corporate	Operations
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Peter C. Davis <i>Executive Vice President Global Strategy</i>	Kathleen A. Corbet <i>President Financial Services</i>
Bruce D. Marcus <i>Executive Vice President and Chief Information Officer</i>	Glenn S. Goldberg <i>President Information & Media</i>
David L. Murphy <i>Executive Vice President Human Resources</i>	
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COMMITTED TO CREATING SHAREHOLDER VALUE

In the last 10 years, the market capitalization of The McGraw-Hill Companies (NYSE: MHP) has grown from \$4.6 billion to \$24.1 billion. The *2007-2008 Investor Fact Book* highlights MHP's financial and strategic progress during this period and how the company expects to benefit in the future from powerful global trends, growing markets, and leveraging technology to improve operational efficiency and produce incremental revenue.

The record reflects MHP's commitment to advancing total shareholder value. Outperforming the S&P 500 has been a hallmark of corporate performance. MHP has beaten the S&P 500 over the last one-, three-, five-, seven-, and ten-year periods. Through 2006, The McGraw-Hill Companies' total return to shareholders over the last 10 years has averaged 21.5% annually – more than double the annual total return of the market benchmark, the S&P 500.

Since 1996, the Corporation has returned \$6.8 billion to shareholders through dividends and share buybacks including more than \$915 million in the first quarter of

2007. As shown in the table below, cash returned to shareholders through dividends and share repurchases has grown at a compound annual rate of nearly 25% between 1996 and 2006. Robust free cash flow (see table below), growth in operating earnings, and return on invested capital underscores MHP's consistent performance under a variety of market conditions.

To build on its record of achievement, MHP will continue focusing on growth that is being created by the worldwide demand for capital, the need for education in a knowledge economy, and new opportunities to connect professionals with essential information for better decision making.

As the Internet and the digitization of content grow, so will MHP. With the scale to create more operating leverage, MHP is reshaping its businesses by connecting content, digital assets, and talent as never before. Digital business models (see page 20) are taking hold as content and technology converge to create new ways to monetize MHP's core assets and create new capabilities for driving future growth.

FREE CASH FLOW

Years ended December 31
(dollars in thousands)

	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Cash provided by operating activities	\$1,509,304	\$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
Investment in prepublication costs	(276,810)	(257,795)	(237,760)	(218,049)	(249,317)	(294,538)	(250,005)	(246,341)	(194,978)	(166,784)	(182,978)
Purchase of property and equipment	(126,593)	(120,232)	(139,003)	(114,984)	(70,019)	(116,895)	(97,721)	(154,324)	(178,889)	(78,724)	(63,313)
Additions to technology projects	(22,978)	(16,456)	(10,623)	(28,145)	(55,477)	(28,840)	(15,194)	(38,315)	(41,414)	(17,422)	(13,184)
Other adjustments, principally foreign exchange	2,831	(22,947)	10,019	14,115	13,817	(2,221)	(3,089)	(1,679)	(1,715)	(1,500)	(341)
Dividends paid to shareholders	(260,323)	(246,048)	(228,166)	(206,543)	(197,016)	(189,834)	(182,462)	(169,049)	(154,386)	(142,705)	(131,375)
Tax payment/(dividend) from divestitures (a, b, c)	—	—	172,000	(103,500)	—	—	—	—	—	150,000	—
Free cash flow	\$825,431	\$896,412	\$629,939	\$725,239	\$584,379	\$467,253	\$172,283	\$136,660	\$225,102	\$133,363	\$82,145

(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)

	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996	10-year CAGR
MHP dividends paid	\$260.3	\$246.0	\$228.2	\$206.5	\$197.0	\$189.8	\$182.5	\$169.0	\$154.4	\$142.7	\$131.4	7.1%
MHP shares repurchased	1,540.1	677.7	409.4	216.4	183.1	176.5	167.6	173.8	105.6	79.9	63.3	37.6%
Total	\$1,800.4	\$923.7	\$637.6	\$422.9	\$380.1	\$366.3	\$350.1	\$342.8	\$260.0	\$222.6	\$194.7	24.9%
<i>MHP growth</i>	<i>94.9%</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	\$24.88	\$22.22	\$19.44	\$17.38	\$16.07	\$15.74	\$16.27	\$16.69	\$16.20	\$15.49	\$14.90	5.3%
<i>S&P 500 growth</i>	<i>12.0%</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

Since 1996, The McGraw-Hill Companies has returned more than \$6.8 billion to shareholders through dividend payments and share buybacks, including more than \$915 million in the first quarter of 2007. 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.

In January 2007, the Board of Directors approved plans to repurchase up to 15 million shares during the year. MHP repurchased 13.2 million shares in the first quarter of 2007 and expects to buy back the remaining 1.8 million shares during the remainder of 2007.

In April 2007, the Board authorized the buyback of up to 15 million shares in addition to the 15 million shares it previously approved for purchase in 2007 for a total authorization of up to 30 million shares. These repurchases may be made during 2007, subject to market conditions.

The Board of Directors approved in January 2007 a 12.9% increase in the regular quarterly cash dividend on MHP's common stock. The 2007 annualized rate of \$0.82 per share represents an average compound annual dividend growth rate of 10.4% since 1974. MHP is one of fewer than 30 companies in the S&P 500 that has increased its dividend annually for the last 34 consecutive years.

Share Repurchase Programs¹

Year	\$ in millions	Shares Purchased	Average Price	Diluted Weighted Average Year-End Shares Outstanding
2006	\$ 1,540.1	28,400,000	\$ 54.23	366,877,769
2005	\$ 671.9	14,343,900	\$ 46.84	382,569,750
2004	\$ 400.6	10,000,000	\$ 40.06	385,823,700 ²
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

¹ Adjusted for all stock splits through 2005. Approximately 55% of repurchases during the period shown offset the issuance of shares for stock option and restricted share programs; the remaining 45% reduce the net number of shares outstanding

² 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, 1937-2006



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

	2006	2005	2004	2003	2002
Moody's	A1	A1	A1	A1	A1
Fitch	A+	A+	A+	A+	A+

Commercial Paper Ratings

	2006	2005	2004	2003	2002
Moody's	P1	P1	P1	P1	P1
Fitch	F1	F1	F1	F1	F1

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
2006	4	69.250	57.280	68.020	76,636,900	26.95	22.29	26.47	16.32	15.13	16.17	1.65	1.47	1.64
	3	58.300	48.400	58.030	92,639,400	22.95	19.06	22.85	15.60	14.25	15.55	1.47	1.34	1.47
	2	58.750	47.800	50.230	121,441,400	23.98	19.51	20.50	16.23	14.92	15.54	1.48	1.31	1.32
	1	59.570	46.370	57.620	119,198,700	25.35	19.73	24.52	16.55	15.73	16.35	1.53	1.25	1.50
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

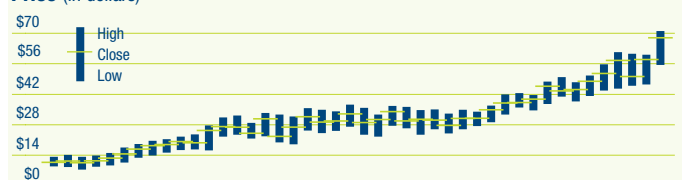
* Data reflects the 2-for-1 stock split completed on May 17, 2005. All prior periods have been restated to reflect the 2005 split

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

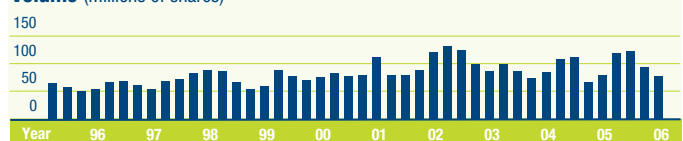
Source: Standard & Poor's Compustat

MHP STOCK PRICE AND VOLUME HISTORY, 1996-2006*

Price (in dollars)



Volume (millions of shares)



Source: Standard & Poor's Compustat

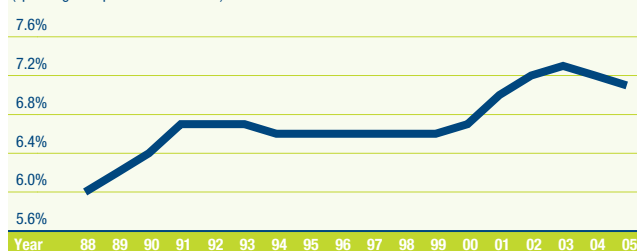
THE WORLD IS GOING OUR WAY

Education, finance and information – the focus of The McGraw-Hill Companies – have each increased significantly as a share of the U.S. economy over the past 15 years (see charts).

The growth in these sectors, so essential for U.S. and global competitiveness, will likely continue, creating new opportunities for The McGraw-Hill Companies.

Education spending has risen to 7.1% of U.S. GDP

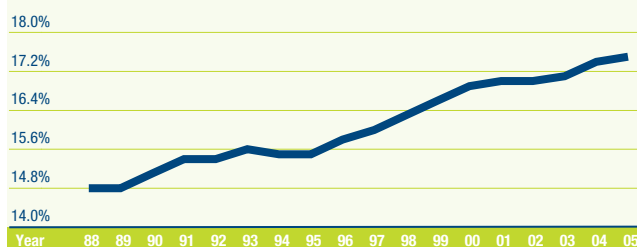
(spending as a percent of U.S. GDP)



Source: National Center for Education Statistics, Bureau of Economic Analysis

Financial sector has risen to 17.5% of U.S. gross output*

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

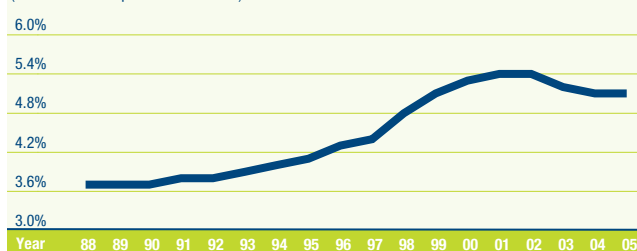


Source: National Center for Education Statistics, Bureau of Economic Analysis

*Includes finance, insurance and real estate

Information sector has risen to 5.1% of U.S. gross output

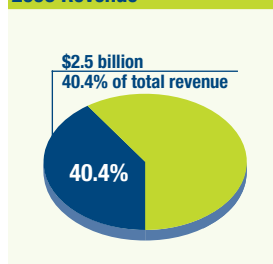
(value-added as a percent of U.S. GDP)



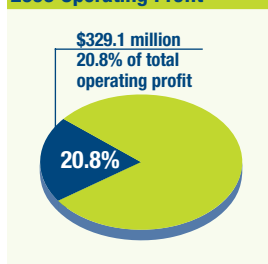
Source: National Center for Education Statistics, Bureau of Economic Analysis

MCGRAW-HILL EDUCATION

2006 Revenue



2006 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

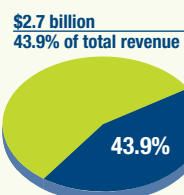
(dollars in millions)	2006 ^(a)	2005 ^(b)	2004 ^(c)
Revenue	\$2,524	\$2,672	\$2,396
Profit	\$ 329	\$ 410	\$ 340
Profit Margin	13.0%	15.4%	14.2%

Breakout of MHE Revenue

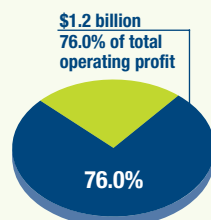
(dollars in millions)	2006	2005	2004 ^(c)
School Education Group	\$1,327	\$1,515	\$1,279
Higher Ed/Prof/Int'l Group	\$1,197	\$1,157	\$1,117

FINANCIAL SERVICES

2006 Revenue



2006 Operating Profit



Standard & Poor's

Key markets:

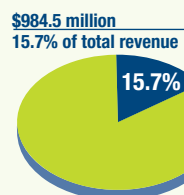
Worldwide customers include debt issuers, investors, intermediaries, corporations, government agencies, financial institutions, portfolio managers, brokers, financial advisors, fund managers, and securities traders.

Financial Services – Segment
Revenue, Operating Profit and Operating Margin

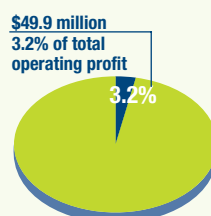
(dollars in millions)	2006 ^(d)	2005 ^(e)	2004
Revenue	\$ 2,746	\$ 2,401	\$ 2,055
Profit	\$ 1,202	\$ 1,019	\$ 839
Profit Margin	43.8%	42.5%	40.8%

INFORMATION & MEDIA

2006 Revenue



2006 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)	2006 ^(f)	2005 ^(g)	2004
Revenue	\$ 985	\$ 931	\$ 800
Profit	\$ 50	\$ 61	\$ 119
Profit Margin	5.1%	6.5%	14.9%

Breakout of I&M Revenue

(dollars in millions)	2006 ^(f)	2005 ^(g)	2004
B2B Group	\$ 864	\$ 819	\$ 686
Broadcasting	\$ 121	\$ 112	\$ 114

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), KPMC-TV (Bakersfield), KZSD-TV (San Diego, CA)

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 a \$16.0 million pre-tax restructuring charge and, as a result of the adoption of Financial Accounting Standards Board's Statement No. 123(R), "Share Based Payment," stock-based compensation expense of \$31.6 million pre-tax, which includes a one-time pre-tax charge of \$4.2 million for the elimination of the Company's restoration stock option program
- (b) Operating profit reflects the impact of a \$9.0 million pre-tax restructuring charge

- (c) 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 in 2004

Financial Services

- (d) As a result of the adoption of Statement No. 123(R), operating profit reflects stock-based compensation expense of \$38.3 million pre-tax, which includes a one-time pre-tax charge of \$2.1 million for the elimination of the Company's restoration stock option program

- (e) 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

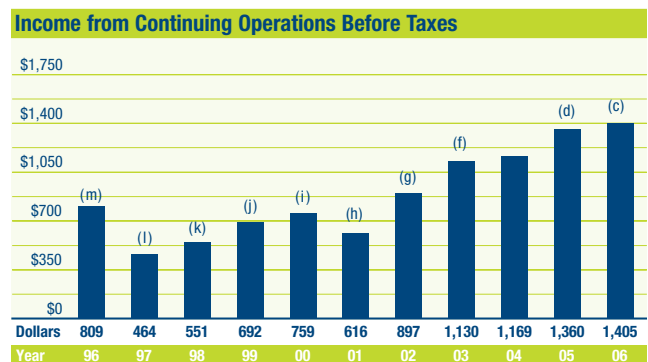
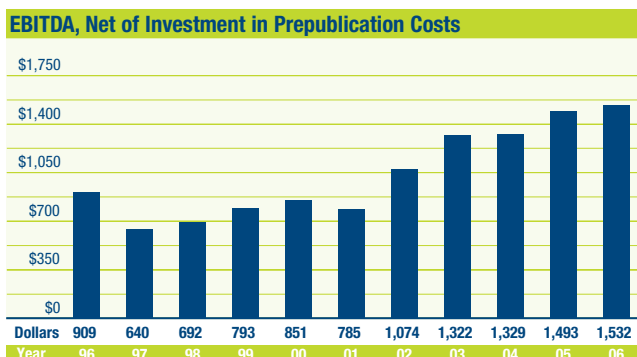
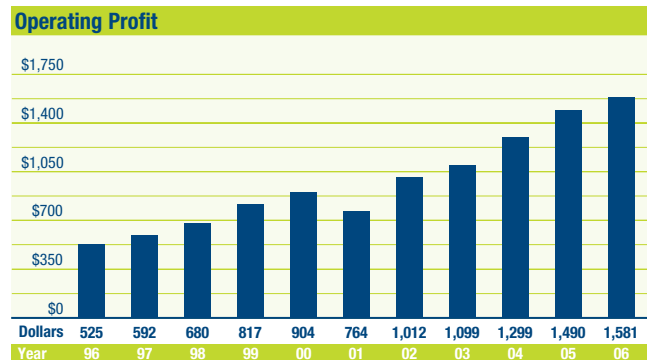
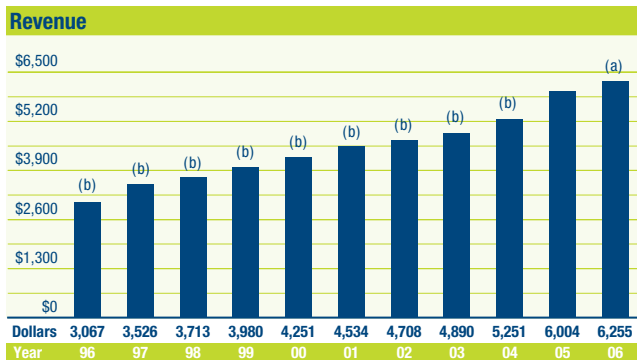
Information & Media

- (f) 2006 revenue of \$23.8 million and operating profit of \$21.1 million was deferred to 2007 due to the transformation of Sweets from a primarily print catalog to a bundled print and online service. Operating profit reflects an \$8.7 million pre-tax restructuring charge and, as a result of the adoption of Statement No. 123(R), stock-based

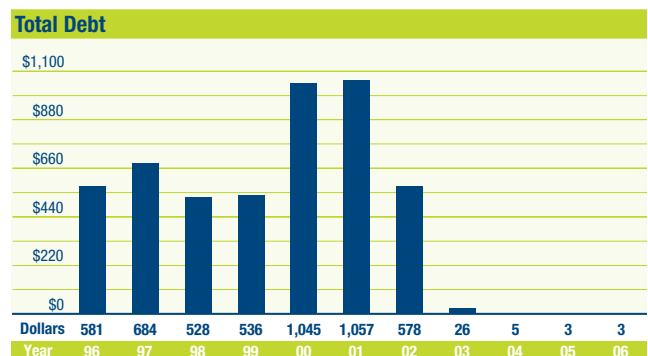
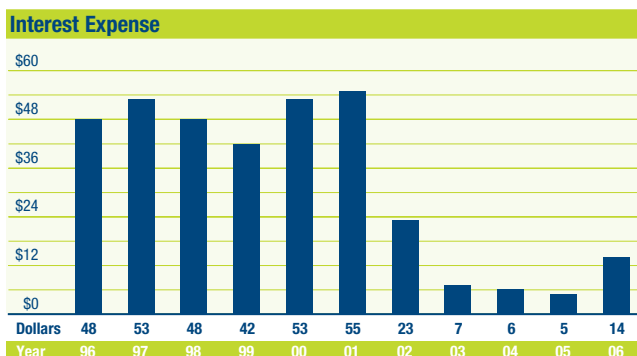
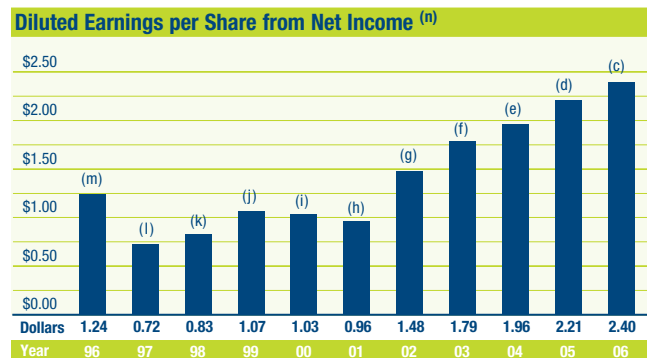
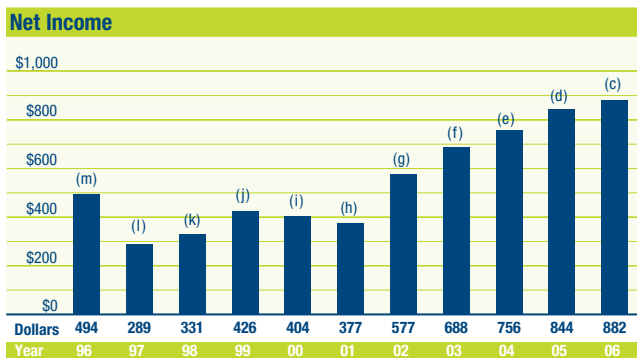
compensation expense of \$22.9 million pre-tax, which includes a one-time pre-tax charge of \$2.7 million for the elimination of the Company's restoration stock option program

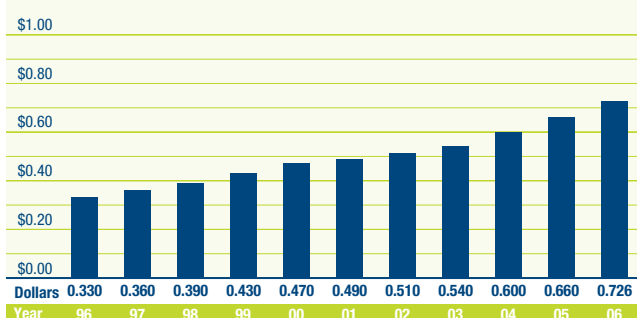
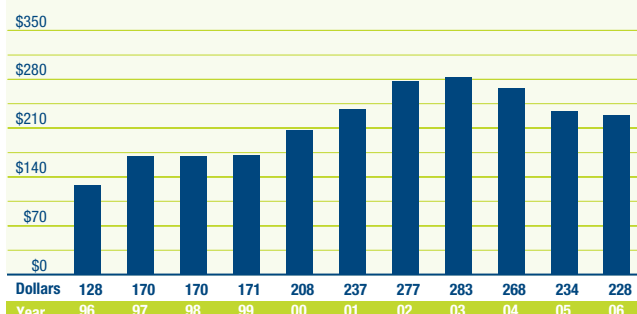
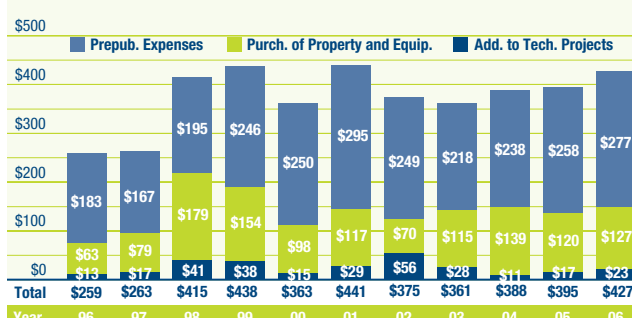
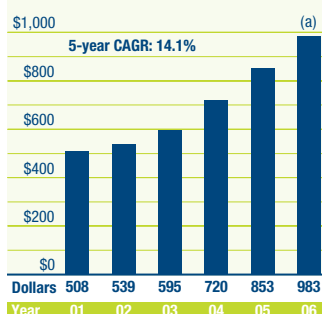
- (g) The acquisition of J.D. Power and Associates contributed \$144.7 million to the Business-to-Business Group's revenue within the Information & Media segment. Operating profit reflects the impact of a \$5.5 million pre-tax loss on the sale of the Healthcare Information Group and a \$10.2 million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

(dollars in millions, except per share data)



Please refer to EBITDA reconciliation table on page 16



Dividends per Share of Common Stock ⁽ⁿ⁾**Amortization of Prepublication Costs****Capital Expenditures****Unearned Revenue**

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

Certain prior year amounts have been reclassified for comparability purposes

(a) 2006 revenue of \$23.8 million was deferred to 2007 due to the transformation of Sweets from a primarily print catalog to a bundled print and online service.

(b) 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

(c) Includes a \$31.5 million pre-tax restructuring charge (\$19.8 million after-tax, or \$0.06 per diluted share) and a \$21.1 million pre-tax deferral of operating profit (\$13.3 million after-tax charge or \$0.04 per diluted share) due to a change in revenue recognition related to the transformation of Sweets from a primarily print catalog to a bundled print and online service. In 2006, as a result of the adoption of Financial Accounting Standards Board's Statement No. 123(R), "Share Based Payment," the Company incurred stock-based compensation expense of \$136.2 million (\$85.5 million after-tax, or \$0.23 per diluted share). Included in this expense is a one-time charge for the elimination of the Company's restoration stock option program of \$23.8 million (\$14.9 million after-tax, or \$0.04 per diluted share)

(d) 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

(e) 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%

(f) 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)

(g) 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

(h) 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)

(i) 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"

(j) Includes a \$39.7 million gain on the sale of the Petrochemical publications (\$24.2 million after-tax, or \$0.06 per diluted share)

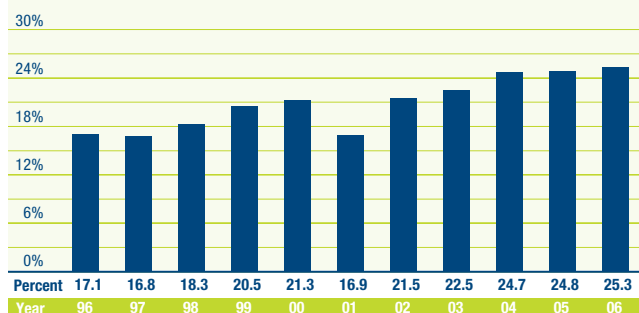
(k) Includes a \$26.7 million gain on sale of a building (\$16.3 million after-tax, or \$0.04 per diluted share) and a \$16.0 million provision (\$9.8 million after-tax, or \$0.02 per diluted share) at Continuing Education Center for write-down of assets due to a continuing decline in enrollments and 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

(l) 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)

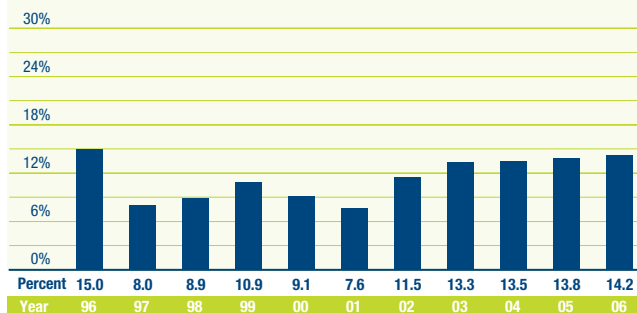
(m) Includes a gain on the exchange of Shepard's/McGraw-Hill for the Times Mirror Higher Education Group of \$418.7 million (\$260.5 million after-tax, or \$0.65 per diluted share) and a one-time charge of \$25.0 million (\$14.9 million after-tax, or \$0.04 per diluted share) for integration costs

(n) 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

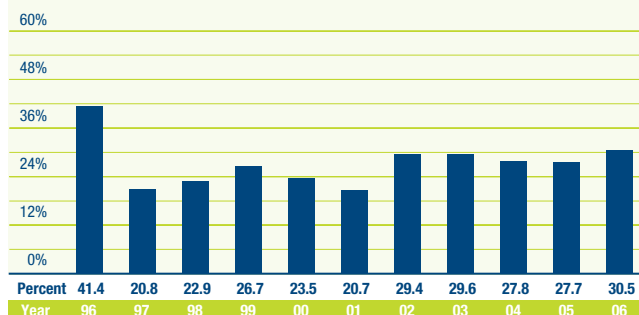


Return on Average Assets*

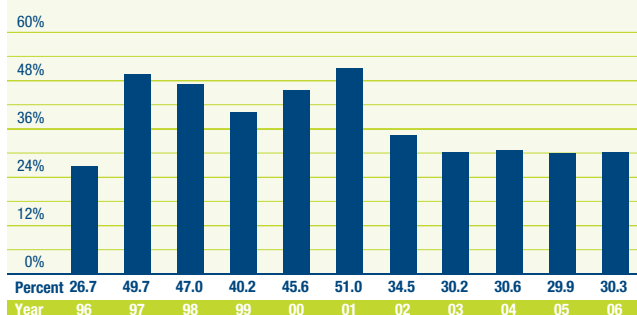


* Certain prior year amounts have been reclassified for comparability purposes

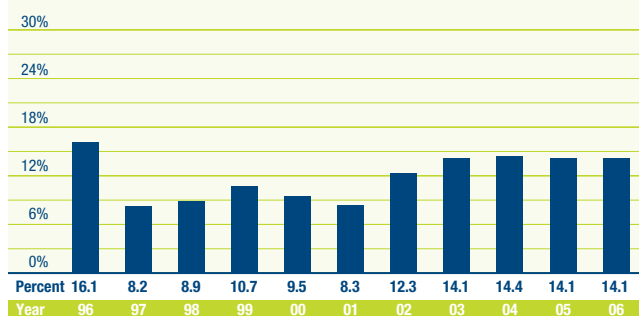
Return on Average Shareholders' Equity



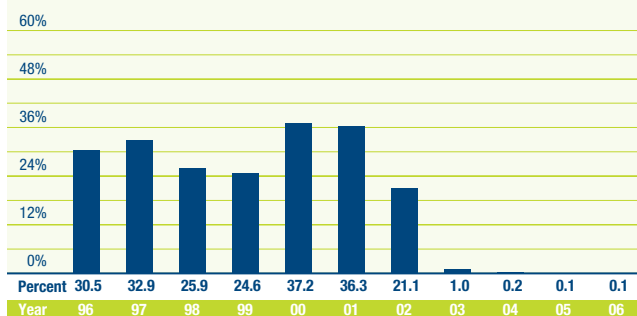
Dividend Payout (as a percentage of current year's earnings)



