The McGraw·Hill Companies

# Investor

BOOK 2009/2010

MHP investorfactbook.mcgraw-hill.com

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# In the 2009/2010 MHP Investor Fact Book,

The McGraw-Hill Companies focuses on its long-term record of achievement, durable growth trends in key markets, and how new opportunities are being developed by integrating content, technology, and distribution. With the scale to create operating leverage, The McGraw-Hill Companies will continue to reshape its businesses by connecting content, digital assets, and talent to sustain a record of growth.

A strong balance sheet, solid free cash flow generation after dividends, and returning cash to shareholders are hallmarks of The McGraw-Hill Companies for more than a decade. Between 1998 and 2008, cash returned to shareholders through dividends and share repurchases has grown at a compound annual rate of 10.8% (see table below).

### Free Cash Flow

Years ended December 31 (dollars in thousands)	200	8 2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Cash provided by operating activities	\$1,168,75	3 \$1,716,951	\$1,509,304	\$1,559,890	\$1,063,472	\$1,382,345	\$1,142,391	\$1,099,581	\$720,754	\$ 746,368	\$ 796,484
Investment in prepublication costs	(254,10	6) (298,984	) (276,810)	) (257,795)	(237,760)	(218,049)	(249,317)	(294,538)	(250,005)	(246,341)	(194,978)
Purchase of property and equipment	(105,97	8) (229,609	) (126,593)	(120,232)	(139,003)	(114,984)	(70,019)	(116,895)	(97,721)	(154,324)	(178,889)
Additions to technology projects	(25,35	3) (16,654	) (22,978)	(16,456)	(10,623)	(28,145)	(55,477)	(28,840)	(15,194)	(38,315)	(41,414)
Other adjustments, principally foreign exchange	(47,63	3) 16,567	2,831	(22,947)	10,019	14,115	13,817	(2,221)	(3,089)	(1,679)	(1,715)
Dividends paid to shareholders	(280,45	5) (277,746	) (260,323)	(246,048)	(228,166)	(206,543)	(197,016)	(189,834)	(182,462)	(169,049)	(154,386)
Tax payment/(dividend) from divestitures (a,b)			_	_	172,000	(103,500)	_	_	_	_	-
Free cash flow	\$ 455,22	3 \$ 910,525	\$ 825,431	\$ 896,412	\$ 629,939	\$ 725,239	\$ 584,379	\$ 467,253	\$172,283	\$136,660	\$225,102

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

### **Net Debt to EBITDA**

Years ended December 31 (dollars in millions)	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Cash and equivalents	\$ 471.7	\$ 396.1	\$ 353.5	\$ 748.8	\$ 680.6	\$695.6	\$ 58.2	\$ 53.5	\$ 3.2	\$ 6.5	\$ 10.5
Total short-term and long-term debt	1,267.6	1,197.4	2.7	3.3	5.1	26.3	578.3	1,056.5	1,045.4	536.4	527.6
Net debt/(cash)	\$ 795.9	\$ 801.4	\$(350.8)	\$(745.5)	\$(675.5)	\$669.2	\$520.2	\$1,003.0	\$1,042.2	\$530.0	\$517.1
Net debt/EBITDA	0.5x	0.5x	(0.2x)	(0.5x)	(0.5x)	0.5x	0.5x	1.3x	1.2x	0.7x	0.7x

Note: EBITDA is net of investment in prepublicaton costs

### **Cash Returned to Shareholders**

(dollars in millions, except S&P 500 dividend)	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	10-year CAGR
MHP dividends paid	\$280.5	\$ 277.7	\$ 260.3	\$246.0	\$228.2	\$206.5	\$197.0	\$189.8	\$182.5	\$169.0	\$154.4	6.2%
MHP shares repurchased	447.2	2,212.7	1,540.1	677.7	409.4	216.4	183.1	176.5	167.6	173.8	105.6	15.5%
Total	\$727.7	\$2,490.4	\$1,800.4	\$923.7	\$637.6	\$422.9	\$380.1	\$366.3	\$350.1	\$342.8	\$260.0	10.8%
MHP growth	(70.8%)	38.3%	94.9%	44.9%	50.8%	11.3%	3.8%	4.6%	2.1%	31.8%	16.8%	
S&P 500 dividend per share	\$28.39	\$ 27.73	\$ 24.88	\$22.22	\$19.44	\$17.38	\$16.07	\$15.74	\$16.27	\$16.69	\$16.20	5.8%
S&P 500 growth	2.4%	11.5%	12.0%	14.3%	11.9%	8.2%	2.1%	(3.3%)	(2.5%)	3.0%	4.6%	