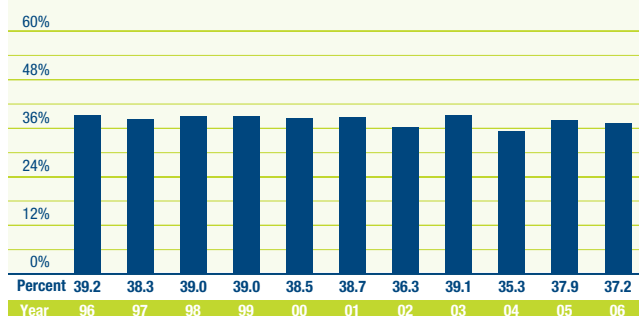
Net Income Margin



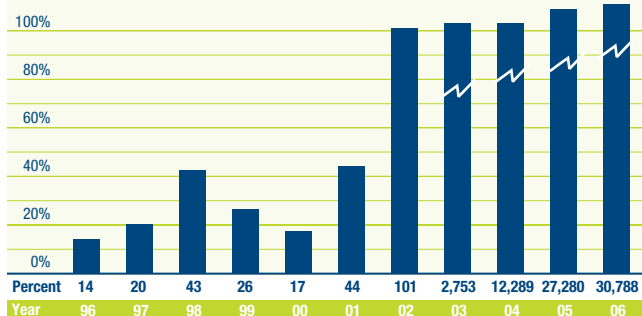
Total Debt to Capitalization



Tax Rate



Free Cash Flow to Debt



Please refer to free cash flow table on page 1

RETURN ON INVESTED CAPITAL											
(dollars in millions)	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Income from continuing operations before extraordinary item and cumulative adjustment	\$882.2	\$844.3	\$756.4	\$687.8	\$572.0	\$377.7	\$467.0	\$422.2	\$336.4	\$286.3	\$492.1
Post-tax adjustments for one-time items ⁽¹⁾	34.7	20.4	(20.0)	(58.4)	(2.0)	103.4	(10.2)	(24.2)	(6.5)	(0.3)	(245.6)
Post-tax interest adjustment ⁽²⁾	49.2	43.3	44.6	46.6	47.6	67.8	63.1	61.1	51.8	46.2	37.3
Adjusted earnings before interest, after tax	\$966.1	\$908.0	\$781.0	\$676.0	\$617.6	\$548.9	\$519.9	\$459.1	\$381.7	\$332.2	\$283.8
Present value of operating lease obligations (average)	\$1,193.7	\$1,207.1	\$1,273.5	\$1,303.9	\$1,141.2	\$931.6	\$829.1	\$795.0	\$667.5	\$368.3	\$207.7
Short-term & long-term debt (average)	3.0	4.2	15.7	302.3	817.4	1,051.0	790.9	532.0	606.0	632.9	605.0
Shareholders' equity (average)	2,896.4	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
Cash (average)	(551.1)	(714.7)	(688.1)	(376.9)	(55.9)	(28.4)	(4.8)	(8.5)	(7.6)	(4.1)	(6.8)
Average invested capital	\$3,542.0	\$3,545.4	\$3,371.9	\$3,590.7	\$3,912.6	\$3,761.7	\$3,320.0	\$2,897.2	\$2,717.6	\$2,355.7	\$1,966.8
Return on invested capital	27.3%	25.6%	23.2%	18.8%	15.8%	14.6%	15.7%	15.8%	14.0%	14.1%	14.4%

⁽¹⁾ Adjustment to income from continuing operations to exclude all one-time items discussed in the notes below. Adjustment for 2006 does not include the impact of the transformation of Sweets

⁽²⁾ 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:

2006: Includes a \$31.5 million pre-tax restructuring charge (\$19.8 million after-tax, or \$0.06 per diluted share) and a \$21.1 million pre-tax deferral of operating profit (\$13.3 million after-tax charge or \$0.04 per diluted share) due to a change in revenue recognition related to the transformation of Sweets from a primarily print catalog to a bundled print and online service. In 2006, as a result of the adoption of Financial Accounting Standards Board's Statement No. 123(R), "Share Based Payment," the Company incurred stock-based compensation expense of \$136.2 million (\$85.5 million after-tax, or \$0.23 per diluted share). Included in this expense is a one-time charge for the elimination of the Company's restoration stock option program of \$23.8 million (\$14.9 million after-tax, or \$0.04 per diluted share)

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 shutdown 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

REVENUE BY SEGMENT

(dollars in millions)	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
McGraw-Hill Education^(a)	\$2,524.2	\$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
% increase/(decrease)*	(5.5%)	11.5%	2.0%	0.3%	2.3%	12.3%	14.1%	7.6%	3.0%	23.1%	3.6%
% of total revenue	40.4%	44.5%	45.6%	48.0%	49.8%	50.5%	48.0%	44.9%	44.7%	45.7%	42.7%
Financial Services	\$2,746.4	\$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
% increase/(decrease)*	14.4%	16.8%	16.2%	13.7%	11.3%	16.0%	3.6%	12.2%	18.1%	14.6%	8.7%
% of total revenue	43.9%	40.0%	39.2%	36.2%	33.0%	30.8%	28.3%	29.2%	27.9%	24.9%	25.0%
Information & Media^(b)	\$984.5	\$931.1	\$799.7	\$772.6	\$809.5	\$846.1	\$1,007.6	\$1,030.0	\$1,015.6	\$1,035.8	\$990.9
% increase/(decrease)*	5.7%	16.4%	3.5%	(4.6%)	(4.3%)	(16.0%)	(2.2%)	1.4%	(2.0%)	4.5%	3.0%
% of total revenue	15.7%	15.5%	15.2%	15.8%	17.2%	18.7%	23.7%	25.9%	27.4%	29.4%	32.3%
Total revenue	\$6,255.1	\$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
% increase/(decrease)*	4.2%	14.3%	7.4%	3.9%	3.8%	6.7%	6.8%	7.2%	5.3%	15.0%	4.6%

* % 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) 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) 2006 revenue of \$23.8 million and operating profit of \$21.1 million was deferred to 2007 due to the transformation of Sweets from a primarily print catalog to a bundled print and online service

(c) In 2006, as a result of the adoption of Financial Accounting Standards Board's Statement No. 123(R), "Share Based Payment," the Company incurred stock-based compensation expense of \$136.2 million (\$85.5 million after-tax, or \$0.23 per diluted share) which was charged to the following: McGraw-Hill Education of \$31.6 million pre-tax; Financial Services of \$38.3 million pre-tax; Information & Media of \$22.9 million pre-tax; and Corporate of \$43.4 million pre-tax. Included in this expense is a one-time charge for the elimination of the Company's restoration stock option program of \$23.8 million (\$14.9 million after-tax, or \$0.04 per diluted share) which impacted the segments by \$4.2 million pre-tax to McGraw-Hill Education, \$2.1 million pre-tax to Financial Services, \$2.7 million to Information & Media, and the remainder to Corporate. Also included in the expense is restricted performance stock expense of \$66.0 million (\$41.5 million after-tax, or \$0.11 per diluted share) as compared with \$51.1 million (\$32.1 million after-tax, or \$0.08 per diluted share) in 2005. The

breakout by segment is as follows: McGraw-Hill Education, \$16.8 million pre-tax in 2006 and \$12.0 million pre-tax in 2005; Financial Services, \$20.2 million pre-tax in 2006 and \$8.4 million pre-tax in 2005; Information & Media, \$12.1 million pre-tax in 2006 and \$8.8 million pre-tax in 2005; and Corporate, \$16.9 million pre-tax in 2006 and \$21.9 million pre-tax in 2005

(d) 2006 income from continuing operations before taxes on income includes a \$31.5 million pre-tax restructuring charge (\$19.8 million after-tax, or \$0.06 per diluted share) which is comprised of the following: McGraw-Hill Education of \$16.0 million pre-tax; Information & Media of \$8.7 million pre-tax and Corporate of \$6.8 million pre-tax

(e) 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

(f) 2005 includes a \$10.0 million (\$0.03 per diluted share) increase in income taxes on the repatriation of funds

(g) 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%

(h) 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 1999-1996 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 the juvenile retail publishing business in January of 2004 before the sale of the business

(i) 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)

(j) 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

(k) 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

(l) 2000 income from continuing operations before taxes reflects a \$16.6 million gain on the sale of Tower Group International

(m) 1999 income from continuing operations before taxes on income reflects a \$39.7 million gain on the sale of the Petrochemical publications

(n) 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

(o) 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

(p) 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

(q) 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

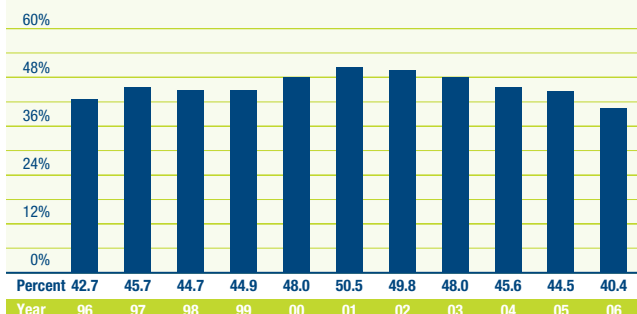
OPERATING PROFIT BY SEGMENT											
(\$ in millions, except per share data)	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
McGraw-Hill Education	\$329.1	\$410.2	\$340.1	\$321.8	\$333.0	\$273.3	\$307.7	\$273.7	\$202.1	\$187.7	\$151.9
% increase/(decrease)*	(19.8%)	20.6%	5.7%	(3.4%)	21.8%	(11.2%)	12.4%	35.4%	7.6%	23.6%	(6.6%)
% of total	20.8%	27.5%	26.2%	29.3%	32.9%	35.8%	34.0%	33.5%	29.7%	31.7%	29.0%
Financial Services	\$1,202.3	\$1,019.2	\$839.4	\$667.6	\$560.8	\$425.9	\$383.0	\$358.2	\$338.7	\$245.2	\$241.5
% increase/(decrease)*	18.0%	21.4%	25.7%	19.0%	31.7%	11.2%	6.9%	5.8%	38.1%	1.5%	12.5%
% of total	76.0%	68.4%	64.6%	60.7%	55.4%	55.7%	42.4%	43.8%	49.8%	41.4%	46.0%
Information & Media ^(b)	\$49.9	\$60.6	\$119.3	\$109.8	\$118.0	\$65.0	\$212.9	\$185.5	\$139.3	\$158.9	\$131.1
% increase/(decrease)*	(17.6%)	(49.2%)	8.6%	(7.0%)	81.6%	(69.5%)	14.8%	33.2%	(12.3%)	20.9%	1.0%
% of total	3.2%	4.1%	9.2%	10.0%	11.7%	8.5%	23.6%	22.7%	20.5%	26.9%	25.0%
Total operating profit	\$1,581.3	\$1,490.0	\$1,298.8	\$1,099.2	\$1,011.8	\$764.2	\$903.6	\$817.4	\$680.1	\$591.8	\$524.8
% increase/(decrease)*	6.1%	14.7%	18.2%	8.6%	32.4%	(15.4%)	10.6%	20.2%	14.9%	12.8%	3.4%
Unusual charges ^(p)	—	—	—	—	—	—	—	—	—	—	(25.0)
Gain on exchange of Shepard's/McGraw-Hill ^(p)	—	—	—	—	—	—	—	—	—	—	418.7
General corporate income/(expense) ⁽ⁱ⁾	(162.9)	(124.8)	(124.1)	38.2	(91.9)	(93.0)	(91.4)	(83.3)	(80.7)	(75.3)	(62.1)
Interest expense	(13.6)	(5.2)	(5.8)	(7.1)	(22.5)	(55.1)	(52.8)	(42.0)	(48.0)	(52.6)	(47.6)
Income from continuing operations before taxes on income ^(b,c,d,e,i,j,k,l,m,n,o)	1,404.8	1,360.0	1,168.9	1,130.3	897.4	616.1	759.4	692.1	551.4	463.9	808.8
Provision for taxes on income ^(f,g)	522.6	515.7	412.5	442.5	325.4	238.4	292.4	269.9	215.0	177.6	316.7
Income from continuing operations before extraordinary item and cumulative adjustment	882.2	844.3	756.4	687.8	572.0	377.7	467.0	422.2	336.4	286.3	492.1
Discontinued operations											
Net earnings/(loss) from discontinued operations ^(h)	—	—	(0.6)	(0.1)	4.8	(0.7)	4.9	3.4	2.9	2.4	1.4
Income before extraordinary item and cumulative adjustment	882.2	844.3	755.8	687.7	576.8	377.0	471.9	425.6	339.3	288.7	493.5
Early extinguishment of debt, net of tax ^(q)	—	—	—	—	—	—	—	—	(8.7)	—	—
Cumulative effect on prior years of changes in accounting ^(q)	—	—	—	—	—	—	(68.1)	—	—	—	—
Net income	\$882.2	\$844.3	\$755.8	\$687.7	\$576.8	\$377.0	\$403.8	\$425.6	\$330.6	\$288.7	\$493.5
Basic earnings per share											
Income from continuing operations before extraordinary item and cumulative adjustment	\$2.47	\$2.25	\$1.99	\$1.81	\$1.48	\$0.97	\$1.21	\$1.07	\$0.85	\$0.72	\$1.24
Discontinued operations ^(h)	—	—	—	—	0.01	—	0.01	0.01	0.01	0.01	—
Income before extraordinary item and cumulative adjustment	\$2.47	\$2.25	\$1.99	\$1.81	\$1.49	\$0.97	\$1.22	\$1.08	\$0.86	\$0.73	\$1.24
Extraordinary item and cumulative adjustment ^(q)	—	—	—	—	—	—	(0.18)	—	(0.02)	—	—
Net income	\$2.47	\$2.25	\$1.99	\$1.81	\$1.49	\$0.97	\$1.04	\$1.08	\$0.84	\$0.73	\$1.24
Diluted earnings per share											
Income from continuing operations before extraordinary item and cumulative adjustment	\$2.40	\$2.21	\$1.96	\$1.79	\$1.47	\$0.96	\$1.19	\$1.06	\$0.84	\$0.71	\$1.24
Discontinued operations ^(h)	—	—	—	—	0.01	—	0.01	0.01	0.01	0.01	—
Income before extraordinary item and cumulative adjustment	\$2.40	\$2.21	\$1.96	\$1.79	\$1.48	\$0.96	\$1.20	\$1.07	\$0.85	\$0.72	\$1.24
Extraordinary item and cumulative adjustment ^(q)	—	—	—	—	—	—	(0.17)	—	(0.02)	—	—
Net income	\$2.40	\$2.21	\$1.96	\$1.79	\$1.48	\$0.96	\$1.03	\$1.07	\$0.83	\$0.72	\$1.24

* % increase/(decrease) over prior year

MCGRAW-HILL EDUCATION

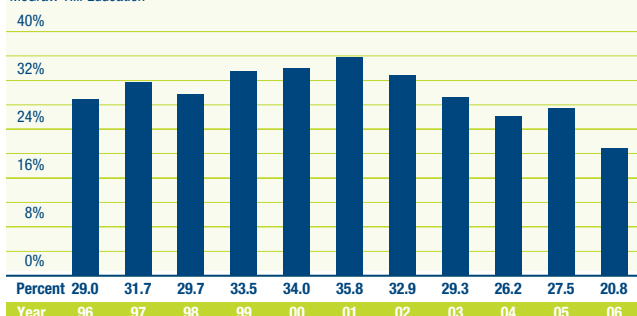
Percent of Total Revenue

McGraw-Hill Education



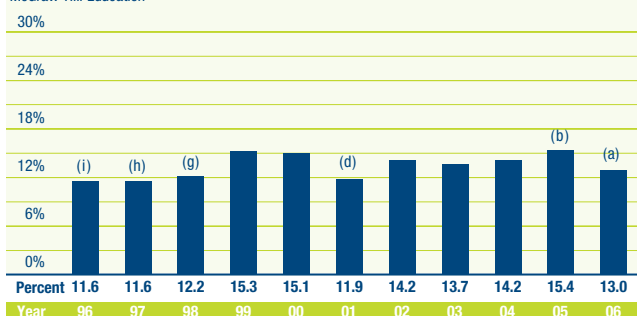
Percent of Total Operating Profit

McGraw-Hill Education



Operating Profit Margin

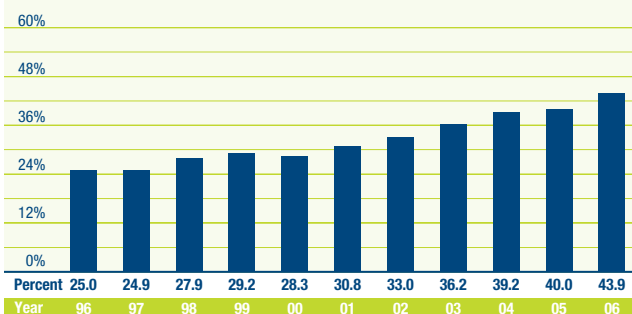
McGraw-Hill Education



FINANCIAL SERVICES

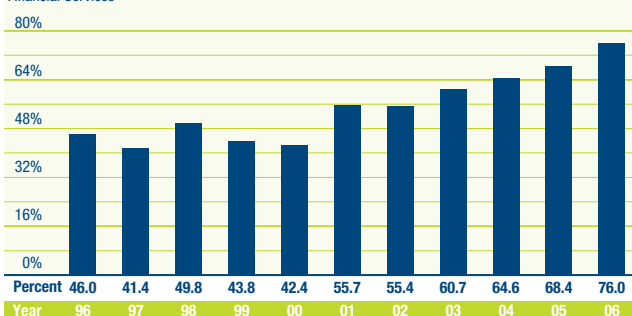
Percent of Total Revenue

Financial Services



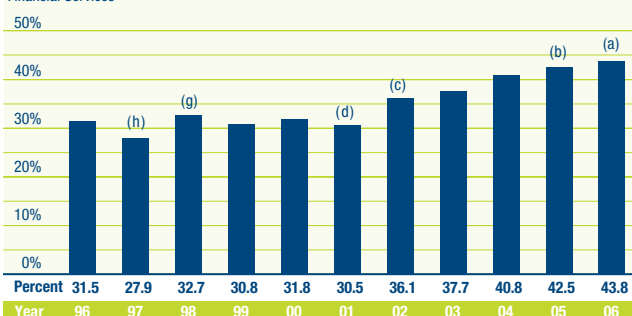
Percent of Total Operating Profit

Financial Services



Operating Profit Margin

Financial Services



Notes for Segment Trends (pages 12 and 13):

(a) Operating margin for 2006 reflects a \$31.5 million pre-tax restructuring charge (\$19.8 million after-tax, or \$0.06 per diluted share) comprised of the following: \$16.0 million for McGraw-Hill Education, \$8.7 million for Information & Media, and \$6.8 million for Corporate. The operating margin for 2006 also reflects a \$21.1 million pre-tax deferral of operating profit (\$13.3 million after-tax charge, or \$0.04 per diluted share) due to a change in revenue recognition related to the transformation of Sweets from a primarily print catalog to a bundled print and online service. In 2006, as a result of the adoption of Financial Accounting Standards Board's Statement No. 123(R), "Share Based Payment," the Company incurred stock-based compensation

expense of \$136.2 million (\$85.5 million after-tax, or \$0.23 per diluted share) which was charged to the following: McGraw-Hill Education of \$31.6 million pre-tax; Financial Services of \$38.3 million pre-tax; Information & Media of \$22.9 million pre-tax; and Corporate of \$43.4 million pre-tax. Included in this expense is a one-time charge for the elimination of the Company's restoration stock option program of \$23.8 million (\$14.9 million after-tax, or \$0.04 per diluted share) which impacted the segments by \$4.2 million pre-tax to McGraw-Hill Education, \$2.1 million pre-tax to Financial Services, \$2.7 million to Information & Media, and the remainder to Corporate. Also included in the expense is restricted performance stock expense of \$66.0

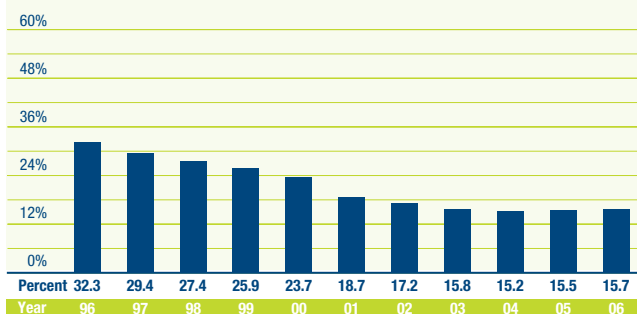
million (\$41.5 million after-tax, or \$0.11 per diluted share) as compared with \$51.1 million (\$32.1 million after-tax, or \$0.08 per diluted share) in 2005. The breakout by segment is as follows: McGraw-Hill Education, \$16.8 million pre-tax in 2006 and \$12.0 million pre-tax in 2005; Financial Services, \$20.2 million pre-tax in 2006 and \$8.4 million pre-tax in 2005; Information & Media, \$12.1 million pre-tax in 2006 and \$8.8 million pre-tax in 2005; and Corporate, \$16.9 million pre-tax in 2006 and \$21.9 million pre-tax in 2005

(b) 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

INFORMATION & MEDIA

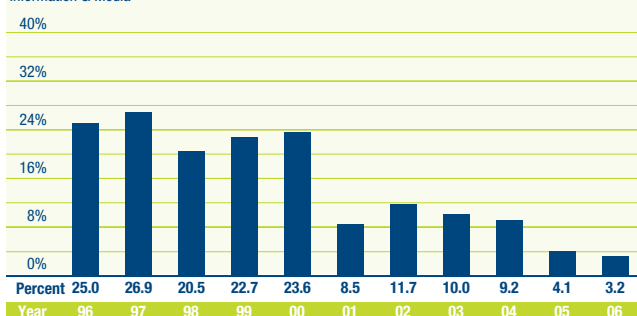
Percent of Total Revenue

Information & Media



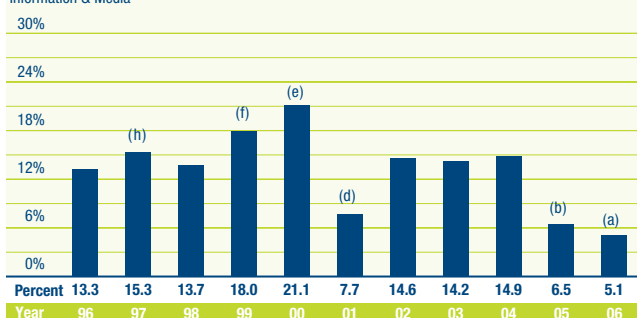
Percent of Total Operating Profit

Information & Media



Operating Profit Margin

Information & Media



(c) 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)

(d) 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)

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

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

(g) 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

(h) 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

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

2006 QUARTERLY REVENUE AND OPERATING PROFIT BY SEGMENT

(dollars in thousands, except earnings per share) favorable/(unfavorable)	2006 vs. 2005	2006 vs. 2005	2006 vs. 2005	2006 vs. 2005	2006 vs. 2005	2006 vs. 2005	2006 vs. 2005	2006 vs. 2005	2006 vs. 2005	
	1Q	2Q	3Q	4Q	Total					
Revenue										
McGraw-Hill Education	\$314,150	2.2%	\$611,646	(2.7%)	\$1,070,238	(6.3%)	\$528,117	(11.0%)	\$2,524,151	(5.5%)
Financial Services	600,000	9.6%	677,313	13.4%	675,063	11.4%	794,066	22.1%	2,746,442	14.4%
Information & Media	226,529	29.9%	238,584	3.6%	247,269	8.0%	272,163	(8.5%)	984,545	5.7%
Total revenue	\$1,140,679	10.9%	\$1,527,543	4.9%	\$1,992,570	0.8%	\$1,594,346	3.4%	\$6,255,138	4.2%
Operating Profit										
McGraw-Hill Education	\$(97,051)	(23.4%)	\$67,761	(5.3%)	\$354,038	(7.0%)	\$4,377	(88.0%)	\$329,125	(19.8%)
Financial Services	251,657	13.1%	313,886	21.5%	295,650	17.3%	341,096	19.1%	1,202,289	18.0%
Information & Media	1,693	(64.3%)	12,956	(4.8%)	13,717	10.3%	21,522	(27.7%)	49,888	(17.6%)
Total operating profit	\$156,299	5.2%	\$394,603	14.9%	\$663,405	2.8%	\$366,995	4.1%	\$1,581,302	6.1%
General corporate (expense)	\$(40,625)	(77.3%)	\$(34,200)	(15.9%)	\$(47,176)	(33.7%)	\$(40,847)	(10.0%)	\$(162,848)	(30.5%)
Interest (expense)/income	2,509	N/M	(8,555)	N/M	(7,515)	N/M	(70)	N/M	(13,631)	N/M
Income from continuing operations before taxes on income	118,183	(5.4%)	351,848	13.3%	608,714	0.3%	326,078	2.7%	1,404,823	3.3%
Provision for taxes on income	43,963	4.9%	130,887	(13.3%)	226,441	(0.3%)	121,301	5.3%	522,592	(1.3%)
Income from continuing operations	\$74,220	(5.7%)	\$220,961	13.3%	\$382,273	0.3%	\$204,777	8.2%	\$882,231	4.5%
Earnings/(loss) from discontinued operations	—	N/M	—	N/M	—	N/M	—	N/M	—	N/M
Net income	\$74,220	(5.7%)	\$220,961	13.3%	\$382,273	0.3%	\$204,777	8.2%	\$882,231	4.5%
Earnings per share:										
Basic earnings per share										
Income from continuing operations	\$0.20	(4.8%)	\$0.62	19.2%	\$1.09	6.9%	\$0.58	13.7%	\$2.47	9.8%
Net income	\$0.20	(4.8%)	\$0.62	19.2%	\$1.09	6.9%	\$0.58	13.7%	\$2.47	9.8%
Diluted earnings per share										
Income from continuing operations	\$0.20	0.0%	\$0.60	17.6%	\$1.06	6.0%	\$0.56	12.0%	\$2.40	8.6%
Net income	\$0.20	0.0%	\$0.60	17.6%	\$1.06	6.0%	\$0.56	12.0%	\$2.40	8.6%