Note: Shares repurchased are reported on a settlement-date basis

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

# **Advancing Total Shareholder Value**

At a time when many companies have stopped or significantly reduced dividend payments, The McGraw-Hill Companies' Board of Directors announced the 36th consecutive annual dividend increase in January 2009. The annualized rate of \$0.90 per share represents an average compound annual dividend growth rate of 10.1% since 1974. Since 1996, the Corporation has returned \$9.1 billion to shareholders through a combination of dividends and stock repurchases.

### **Share Repurchase Programs** (1)

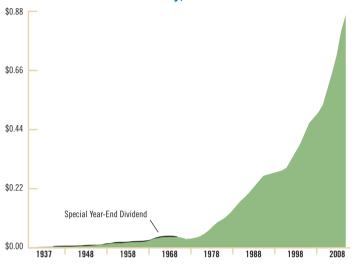
Year	\$ in millions	Shares Purchased	Average Price	Diluted Weighted Average Shares Outstanding
2008	\$ 447.2	10,900,000	\$41.03	318,687,254
2007	\$2,212.7	37,000,000	\$ 59.80	344,784,866
2006	\$1,540.1	28,400,000	\$ 54.23	366,877,769
2005	\$ 671.9	14,343,900	\$ 46.84	382,569,750
2004	\$ 400.6	10,000,000	\$ 40.06	385,823,700
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

### Stock Split History, 1953-2005

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

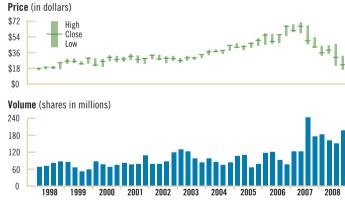
### Common Stock Dividend History, 1937-2008



Notes:

Represents annualized dividend rate per share Adjusted for all stock splits

### MHP Stock Price and Volume History, 1998-2008\*



Source: Standard & Poor's Compustat

### **MHP Debt Profile**

### Summary of Debt Outstanding, 12/31/2008

(dollars in millions)		
5.375% Senior notes, due 2012	\$	399.7
5.900% Senior notes, due 2017		399.1
6.550% Senior notes, due 2037		398.5
Commercial paper (1)		70.0
Notes payable		0.3
Total debt	\$1	,267.6
Cash		471.7
Net debt	\$	795.9

(1) The Corporation has a commercial paper program backed by a \$1.15 billion revolving credit facility

### **MHP Debt Ratings**

	Moody's	FITCH
Long-term debt	A1	A+
Commercial paper	P1	F1
Outlook	Negative	Stable

<sup>(1)</sup> Adjusted for all stock splits. Approximately 45% of repurchases during 1996-2008 offset the issuance of shares for stock option and restricted share programs; the remaining 55% reduce the net number of shares outstanding

# **Quarterly Stock Valuation Data**

Year	Quarter		Prices		MHP		Price to Ea	rnings**		– Price to	Earnings	P/E Rela	ative to S	S&P 500
2008	4 3 2	33.120 47.130 45.610	17.150 22.000 36.170	23.190 31.610 40.120	Volume 200,117,215 153,573,747 163,545,961	12.36 17.01 16.00	6.40 7.94 12.69	8.65 11.41 14.08	High 18.56 20.26 20.65	16.48 17.07 18.24	18.24 17.99 18.35	0.67 0.84 0.77	0.39 0.47 0.70	0.47 0.63 0.77
2007	1 4	44.760 55.140	33.910 43.460	36.950 43.810	184,588,816 178,192,844	15.22 18.08	11.53 14.25	12.57 14.36	19.17 19.09	16.37 17.04	17.23 17.79	0.79 0.95	0.70	0.73
	3	68.810	47.150	50.910	247,126,617	21.98	15.06	16.27	17.42	15.35	17.09	1.26	0.98	0.95
	2	72.500	60.160	68.080	123,650,344	24.83	20.60	23.32	16.83	15.47	16.42	1.48	1.33	1.42
	1	69.980	61.060	62.880	124,541,820	25.63	23.37	23.03	16.36	15.26	15.90	1.57	1.53	1.45
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