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	2005 vs. 2004	2005 vs. 2004	
	1Q	2Q	3Q	4Q	Total					
Revenue										
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%
Total revenue	\$1,029,006	11.9%	\$1,456,277	16.9%	\$1,977,041	14.8%	\$1,541,318	13.2%	\$6,003,642	14.3%
Operating Profit										
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%)
Total operating profit	\$148,584	25.2%	\$343,485	16.0%	\$645,229	17.5%	\$352,692	5.3%	\$1,489,990	14.7%
General corporate (expense)	\$(22,910)	17.1%	\$(29,512)	4.9%	\$(35,274)	(9.7%)	\$(37,130)	(11.7%)	\$(124,826)	(0.6%)
Interest (expense)/income	(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
Net income	\$78,735	4.0%	\$194,970	17.7%	\$381,289	17.5%	\$189,312	(0.4%)	\$844,306	11.7%
Earnings per share:										
Basic earnings per share										
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%
Diluted earnings per share										
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. 1Q	2003	2004 vs. 2Q	2003	2004 vs. 3Q	2003	2004 vs. 4Q	2003	Total	2004 vs. 2003
Revenue										
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%
Total revenue	\$919,867	9.4%	\$1,245,962	4.8%	\$1,722,876	5.8%	\$1,361,833	10.6%	\$5,250,538	7.4%
Operating Profit										
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%
Total operating profit	\$118,694	36.0%	\$296,101	17.7%	\$549,085	12.7%	\$334,898	22.7%	\$1,298,778	18.2%
General corporate (expense)	\$(27,646)	(29.6%)	\$(31,041)	(39.2%)	\$(32,169)	(23.7%)	\$(33,232)	N/M	\$(124,088)	N/M
Interest (expense)/income	(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
Net income	\$75,679	(20.7%)	\$165,626	16.6%	\$324,481	11.8%	\$190,037	18.8%	\$755,823	9.9%
Earnings per share:										
<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%

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

2006: In 2006, the Company adopted Financial Accounting Standards Board's Statement No. 123(R), "Share Based Payment," which resulted in stock-based compensation expense of \$54.0 million (\$33.9 million after-tax charge, or \$0.09 per diluted share), \$23.0 million (\$14.4 million after-tax charge, or \$0.04 per diluted share), \$29.2 million (\$18.3 million after-tax charge, or \$0.05 per diluted share) and \$30.0 million (\$18.8 million after-tax charge, or \$0.05 per diluted share), in the first, second, third and fourth quarters of 2006, respectively. The first quarter expense includes a one-time charge of \$23.8 million (\$14.9 million after-tax, or \$0.04 per diluted share) for the

elimination of the Company's restoration stock option program. In the third quarter, net income includes a \$15.4 million pre-tax restructuring charge (\$9.7 million after-tax charge, or \$0.03 per diluted share). The pre-tax restructuring charge by segment is as follows: McGraw-Hill Education – \$5.6 million; Information & Media – \$5.7 million; and Corporate – \$4.1 million. In the fourth quarter, net income includes a \$16.1 million pre-tax restructuring charge (\$10.1 million after-tax charge, or \$0.03 per diluted share). The pre-tax restructuring charge by segment is as follows: McGraw-Hill Education – \$10.4 million; Information & Media – \$3.0 million; and Corporate – \$2.7 million. For the Information & Media segment, fourth quarter results also reflect deferrals of revenue of \$23.8 million and operating profit of \$21.1 million (\$13.3 million after-tax charge, or \$0.04 per diluted share) due to a change in revenue recognition related to the transformation of Sweets from a primarily print catalog to a bundled print and online service

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

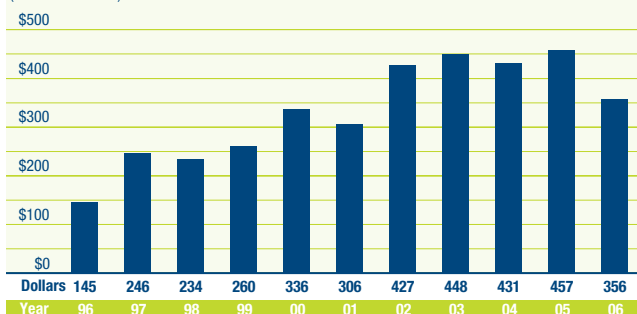
2004: The Company reclassified revenue in accordance with Emerging Issues Task Force 00-10, "Accounting for Shipping and Handling Fees and Costs," resulting in an increase in revenue of \$8.3 million, \$15.7 million, \$27.0 million and \$11.5 million in the first, second, third and fourth quarters of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

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%

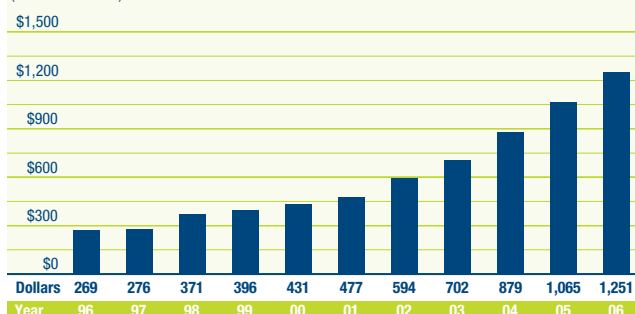
2003: In the fourth quarter, corporate expense includes a \$131.3 million pre-tax gain on sale of real estate (\$58.4 million after-tax gain, or \$0.15 per diluted share)

McGraw-Hill Education, Net of investment in prepublishing costs (c)

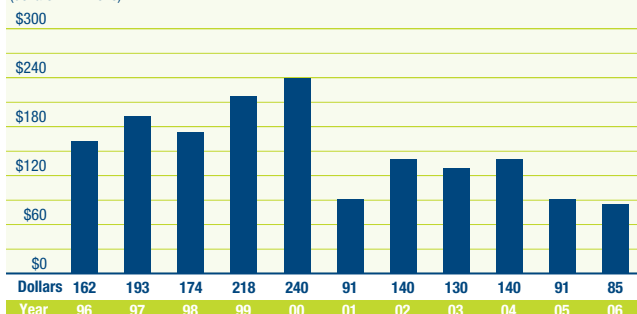
(dollars in millions)

**Financial Services (c)**

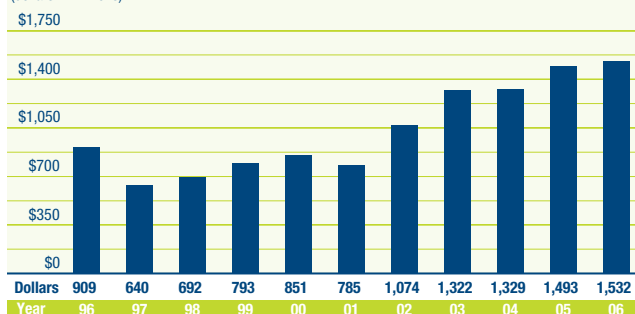
(dollars in millions)

**Information & Media**

(dollars in millions)

**Total Company EBITDA, Net of investment in prepublishing costs (c)**

(dollars in millions)

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

(dollars in thousands)

	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
McGraw-Hill Education	\$ 329,125	\$ 410,213	\$ 340,067	\$ 321,751	\$ 332,949	\$ 273,339	\$ 307,672	\$ 273,667	\$ 202,076	\$ 187,722	\$ 151,921
Financial Services	1,202,289	1,019,201	839,398	667,597	560,845	425,911	383,025	358,155	338,655	245,150	241,479
Information & Media	49,888	60,576	119,313	109,841	118,052	65,003	212,921	185,551	139,352	158,879	131,397
Total operating profit	\$1,581,302	\$1,489,990	\$1,298,778	\$1,099,189	\$1,011,846	\$764,253	\$903,618	\$817,373	\$680,083	\$591,751	\$524,797
Unusual (loss)/gain ^(a)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ (68,122)	\$ —	\$ (8,716)	\$ —	\$ 393,731
Corporate (expense)/income ^(b)	(162,848)	(124,826)	(124,088)	38,185	(91,934)	(93,062)	(91,380)	(83,280)	(80,685)	(75,342)	(62,073)
Depreciation ^(c)	113,200	106,750	92,268	82,827	86,818	85,748	84,812	80,348	75,538	71,689	69,673
Amortization of intangibles ^(c)	48,387	44,235	32,470	32,973	36,270	84,108	63,508	54,366	51,310	48,814	37,971
Amortization of prepublishing costs ^(c)	228,405	234,276	267,743	282,505	277,081	236,620	207,806	170,653	169,542	170,333	128,271
Investment in prepublishing costs ^(c)	(276,810)	(257,795)	(237,760)	(213,954)	(246,577)	(293,002)	(249,333)	(246,341)	(194,978)	(166,784)	(182,978)
EBITDA	\$1,531,636	\$1,492,630	\$1,329,411	\$1,321,725	\$1,073,504	\$784,665	\$850,909	\$793,119	\$692,094	\$640,461	\$909,392

Notes for EBITDA, Net of investment in prepublishing 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 ^(a)				DIVESTITURES ^(b)	
2006	\$13,480,000 Azteca America affiliate low-powered TV station in Bakersfield, CA Automotive Resources Asia, Ltd. Heale Financial	I&M I&M FS	TheMarkets.com (5.51% interest after acquisition of additional 2.75% interest) FS	\$12,381,000 Power Magazine E-Source The Review of Securities Regulation newsletters	I&M I&M FS
2005	\$461,842,000 CRISIL Limited (58.5% interest after acquisition of additional 49.07% interest) Vista Research, Inc. ASSIRT Pty Limited Taiwan Ratings Corporation (51% interest after acquisition of additional 1% interest)	FS FS FS FS	TheMarkets.com (2.76% interest) J.D. Power and Associates TurnLeaf Solutions Azteca America affiliate low-powered TV stations in Colorado and San Diego USD TV I&M I&M	\$131,335,000 Corporate Value Consulting Healthcare Information Group Standard & Poor's Securities, Inc.	FS I&M FS
2004	\$306,232,000 Center for Business Intelligence (energy conference business only) Grow.net, Inc.	I&M MHE	Capital IQ, Inc. PRCEDU Corporation (8.7% interest) FS MHE	\$46,904,000 Landoll, Frank Schaffer and related juvenile retail publishing businesses J.J. Kenny Drake, Inc.	MHE FS
2003	\$3,678,000 FriedWire, Inc.	I&M		\$502,665,000 Rock-McGraw, Inc. (45% interest) S&P ComStock	Corporate FS
2002	\$19,310,000 Open University Press Reality Based Learning Bredex Corporation	MHE MHE MHE	Clear Learning EA Ratings MHE FS	\$24,304,000 MMS International Lifetime Learning CAP	FS MHE I&M
2001	\$333,234,000 Mayfield Publishing Company Charter Research Corporation Frank Schaffer Publications Corporate Value Consulting	MHE FS MHE FS	Financial Times Energy Visual Education Corporation BizNet TV, Inc. Uniscare, Inc. I&M MHE I&M MHE	\$17,876,000 Data Resources Inc. Rational Investors	FS FS
2000	\$703,719,000 Tribune Education BuildPoint Corporation Canadian Bond Rating Service Portfolio Management Data, LLC	MHE I&M FS FS	MPI Interactive – eBuilder, Inc. Thomas Murray Network Management Ltd. I&M FS	\$142,418,000 Tower Group International	I&M
1999	\$67,085,000 Appleton & Lange, Inc. IFIS, Inc. Rational Investors, Inc.	MHE FS FS	Micropal France Thesys Information, Ltd. Emerging Markets Data Base FS FS FS	\$67,244,000 Petrochemical Publications (<i>Chemical Engineering, Modern Plastics, Modern Plastics International</i>) Libri Italia SRL (School titles only)	I&M MHE
1998	\$24,720,000 Xebec Multimedia Solutions, Ltd. Optical Data Corporation	MHE MHE		\$66,479,000 Information Technology and Communications Group (<i>BYTE, Data Communications, LAN Times, tele.com, NSTL</i>)	I&M
1997	\$85,698,000^(c) Argentina Ratings Fund Research, Ltd. Thomson Technical List Published Image	FS FS MHE FS	Micropal Group, Ltd. Taiwan Ratings Corp. (50% interest) CRISIL Limited (9.6% interest) FS FS FS	\$64,507,000 London House McGraw-Hill School Systems Datapro Information Services	MHE MHE I&M
1996	\$516,195,000^(d) Times Mirror Higher Education Group Open Court Publishing Tata Publishing Co. Cavalier Shipping Co.	MHE MHE MHE I&M	Healthcare Informatics/ InfoCare Magazine I&M	\$495,041,000^(d) Shepard's/McGraw-Hill Global Finance College BRAVO titles Healthcare Management Group	MHE FS MHE I&M

Operating Segment Legend:
MHE McGraw-Hill Education
FS Financial Services
I&M Information & Media

(a) Amounts include acquisition purchase price adjustments and earnouts in year of payment

(b) Amounts include proceeds from the disposition of property and equipment

(c) Includes \$41.9 million in debt acquired in the purchase of Micropal Group, Ltd.

(d) Amounts are grossed up to reflect the exchange of Shepard's/McGraw-Hill for Times Mirror Higher Education Group in 1996. The valuation of the properties exchanged was \$485 million

INTERNATIONAL OPERATIONS BY REGION AND SEGMENT

Revenue from foreign sources grew by 14.4% to \$1,530.1 million in 2006 and represented 24.5% of The McGraw-Hill Companies' total revenue. Favorable foreign exchange rates contributed \$12.7 million to revenue in 2006.

Europe continues to be the most important contributor to The McGraw-Hill Companies' foreign revenue, producing 57.8% of the total in 2006. Europe also grew the fastest of the foreign regions, increasing revenue by 16.3%. Canada, Asia and Latin America grew by 14.3%, 11.8% and 8.8%, respectively.

Financial Services

Financial Services continues to be the Company's largest and fastest growing international business. Standard & Poor's foreign revenue grew by 21.8% in 2006 to \$939.3 million and accounted for 61.4% of the Company's total foreign revenue. Favorable foreign exchange rates contributed \$5.6 million to revenue for this segment in 2006.

Since 1996, foreign revenue in this segment has grown at a compound annual rate of 18.9%.

McGraw-Hill Education

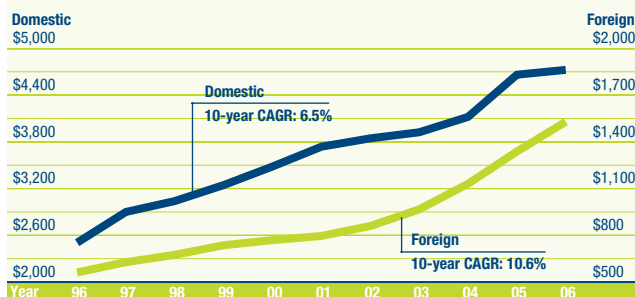
McGraw-Hill Education's foreign revenue grew by 2.2% to \$393.4 million in 2006 and accounted for 25.7% of the Company's total foreign revenue. Favorable foreign exchange rates contributed \$6.6 million to revenue for this segment in 2006.

Information & Media

The Information & Media segment accounted for \$197.4 million, or 12.9% of the Company's total foreign revenue in 2006. A solid performance by news and information services for the energy market contributed to the 8.6% growth in the segment's foreign source revenue for 2006, offsetting the discontinuation of *BusinessWeek* Europe and Asia print editions at the end of 2005. The total 2005 revenue from the discontinued editions was approximately \$26.4 million; there was no comparable revenue in 2006.

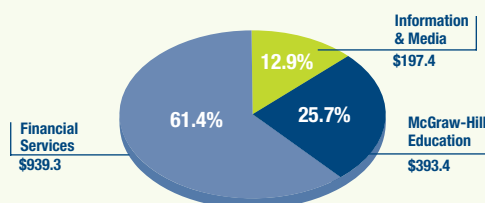
Domestic and Foreign Source Revenue Growth,* 1996-2006

(dollars in millions)



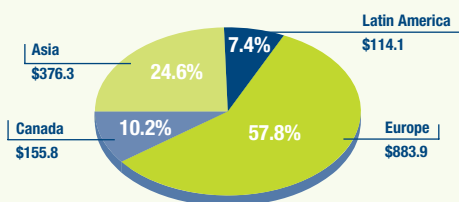
Foreign Source Revenue by Segment,* 2006

(dollars in millions)



Foreign Source Revenue by Geographic Region,* 2006

(dollars in millions)



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

WORLDWIDE OFFICES

North America

Canada
Mexico
United States of America

Caribbean/Central and South America

Argentina Ecuador
Brazil Guatemala
Chile Nicaragua
Colombia Panama
Costa Rica Peru
Dominican Republic
Venezuela

Europe, Middle East, Africa

Denmark Russia
France South Africa
Germany Spain
Greece Sweden
Ireland Switzerland
Italy United Arab Emirates
Portugal United Kingdom

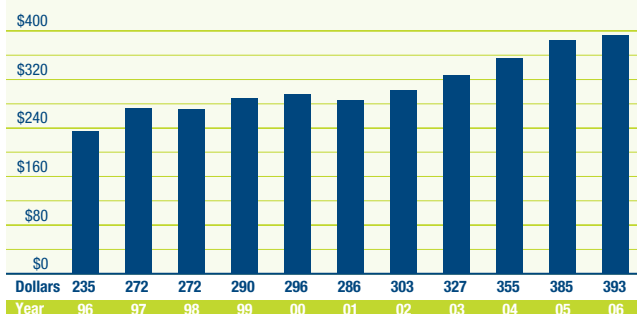
Asia-Pacific

Australia
India
Japan
Malaysia
New Zealand
People's Republic of China
Philippines
Singapore
South Korea
Taiwan
Thailand

FOREIGN SOURCE REVENUE BY SEGMENT,* 1996-2006

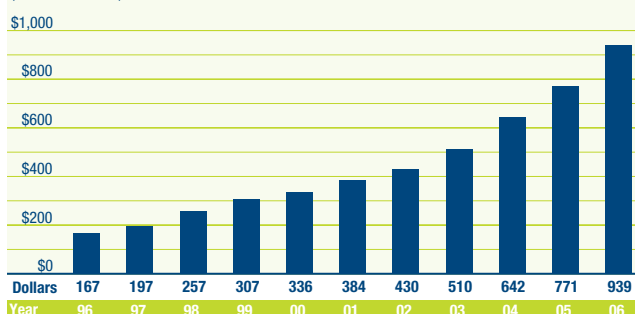
McGraw-Hill Education

(dollars in millions)



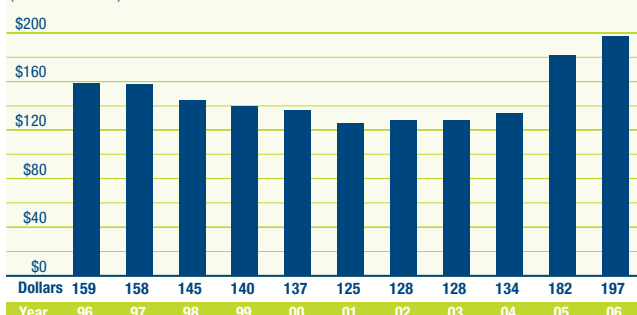
Financial Services

(dollars in millions)

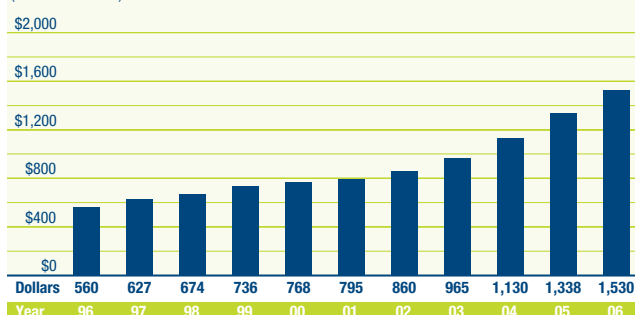


Information & Media

(dollars in millions)

Total Company^(a)

(dollars in millions)



(a) Segments may not sum to Total Company due to rounding

SUMMARY OF DOMESTIC AND FOREIGN SOURCE REVENUE, 1996-2006

(dollars in millions)	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996	10-year CAGR
Revenue												
Domestic	\$4,725.0	\$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	6.5%
Foreign*	1,530.1	1,337.8	1,130.4	965.4	860.0	795.0	768.2	736.3	673.5	626.9	560.3	10.6%
Total	\$6,255.1	\$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	7.4%
Revenue by Segment												
Domestic												
McGraw-Hill Education	\$2,130.8	\$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	7.1%
Financial Services	1,807.1	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	11.7%
Information & Media	787.1	749.3	666.0	644.9	681.8	720.7	871.1	890.2	871.0	878.1	832.1	(0.6%)
Total	\$4,725.0	\$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	6.5%
Foreign*												
McGraw-Hill Education	\$393.4	\$384.8	\$354.5	\$327.4	\$302.6	\$285.6	\$295.5	\$289.6	\$271.7	\$272.2	\$235.0	5.3%
Financial Services	939.3	771.2	642.2	510.3	429.7	384.0	336.2	306.9	257.2	196.9	166.5	18.9%
Information & Media	197.4	181.8	133.7	127.7	127.7	125.4	136.5	139.8	144.6	157.8	158.8	2.2%
Total	\$1,530.1	\$1,337.8	\$1,130.4	\$965.4	\$860.0	\$795.0	\$768.2	\$736.3	\$673.5	\$626.9	\$560.3	10.6%
Number of Employees												
Domestic	12,860	13,486	13,122	12,736	13,180	13,566	13,339	13,032	12,599	12,669	13,374	
Foreign	7,354	6,114	4,131	3,332	3,325	3,569	3,422	3,344	3,298	3,021	2,846	
Total	20,214	19,600	17,253	16,068	16,505	17,135	16,761	16,376	15,897	15,690	16,220	

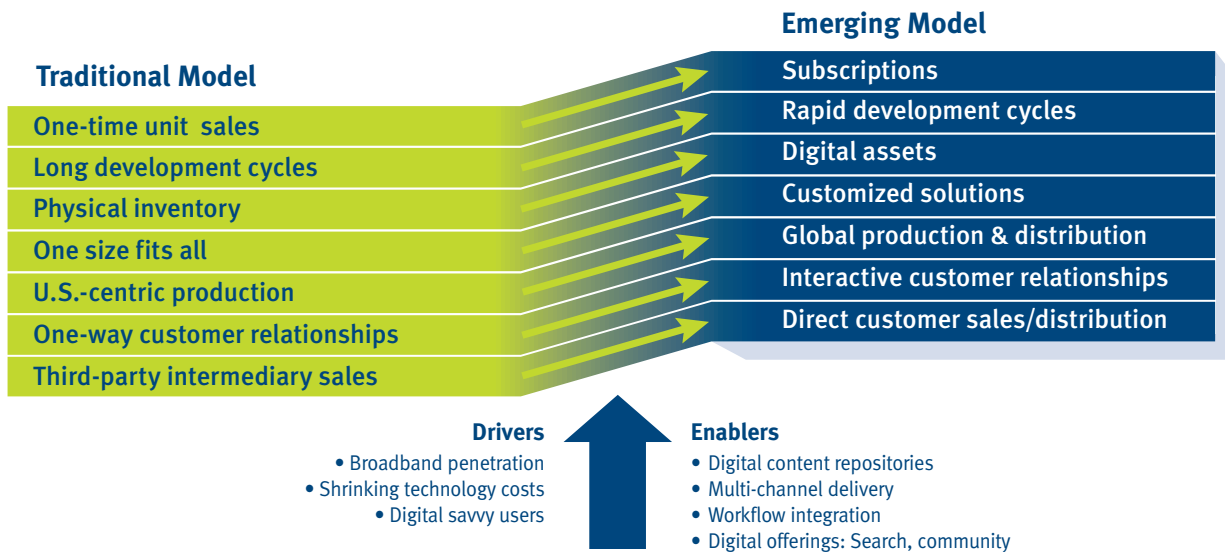
Notes:

* Foreign source revenue includes international sales by 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

HOW TECHNOLOGY IS CHANGING THE MARKETPLACE



Technology is transforming the world of information. The emerging model is dynamic, interactive, and global. In the digital marketplace, MHP is finding new ways to monetize content and improve operating efficiency. As more customers increase their usage of company web-sites, MHP is expanding its network capacity. Some measures of growth in the last three years: 1,300% increase in the consumption of bandwidth; 177% increase in deployment of servers; 645% increase in consumption of storage; and 263% increase in the number of websites.

CREATING NEW OPERATIONAL LEVERAGE

Digital asset management is a key to improving operating leverage for The McGraw-Hill Companies. At McGraw-Hill Education and Information & Media, a new digital workflow system is fundamentally changing how products are produced. Replacing a manual step-by-step process with technology facilitates collaboration and improves productivity. Simultaneous real-time access during the editorial, design, and production cycle saves time and streamlines the management of digital content. Transmitting digits instead of shipping manuscripts is the key to optimizing low-cost solutions with off-shore suppliers. A new workflow portal is also streamlining the decision-making process for analysts in Financial Services. Ratings Gateway provides fast and easy access to news on companies, industries and markets, ratings criteria, tools for modeling, previously published content, documents and scheduling priorities.

MCGRAW-HILL EDUCATION

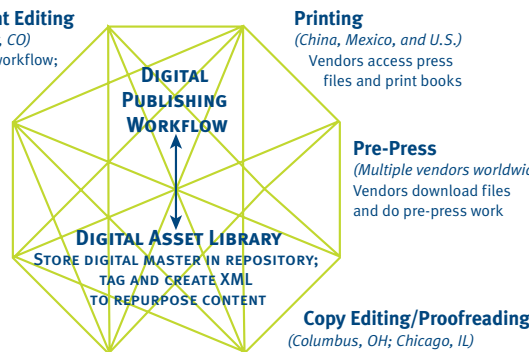
Digital workflow enables seamless collaboration between domestic and off-shore editorial, design, and production teams.

Manuscript/Content Editing
(Columbus, OH; Boulder, CO)
Check manuscript into workflow;
revise manuscript

Design
(Woodland Hills, CA)
Access manuscript; create,
approve and post prototypes
and page layout templates

Art & Photo Selection
(New York, NY)
Post images for editor's
selection and approval

Composition
(New Delhi, India)
Vendors access manuscript, images,
and production-ready template to build pages



Printing
(China, Mexico, and U.S.)
Vendors access press
files and print books

Pre-Press
(Multiple vendors worldwide)
Vendors download files
and do pre-press work

Copy Editing/Proofreading
(Columbus, OH; Chicago, IL)
Review finished pages; consult with
editors, designers

Note: Locations shown in diagram
at right are a representative sample

INFORMATION & MEDIA

The digital workflow system adopted by McGraw-Hill Education is now used by *BusinessWeek* and will be installed at other Information & Media publications.



FINANCIAL SERVICES

To improve productivity, S&P has developed a workflow portal that aggregates in one place the critical information credit rating analysts need to help in their decision-making process. As a result, Ratings Gateway will enable S&P to respond quickly to changing conditions by:

- Eliminating time to access content, applications, and data
- Providing forward-looking views of compliance data
- Providing a standardized, accessible toolset
- Highlighting data accuracy issues
- Increasing analytical excellence
- Enabling regulatory compliance



CREATING A SKILLED WORKFORCE TO COMPETE IN THE GLOBAL KNOWLEDGE ECONOMY

There is broad recognition in the government and business communities that the United States must do a better job of building and maintaining a skilled workforce if it is to compete successfully in the global knowledge economy. In addition to the heightened focus on improving the mathematical, scientific, and technological skills of today's students is the need for innovation and greater importance of education and lifelong learning to retain our society's competitiveness.

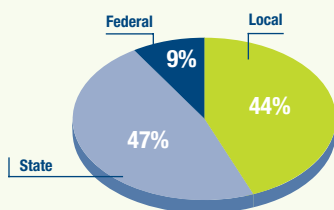
Even with reauthorization pending for the *No Child Left Behind Act*, evidence shows that NCLB helped revitalize the states' role in education. Today, all 50 states and the District of Columbia hold schools accountable for improving academic achievement and measuring their students against clear academic standards. With the value of education growing nationwide, McGraw-Hill Education will continue to create a diverse range of print and digital solutions to improve and measure student performance.

EDUCATION FUNDING AND EXPENDITURES PER PUPIL

Of the approximately \$463 billion in federal, state, and local funding for public education in the 2003–04 school year, 91% was provided by state and local governments. More than two-thirds of the \$218 billion funded by the states came from sales and income tax. At the local level, property taxes accounted for 65%, or \$132 billion, of the \$203 billion local funding amount. States spent an average of \$8,471 for every student in 2003–04, up from \$8,220 in 2002–03. Expenditures per student are projected to increase more than 25% to \$11,000 by 2015.

The Public Education Dollar: Revenues by Source

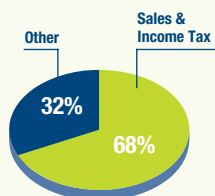
Total Revenue: \$463 billion



Source: U.S. Department of Education, National Center for Education Statistics, Common Core of Data, "National Public Education Financial Survey, 2003–04"

Sources of State Funding

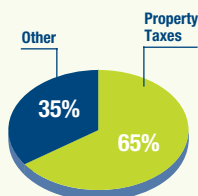
Total State Revenue: \$218 billion



Source: U.S. Census Bureau, "Public Education Finances Report: 2004"

Sources of Local Funding

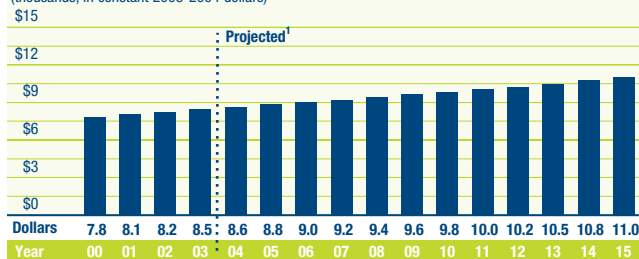
Total Local Revenue: \$203 billion



Source: U.S. Census Bureau, "Public Education Finances Report: 2004"

Current and Projected Expenditures per Pupil in K–12

(thousands, in constant 2003–2004 dollars)

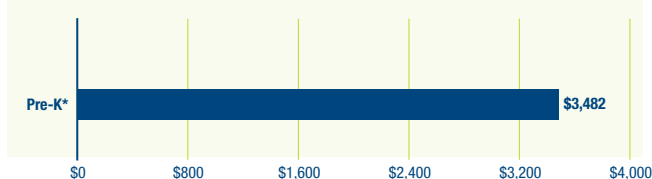


Source: U.S. Department of Education, National Center for Education Statistics, "Projections of Education Statistics to 2015"

¹ Middle range of projections cited

National Average Spending per Child Enrolled in Pre-K Programs

(2006 dollars)



Source: National Institute for Early Education Research, "The State of Preschool: 2006 State Preschool Yearbook"

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

OUTLOOK ON FEDERAL FUNDING AND LEGISLATION

Efforts at education reform over the last five years, particularly the expanded testing mandated by the *No Child Left Behind Act*, have focused attention on the achievement gaps that limit opportunities for far too many children. Whether or not the *No Child Left Behind Act* is reauthorized under its present name, there is strong commitment to the Act's basic principles among the public as well as both parties in Congress. Education is also high on the agendas of elected officials across all 50 states. As a result, market participants should continue to see a favorable funding environment.

It is important to note that "No Child Left Behind" was a new name given by the Bush administration to the 2002 reauthorization of older legislation, the *Elementary and Secondary Education Act*, which already contained many funding categories that provided support for instructional materials purchasing. These included the large Title 1 program for schools with disadvantaged children as well as a grant program to help states improve early-grade reading.

The renamed legislation added more testing requirements and made some programs more prescriptive but did not significantly raise overall funding as a percentage of total U.S. spending on education. In fact, with reauthorization under a different administration, funding could increase.

At the time of publication of the *2007–2008 Investor Fact Book* it is too early in the legislative session to predict whether NCLB will be reauthorized before the end of 2007. Many observers predict that any major action will be postponed until after the 2008 presidential election. Congress is operating under a Continuing Resolution which holds federal funding at the levels provided in the prior fiscal-year budget. Failure to pass the bill would not have a significant effect on schools in 2007. For 2008, it appears likely that an extension bill incorporating some modifications would be passed until a new administration is in place.

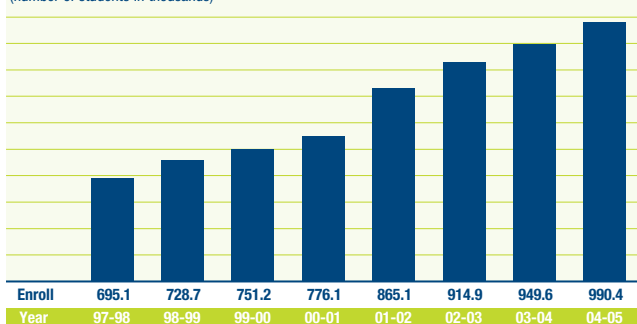
Trends in Pre-K–12 Education

PRE-K–12: GROWING ENROLLMENTS

School enrollments are on the rise. According to the latest projections by the National Center for Education Statistics, 58.1 million students will be enrolled in grades pre-K–12 by 2015. Enrollment in pre-K reached approximately 990,000 children in the 2004–2005 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.

Public School Pre-Kindergarten Enrollment, 1997–2005

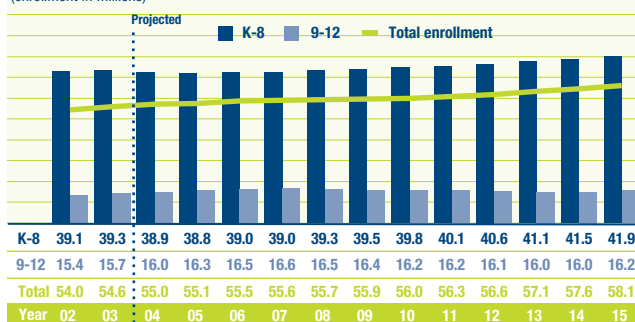
(number of students in thousands)



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

Enrollment in Elementary and Secondary Institutions

(enrollment in millions)



Source: U.S. Department of Education, National Center for Education Statistics, "Projections of Education Statistics to 2015"

Kindergarten Enrollment Trends

(number of students in millions)

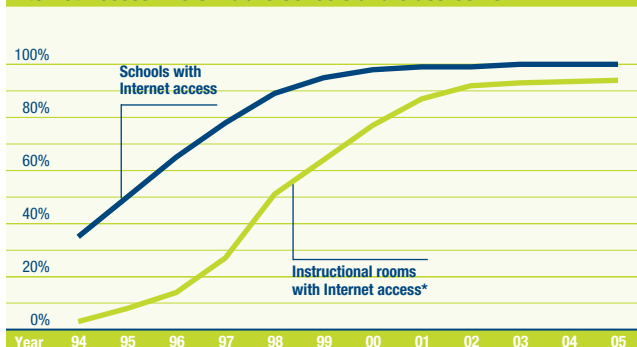


Source: National Center for Education Statistics, "The Condition of Education 2004"

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. By 2003 100 percent of U.S. public schools had access to the Internet. The proportion of instructional rooms with Internet access increased to 94 percent in 2005.

Internet Access in U.S. Public Schools and Classrooms



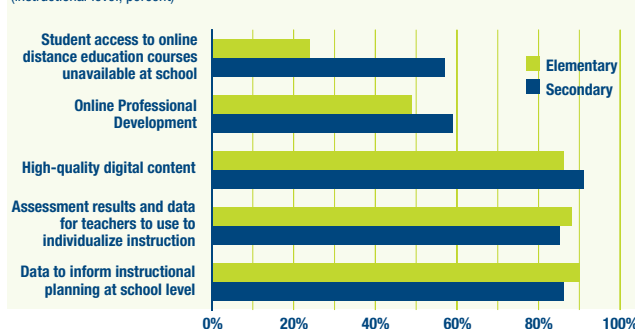
Source: U.S. Department of Education, National Center for Education Statistics, Fast Response Survey System, Internet Access in U.S. Public Schools and Classrooms: 1994–2005; and unpublished data

* Includes all classrooms, computer labs, and library/media centers

Note: No data collected for 2004

Public School Usage of Internet to Enhance Teaching and Learning

(instructional level, 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: 1994–2005; and unpublished data

READING AND MATH: TEACHING THE COMPLETE SPECTRUM

With annual testing in reading and mathematics now mandatory under the *No Child Left Behind Act*, student performance is getting increased scrutiny. In this environment, McGraw-Hill's goal is to produce programs reflecting a range of proven instructional approaches so that educators will have the solutions they need to help all students improve their academic performance. Along with major investments in new and revised basal programs, such as *Treasures* and *Everyday Mathematics*, McGraw-Hill has been building a list of intervention programs, such as *Jamestown Reading Navigator*, designed for students who need extra help to reach grade-level standards.

READING

Literacy-Based	Balanced Basal	Skills-Based
Wright Group Literacy (pre-K–5) Wright Group Sunshine (K–3)	Macmillan/McGraw-Hill Treasures (K–6) Macmillan/McGraw-Hill Little Treasures (pre-K) Macmillan/McGraw-Hill Treasure Chest (K–6) Glencoe Reading with Purpose (6–8) Glencoe The Reader's Choice (9–12)	SRA Imagine It!: An Open Court Program (pre-K–6) SRA Reading Mastery Plus: A Direct Instruction Program (pre-K–6) Wright Group Breakthrough to Literacy (pre-K–3)
Literacy-Based 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.	Balanced Basal Traditional basal programs are effective with most students.	Skills-Based 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

Reform-Based	Balanced Basal	Skills-Based
Wright Group Everyday Mathematics (pre-K–6) Wright Group UCSMP Math (6–12) SRA Growing with Mathematics (pre-K–5) Glencoe MathScape (6–8) Glencoe Impact Math (6–8) Glencoe Core-Plus (9–12)	Macmillan/McGraw-Hill pre-K–5 Math Glencoe Math Applications and Concepts (6–8) Glencoe Math (8–12): Pre-Algebra, Algebra 1&2, Geometry, Pre-Calculus, Calculus	SRA Real Math (pre-K–6) SRA Connecting Math Concepts (K–8) Glencoe Math Matters (6–8)
Reform-Based 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.	Balanced Basal 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.	Skills-Based 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.

INTERVENTION: DIGITAL + PRINT SOLUTIONS

Like the majority of McGraw-Hill's current basal programs, most of the intervention solutions below are multi-component programs combining print and digital materials in ways that take advantage of each format's best uses while providing educators with many practical options. In *Jamestown Reading Navigator*, which is designed for the secondary level, interactive content and resources for both students and teachers are primarily online. In other programs, especially for younger learners, there may be print workbooks and digital practice materials for students plus an electronic grade book and other technology-based resources for teachers.

Reading Intervention	Math Intervention
Macmillan/McGraw-Hill Reading Triumphs (K–6) Macmillan/McGraw-Hill Treasure Chest for English-Language Learners (K–6) SRA Kaleidoscope (2–6) SRA Corrective Reading: A Direct Instruction Program (3–12) Glencoe Jamestown Reading Navigator (6–12) Glencoe Signature Reading (6–12)	SRA Number Worlds (pre-K–6) SRA Corrective Math: A Direct Instruction Program (3–12) Wright Group Pinpoint Math (4–7) Glencoe Math Matters (6–8)

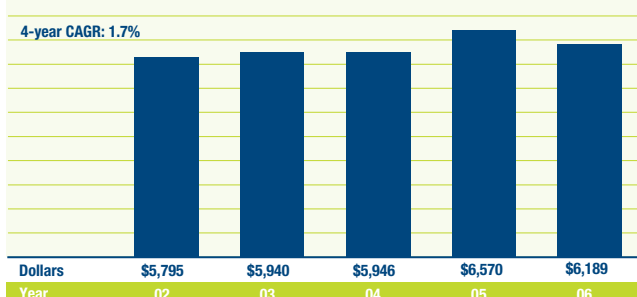
Pre-K–12 Education: Market, Adoption States, Open Territories, and Supplemental Sales

PRE-K–12 SALES

In 2006, sales of textbooks and educational materials for the pre-K–12 school market decreased by 5.8% to \$6.2 billion, according to the Association of American Publishers (AAP).

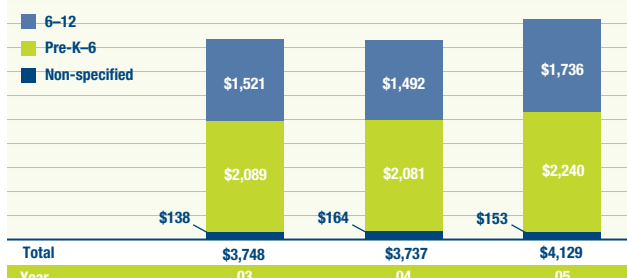
Estimated Total Pre-K–12 Industry Sales

(dollars in millions)



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

Total Net Elementary/High School Sales

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

Source: AAP, as reported by 6 publishers. Includes sales of U.S. products only. Includes sales to foreign subsidiaries and third parties

PRE-K–6 MARKET

Sales by State (dollars in thousands)

	2005	% of 2005 Total	2004	2003
1 California	\$ 238,210	13.2%	\$ 227,460	\$ 299,730
2 Texas	232,360	12.9%	104,827	170,815
3 Florida	108,085	6.0%	107,577	85,572
Top 3 for 2005	\$ 578,656	32.1%	\$ 439,864	\$ 556,117
4 New York	96,823	5.4%	115,512	92,158
5 Illinois	89,053	4.9%	77,647	85,991
6 Pennsylvania	75,734	4.2%	74,204	78,520
7 New Jersey	74,511	4.1%	76,617	69,695
8 Ohio	70,476	3.9%	60,558	65,795
9 Indiana	51,502	2.9%	36,657	37,843
10 Georgia	46,624	2.6%	42,867	82,991
Top 10 for 2005	\$ 1,083,378	60.0%	\$ 923,925	\$ 1,069,110
11 Arizona	45,417	2.5%	34,111	34,960
12 Maryland	40,985	2.3%	39,184	32,035
13 Virginia	40,148	2.2%	53,680	47,286
14 Michigan	39,323	2.2%	44,572	47,710
15 North Carolina	38,273	2.1%	50,828	36,832
Top 15 for 2005	\$ 1,287,523	71.3%	\$ 1,146,300	\$ 1,267,932
All Others	\$ 517,232	28.7%	\$ 500,324	\$ 411,058
Total Domestic U.S.	\$ 1,804,755	100%	\$ 1,646,623	\$ 1,678,990

Source: AAP, as reported by 6 publishers. Excludes supplemental and non grade-specific basal materials.
State ranking varies each year in accordance with adoption cycle

6–12 MARKET

Sales by State (dollars in thousands)

	2005	% of 2005 Total	2004	2003
1 California	\$ 202,844	12.6%	\$ 158,017	\$ 164,039
2 Texas	159,707	9.9%	59,049	168,228
3 Florida	129,667	8.0%	121,833	116,884
Top 3 for 2005	\$ 492,218	30.5%	\$ 338,900	\$ 449,150
4 New York	87,913	5.4%	91,804	85,303
5 Virginia	63,257	3.9%	40,792	42,276
6 Illinois	59,922	3.7%	73,666	67,848
7 Pennsylvania	59,574	3.7%	63,108	52,519
8 North Carolina	55,882	3.5%	50,359	43,310
9 Indiana	51,842	3.2%	38,799	38,511
10 Ohio	50,842	3.1%	49,559	54,352
Top 10 for 2005	\$ 921,451	57.0%	\$ 746,986	\$ 833,270
11 New Jersey	48,814	3.0%	52,873	44,965
12 Georgia	48,491	3.0%	47,012	40,253
13 Maryland	37,329	2.3%	39,433	26,078
14 Tennessee	37,038	2.3%	36,060	37,616
15 Michigan	33,514	2.1%	34,593	37,062
Top 15 for 2005	\$ 1,126,637	69.7%	\$ 956,958	\$ 1,019,243
All Others	\$ 489,335	30.3%	\$ 413,233	\$ 379,372
Total Domestic U.S.	\$ 1,615,972	100%	\$ 1,370,191	\$ 1,398,616

Source: AAP, as reported by 6 publishers. Excludes supplemental and non grade-specific basal materials.
State ranking varies each year in accordance with adoption cycle

Sales by Subject Category (dollars in millions)

	2005	% of 2005 Total	2004	% of 2004 Total	2003	% of 2003 Total
Reading/Literature	\$ 711	38.7%	\$ 758	45.3%	\$ 785	46.1%
Mathematics	498	27.1%	530	31.7%	418	24.5%
Social Studies	144	7.8%	86	5.2%	207	12.2%
Science	133	7.3%	99	5.9%	115	6.7%
Language Arts/English	102	5.5%	105	6.3%	102	6.0%
Music	93	5.0%	27	1.6%	31	1.8%
Health	77	4.2%	14	0.8%	10	0.6%
All Others	81	4.4%	55	3.3%	37	2.2%
Total	\$ 1,839	100%	\$ 1,674	100%	\$ 1,705	100%

Source: AAP, as reported by 6 publishers. Excludes supplemental, non grade-specific basal, and non-domestic

Sales by Subject Category (dollars in millions)

	2005	% of 2005 Total	2004	% of 2004 Total	2003	% of 2003 Total
Social Studies	\$ 334	20.4%	\$ 200	14.5%	\$ 368	26.0%
Mathematics	315	19.3%	406	29.5%	244	17.2%
Science	303	18.5%	246	17.9%	242	17.1%
Foreign Language	176	10.7%	129	9.4%	106	7.5%
Reading/Literature	175	10.7%	133	9.7%	186	13.1%
Language Arts/English	91	5.6%	105	7.6%	118	8.3%
Business Education	65	4.0%	53	3.9%	57	4.0%
All Others	176	10.8%	103	7.5%	96	6.7%
Total	\$ 1,634	100%	\$ 1,376	100%	\$ 1,417	100%

Source: AAP, as reported by 6 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 2005 came from the adoption states, which increased 20.9%. The open territories had a modest increase of 0.7%. The supplemental materials market had a slight decline of 1.5%.

Supplemental Materials Market (Pre-K–12)

(dollars in millions)



Source: AAP, as reported by 6 publishers. Includes non grade-specific materials

Industry Textbook Sales: Adoption States, Open Territories (Pre-K–12)

(dollars in millions)



Source: AAP, as reported by 6 publishers. Includes non grade-specific basal and supplemental materials. Excludes non-domestic sales of \$61 million, \$56 million, and \$51 million for 2005, 2004, and 2003, respectively

MAPPING THE ADOPTION PROCESS

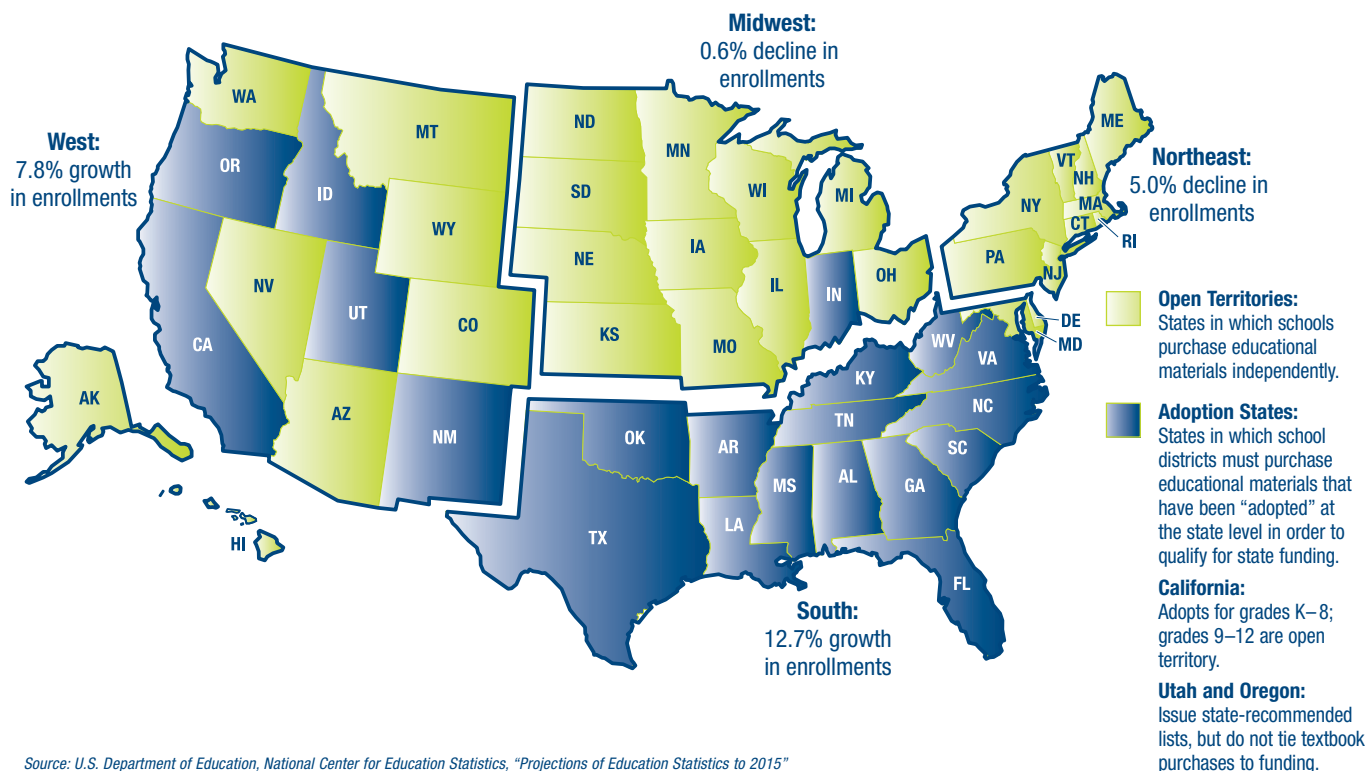
Nineteen states use the adoption process to buy elementary and secondary textbooks. A twentieth state, California, adopts textbooks through the eighth grade. In the adoption process, a state education board selects textbooks to be placed on an approved list. To use state education funds, local school 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, 2002–2015

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 2015”

Elementary and Secondary School Adoption Schedules

EL-HI ADOPTION OPPORTUNITIES

There is good visibility in the growing state new adoption market over the next several years. As these schedules show, prospects improve for the rest of the decade. Major adoption states, including Florida, Texas, and California, have announced plans to buy new educational materials.

ELEMENTARY SCHOOL ADOPTION SCHEDULE

Bid Year	2006	2007	2008	2009	2010	2011	2012
Purchase Year	2007	2008	2009	2010	2011	2012	2013
Reading²	Indiana (1-8) Oregon Tennessee West Virginia	Alabama Florida Idaho Louisiana Oklahoma	California Georgia New Mexico (P-8)	Mississippi South Carolina (K-5) Texas ³ (K-5) <i>Texas³ (Span K-5)</i>	Arkansas North Carolina	Kentucky	Indiana (1-8) Tennessee West Virginia
Mathematics	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 (P-8) North Carolina Oregon South Carolina	Alabama Florida Indiana (1-8) Oklahoma West Virginia	Tennessee	Arkansas	Georgia Louisiana New Mexico
English/ Language Arts²	Idaho Mississippi Oregon	Indiana West Virginia	Alabama (K-8) California (K-8) Florida (K-5) Georgia (K-8) Louisiana (K-8)	New Mexico (P-8) South Carolina (K-5) Tennessee (1-8) Texas ³ (K-5) <i>Texas³ (Span 1-5)</i>	Arkansas (K-8) North Carolina (3-8) Oklahoma (K-8) Virginia (tentative)	Kentucky	Idaho Mississippi
Science	Arkansas California South Carolina	Georgia Kentucky	Mississippi Tennessee	North Carolina Oregon Virginia (tentative)	Florida Indiana (1-8) Louisiana	Alabama Idaho New Mexico Oklahoma Texas (1-5) <i>Texas (Span 1-5)</i> West Virginia	Arkansas California South Carolina
Social Studies	Kentucky Louisiana Oklahoma	Arkansas North Carolina Tennessee	Indiana (1-8)	Virginia	Alabama Georgia Idaho New Mexico (P-8) West Virginia	California Florida Mississippi Oregon South Carolina	Kentucky North Carolina Oklahoma Texas (1-5) <i>Texas (Span 1-5)</i>
Health (H) Physical Education (PE)	Arkansas (H, PE) Florida (H) Mississippi (H, PE)	Oregon (H, PE)	Georgia (H, PE) Oklahoma (H, PE) Tennessee (H)	Alabama (H, PE) Idaho (H) Kentucky (H, PE)	Indiana (H) Louisiana (H, PE) South Carolina (H) (K-5)	New Mexico (H, PE) West Virginia (H)	Arkansas (H, PE) California (H) Florida (H, PE) Mississippi (H, PE)
Art (A) Music (M) Drama (D)	Alabama (A, M, D) California (A, M) Florida (A) Idaho (A, M) New Mexico (A, M) North Carolina (A, M, D) Oklahoma (A, M)	South Carolina (A, M, D) West Virginia (A, M)	Florida (M)	Arkansas (A, M) Idaho (A, M)	Georgia (A, M, D) Kentucky (A, M)	Indiana (A, M) Louisiana (A, M) Mississippi (A, M) North Carolina (A, M, D) Tennessee (A, M)	Alabama (A, M, D) New Mexico (A, M) Oklahoma (A, M) Oregon (A, M)
Spelling	Idaho Mississippi West Virginia	Indiana (1-6)	Alabama Georgia	South Carolina (K-5)	Arkansas North Carolina (2-8) Oklahoma	Kentucky	Idaho Mississippi West Virginia
Literature	—	Alabama Oklahoma	New Mexico	—	Virginia (K-8) (tentative)	Kentucky	Indiana (6-8)
World Languages	Alabama Florida	South Carolina	New Mexico	—	—	California	Alabama Florida
Computer Education	Florida Idaho	Mississippi	Idaho	Florida Idaho	Idaho Louisiana	Arkansas Idaho Mississippi	—
English as a Second Language (ESL)	Oregon	—	Arkansas Florida	Georgia Tennessee (1-8)	Oklahoma Oregon	—	—
Handwriting	Indiana (1-3) Mississippi	Indiana West Virginia	Alabama	South Carolina (K-3)	Arkansas North Carolina (1-5) Oklahoma	Kentucky Louisiana	Idaho Indiana (1-3) Mississippi
Dictionaries	Idaho Mississippi	—	Alabama Florida	—	Arkansas Oklahoma	—	Idaho Mississippi

Source: AAP School Division/NASTA

Notes:

- 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*
- Schedules are subject to change. 2006 and 2007 bid years are in effect. 2008 to 2012 bid years reflect assumptions from various sources including state websites