<sup>\*</sup> Data adjusted for all stock splits

Source: Standard & Poor's Compustat

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

# **Positioned for Long-Term Growth**

A leading global information provider, The McGraw-Hill Companies is focused on growth opportunities in core markets—education, financial services, and business information. MHP's three operating segments—McGraw-Hill Education, Financial Services, and Information & Media—help meet the need for knowledge and education, provide access to the world's capital markets, and increase information transparency for better decision making.

### **McGraw-Hill Education**

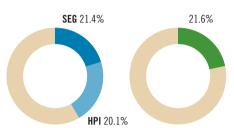
### 2008 Revenue

41.5% of total revenue

\$2.6 billion

### 2008 Operating Profit

\$316.5 million 21.6% of total operating profit



### Segment Revenue, Operating Profit and Operating Profit Margin

(dollars in millions)	2008 (a)	<b>2007</b> (b)	<b>2006</b> (c)
Revenue	\$2,639	\$2,706	\$2,524
Operating Profit	\$ 317	\$ 400	\$ 329
Operating Profit Margin	12.0%	14.8%	13.0%

### **Breakout of MHE Revenue**

(dollars in millions)	2008	2007	2006
School Education Group	\$1,363	\$1,441	\$1,351
Higher Ed/Prof/Int'l Group	\$1,276	\$1,265	\$1,173

- (a) Operating profit reflects a \$25.3 million pre-tax restructuring charge
- (b) Operating profit reflects a \$16.3 million pre-tax restructuring charge
- (c) Operating profit reflects a \$16.0 million pre-tax restructuring charge and a one-time, pre-tax stock-based compensation charge of \$4.2 million as a result of the elimination of the Corporation's restoration stock option program

### School Education Group (SEG)

### Kev markets:

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

# Higher Education, Professional and International Group (HPI)

### 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, healthcare, computer technology, business, government, and general reference publishing.

### Key international markets:

Education, business, and professional markets.

### Note regarding 2008 Operating Profit/(Loss) and Operating Profit Margin:

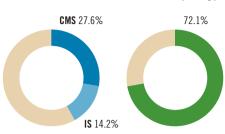
The Corporation adopted Statement of Financial Accounting Standards No. 160, "Noncontrolling interests in Consolidated Financial Statements, an amendment of ARB 51" (SFAS 160), in the first quarter of 2009. Please refer to page 17 for 2008 Operating Profit/(Loss) and Operating Profit Margin by Segment, as adjusted for SFAS 160. Financials presented on pages 1 through 16 do not reflect the impact of the reclassification of noncontrolling interests

### **Financial Services**

### 2008 Revenue

### \$2.7 billion

41.8% of total revenue



### 2008 Operating Profit

\$1.1 billion 72.1% of tot

tal ope	rating	profit	

# Segment Revenue, Operating Profit and Operating Profit Margin

(dollars in millions)	2008 (d)	<b>2007</b> (e)	<b>2006</b> (f)
Revenue	\$ 2,654	\$3,046	\$ 2,746
Operating Profit	\$ 1,055	\$1,359	\$ 1,202
Operating Profit Margin	39.8%	44.6%	43.8%

### **Breakout of FS Revenue**

(dollars in millions)	2008	2007	2006
Credit Market Services Investment Services	\$ 1,755 \$ 899	\$2,264 \$ 782	\$ 2,074 \$ 672

- (d) Operating profit reflects a \$25.9 million pre-tax restructuring charge
- (e) Operating profit reflects an \$18.8 million pre-tax restructuring charge and a \$17.3 million pre-tax gain on the sale of the mutual fund
- (f) Operating profit reflects a one-time, pre-tax stock-based compensation charge of \$2.1 million as a result of the elimination of the Corporation's restoration stock option program

### **Credit Market Services (CMS)**

### Key markets:

Corporations, governments, and municipalities; commercial and investment banks; insurance companies; asset managers/institutional investors; and other debt issuers.

### **Investment Services (IS)**

### Key markets:

Asset managers, investment banks, investors, brokers, financial advisors, investment sponsors, and companies' back-office functions including compliance, operations, risk, clearance, and settlement.

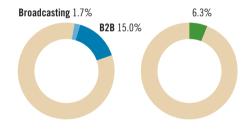
### Information & Media

### 2008 Revenue

### \$1.1 billion 16.7% of total revenue

### 2008 Operating Profit

\$92.0 million 6.3% of total operating profit



### Segment Revenue, Operating Profit and Operating Profit Margin

(dollars in millions)	<b>2008</b> (g)	2007 (h,i)	<b>2006</b> (h,j)
Revenue	\$1,062	\$1,020	\$ 985
Operating Profit	\$ 92	\$ 63	\$ 50
Operating Profit Margin	8.7%	6.2%	5.1%

### **Breakout of I&M Revenue**

(dollars in millions)	2008	<b>2007</b> (h)	2006 (h)
B2B Group	\$ 955	\$ 917	\$864
Broadcasting	\$ 107	\$ 103	\$121

- (g) Operating profit reflects a \$19.2 million pre-tax restructuring charge
- (h) During 2006, the Sweets building products database transitioned from a primarily print catalog offering to an integrated online service. In 2006, revenue and operating profit of \$23.8 million and \$21.1 million, respectively, of the bundled product were deferred and recognized ratably over the service period, primarily 2007
- (i) Operating profit reflects a \$6.7 million pre-tax restructuring charge
- (j) Operating profit reflects an \$8.7 million pre-tax restructuring charge and a one-time, pre-tax stock-based compensation charge of \$2.7 million as a result of the elimination of the Corporation's restoration stock option program

### **Business-to-Business Group (B2B)**

### 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.

### **Broadcasting Group**

### ARC affiliates.

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

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

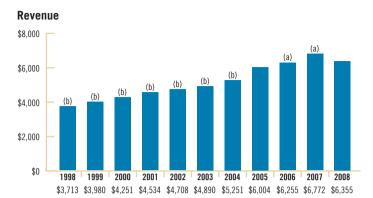
KZCS-TV (Colorado Springs, CO), KZCO-TV (Denver, CO), KZFC-TV (Fort Collins, CO); KZKC-TV (Bakersfield, CA), KZSD-TV (San Diego, CA)

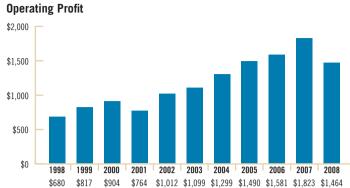
### Key markets:

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

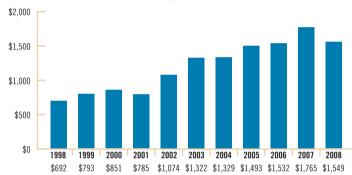
# **Eleven-Year Financial Trends**

(dollars in millions, except per share data)



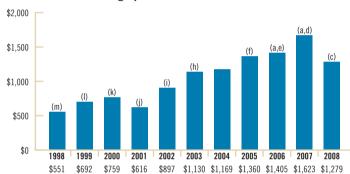




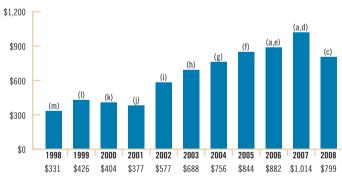


Please refer to EBITDA reconciliation table on page 16

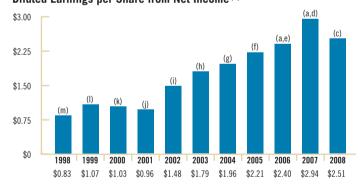
### **Income from Continuing Operations Before Taxes**