¹ Selected titles

² Some states bid separately on, or some combination of, Reading, English/Language Arts, and Literature programs. These states may be listed under more than one discipline in a bid year until they issue their actual bids

³ Schedule assumes Texas issues new state Reading and Language Arts standards in September 2007

SECONDARY SCHOOL ADOPTION SCHEDULE

Bid Year	2006	2007	2008	2009	2010	2011	2012
Purchase Year	2007	2008	2009	2010	2011	2012	2013
Mathematics	Georgia (6-8) New Mexico Texas <i>Texas (Span 6)</i>	California (6-8) Georgia (9-12) Mississippi	Idaho Kentucky North Carolina Oregon South Carolina ¹	Alabama Florida Indiana Oklahoma South Carolina ¹ (9-12) West Virginia	Tennessee Virginia West Virginia	Arkansas	Georgia (6-8) Louisiana New Mexico
Science	Arkansas California (6-8) South Carolina (6-8)	Georgia Kentucky South Carolina ¹ (9-12)	Mississippi South Carolina ¹ (9-12) Tennessee	Florida North Carolina Oregon South Carolina ¹ (9-12) Virginia (tentative)	Florida Indiana Louisiana	Alabama Idaho New Mexico Oklahoma Texas <i>Texas (Span 6)</i> West Virginia	Arkansas California (6-8) South Carolina (6-8)
Social Studies	Kentucky Louisiana Oklahoma	Arkansas North Carolina South Carolina ¹ (9-12) Tennessee	Indiana	South Carolina ¹ (9-12) Virginia	Alabama Georgia Idaho ¹ New Mexico South Carolina ¹ (9-12) West Virginia	California (6-8) Florida Mississippi Oregon South Carolina ¹ (6-8)	Kentucky North Carolina Oklahoma Texas <i>Texas (Span 6)</i>
Literature²	Oregon West Virginia	Alabama Indiana Louisiana Oklahoma	Florida Georgia (6-8) New Mexico South Carolina (9-12)	Georgia (9-12) Mississippi	Arkansas (9-12) Idaho North Carolina (9-12) Virginia Texas ³ <i>Texas³ (Span 6)</i>	Kentucky Tennessee	West Virginia
Reading²	Indiana (6-8) Tennessee West Virginia	Alabama Florida ¹ Idaho Louisiana Oklahoma ¹	California ¹ (6-8) New Mexico	Mississippi	Arkansas North Carolina (6-8) Oklahoma ¹	Kentucky	Indiana (6-8) Tennessee West Virginia
English/ Language Arts²	Idaho ¹ Mississippi Oregon	Indiana West Virginia	Alabama California ¹ (6-8) Florida Georgia (6-8) Louisiana South Carolina ¹ (9-12)	Georgia (9-12) New Mexico Tennessee	Arkansas North Carolina Oklahoma Virginia Texas ³ <i>Texas³ (Span 6)</i>	Kentucky South Carolina ¹ (6-8)	Idaho Mississippi
World Languages	Alabama Florida Idaho	Indiana South Carolina	Arkansas Mississippi New Mexico Oklahoma West Virginia	Georgia Idaho North Carolina Tennessee	Kentucky Oregon Virginia	California (6-8) Louisiana	Alabama Florida
Business Education	Florida ¹ South Carolina ¹	Mississippi ¹ New Mexico North Carolina South Carolina ¹	Arkansas Idaho ¹ Oklahoma South Carolina ¹ (9-12)	Alabama Florida ¹ Kentucky Louisiana South Carolina ¹	South Carolina ¹	Georgia Indiana Tennessee	Florida North Carolina South Carolina ¹ Texas
Computer Education	Florida Idaho ¹ South Carolina ¹	Idaho ¹ Mississippi North Carolina (7-12) South Carolina ¹	Idaho ¹ Oklahoma	Alabama Florida Kentucky South Carolina ¹	Louisiana ¹ South Carolina ¹ Tennessee	Arkansas Mississippi Oklahoma	Florida North Carolina (7-12) South Carolina ¹
Health (H) Physical Education (PE)	Arkansas (H, PE) Florida (H, PE) Mississippi (H, PE)	Oregon (H, PE)	Georgia (H, PE) North Carolina (6-9) (H) Oklahoma (H, PE) South Carolina (PE) Tennessee (H)	Alabama (H, PE) Idaho (H, PE) Kentucky (H, PE)	Indiana (H) Louisiana (H, PE)	New Mexico (H, PE) South Carolina (H) West Virginia (H)	Arkansas (H, PE) California (H) (6-8) Florida (H, PE) Mississippi (H, PE)
Family/ Consumer Science	Florida Mississippi North Carolina	New Mexico South Carolina ¹	Idaho Oklahoma Tennessee West Virginia ¹	Alabama Arkansas Kentucky Louisiana	South Carolina ¹	Georgia Indiana North Carolina South Carolina ¹	Florida Mississippi Texas
Art (A) Music (M) Drama (D) Speech (S)	Alabama (A, M, D) California (A, M 6-8) Florida (A) Idaho ¹ (A, M, D, S) Mississippi (S) New Mexico (A, M, D) North Carolina (A, M, D) Oklahoma (A, M, D)	Indiana (S) South Carolina ¹ (A, M, D) West Virginia (A, M, S)	Alabama (S) Florida (M, D, S) Louisiana (S) South Carolina (S) West Virginia (D)	Arkansas (A, M) Georgia (S) Idaho ¹ (A, M, D) Tennessee (S)	Arkansas (S) Georgia (A, M, D) Kentucky (A, M, D) Oklahoma (S) Texas (S 7-8)	Idaho (A, M) Indiana (A, M) Kentucky (S) Louisiana (A, M) Mississippi (A, M, D) North Carolina (A, M, D) Tennessee (A, M, D)	Alabama (A, M, D) Idaho (S) Mississippi (S) New Mexico (A, M, D) Oklahoma (A, M, D) Oregon (A, M)
Vocational/ Technical Education	Arkansas ¹ Florida ¹ South Carolina ¹	Mississippi ¹ New Mexico South Carolina ¹	Idaho Mississippi ¹ North Carolina Oklahoma South Carolina ¹	Alabama Arkansas Florida ¹ Kentucky Louisiana ¹	South Carolina ¹	Georgia Indiana Tennessee	Arkansas ¹ Florida ¹ South Carolina ¹ Texas
Career/ Workforce Education	Mississippi	New Mexico South Carolina ¹	Arkansas Idaho ¹ Louisiana North Carolina Oklahoma	Alabama Louisiana	—	Georgia	Mississippi Texas
Driver Education	South Carolina	Alabama Arkansas Mississippi New Mexico	Florida Georgia Oklahoma West Virginia	Idaho Kentucky	—	Tennessee	Florida South Carolina

INNOVATIVE SOLUTIONS FOR THE PRE-K–12 CLASSROOM

McGraw-Hill Education has created a range of effective products to serve the growing demand for solutions that measure and improve student performance. To meet this need, MHE continues to develop innovative programs that leverage the convergence of traditional textbook-based instruction with online digital products. The result: better ways to measure student performance and more individualized standards-based classroom instruction.

NEW RESEARCH-BASED ELEMENTARY READING & LANGUAGE ARTS PROGRAM

Imagine It!

www.sraimagineit.com

Imagine It! is a comprehensive core reading and language arts program for pre-K–6. It combines the latest and most innovative knowledge about differentiated instruction with proven teaching approaches based on 45 years of research, field study, documented classroom success, and teacher input. Fully meeting the requirements of *No Child Left Behind* as a research-based program, *Imagine It!* features:

- A strong inquiry strand that helps students develop the skills to think and investigate answers to their own questions. Built-in tools promote curiosity, investigation, and higher-order thinking
- An assessment plan that provides a snapshot of each student's progress at any time and helps close the learning gap through diagnosis and differentiated instruction



NEW READING PROGRAM FOR K–6, INCLUDING ENGLISH-LANGUAGE LEARNERS AND INTERVENTION MARKET

Treasures Reading Program

www.macmillanmh.com

Treasures is a comprehensive research-based K–6 reading program that covers phonemic awareness, fluency, vocabulary, and text comprehension. The built-in assessment tools help teachers provide students with what they need to comprehend, interpret, and evaluate a wide range of topics as well as identify strengths and weaknesses of all students. Two supplemental programs are available:

- *Treasure Chest*, a comprehensive program that helps English-language learners in the areas of listening, speaking, reading, and writing
- *Triumphs*, an intervention program that includes validated diagnostic and prescriptive tools to determine needs and put students back on track



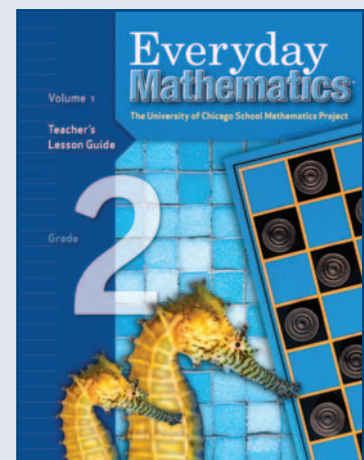
SUPPORTING TEACHERS TO IMPROVE STUDENTS' UNDERSTANDING OF MATH

Everyday Mathematics, Third Edition

www.emgames.com

Everyday Mathematics, Third Edition is designed to provide teachers with stronger lesson and content support to make the program easier to teach while giving every student an even greater understanding of mathematics. *Everyday Mathematics, Third Edition* now includes:

- Student components and materials that enable teachers to provide differentiated instruction
- A newly-modified assessment tool and a redesigned kindergarten program
- Assessment Management System, an online system designed to track student, school, and district progress toward the *Everyday Mathematics* grade-level goals
- Interactive reference books which facilitate student learning at school and at home
- An easier-to-use Teachers' Lesson Guide



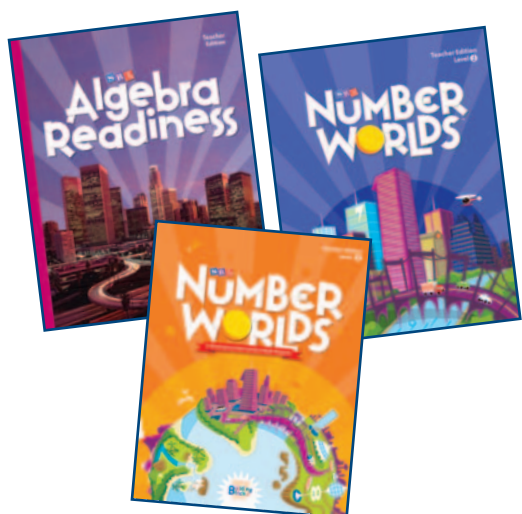
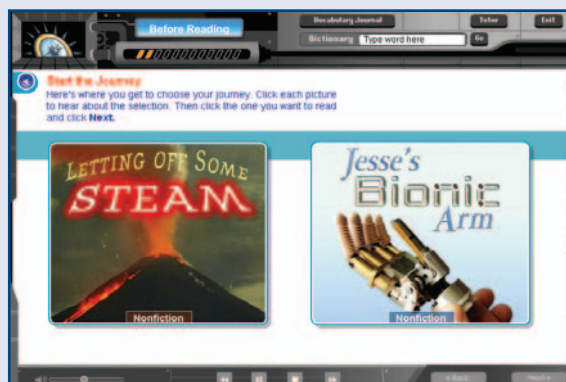
READING INTERVENTION FOR GRADES 6–12

Jamestown Reading Navigator

www.readingnavigator.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, it helps struggling students catch up to where they need to be by:

- Providing online instruction, print resources, and progress monitoring
- Continuously assessing student progress, adjusting instruction, and providing individualized reports
- Aligning with federal Striving Readers grant requirements
- Integrating professional reading training and development for district staff



MATH INTERVENTION FOR STRUGGLING STUDENTS

Number Worlds

www.sranumberworlds.com

Number Worlds is an intensive intervention program that focuses on students who are one or more grade levels behind in elementary mathematics. It provides all the tools teachers need to assess students' abilities, individualize instruction, build foundational skills and concepts, and make learning fun.

- Includes a prevention program for grades pre-K–1
- Builds foundational math skills and prepares younger children to understand more complex concepts later
- Shows proven results through years of rigorous field testing

COMBINING VIDEO AND TEXT TO ENGAGE ALL ELEMENTARY STUDENTS IN SCIENCE LESSONS

Snapshots Video Science™

www.sraonline.com/snapshots

Snapshots Video Science is a supplemental videotext program designed to teach upper elementary students core science concepts and key vocabulary for grades 3–5. The program reduces teacher preparation time by providing easy-to-use materials and provides differentiated instruction and English-language learner support. The combination of video lessons and student books will help prepare students for the 2007–2008 state-wide science assessments required by *No Child Left Behind*.

Snapshots Video Science addresses three key concerns in the science classroom:

- Prevention – Keeps students from falling behind when science content, vocabulary, and new science concepts can make reading and learning science difficult
- Vocabulary – Students learn challenging science vocabulary through a deliberate process of multiple exposures to new terms
- Test Prep – Built-in test preparation helps students succeed on high-stakes science tests



Assessment and Reporting Market

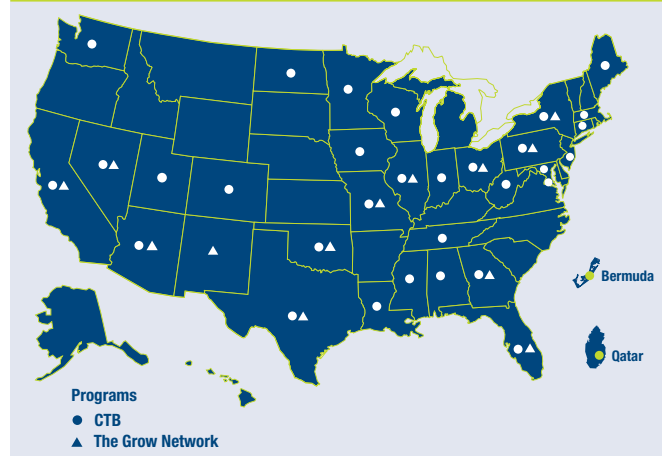
TRANSFORMING THE ASSESSMENT MARKET: DIFFERENTIATED OFFERINGS

McGraw-Hill Education assessment and reporting solutions, offered through its leading brands CTB and The Grow Network, leverage capabilities to create research-based assessment programs that link student results to individual instruction in state, district, and international markets.

With increased focus on educational accountability, assessment is recognized as a critical learning and teaching tool and provides the data educators need to enhance instruction and student performance. McGraw-Hill Education is uniquely qualified to provide integrated solutions that transform data into action plans for educators, students, and parents. Robust assessment capabilities and products and innovative reports and individualized study guides diagnose student strengths and weaknesses, help gauge the quality of education, and ultimately improve student achievement. Combined solutions include:

- A personalized study guide program integrated into a state assessment program
- Multi-lingual reports for families – both in print and online – as part of a state assessment program
- Unique reports that integrate national norm data and state standards as part of a large district assessment program
- Math and science assessments and related student reports for an international assessment program

McGraw-Hill Assessment and Reporting Programs

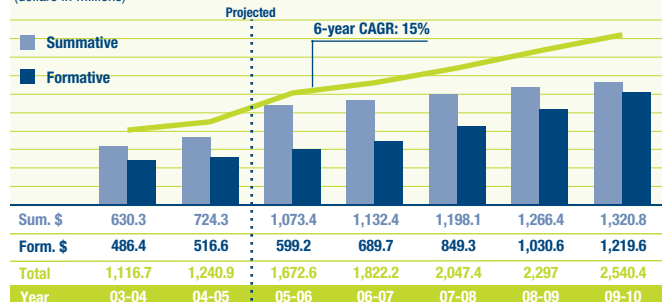
The Impact of *No Child Left Behind* on Annual Testing

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

K–12 Educational Testing: Projected Market Growth

(dollars in millions)



Source: Eduventures

TECHNOLOGY TO ENHANCE TEACHING AND LEARNING

The future of testing and reporting lies in digital delivery. States and districts increasingly are requesting online solutions to bring the benefits of technology into classrooms and reduce the turn-around time required for the delivery of student data. McGraw-Hill Education is meeting this market demand by using summative and formative testing to create a learning continuum that supports end-of-year testing with diagnostic information and enhanced instruction.

Acuity™, a formative assessment system administered online as well as via paper and pencil, helps teachers gauge how students are performing against what is being taught in the classroom and assists schools and districts in meeting *No Child Left Behind* (NCLB) requirements. The Online Assessment System (OAS) enables students and schools to take summative tests online. The Parent Network delivers student reports to parents online, providing rapid access to students' results in a format that can be easily understood. McGraw-Hill's delivery of online reports for more than 1.8 million Florida students via the Parent Network (<https://www.fciparentnetwork.com>) represents the first example of a state providing online results to parents for a statewide assessment program.

As the volume of testing increases due to NCLB mandates as well as interest from higher education institutions, the business community, and adult education programs, so does the market for products and services that support many aspects of educational assessment and accountability.

Measures academic achievement in core subjects and compares to state standards

TerraNova™, Third Edition

The *TerraNova* family of assessments, launched in 1996, sets new standards of innovation for achievement test design. Technical excellence and curricula-based content are the hallmarks of *TerraNova*, one of the most trusted and respected assessment and reporting solutions in K–12 education. The latest version, *TerraNova, Third Edition*, measures academic achievement in reading, language,

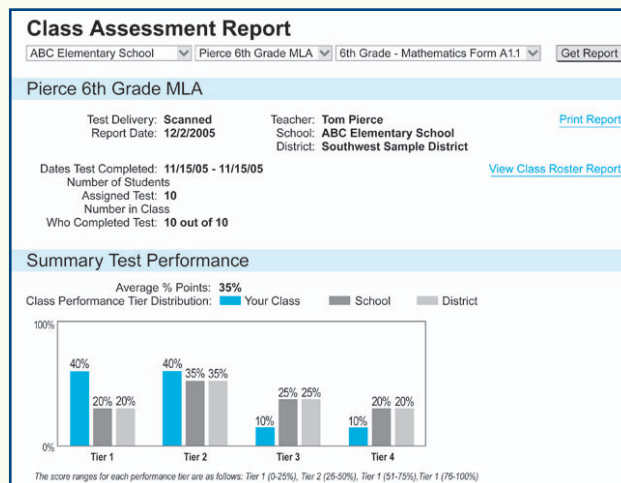
math, science, and social studies for grades K–12. The scores show a student's achievement relative to a nationally representative sample, helping teachers reliably pinpoint student strengths and weaknesses as compared to state standards. *TerraNova, Third Edition* can also estimate performance on the state test and report student progress toward state standards.

TECHNOLOGY TO ENHANCE TEACHING AND LEARNING

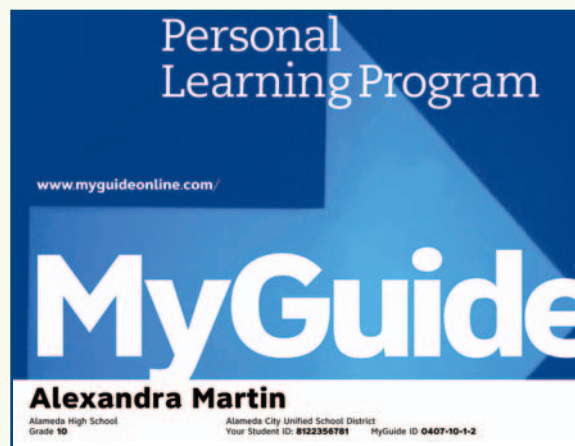
Diagnostic and predictive benchmark assessments for the formative testing market**Acuity™**

Acuity is a suite of diagnostic and predictive benchmark assessments designed to show student growth toward state standards in reading and math for grades 3–8 and in algebra for grades 7–12. Acuity features online and paper-and-pencil administration options to match the level of technology available in schools. Informative reports provide the data teachers need to improve student achievement.

Instructional exercises tied to student performance and state correlated online item banks enable custom, teacher-created tests to help students remain current on classroom instruction.

**Individualized learning and differentiated instruction for K-12 students****The MyGuide™ Personal Learning Program**

Instructional technology, individualized learning, and differentiated instruction are key to the MyGuide Personal Learning Program. By analyzing each student's assessment results, the MyGuide Personal Learning Program provides individualized, standards-based instruction, both in print and online. The program includes specific support for struggling learners and English-language learners (ELL), professional development for educators, connections to college and career choices, and multi-lingual parent engagement tools.

**Assessments and instructional guidance for English-language learners****LAS Links™ English- and Spanish-Language Assessments**

LAS Links is an integrated system of research-based assessments and instructional guidance designed to identify grade K-12 students' ability to speak, read, write, listen to, and comprehend English. The system also provides compliance with NCLB Title III requirements, which mandate research-based English-language instruction and annual assessment of English-language proficiency for limited English proficiency (LEP) students.

LAS Links Español is a comprehensive language assessment system for Spanish-speaking students that measures Spanish-language proficiency and supports educators in developing effective Spanish-language program curricula.

Diagnostic assessments and instructional support for adult students**TABE CLAS-E™**

The TABE® family of products, the nation's leading adult basic education program, offers a complete and flexible system of diagnostic assessments and instructional support materials to meet the diverse needs of adult students. The latest addition to the family, TABE CLAS-E (Complete Language Assessment System – English), is an English-language proficiency test for students who speak English as a second language.

Higher Education Market

HIGHER EDUCATION IN A KNOWLEDGE ECONOMY

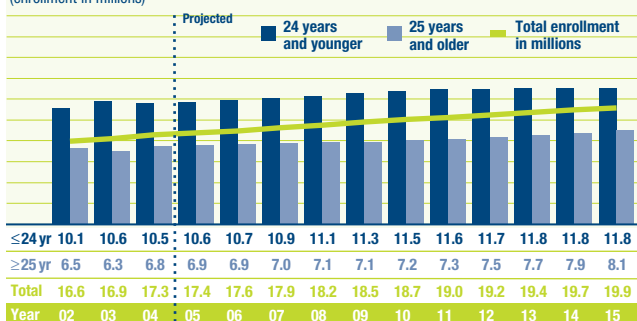
The worldwide demand for education is growing. It is being driven by the requirements of a knowledge economy for skilled workers, growth in enrollments both in the U.S. and abroad, and the increased use of technology, including online courses, to deliver products and services.

Growth in the emerging markets of Asia, Latin America, and the Middle East is being stimulated by increased government spending and growing enrollments in higher education.

As the applications of technology for course management and content delivery continue to grow, McGraw-Hill Education is pursuing a variety of initiatives, including the development of e-books, online homework support for students, audio and video presentations on iPods and compatible MP3 devices, and course management tools for faculty.

Enrollment in U.S. Higher Education Institutions

(enrollment in millions)

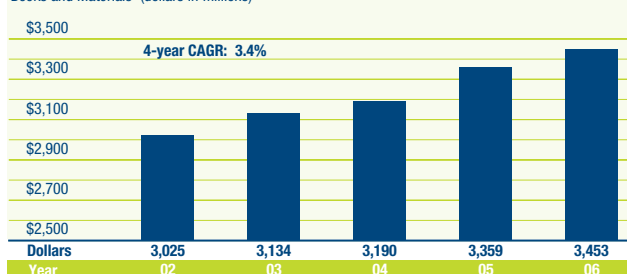


Source: U.S. Department of Education, National Center for Education Statistics, "Projections of Education Statistics to 2015"

Note: Detail may not sum to totals due to rounding

Estimated Higher Education Industry Sales of U.S. Publishers

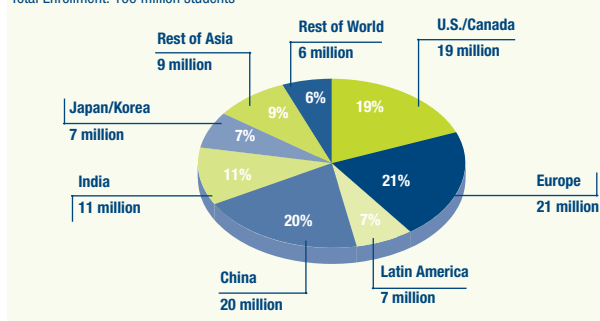
Books and Materials (dollars in millions)



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

Global Higher Education Enrollment – 2005

Total Enrollment: 100 million students



Sources: UNESCO, Hezel Associates

TECHNOLOGY IS ENABLING FLEXIBLE EDUCATIONAL SOLUTIONS AND OPPORTUNITIES

Digital learning solutions are making online course delivery one of the most dynamic segments of the higher education market. Online delivery is enabling busy college students and working adults to learn anytime, anywhere. Most traditional postsecondary institutions are rapidly increasing their offerings of online courses for credit, and a number of totally online schools have emerged in the for-profit sector. Online courses are gaining traction in the United States with older students, particularly at for-profit post-secondary schools. According to a 2006 Eduventures report, approximately 1.2 million students were taking at least one online course during the Fall 2005 term and that number is forecasted to increase to 2.1 million in 2008.

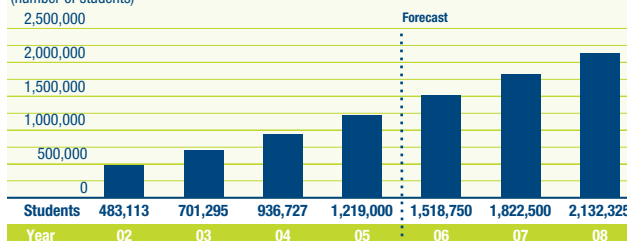
Convenience is the singular driver of student demand for totally online courses, even when students are otherwise enrolled on a campus. These digital deliveries, whether of the core course content normally delivered in print or of new products and services, will move McGraw-Hill Education toward a subscription model, which has significant advantages for the Company.

Access to high-speed Internet has become virtually universal in the U.S. higher education market, providing opportunities for a new generation of products that can improve course management for instructors and enhance the experience for students. McGraw-Hill Education is taking advantage of this trend by providing online content in a number of ways:

- **Online Courses:** These courses can be used as a complete course or as part of a regular course with both traditional classroom and online instruction. Online course features include streaming video, animation, and personalized assessment. (See facing page)
- **Mobile Resources:** Flexible delivery of student study materials to iPods and other mobile devices.
- **Instructor Resource Materials:** Virtually all instructor resource materials previously delivered as print product are now delivered as digital product, resulting in substantial cost savings.
- **eBooks:** Textbook content for both instructors and students is now available online. McGraw-Hill Education, along with five other publishers, is a founding member of an industry consortium formed to develop a common eBook platform to serve the higher education market by standardizing content delivery.
- **Digital Homework Services:** Available for mathematics, economics, finance, accounting, world languages, and more. Students complete and submit homework online; feedback identifies areas for further study. Program automatically grades homework and enters results into instructor's digital grade book.

Online Student Headcount

(number of students)



Source: Eduventures

THE EMERGING DIGITAL MODEL

ONLINE COURSES

McGraw-Hill Education offers 40 online higher education courses and will be adding more in 2007 to capitalize on the growing demand for digital products and services at colleges and universities worldwide. Each online course represents a standard 15-week semester – about 45 hours of class time. The courses integrate with most learning management systems and provide instructional design, animation, graphics, streaming video, and interactive activities to motivate learners. The digitized course represents a new blended learning environment for the student and the instructor with the potential to increase interaction between them. Colleges are using the courses to either launch or enhance their current online program. The online course can also be used in a hybrid curriculum that leverages the best of traditional and innovative online learning solutions.

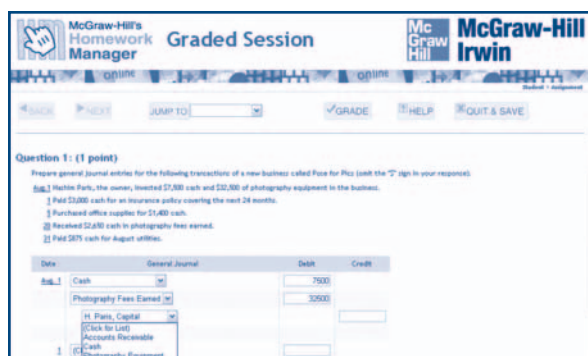
McGraw-Hill's online courses use an end-to-end critical path method of instructional design and were named a 2007 SIIA CODiE finalist in the categories of Best Education Solution and Best Postsecondary Course/Content Management Solution.

Current courses include:

Accounting I & II	Introduction to Sociology
Introduction to Business	Introduction to Psychology
Principles of Management	Introduction to Criminal Justice
Principles of Macroeconomics	English Composition: MLA Style
Principles of Microeconomics	U.S. History I & II
Anatomy & Physiology I & II	Introductory Algebra
Medical Assisting I & II	Intermediate Algebra
Medical Law & Ethics	Medical Terminology



www.OnlineLearning.com



STUDY AIDS FOR ONLINE HOMEWORK

McGraw-Hill's *Homework Manager Plus* combines the power of *Homework Manager* with the latest interactive learning technology to create a comprehensive, fully-integrated online study package. Students can access an interactive online textbook that allows students working on assignments to click a link and instantly review the appropriate material in the textbook. These links give students quick access to relevant content as they work through problems, exercises, and practice quizzes.

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ENHANCED DIGITAL CONTENT DELIVERY

Two prime examples of delivering content anytime, anywhere can be found with the media-enhanced editions of *Fundamental Accounting Principles, 18th Edition* and *The Art of Public Speaking*.

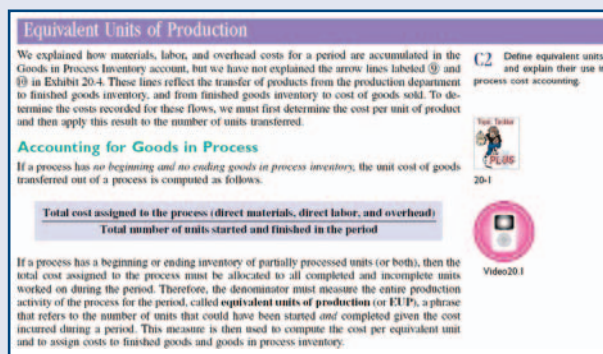
Media-enhanced edition of *Fundamental Accounting Principles*

With this media-enhanced edition, iPod icons appear throughout the text, pointing students to audio and video presentations, quizzes, and narrated demonstration problems that correlate to the text. iPod content can be quickly downloaded from a DVD that is packaged with the book or by going online.

Using digital media to bring *The Art of Public Speaking* to life

Lucas-On-the-Go (www.mhhe.com/socscience/comm/lucas2007) is a companion website to *The Art of Public Speaking, Ninth Edition* that enables students to download content directly to their iPod or other MP3 compatible player and features:

- Student speech video clips
- Audio abridgment CD files
- Audio chapter summaries
- Video flashcards



Icons appear throughout *Fundamental Accounting Principles* linking the text to iPod content

Professional Markets

MEETING THE INFORMATION NEEDS OF PROFESSIONALS AROUND THE WORLD

The McGraw-Hill Higher Education, Professional and International (HPI) Group is leveraging its global brands and expert content to provide new digital services and tools to the professional market.

GLOBAL DEMAND FOR DIGITAL MEDICAL INFORMATION SOLUTIONS

Responding to the increased specialization in the healthcare market and embedded decision support tools, the HPI Group is expanding its portfolio of real-time, subscription-based digital medical solutions.

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* includes:

- Market leading clinical reference texts including *Harrison's Principles of Internal Medicine, 16th Edition*
- Clinical case studies for medical school curriculum and physician review
- Complete text from more than 50 references online including more than 20,000 downloadable images
- Robust exam review tools for the United States Medical Licensing Examination (USMLE)

AccessEmergency Medicine (www.AccessEmergencyMedicine.com) allows physicians and residents in hospital emergency departments to quickly search for the diagnosis and treatment of a broad range of illnesses and injuries. This valuable tool:

- Features the market-leading emergency medicine textbook, *Tintinalli's Emergency Medicine: A Comprehensive Study Guide*
- Is continuously updated with new videos and animations of common and uncommon procedures
- Includes medical reviews of new guidelines and research affecting emergency medicine practice

AccessSurgery (www.AccessSurgery.com) is a media-rich online subscription service which provides an integrated curriculum approach to surgical education. Surgical programs can customize their lesson plans and assign content to residents by rotation and track individual progress. *AccessSurgery* features include:

- Leading surgical references including *Schwartz's Principles of Surgery* and *Maingot's Abdominal Operations*
- Narrated surgical videos and surgical animations
- Tests and interactive self-assessment for surgical board review



AccessPharmacy (www.AccessPharmacy.com) is an online solution developed to meet the changing demands of pharmacy education.

AccessPharmacy enables practicing pharmacists and pharmacy students to select a core curriculum topic, browse by organ system, review textbooks, or search over 14,000 pages of leading pharmacy references. Subscribers have access to:

- A fully-integrated drug database, in English and Spanish, with access to chemical structure and dosing information, adverse reactions, indications, and contraindications
- More than 20 leading McGraw-Hill resources, including *Pharmacotherapy: A Pathophysiologic Approach* and *Goodman & Gilman's The Pharmacological Basis of Therapeutics*
- Over 150 integrated case studies with interactive questions and care plans
- Over 4,000 Q&A for self-assessment plus a dedicated review for the North American Pharmacist Licensure Examination (NAPLEX)
- Daily news updates, dosage calculators, and a glossary of more than 1,000 terms

MEDICAL INFORMATION AT THE POINT-OF-CARE

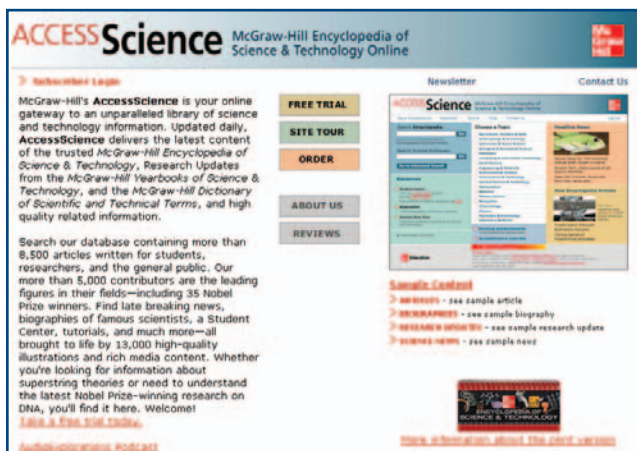
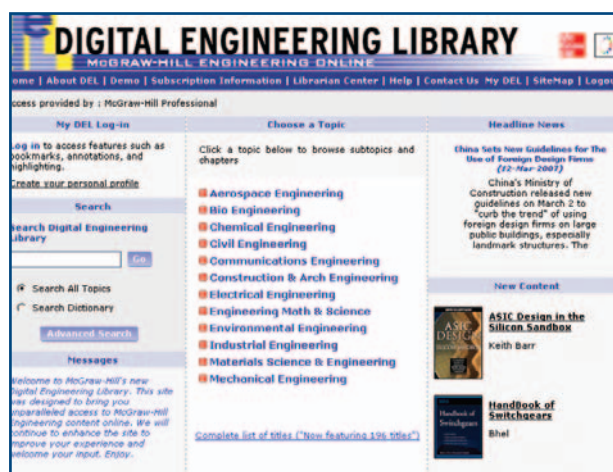
Harrison's Practice (www.HarrisonsPractice.com) is a point-of-care desktop and mobile clinical resource for internal medicine. From the editorial board of the best-selling internal medicine reference, *Harrison's Principles of Internal Medicine*, Harrison's Practice provides quick access to the latest diagnosis and treatment recommendations based on extensive evidence from world-class clinicians and researchers.

- Delivers anytime, anywhere access by Web, Web wireless, or PDA
- Fully-integrated drug information for dosage information, indications, contraindications, and more
- Covers common conditions, diagnostic tests, and therapies



CONTINUALLY UPDATED SCIENTIFIC AND TECHNICAL SUBSCRIPTION-BASED CONTENT

Digital Engineering Library (www.DigitalEngineeringLibrary.com) provides access to over 200 McGraw-Hill engineering titles along with an engineering dictionary containing 18,000 terms in a fully-searchable, taxonomically-organized database. Available by subscription or on a pay-per-view basis.



AccessScience (www.AccessScience.com) includes the fully-searchable content of the *McGraw-Hill Encyclopedia of Science and Technology, 10th Edition*, updated daily, plus current awareness and multimedia content. *AccessScience's* growing list of global adoptions includes the Hong Kong Public Libraries, Council of Australian University Libraries, Ontario Council of University Libraries, and the Danish National Library Authority.

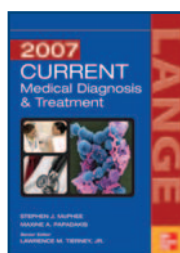
FINDING GROWTH IN OUR MARKETS

The HPI Group provides timely, authoritative, and actionable knowledge to professional customers through the publication of more than 1,000 titles a year.

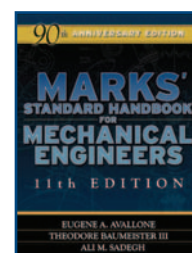
Business: A market leader in finance and investing books, McGraw-Hill continues to grow its business program with globally-oriented professional finance, leadership, and management topics.



Medical: A leading medical publisher, McGraw-Hill is expanding its programs to provide expert solutions to medical students and professionals throughout their careers.



Technical: 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

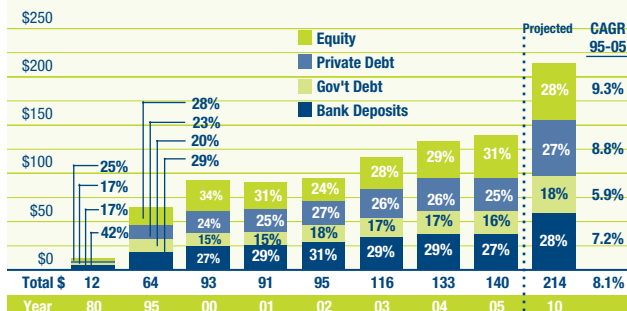
STANDARD & POOR'S

Growing capital markets around the world continue to stimulate demand for Standard & Poor's ratings, data, information, indices, and other products and services. The trends – globalization, disintermediation, privatization, and securitization – are well established as key drivers in financial markets, which continue to benefit from the creation of new investment opportunities. Capital markets around the world continue to grow in size and complexity. According to a January 2007 McKinsey Global Institute report, global financial stock – which consists of equity, private debt, government debt, and bank deposits – is projected to reach \$214 trillion by 2010, surpassing growth in global gross domestic product over the same period. Over half of this growth will be driven by private debt and equities.

With offices and affiliates in 24 countries and revenue generated in over 110 countries, Standard & Poor's will continue to capitalize on these global opportunities.

Global Financial Stock Is Growing Rapidly

(dollars in trillions, percent)



Sources: McKinsey Global Institute Global Financial Stock Database; World Federation of Stock Exchanges; Merrill Lynch; Global Insight

Note: 2010 extrapolation off of 2005 base, with components grown at 1993-2005 CAGRs; Detail may not sum due to rounding

STANDARD & POOR'S EXPANDING ROLE IN CREATING FINANCIAL MARKET INTELLIGENCE

Providing financial market intelligence that is objective, independent, authoritative, and credible is the hallmark of Standard & Poor's since its inception in 1860. Today, Standard & Poor's offers financial decision makers a growing array of products and services ranging from credit ratings and indices to data, information, and investment research.

From fundamental data to custom advisory services, Standard & Poor's continues to innovate and expand its role in creating financial market intelligence in five key areas:

CORE DATA

Standard & Poor's provides fundamental securities data, which includes data on public and private companies, as well as data on securities that are issued by companies or other organizations.

- Fundamental company and market data on 65,000 securities, representing 90%+ of the world's market capitalization (Compustat)
- Web-based workflow-oriented research platform (Capital IQ) with data on 42,000 active public companies, 685,000 private companies, 10,600 private capital firms, and 985,000 people
- Securities evaluations on nearly 2.9 million fixed income securities each day

RELATIONSHIPS

Standard & Poor's enhances the value of its core data through services that establish relationships or linkages among securities, entities, issuers, and the people related to such securities.

- Security to Entity CrossWalk exposes complex relationships between 7 million securities and 96 million entities
- Details of the corporate structure for U.S. public companies including relationships between parents and subsidiaries, operating units, investment arms, and merged entities via Capital IQ

RATINGS AND RESEARCH

Core and relationship data further enable Standard & Poor's to pursue a variety of rating and research approaches that span a wide array of asset classes, including debt, bank loans, equities, and alternative investments. At the end of 2006:

- 8 million credit ratings and 240,000 research and commentary articles on RatingsDirect
- Over \$34 trillion in outstanding global debt rated by Standard & Poor's in 100 countries
- World's largest producer of independent equity research with over 1,000 institutions licensed to use Standard & Poor's equity research, including 19 of the top 20 securities firms and 13 of the top 20 banks

ANALYTICS

Building on offerings in core data, relationships and ratings and research, Standard & Poor's develops tools, models and analytics, including valuation models for equities and structured finance and risk models in the credit markets.

- LEVELS (Loan Evaluation and Estimate of Loss System) is one of the most widely used credit models in the residential mortgage market
- SPIRE (Standard & Poor's Interest Rate Evaluator) is one of the most widely used rating agency cash flow models in the primary RMBS market
- Credit Risk Tracker gives investors the ability to understand the probability of default for 17,065 U.S. and Canadian companies and 1.1 million small-to-medium sized (SME) companies throughout Europe
- CreditModel produces quantitatively derived rating estimates for public and private firms

ADVISORY

Standard & Poor's ratings, research, and analytics are applied to a range of custom advisory services in the portfolio, index, and risk management space. Standard & Poor's advisory services provide a measure of the market through investable and tradeable indices, and offer risk and investment advisory services including portfolio strategies and asset allocation services. At the end of 2006:

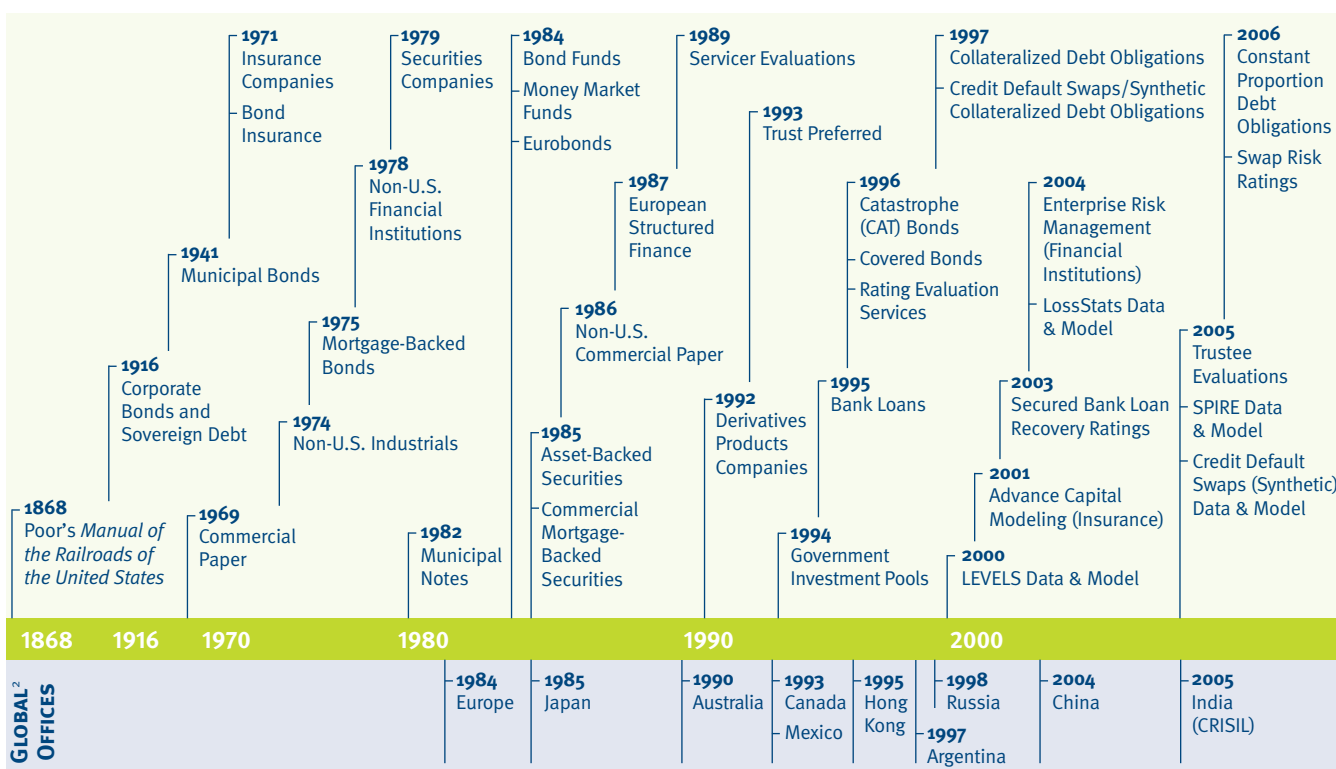
- \$1.5 trillion in investment assets was directly tied to S&P indices and \$4.8 trillion was benchmarked to S&P indices
- \$161.2 billion was invested in global ETFs that are based on S&P indices
- 98% of global equity market capitalization covered by S&P/Citigroup Global Equity Indices
- \$19 billion in assets in client investment programs based on Standard & Poor's research and advisory services

THE EXPANDING WORLD OF S&P RATINGS

While Standard & Poor's traditional credit ratings have been widely used by the capital markets, the value and information they provide, along with newer products and services, are creating more growth opportunities. From pre-issuance to post-issuance, financial decision makers are utilizing a growing range of S&P products and services to identify, measure, and manage credit risk in an expanding market.

	Pre-Issuance	Issuance	Post-Issuance
How Standard & Poor's Plays a Role	Benchmarking data, tools, and analysis that help issuers and related parties analyze and gauge the ratings impact of strategic decisions	Credit ratings and rationales serve as tools that help investors during the investment process. S&P has credit ratings outstanding on approximately \$34 trillion of debt in more than 100 countries	Products and services for monitoring and modeling creditworthiness and/or transaction performance that help market participants make informed buy/sell decisions, evaluate ongoing risk, and meet regulatory requirements
Representative S&P Products and Services	<p>RatingsDirect/Peer Comparison Reports: Real-time, Web-based service that provides insight into Standard & Poor's rating methodologies, practices, and benchmarks</p> <p>Rating Evaluation Services: A confidential assessment of how potential strategic actions may impact creditworthiness</p> <p>CDO Suite: Data, models, and analytical tools to evaluate risks associated with CDOs</p> <p>LEVELS (Loan Evaluation and Estimate of Loss System): A model to determine the foreclosure frequency, loss severity, and credit enhancement levels required for residential mortgage loan securitizations</p> <p>CreditModel: Quantitatively-derived credit rating estimation models for specific industries and regions</p>	<p>Issue Ratings: S&P's traditional ratings on specific financial obligations or programs</p> <p>Issuer Ratings: Assesses the creditworthiness or overall financial capacity of obligors</p> <p>Bank Loan Ratings: Incorporates the risk of default and the likelihood of full ultimate recovery in the event of default</p> <p>Servicer Evaluations: Assessments of an entity's ability, efficiency, and competence in servicing structured transactions</p>	<p>RatingsDirect: For tracking S&P's global credit ratings, research, and risk analysis</p> <p>Leveraged Commentary & Data: Daily loan market information for bankers and investors</p> <p>Recovery Ratings: Issue-specific ratings that focus solely on the nominal expected loss and recovery of principal in the event of default</p> <p>CDO Suite: Data, models, and analytical tools to monitor risk on an ongoing basis</p> <p>SPIRE (S&P Interest Rate Evaluator): Residential mortgage-backed securities cash flow model that analyzes the effect of variable interest rates on both assets and liabilities</p>

INNOVATING IN CREDIT MARKETS: INTRODUCTION OF NEW PRODUCTS AND SERVICES¹ AND A GROWING GLOBAL NETWORK



¹ Coverage is a representative sample

² Physical presence does not indicate inception of coverage

Standard & Poor's

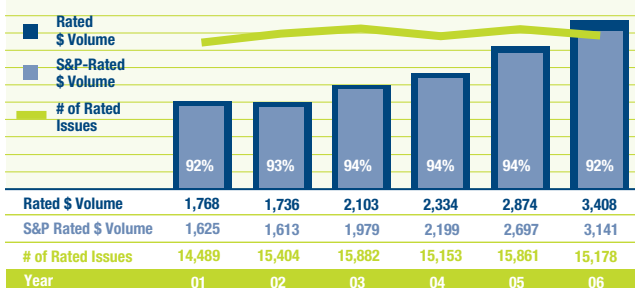
U.S. DEBT MARKET

In 2006, the size of the rated debt market in the U.S. totaled \$3.4 trillion, with Standard & Poor's rating 92% 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)

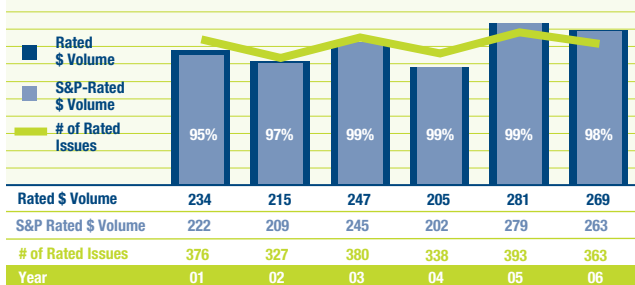
S&P penetration rate as a % of rated dollar volume



Source: Thomson Financial; Harrison Scott Publications/Standard & Poor's

Asset-Backed^(b, e)

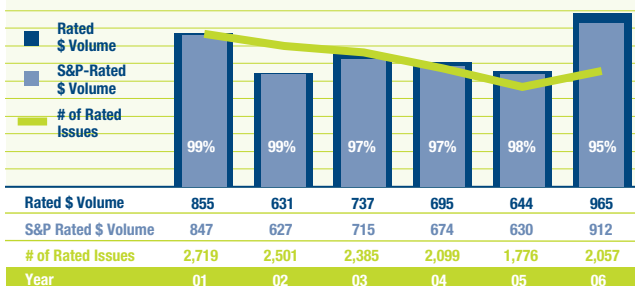
S&P penetration rate as a % of rated dollar volume



Source: Harrison Scott Publications/Standard & Poor's

Corporates^(c, d)

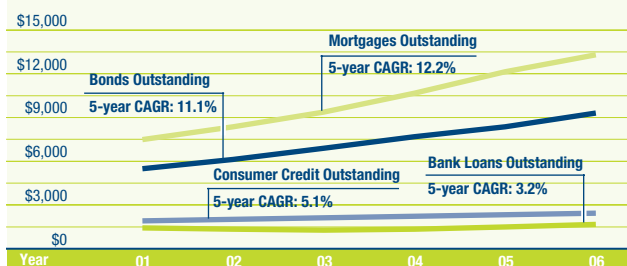
S&P penetration rate as a % of rated dollar volume



Source: Thomson Financial

U.S. Debt Outstanding Continues to Grow

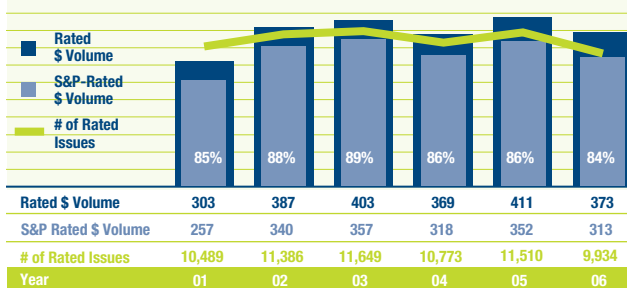
(dollars in billions)



Source: Board of Governors of the Federal Reserve System, as of March 8, 2007

Municipals^(a)

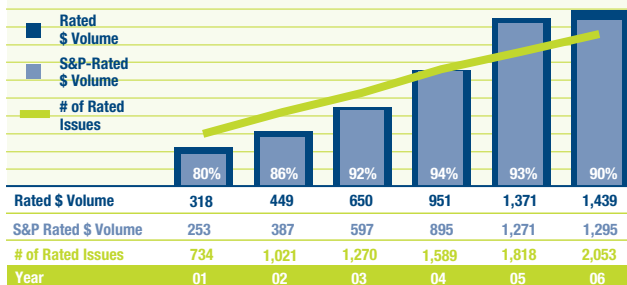
S&P penetration rate as a % of rated dollar volume



Source: Thomson Financial

Mortgage-Backed^(b, d)

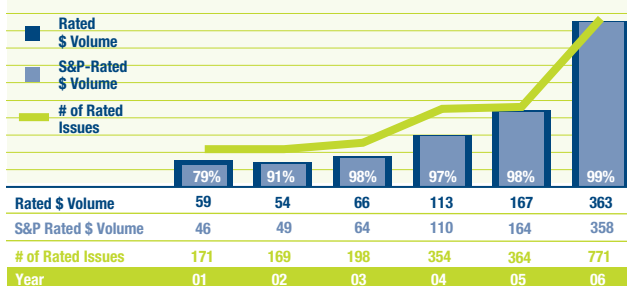
S&P penetration rate as a % of rated dollar volume



Source: Harrison Scott Publications/Standard & Poor's

Collateralized Debt Obligations (CDOs)^(b)

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



Source: Harrison Scott Publications/Standard & Poor's

Notes for debt issuance:

(a) Excludes municipal 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

EUROPEAN AND ASIAN DEBT MARKETS

European Debt Market

In 2006, rated debt issuance in Europe was nearly \$2.2 trillion, up 30% from 2005. Standard & Poor's utilized its strong European network to capitalize on the significant growth in the region. Standard & Poor's 2006 market penetration was 81% for all rated European debt.

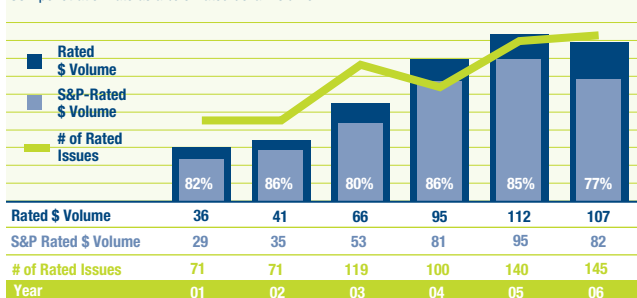
Asian Debt Market

In 2006, rated debt issue volume for corporates in Asia was \$203 billion, up 33% from 2005. Standard & Poor's 2006 market penetration was 86% for corporates. Rated issuance for structured finance was \$171 billion; Standard & Poor's rated 84% of that volume.