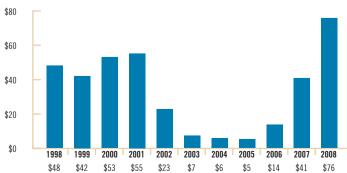
### Net Income



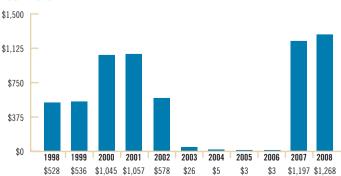
### Diluted Earnings per Share from Net Income (n)



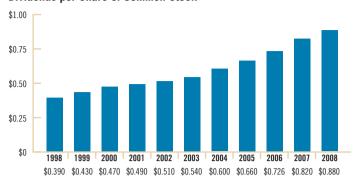
### Interest Expense



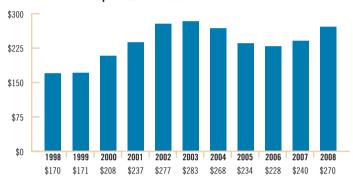
### **Total Debt**



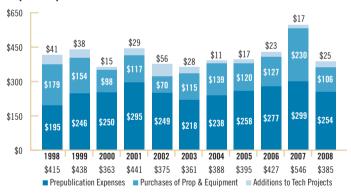
### Dividends per Share of Common Stock (n)



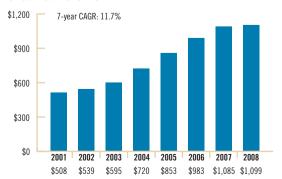
### **Amortization of Prepublication Costs**



### **Capital Expenditures**



### **Unearned Revenue**



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

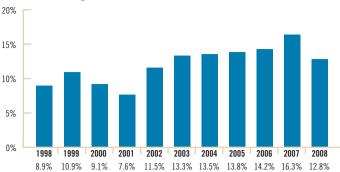
Certain prior year amounts have been reclassified for comparability purposes

- (a) During 2006, the Sweets building products database transitioned from a primarily print catalog offering to an integrated online service. In 2006, revenue and operating profit of \$23.8 million and \$21.1 million (\$13.3 million after-tax, or \$0.04 per diluted share), respectively, of the bundled product were deferred and recognized ratably over the service period, primarily 2007
- (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) 2008: Includes a \$73.4 million pre-tax restructuring charge (\$45.9 million after-tax, or \$0.14 per diluted share)
  - The Corporation adopted Statement of Financial Accounting Standards No. 160, "Noncontrolling interests in Consolidated Financial Statements, an amendment of ARB 51" (SFAS 160), in the first quarter of 2009. Please refer to page 17 for 2008 Operating Profit/(Loss) and Operating Profit Margin by Segment, as adjusted for SFAS 160
- (d) 2007: Includes a \$43.7 million pre-tax restructuring charge (\$27.3 million after-tax, or \$0.08 per diluted share) and a \$17.3 million pre-tax gain (\$10.3 million after-tax, or \$0.03 per diluted share) on the sale of the Corporation's mutual fund data business
- (e) 2006: Includes a \$31.5 million pre-tax restructuring charge (\$19.8 million after-tax, or \$0.06 per diluted share). In 2006, the Corporation adopted Financial Accounting Standards Board Statement No. 123(R), "Share Based Payment." The Corporation 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 Corporation's restoration stock option program of \$23.8 million (\$14.9 million after-tax, or \$0.04 per diluted share)
- (f) 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, a \$5.5 million loss (\$3.3 million after-tax) on the sale of the Healthcare Information Group, and a \$23.2 million pre-tax restructuring charge (\$14.6 million after-tax, or \$0.04 per diluted share). Net income 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 Corporation's completion of various federal, state and local, and foreign tax audit cycles. In the first quarter of 2004, the Corporation 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) 2003: Includes a \$131.3 million pre-tax gain (\$58.4 million after-tax, or \$0.15 per diluted share) on the sale of real estate
- (i) 2002: 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
- (j) 2001: Includes impact of the following items: a \$159.0 million pre-tax charge (\$112.0 million after-tax, or \$0.29 per diluted share) for restructuring and asset write-down, a \$6.9 million pre-tax gain (\$0.01 per diluted share) on the sale of real estate, an \$8.8 million pre-tax gain (\$26.3 million after-tax, or \$0.07 per diluted share) on the sale of DRI, and a \$22.8 million pre-tax charge (\$21.9 million after-tax, or \$0.06 per diluted share) for the write-down of certain assets, the shutdown of Blue List and the contribution of Rational Investors
- (k) 2000: Includes a \$16.6 million gain (\$10.2 million after-tax, or \$0.03 per diluted share) on sale of Tower Group International 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"
- (I) 1999: Includes a \$39.7 million gain (\$24.2 million after-tax, or \$0.06 per diluted share) on the sale of the Petrochemical publications
- (m) 1998: Includes a \$26.7 million gain (\$16.3 million after-tax, or \$0.04 per diluted share) on sale of a building 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 after-tax, or \$0.02 per diluted share on the early extinguishment of debt
- (n) All per share data have been adjusted for all stock splits