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

European Asset-Backed (a, c)

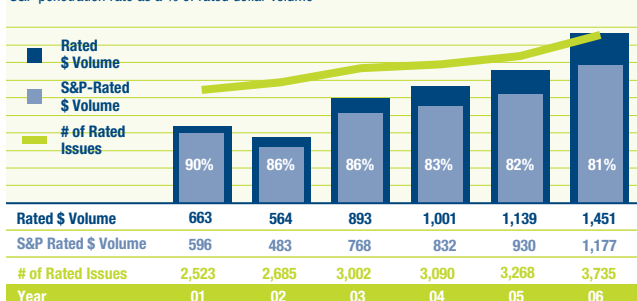
S&P penetration rate as a % of rated dollar volume



Source: Harrison Scott Publications/Standard & Poor's

European Corporates (b)

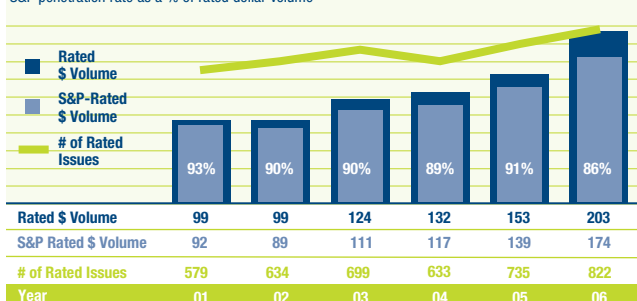
S&P penetration rate as a % of rated dollar volume



Source: Thomson Financial

Asian Corporates (b)

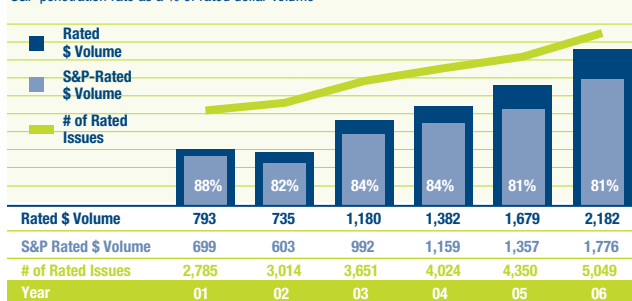
S&P penetration rate as a % of rated dollar volume



Source: Thomson Financial

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

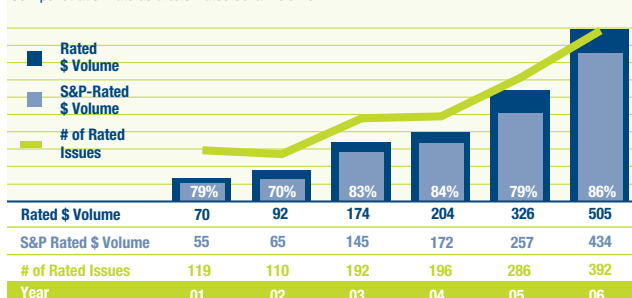
S&P penetration rate as a % of rated dollar volume



Source: Thomson Financial; Harrison Scott Publications/Standard & Poor's

European Mortgage-Backed (a, d)

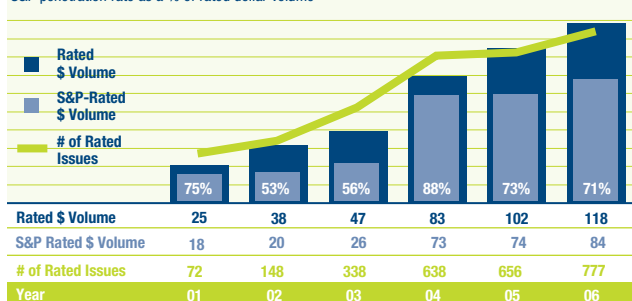
S&P penetration rate as a % of rated dollar volume



Source: Harrison Scott Publications/Standard & Poor's

European Collateralized Debt Obligations (CDOs) (a)

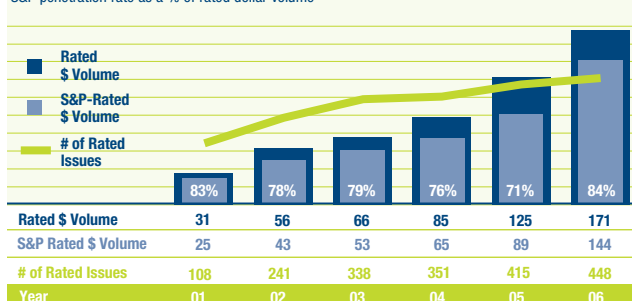
S&P penetration rate as a % of rated dollar volume



Source: Harrison Scott Publications/Standard & Poor's

Asian Structured Finance (a, c, d)

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



Source: Harrison Scott Publications/Standard & Poor's

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

Standard & Poor's

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 accounted for nearly 24% of ratings revenue in 2006. The growing marketplace acceptance of non-bond rating activity by Standard & Poor's is illustrated in the charts below.

NON-BOND RATINGS

Financial Strength, Counterparty, and Corporate Credit Ratings:

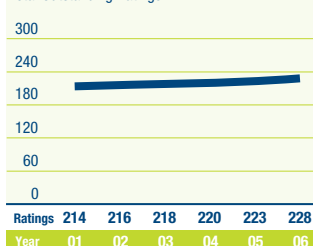
An opinion of an entity's overall creditworthiness and capacity to pay its financial obligations. These ratings do not apply to specific financial obligations.

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.

Corporate Credit Ratings*

Total Outstanding Ratings



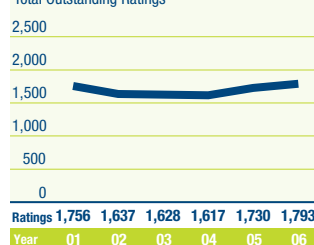
* Total for those organizations whose only rating is a Corporate Credit Rating

Bank Loan Ratings – U.S. & Europe

Total Outstanding Ratings

**Financial Strength Ratings***

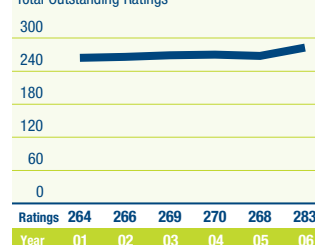
Total Outstanding Ratings



* Formerly Claims-Paying Ability Ratings

Counterparty Ratings*

Total Outstanding Ratings



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

Recovery Ratings (Bank Loans and Secured Notes)

Distribution of All Recovery Ratings



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%

Source: Standard & Poor's

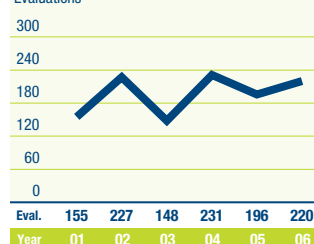
EVALUATIONS

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.

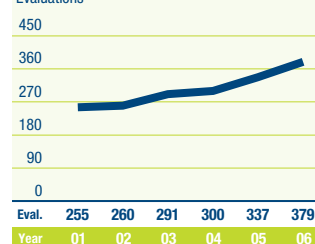
Servicer Evaluations: An independent, objective view of a company's ability to service loan and asset portfolios. The Servicer Evaluation rankings serve as consistent, objective benchmarks for assessing operational risk, which provide valuable transparency and enable global market participants to make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

Rating Evaluation Services

Evaluations

**Servicer Evaluations**

Evaluations



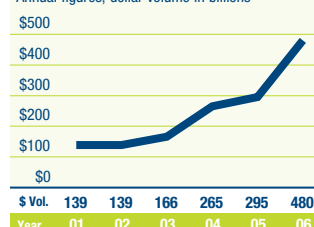
Source: Standard & Poor's

LEVERAGED COMMENTARY & DATA

Leveraged Commentary & Data: Strong demand powered leveraged loan issuance to a record \$480 billion in 2006, up from \$295 billion in 2005. In addition to providing leveraged loan ratings and collateralized loan obligation ratings, Standard & Poor's is capitalizing on the growing market by expanding its subscription-based commentary and data to participants.

U.S. New-Issue Leveraged Loan Volume

Annual figures; dollar volume in billions



Source:
Standard & Poor's Leveraged Commentary & Data

ANALYTICAL TOOLS AND MODELS

A hedge fund securitization tool

Hedge Fund Evaluator

Enables analysts to develop securitization scenarios for modeling hedge fund performance that incorporate Standard & Poor's analytic criteria and tests far more quickly and easily than ever possible. It can be used to analyze:

- Hedge fund investment risk
- Cash-funded collateralized fund obligation (CFO) securitizations
- Synthetic hedge fund securitizations
- Gap risk transactions
- Constant proportion portfolio insurance (CPPI) transactions

Hedge Fund Evaluator uses a Monte Carlo simulation to efficiently analyze hedge fund portfolio performance under various scenarios and forecast the performance of a hedge fund portfolio with probabilities. The tool identifies a public index with a high correlation to the portfolio under analysis and projects that index as a proxy of the portfolio's potential performance.

STANDARD & POOR'S				Gap Risk Analysis	
Gap Risk Analysis Parameters				Number of Runs	
Exposure	84 Months			1,000	
Effective Mgr	5			Failed Runs	
Rolling Period	3 months			90	
"Less than" Trigger	-10.00%			% Failed of Total	
				9.93%	
				Failed Runs (Exclude Runs that Breach Term Weight Conventions)	
				99	
				Max Downside Gap	
				-14.84%	
				Max Upside Gap	
				20.92%	
Rating Threshold	% Failure Allowed	# Failed Runs Allowed	Cushion		
AAA	0.5168%	5	0.0000%		
AA+	0.6564%	7	0.0000%		
AA	1.1977%	12	0.0000%		
AA-	1.3719%	14	0.0000%		
A+	1.5638%	16	0.0000%		
A	1.8140%	18	0.0000%		
A-	2.1727%	22	0.0000%		
BBB+	2.9207%	29	0.0000%		
BBB	3.9413%	39	0.0000%		
BBB-	6.4036%	64	0.0000%		
BB+	10.4072%	104	1.4072%		
BB	14.1969%	142	5.1969%		
BB-	16.4364%	164	7.4364%		
B+	20.4382%	204	11.4382%		
B	26.1506%	262	17.1506%		
B-	30.2883%	302	21.2883%		
CCC+	36.7626%	368	27.7626%		
CCC	43.3167%	433	34.3167%		
CCC-	62.2111%	622	53.2111%		

STANDARD & POOR'S		CreditPro	
STANDARD	COUNTRY	INDUSTRY	VINTAGE
BATCHES	OVERS	SEARCH	
Table 2: Transition Matrices			
Report Type: Transition Matrices (Percent)			
Post Start Date: 01/01/1981 to 01/01/2006			
Historical End Date: 12/31/1981 to 12/31/2006			
Number of Pools: 26			
S&P Industries/Country/Vintage			
Rating	AAA	AA	A
AAA	98.34	7.84	0.47
AA	0.59	87.31	7.52
A	0.04	2.62	87.27
BBB	0.01	0.16	3.97
BB	0.03	0.06	0.22
B	0.03	0.05	0.10
CCC	0.03	0.03	0.06

Internal rating system solutions for credit and investment professionals

CreditPro®

CreditPro is a component of a comprehensive set of internal rating system solutions from Standard & Poor's. Its database provides credit and investment professionals with access to Standard & Poor's global default and ratings migration database of more than 12,000 of Standard & Poor's-rated obligors worldwide and over 80,000 rated structured finance securities back to 1974.

Credit and investment professionals can calibrate models and generate default rate, ratings migration, and default correlation statistics in order to:

- Benchmark internal performance
- Address shortcomings in internal ratings data
- Predict future default and rating migration scenarios
- Allocate portfolios among various assets/sectors
- Support analysis of market valuation or credit instruments

Analytical model that helps securitize small business loan portfolios

Small Business Portfolio Evaluator™

Small Business Portfolio Evaluator is an analytical model that helps issuers, underwriters, originators, and financial guarantors create new revenue streams through the securitization of small business loan portfolios. Users include:

- Issuers and underwriters: Assess the gross default and prepayment risk of small business loan portfolios
- Underwriters, originators, and financial guarantors: Use it as a risk management tool to help them make informed decisions on credit quality

A state-of-the-art Monte Carlo simulation enables users to gain a probability distribution of default rates through the final maturity of the longest loan, helping them analyze and assemble potential portfolios for securitization.

STANDARD & POOR'S		Small Business Portfolio Evaluator 1.2	
Assets	Transaction Name	As of Date	Recovery Rate
		1-Jan-2000	53.4%
		Total Balance	244,110,700
Obligor ID	SIC Code	Location	Maturity
1	1752	FL	01-Sep-22
2	3241	CO	23-Dec-26
3	1799	NY	17-Aug-22
6	8732	MD	09-Aug-28
7	7291	IL	27-Feb-22
9	5571	TX	12-Sep-19
10	5012	OR	11-Jul-17
11	8742	MD	07-Jun-20
13	5159	FL	20-Oct-23
14	741	AR	24-Aug-20
15	5421	NY	26-Sep-17
16	5222	IN	13-Nov-23
17	7309	CA	11-Jan-22
18	4099	NA	23-Sep-22
19	7309	CA	14-Apr-23
21	7309	WA	08-Nov-28
22	6531	CA	02-Jun-21
23	8064	FL	04-Mar-24
24	8071	MD	12-Dec-33
25	1711	AZ	15-Aug-33
26	7819	TX	17-Jun-22
27	1081	OR	10-Oct-27
30	1711	NC	21-Apr-20
31	3499	CA	23-Sep-33

Standard & Poor's

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 decisions. As 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
- Index Data
- 3rd Party Data*
- Client's Proprietary Data**

Solution-Based Delivery

- Workflow Platform
 - Capital IQ Platform
- Applications
 - RatingsDirect
 - CUSIP Access
 - Research Insight
 - S&P Backtester
- 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: Real-time ratings information on Standard & Poor's-rated global issuers includes corporations, financial institutions, insurance companies, sovereigns, structured financings, and utilities. Users get 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 global reference data solutions include 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: Independent fixed-income evaluations and global pricing services 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.

Index Data: Easy-to-use tools provide complete access to S&P index activity and analysis. Standard & Poor's index data is accepted as crucial to the investment process for quantitative modeling, back testing, and portfolio construction and management, including risk monitoring and control.

Workflow Platform

Capital IQ Platform: High-impact information and workflow solutions are delivered to nearly 2,000 leading financial institutions, advisory firms and corporations. 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.

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 obtain objective and informed opinions of S&P credit analysts to help evaluate the credit quality of issuers and their debt obligations.

CUSIP-ISID Plus Access: Online database of global security identifiers cross-referencing more than 900,000 issues.

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 data feed for global pricing and pricing-related data including dividend announcements, credit ratings, and descriptive data on more than 6 million instruments. The flexible data delivery platform gives financial professionals the ability to prioritize pricing and reference data sources.

EMBEDDING STANDARD & POOR'S DATA INTO CLIENT WORKFLOWS

Web-based platform with robust tools for analyzing global private and public capital market data

Capital IQ is a Web-based research platform that combines in-depth information on companies, markets, and people worldwide with robust tools for fundamental analysis, financial modeling, market analysis, screening, targeting, and relationship and workflow management. It is used at nearly 2,000 client firms, including many of the world's investment banks, hedge funds, private equity firms, consultants, and corporations. Features include:

- **Company Intelligence:** Comprehensive information on over 42,000 active public companies, 685,000 private companies, 10,600 private capital firms, 312,000 transactions, and 985,000 professionals worldwide
- **Integration of S&P's ratings and credit research:** Users can view S&P's long-term and short-term credit ratings for an issuer, as well as its related entities
- **Screening and targeting tools:** Identify potential investments, investors, buyers, acquisitions, sales prospects, strategic partners, and executive hires as well as financial transactions and corporate actions. Screen 1,500+ qualitative and quantitative data items, and "click-through" audit specific items to their source filings
- **Capital IQ Real-Time:** Provides streaming quotes, news, charts and market views
- **Flexible IT Deployment:** Can be used as a standalone solution or integrated into existing business applications



www.CapitalIQ.com



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Real-time source for S&P's global credit ratings, research, and risk analysis

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With a wide range of timely analyses, commentaries, and special reports, RatingsDirect enables users to search through several trillion dollars' worth of worldwide securities – publicly rated by Standard & Poor's – and view up-to-the-minute credit ratings, opinions, and in-depth perspectives on the credit market, including:

- The underlying rationale for a rating action and potential outlook
- Peer comparisons, key financial ratios, and important credit drivers
- In-depth global economic and capital markets research with default/transition studies, and analyses of ratings trends
- Estimates of post-default recovery and credit risk in leveraged debt markets

RatingsDirect contains nearly 8 million ratings on approximately 40,000 issuers across the globe plus 240,000 research and commentary articles.

Standard & Poor's

A WORLD-LEADING INDEX PROVIDER

Standard & Poor's is a leading full-service provider of tradable and benchmark index products and services. Standard & Poor's flagship index series, including the S&P 500 and the S&P Global 1200, are world-renowned as investable, liquid, and replicable offerings designed to serve as proxies for the different markets they measure. Over \$1.5 trillion in investment assets are directly tied to Standard & Poor's indices.

Standard & Poor's has a long history of creating indices. Collaboration with major exchanges around the world enables Standard & Poor's to innovate local, regional and global solutions for all types of index needs. The goal: provide an index for every type of investment.

TRACKING THE GROWTH OF S&P'S FAMILY OF INDICES

	Futures trading on the S&P 500 begins at the Chicago Mercantile Exchange (CME)	Launches world's first exchange-traded fund (SPDRs)	Acquires IFC emerging market indices from World Bank	S&P ADR and S&P Hedge Fund Indices launched	With CITIC Securities, creates S&P/CITIC equity and bond indices for Chinese market	First index for real estate: S&P/Case Shiller® Home Price Index on CME						
			Barclays Global Investors launches suite of iShare ETFs based on S&P indices			\$161.2 billion in assets under management in exchange-traded funds based on S&P indices						
			Partners with Australian Stock Exchange to create S&P/ASX indices			415,588 average daily volume in S&P 500 futures contracts						
			87,286 average daily volume in S&P 500 futures contracts									
1957	1982	1983	1993	1999	2000	2001	2002	2003	2004	2005	2006	2007
Launches S&P 500		The Chicago Board of Options Exchange (CBOE) starts trading options based on the S&P 500		Introduces the S&P Global 1200, the first real-time investable global index		\$63.2 billion in assets under management in exchange-traded funds based on S&P indices		Partners with Borsa Italiana and Hong Kong exchanges and acquires Citigroup Global Equity Index Series		Launches S&P Custom Index solutions, style and pure style indices		Acquires GSCI, the Goldman Sachs commodity indices
				Partners with Tokyo and Toronto stock exchanges to create, manage indices		Collaborates with RTS-Interfax to create S&P/RUX indices for Russian market						Introduces first tradable index on private equity, S&P Listed Private Equity Index

THE GOAL: AN INDEX FOR EVERY TYPE OF INVESTMENT

Standard & Poor's family of indices represents a broad spectrum of asset classes, geographies and styles.

Equity	Alternative	Strategy	Fixed Income	Custom
Families of indices for global and local markets. Basis for futures, options, and exchange-traded funds (ETFs). Recent additions: S&P BRIC 40 (Brazil, Russia, India, China) and S&P Global Thematic series (e.g., clean energy, water, infrastructure).	Benchmarking tools for assets beyond stocks and bonds. Examples: Commodities (S&P GSCI), residential real estate market (S&P/Case Shiller®), S&P Listed Private Equity Index for ETFs, and structured products. ETFs on preferred stock indices in U.S. and Canada.	Portfolio strategies based on equities, fixed income, commodities, or innovative asset class allocations. Example: S&P Multi Asset Strategy Index.	A variety of bond benchmarks for local market investors in Canada and China. Structured finance indices in U.S. and Europe.	Indices designed for clients including asset managers, derivative desks, brokerage houses, listed companies, pension plans, consultants, and stock exchanges.

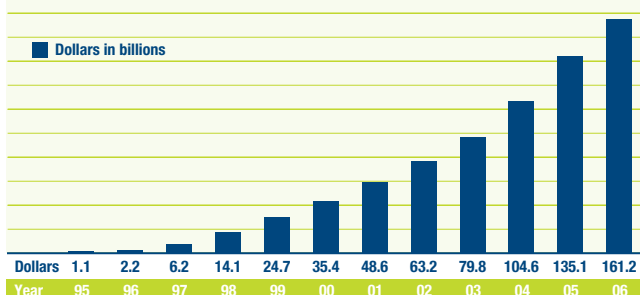
HOW S&P INDEX PRODUCTS AND SERVICES GENERATE REVENUE

- **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 over-the-counter (OTC) derivatives and retail structured products
- **Data subscriptions**, which support index product management, portfolio analytics, and research
- **Listed derivatives**, which generate royalties based on trading volumes of derivatives contracts listed on the Chicago Mercantile Exchange, Chicago Board Options Exchange, Australian Securities Exchange, Montreal Exchange, and other exchanges

RECORD-LEVEL ETFs LINKED TO S&P INDICES

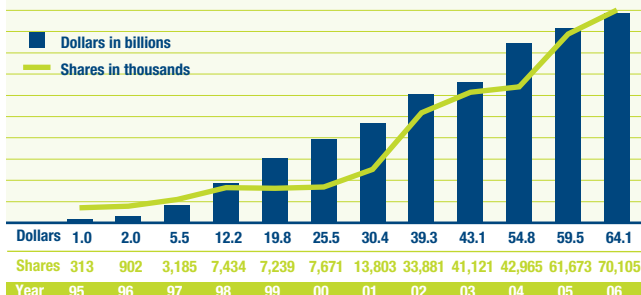
Exchange-traded funds (ETFs), which represent share ownership of an index fund but trade like shares of stock, have become the most popular securities on the American Stock Exchange. Standard & Poor's has been at the forefront of ETF development since the launch of the S&P 500 SPDR (Standard & Poor's Depository Receipts) in 1993, the S&P MidCap SPDR in 1995, and the Select SPDRs in 1998. 35 new ETFs linked to Standard & Poor's indices were launched in 2006. Assets in the over 85 listed ETFs linked to S&P indices reached record levels at year-end 2006, led by the SPDR S&P 500 ETF, the largest ETF in the world.

S&P Index-Based ETF Assets



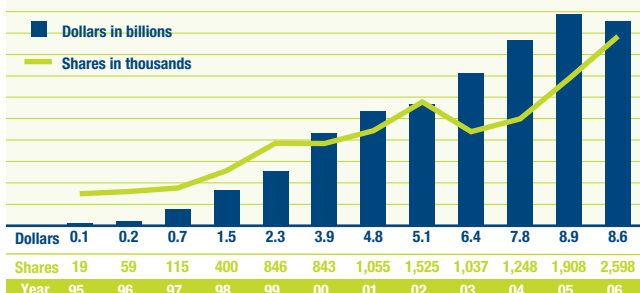
Source: Standard & Poor's

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



Source: American Stock Exchange

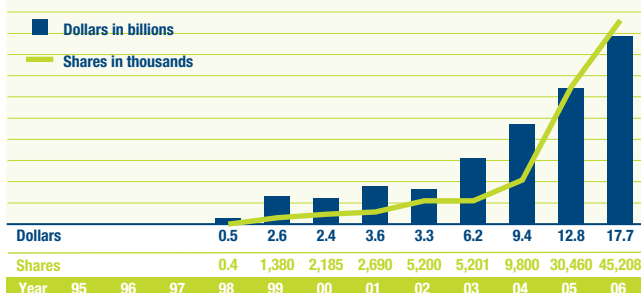
MidCap SPDR Trust Value/Average Daily Trading Volume



Source: American Stock Exchange

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

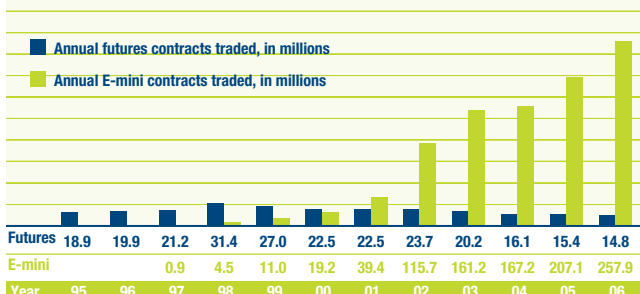
Select Sector SPDR Trust Value/Average Daily Trading Volume



Source: American Stock Exchange

Note: Select Sector SPDRs started trading December 22, 1998

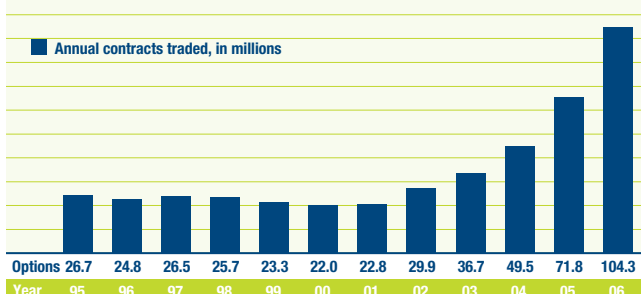
S&P 500 Index Futures Traded on the CME



Source: Chicago Mercantile Exchange

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

S&P 500 Option Contracts Traded on the CBOE



Source: Chicago Board Options Exchange

Standard & Poor's

INVESTMENT ADVISORY SERVICES

Standard & Poor's provides independent, objective analysis and advice to the investment management and advisory marketplace. Clients receive portfolio strategy, fund research, and asset allocation services encompassing the wide range of Standard & Poor's analysis and tools, including S&P's proprietary ranking methodologies (such as Quality Rankings and Fair Value).

PORTFOLIO STRATEGIES

Standard & Poor's portfolio strategies typically leverage proprietary data and research tools and range from developing recommended stock lists to acting as a non-discretionary subadvisor for fund of fund (or manager of manager) programs. Standard & Poor's portfolio strategies are used by clients to create a wide range of investment products including mutual funds, exchange-traded funds (ETFs), unit investment trusts (UITs), and variable annuity programs.

Standard & Poor's designs primarily two types of strategies: individual securities-based strategies and multi-manager strategies that incorporate S&P's independent, analytic insights, and proprietary research.

FUND RESEARCH

Standard & Poor's provides clients with rigorous evaluations to aid in fund portfolio analysis and selection. Fund research covers all styles and market capitalization segments, spanning global equity and fixed income markets. Standard & Poor's also evaluates separately managed accounts (SMAs), ETFs, and insurance

sub-accounts and recommends lists of them for portfolios tailored to client-supplied requirements based on S&P's high standards for performance, consistency, process discipline, and management quality.

ASSET ALLOCATION

Standard & Poor's asset allocation services can be used to develop portfolios for both institutional and retail investors. Standard & Poor's recommendations span a spectrum of asset classes and

risk appetites and address targeted objectives such as capital appreciation, income, industry sector or regional/global classifications for both institutional and retail settings.

OPTIONS FOR WORKING WITH STANDARD & POOR'S INVESTMENT ADVISORY SERVICES

Standard & Poor's offers its investment research and advice under a variety of arrangements, including:

- **Licensing:** Proprietary research and rankings to create funds, SMAs, unit investment trusts, structured notes, and other investment vehicles
- **Consulting:** Recommendations that clients use for decision-making consistent with the portfolio's investment objectives
- **Subadvisory:** Non-discretionary subadvisor to investment managers of funds of funds and equity portfolios, providing daily monitoring of portfolios as well as buy, sell, and weighting recommendations
- **Support Services:** Marketing and sales support including conference and teleconference speakers, wholesaler meetings, and roadshows

LEADING THE WAY IN THOUGHT LEADERSHIP AND ANALYTICAL EXCELLENCE

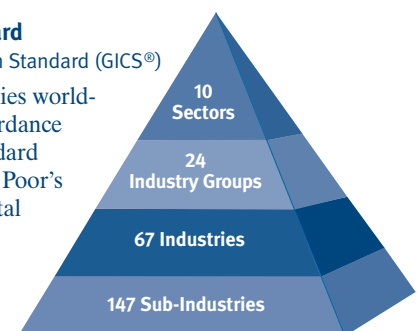
Standard & Poor's Quality Ranking System

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 professional investors to assist in identifying securities that are appropriate for inclusion in equity portfolios. 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 35,000 companies world-wide 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.



A WORLD-LEADING PROVIDER OF INDEPENDENT EQUITY RESEARCH

Standard & Poor's is a world-leading provider of independent equity research, offering a wide spectrum of investment opinions, analysis, and commentary that is purchased by financial advisors, investors, and institutions. Standard & Poor's received eight awards in *The Wall Street Journal's* "2006 Best on the Street" annual analysts survey.

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 portfolios, top-down, trend-driven and sector research tied to specific recommendations and strategies, and analysis of individual equities, all focused on enhancing the relationship between advisors and their clients.

INVESTMENT RESEARCH

Key services include:

- **Standard & Poor's Stock Reports:** Covers more than 5,000 publicly-traded companies, including qualitative coverage on more than 1,800 companies, and presents an in-depth picture of each company's activities, development, performance, and outlook
- **Standard & Poor's MarketScope Advisor:** Provides real-time commentary, recommendations, investment strategies, current opinions, and stock picks to more than 120,000 investment professionals daily
- **Standard & Poor's Investment Policy Committee (IPC) Notes:** Reports Standard & Poor's "top-down" economic, fundamental, and technical outlook as well as recommended asset allocation
- **The Outlook:** Standard & Poor's consumer-oriented, investor website, which includes a weekly newsletter that has been providing investors with unbiased research for eight decades

LEVERAGING GLOBAL INTEREST IN INDEPENDENT EQUITY RESEARCH

The global equity research business is undergoing transformational change. Intense global regulatory oversight and measures for increased transparency have been instituted to help restore investor confidence in equity markets, while the value of credible

independent research is increasing. The evolution of the global equity research environment is now creating opportunities and business models for independent research firms to provide new and enhanced research and support services.

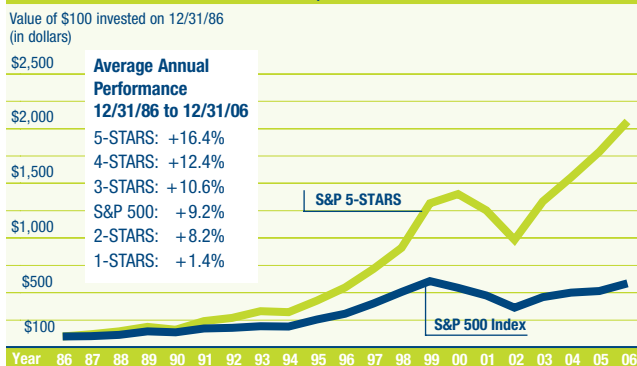
LEADING THE WAY IN THOUGHT LEADERSHIP AND ANALYTICAL EXCELLENCE

ANALYTICAL RIGOR

Qualitative Research

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

S&P U.S. STARS Performance Compared to S&P 500 Index



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:** Created nearly 50 years ago, S&P's Quality Rankings now evaluate more than 4,000 common stocks, assisting both individual and professional investors in identifying securities that consistently outperform market indices on a risk-adjusted basis
- **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

Energy

MEETING THE GROWING GLOBAL DEMAND OF THE PHYSICAL AND FINANCIAL ENERGY MARKETS

Platts is the world's leading energy information provider. For nearly a century, Platts has enabled global energy markets to operate with greater transparency and efficiency. From 14 offices around the world, Platts serves the oil, natural gas, electricity, nuclear power, coal, emissions, petrochemicals, steel, and metals markets. Traders, risk managers, analysts, and industry leaders depend upon its real-time news, prices, market commentary, and analytics to help them make better trading and investment decisions. Government agencies, regulators, and other market observers involved in shaping energy policy and market design regularly seek Platts' expertise in the physical markets.

Energy markets have entered a sustained period of volatility driven by concerns over supply disruptions, the growth of electronic global markets, and the impact of financial players. Commodities have grown as an investment asset class, with funds invested in the S&P

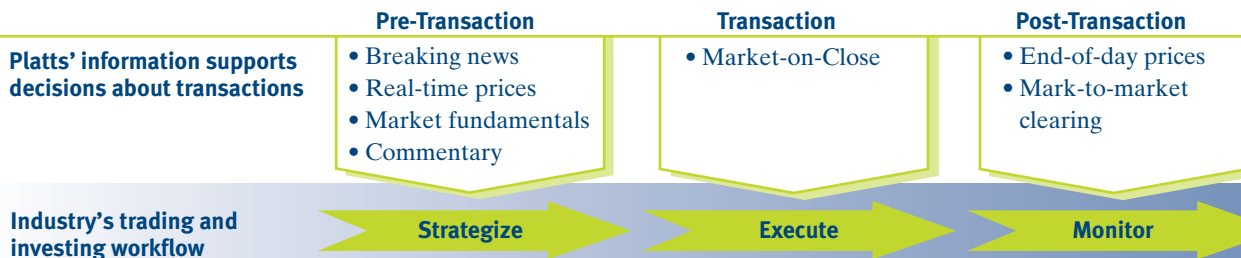
GSCI Commodity Index reaching \$50 billion in 2006, up from \$12 billion in 2003. Energy M&A continues to proliferate. To capitalize on the growth potential, Platts is partnering with exchanges, extending its risk management products, and working with Standard & Poor's to create new energy indices.

Platts has a strong global presence and its growth is driven by the European and Asian markets. Platts is extending its editorial expertise in emerging energy markets and is developing new market coverage in Russia and China. With the launch of *Steel Markets Daily*, Platts is expanding into steel, the world's third largest commodity market. Platts has increased news and pricing coverage in the emerging emissions, biofuels, and liquefied natural gas markets, and has produced innovative new conferences on ethanol finance, wind power, and carbon capture.

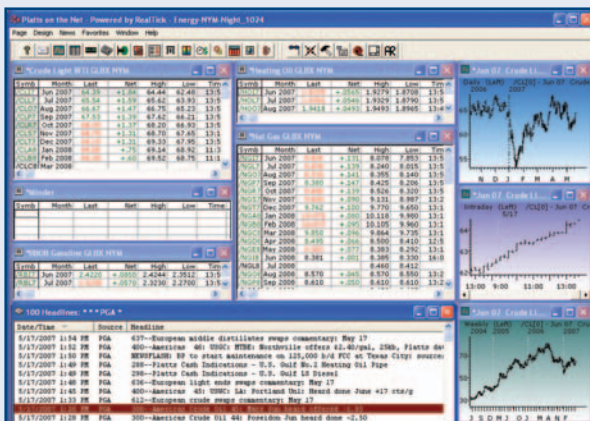
DEEPLY EMBEDDED IN THE INDUSTRY'S WORKFLOW

Platts produces nearly 8,500 unique price assessments daily across a host of commodities which are used as the settlement basis for billions of dollars of physical and financial contracts. Everyday, billions of dollars in global petroleum contracts are traded and settled on Platts' benchmarks. Major energy exchanges including the New York Mercantile Exchange (NYMEX), the Intercontinental Exchange (ICE), the Singapore Exchange, and the Russia Stock Exchange use Platts' prices to clear OTC trades. Platts extended its benchmark status by rolling out the innovative Market-on-Close price assessment process in crude and refined products in the U.S., and by strengthening Middle East price assessments.

Platts' information is embedded in end-to-end customer trading and investment workflows. The flagship Platts Global Alert provides traders with real-time information to help them develop trading strategies, trade and view activity in the Platts Market-on-Close assessment window, and receive end-of-day prices to value their positions. Responding to growing customer requirements for objective benchmarks for forward transactions, Platts now has a full suite of forward curves covering oil, natural gas, electricity, freight, and coal. Platts Energy Advantage platform supports the growing need of financial professionals evaluating major strategic decisions including M&A and capacity expansion projects.



PLATTS ON THE NET



Platts on the Net combines real-time news, pricing and market commentary with analytical tools, across all the energy markets covered by Platts

Platts on the Net is a real-time delivery platform which provides access to a vast array of energy market data including real-time news, market prices and market commentary, combined with sophisticated analytical tools. With Platts on the Net, customers have a single point of access to the breadth of global energy and commodity markets covered by Platts.

Key Features:

- Access to Platts Global Alert, real-time delivery of Platts' proprietary breaking news, prices, and commentary
- Access to all Platts' market sectors including oil, natural gas, power, metals and petrochemicals
- Search and filter up to 90 days of data archives
- Analyze and chart real-time and historical information
- View incisive analysis from Platts industry experts who are in constant touch with the marketplace

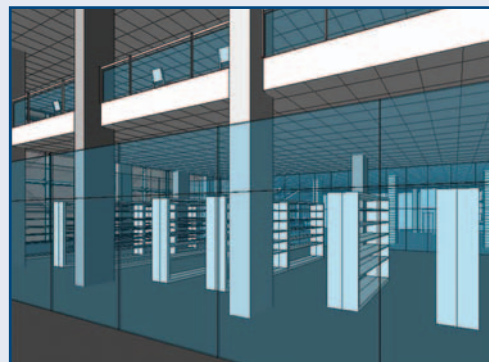
CONNECTING PRODUCTS, PROJECTS, AND PEOPLE WORLDWIDE

McGraw-Hill Construction is a leading provider of project and product information, news, market trends, analysis, and forecasts to an industry that accounts for 8% of the U.S. GDP. A trusted source for more than a century, McGraw-Hill Construction's brands – Dodge, Sweets, *Architectural Record*, *Engineering News-Record*, *GreenSource*, and 11 regional publications – currently serve more than one million professionals within the \$4.6 trillion global construction community.

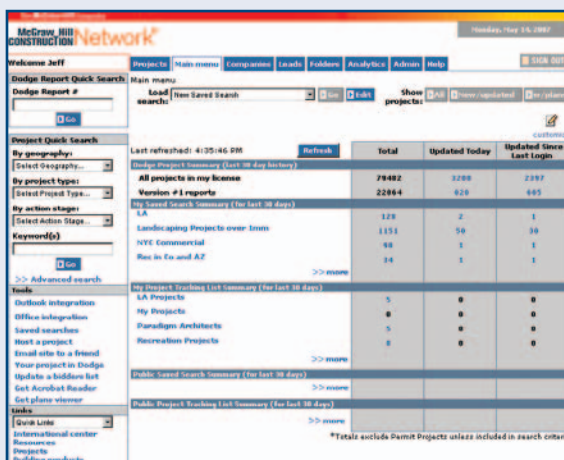
PROVIDING DIGITAL SOLUTIONS TO MEET THE INDUSTRY'S NEED FOR INTEROPERABILITY

The need to efficiently manage and communicate electronic product and project data among collaborating firms, allowing for the seamless exchange and management of electronic information, is becoming a requirement in the design and construction industry.

PRODUCTS | SWEETS NETWORK, www.sweets.com, an online platform offering architects and engineers easy and comprehensive access to building products, recently underwent a major redesign to meet the new needs of the industry. Sweets, the industry's preferred source of building product information, includes PDFs of product catalogs, computer-aided design (CAD) details, three-part specifications, and more. Sweets.com also offers 3-D models of CAD drawings through a partnership with Google SketchUp™. This service saves time by allowing projects to be designed and virtually constructed during the design phase with building information modeling.



Sweets 3D™ – Through a partnership with Google SketchUp™ users can download building products and visualize concepts in dynamic 3D



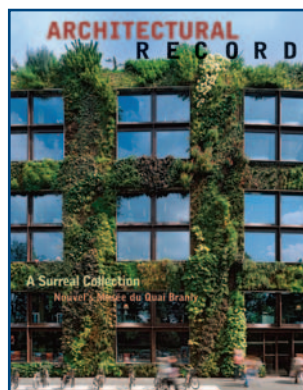
PROJECTS | THE MCGRAW-HILL CONSTRUCTION NETWORK®, www.construction.com/Network/, a comprehensive online platform of more than 600,000 active construction projects annually, provides the industry with critical project information, plans, and specifications that industry participants need to be successful. Project Document Manager (PDM), a collaborative effort between McGraw-Hill Construction and ReproMAX, enables general contractors to manage the project bidding process online. By providing tools, applications, and resources, PDM helps these businesses increase their efficiency and productivity while saving time and money.

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GREEN CONSTRUCTION – AN EMERGING INDUSTRY TREND

Green construction is the careful design, construction, operation, and reuse or removal of the built environment in an environmentally, energy-efficient, and sustainable manner. Research conducted by McGraw-Hill Construction Research and Analytics, and published in its "*Green SmartMarket Report*," projects that by the year 2010, 5 to 10% of new non-residential construction will be designed using principles of green building. This translates to a green building market valued between \$10.2 billion and \$20.5 billion.

McGraw-Hill Construction's leadership in green construction is evident in its project, product, media, and research and analytics offering, including the award-winning *GreenSource* magazine and website. Forums for discussion, including blogs and podcasts, are delivered through *GreenSource* (www.greensourcemag.com), *Architectural Record* (www.ArchitecturalRecord.com), and *Engineering News-Record* (www.ENR.com). The McGraw-Hill Construction Research and Analytics team, along with key partners such as the United States Green Building Council, is fast becoming an authoritative voice in green construction. The team publishes *Market Sector* and *SmartMarket Reports* several times each year.



Aerospace & Defense

PROVIDING INFORMATION SOLUTIONS TO THE GLOBAL AEROSPACE AND DEFENSE INDUSTRY

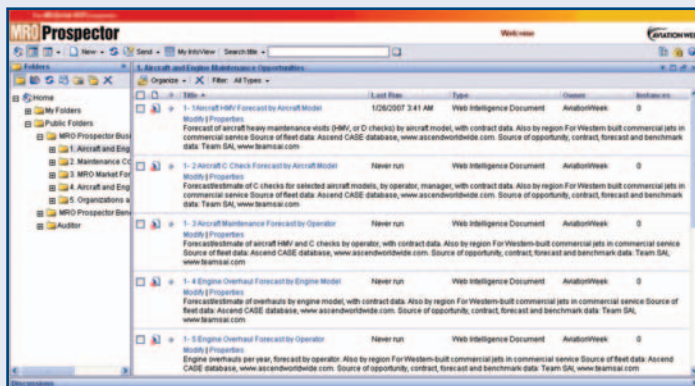
With nearly 100 years of industry experience and knowledge, AVIATION WEEK is the largest multimedia information and services provider to the global aviation, aerospace and defense industries. Over 1.2 million professionals turn to AVIATION WEEK's unparalleled portfolio of publications, online services, events, and custom media solutions for all of their information and marketing needs.

With record civilian aircraft spending – and a large order backlog – driving growth in the aerospace and defense industry, AVIATION WEEK is the leading information provider to the global aerospace and defense industry. AVIATION WEEK's publications include *Aviation Week & Space Technology*, *Overhaul & Maintenance*, *Business & Commercial Aviation*, *Defense Technology International*, *ShowNews*, *Air Transport Observer*, *International Aviation*, the *World Aerospace Database*, and AVIATION WEEK's Business Intelligence Services, including *Aviation Daily*.

AVIATION WEEK INFORMATION SOLUTIONS

AVIATION WEEK's website at AviationWeek.com is the world's #1 hub for aviation and aerospace professionals. AviationWeek.com provides an online snapshot of the latest developments in aviation, aerospace and defense with a sampling of articles selected from AVIATION WEEK's entire portfolio of products.

Aviation Week.com offers customized solutions and tailored communications packages including "Ezine" sponsorships, white papers, supplements, webcasts, targeted e-mail blasts, podcasts, rich content, and much more.



MRO Prospector enables maintenance, repair, and overhaul companies to identify business opportunities, while airlines depend on it for its benchmark performance data



NEWS & ANALYSIS

News, insight and analysis covering commercial and business aviation, defense, space, and maintenance, repair and overhaul (MRO).

Information is delivered in print and online platforms including *Aviation Week & Space Technology* magazine, AviationWeek.com and the Aviation Week Intelligence Network.

WORKFLOW TOOLS

MRO Prospector is a unique online solution that answers the need for deeper commercial fleet data, the latest contract details, and comprehensive development and benchmarking tools. Its power and flexibility helps users locate the data they need to build business, increase productivity, and boost revenue.

- Comprised of two distinct modules – MRO Business Development and MRO Benchmarks – MRO Prospector enables companies involved in the maintenance, repair and overhaul of commercial aircraft to identify business opportunities and benchmark performance data. MRO Prospector is also used by airline professionals to optimize their planning and forecasting.
- Additional tools enable users to locate and assess supplier capabilities, evaluate specifications of aircraft fleets, and connect with industry personnel.

Aviation Week Intelligence Network (AWIN)

is an integrated online platform that provides a comprehensive array of news, data, analytics, and business information across the key sectors of commercial aviation, military/defense, space, business aviation and MRO. AWIN can be custom-tailored to provide each user with a unique information solution.

LISTENING TO THE VOICE OF THE CUSTOMER

As an independent source of marketing information, J.D. Power and Associates' quality and customer satisfaction rankings have achieved worldwide recognition. Its proprietary research captures the opinions, perceptions, and expectations of millions of consumers and business customers. J.D. Power and Associates' industry performance benchmarks and must-have findings have become part of the operational fabric of companies around the world. These companies turn to J.D. Power and Associates to help them measure and enhance customer satisfaction and gauge effectiveness of their performance improvement initiatives.

Originally known for services to the global automotive industry, J.D. Power and Associates serves a number of other industries including travel and hotels, insurance, telecommunications, utilities, healthcare, homebuilder, consumer electronics, and financial services.

J.D. Power and Associates has expanded its reach to virtually every continent. To further enhance a growing presence in China, Automotive Resources Asia (ARA) was acquired in 2006. Automotive Resources Asia is a leading source of market information for China's rapidly expanding auto industry.

TURNING INFORMATION INTO ACTION

J.D. Power's services are used by companies to measure, assess, and track quality and customer satisfaction over time. Services include:

Syndicated Studies

Syndicated research self-funded by J.D. Power establishes industry-wide performance benchmarks. The results of these studies are sold to companies, and highlights are published for consumers at www.jdpower.com. The highest-ranking companies can enter into a licensing agreement to advertise their performance.

Brand Licensing

Extensive media coverage has helped build the J.D. Power and Associates brand without requiring advertising or marketing expenditures.

Delivering J.D. Power and Associates' syndicated and proprietary research studies via the Web

J.D. Power Compass™

This dynamic Web-based tool provides clients easy accessibility, enterprise-wide. In addition to key content such as an executive summary, background, and a robust downloadable dataset, Compass includes a scorecard that provides a summary of each company's

performance through customizable charts.



Proprietary Studies

Customized company-specific research includes continuous performance monitoring on a weekly, monthly, or quarterly basis, as well as customer satisfaction, quality, sales/service, and retailer tracking.

Consulting and Training

Brand-specific tracking studies monitor quality and customer satisfaction on a continuous basis. Exposure to best practices from across industries helps companies bridge the gap between customer expectations and satisfaction.

Providing the automotive industry with real-time vehicle-specific transaction data from auto dealerships

Power Information Network (PIN)

PIN collects real-time information for the automotive industry to help transform vehicle-specific transaction data into business analysis tools, helping manufacturers and retailers improve their effectiveness. Retailers can evaluate gross profit margins, monitor

used car sales, and assess the effectiveness of the dealership's advertising.



2006 AWARDS OF EXCELLENCE

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



U.S. Awards

Lexus: #1 Nameplate in Customer Satisfaction with Dealer Service

Eastman Kodak Company: Highest in Customer Satisfaction with Digital Cameras – \$200-\$399

LensCrafters: Highest in Customer Satisfaction Among Specialty Optical Chains

Vanguard: Highest in Investor Satisfaction with Online Investing Services

Commerce Bank: Highest in Customer Satisfaction with Retail Banking in New York

International Awards

Canada

Virgin Mobile: Highest in Customer Satisfaction with Prepaid Wireless Service

India

Maruti Suzuki: #1 Nameplate in Customer and Sales Satisfaction

Japan

Fuji Xerox: #1 Color Multi-Function Product in Customer Satisfaction Among Business Users

South Africa

BMW: #1 Nameplate in Sales Satisfaction

BUSINESSWEEK: PROVIDING INSIGHT AND ENGAGING ITS AUDIENCE THROUGH TARGETED CONTENT

BusinessWeek creates and distributes actionable insight to the global business community through its integrated product offerings including its flagship magazine, timely digital offerings, and TV and video channels. *BusinessWeek* continues to meet the needs of its global consumers by expanding its offerings and adding new editorial franchises through on-staff efforts and partnerships. It has expanded coverage through successful collaborations with Standard & Poor's and J.D. Power and Associates and has created a professional book series with McGraw-Hill Education.

Expanded Offerings for the Global Business Consumer

- Added local-language editions in Israel and Thailand.
- Launched *BusinessWeek Mobile*: Offers content direct to mobile phones in digestible bites.
- Increased *SmallBiz* circulation to 675,000 and frequency to six issues and launched an online resource center offering free and premium business services provided by partners. Services span the spectrum from HR to marketing to office operations.

Providing Content and Community to Expand the Franchise

- Expanded the careers editorial franchise with the addition of "Best Places to Launch a Career" and "Best Undergraduate Business Schools".
- Launched *IN: Inside Innovation*, a quarterly print component to the online *Innovation* editorial franchise.
- Launched *BusinessWeek Power Play* book series for professionals in conjunction with McGraw-Hill Education. First three books cover Leadership, Strategy, and Marketing.

Top Print Advertising Categories, 2006

Category	Global Edition	
	Ad Pages	% of 2006 Total
High Tech	887.21	32.4%
Finance/Insurance	489.31	17.8%
Industrial Materials	200.16	7.3%
Automotive	197.34	7.2%
Corporate*	163.88	6.0%
Travel	103.80	3.8%
Professional Services	100.83	3.7%
Consumer	81.06	3.0%
Major Ad Categories	2,223.59	81.1%
All Others	518.18	18.9%
Total	2,741.77	100.0%

Source: Publishers Information Bureau (PIB)

* Corporate not elsewhere classified

Top Online Advertising Categories, 2006

BusinessWeek.com	Impressions	% of 2006 Total
Financial Services	221,984,000	19.0%
Business to Business	182,801,000	15.6%
Software	181,807,000	15.5%
Consumer Goods	173,147,000	14.8%
Automotive	87,421,000	7.5%
Hardware & Electronics	86,819,000	7.4%
Travel	66,323,000	5.7%
Web Media	55,823,000	4.8%
Public Services	45,125,000	3.9%
All Other Categories	69,515,000	5.9%
Total	1,170,765,000	100.0%

Source: Nielsen//NetRatings AdRelevance

Note: Impressions is the number of times an ad is displayed

Global Advertising Pages

2002-2006	Pages	2006	Pages	% of Year
2006	2,741.77	1Q	549.49	20%
2005	2,759.45	2Q	705.45	26%
2004	3,163.54	3Q	587.89	21%
2003	3,034.66	4Q	898.94	33%
2002	3,333.13	Total	2,741.77	100%

Note: 2002-2005 North America only

Source: Publishers Information Bureau (PIB)

Advertising Rates, 2007

	Global Edition ¹	% change vs. 2006	SmallBiz ²	% change vs. 2006
Rate Base	900,000	0.0%	675,000	3.8%
4-Color Page Rate	\$104,300	4.8%	\$71,500	3.9%
B/W Page Rate	\$70,700	4.7%	\$48,300	3.8%

Print Circulation and Subscription Rates

Global Edition ¹	Average Paid Circulation (12/31/2006)	% of total	Print Subscription Rates, 2007	% change vs. 2006
Single Copy	34,211	3.7%	\$ 4.99	0.8%
Annual Subscription	887,123	96.3%	\$ 59.97	—
3-Year Subscription	—	—	\$ 129.97	8.3%
Total	921,334	100.0%	—	—

¹ Published 50x a year² Published 6x a year**BusinessWeek.com – Monthly Page Views and Unique Visitors**

(2006 average, in thousands)	Page Views	Unique Users
United States	38,498	4,927
Europe, Middle East, Africa	3,412	630
Asia Pacific	3,031	448
Others*	2,306	355
Total	47,247	6,361

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

Source: Omniture

Rate Base for Local-Language Editions

	2006	2007
Al-Arabiya (Arabic)	25,000	30,000
Bulgaria	10,000	16,500
China	120,000	140,000
Indonesia	25,000	27,000
Romania	10,000	15,000
Russia	40,000	75,000
Turkiye (Turkey)	10,000	20,000
Israel	—	20,000
Thailand	—	15,000

Source: BusinessWeek's internal data

BUSINESSWEEK: REACHING AND INFLUENCING THE GLOBAL BUSINESS LEADER THROUGH MULTIPLE FORMATS

Focusing on the customer need for business content available in a multitude of formats is key to growth.




Print	Online/Digital	Television/Video/Radio
<i>BusinessWeek</i> <ul style="list-style-type: none"> • Global edition • <i>IN: Inside Innovation</i> • 9 local-language editions • 20 editorial licensing agreements <i>BusinessWeek SmallBiz</i> <i>BusinessWeek Power Play</i> book series	BusinessWeek.com <ul style="list-style-type: none"> • 12 channels • <i>MBA Insider</i> (subscription-only premium content) • Podcasts, blogs, live chats, RSS (Really Simple Syndication) feeds • Video • Interactive delivery <i>BusinessWeek Digital:</i> Magazine electronically delivered <i>BusinessWeek Mobile:</i> Content for mobile devices	<i>BusinessWeek Weekend</i> , a weekly personal finance and business program <ul style="list-style-type: none"> • Available on 282 stations covering 77% of U.S. • Original video content • Video streaming content to BusinessWeek.com <i>BusinessWeek Radio:</i> Aired two updates per hour from 5 am-12 noon on over 150 ABC affiliates

BUSINESSWEEK: CONNECTING THE POWER OF MCGRAW-HILL BRANDS TO REACH NEW AUDIENCES

BusinessWeek and Standard & Poor's Capital IQ joined forces to launch the Company Insight Center (CIC), one of the most comprehensive free business and financial information resources on the Internet. The site, accessed through BusinessWeek.com, provides a wealth of information beyond the numbers, including:

- **People's Page:** A look at how executives are connected and how they intersect across the public, private, and nonprofit sectors, as well as every member of a company's board of directors, committees they serve on, and the role each performs.
- **Information and news** given in the context of peers, competitors, and industry.
- **Interactivity.** A Chance to Beat the Street: CIC allows users to vote and tell the market whether a company will meet, miss, or beat Wall Street's consensus earnings estimates.

Information on more than 42,000 public companies, 322,000 significant private companies with up to 33 pages of information on each company, 1,040,000 people, 250,000 M&A/financing transactions, and perspectives on all industries.

Ability to customize charts by time periods, competitor comparisons, and stock/market indices.

Market data from more than 50 of the world's largest stock exchanges. Users can easily track how companies trade on multiple exchanges around the world, and can access that information around the clock.



**Company Insight Center
presented by *BusinessWeek*
and Standard & Poor's Capital IQ**

Notes

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

This document includes certain forward-looking statements about the Company’s businesses, new products, sales, expenses, tax rates, 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 future 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 economic recovery, 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 domestic and international markets; the demand and market for debt ratings, including mortgage and asset-backed securities; the regulatory environment affecting Standard & Poor’s; the level of merger and acquisition activity in the U.S. and abroad; the strength of the domestic and international advertising markets; 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 expense, distribution expenses, postal rates, prepublication, amortization and depreciation expense, income tax rates, capital, technology, restructuring charges 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 domestically and internationally); the pace of recovery in advertising; 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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