# **Eleven-Year Key Ratios**

# Operating Profit Margin 30% 23% 15%

### **Return on Average Assets**



### **Return on Average Shareholders' Equity**

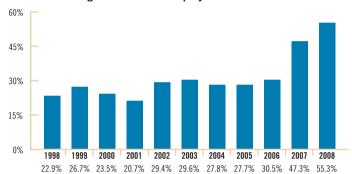
2001

2002

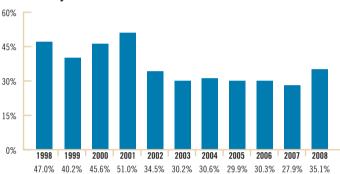
2003

18.3% 20.5% 21.3% 16.9% 21.5% 22.5% 24.7% 24.8% 25.3% 26.9% 23.0%

2004 2005



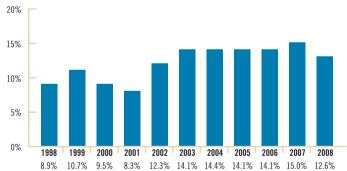
### **Dividend Payout**



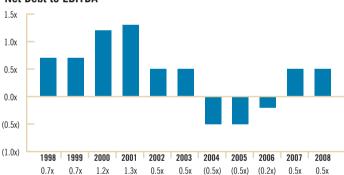
### **Net Income Margin**

8%

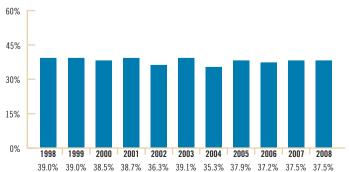
0%



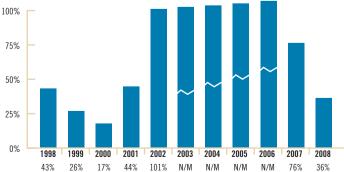
### **Net Debt to EBITDA**



### **Tax Rate**



### Free Cash Flow to Gross Debt



Please refer to free cash flow table on page 1 N/M indicates a non-meaningful or non-calculable variance

# **Return on Invested Capital**

(dollars in millions)	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Income from continuing operations before extraordinary item and cumulative adjustment	\$ 799.5	\$ 1,013.6	\$ 882.2	\$ 844.3	\$ 756.4	\$ 687.8	\$ 572.0	\$ 377.7	\$ 467.0	\$ 422.2	\$ 336.4
Post-tax adjustments for interest and items affecting the comparability of results (1)	136.2	86.6	83.9	63.7	24.6	(11.8)	45.6	171.2	52.9	36.9	45.3
Adjusted earnings before interest, after tax	\$ 935.7	\$ 1,100.2	\$ 966.1	\$ 908.0	\$ 781.0	\$ 676.0	\$ 617.6	\$ 548.9	\$ 519.9	\$ 459.1	\$ 381.7
Present value of operating lease obligations (average)	\$1,160.8	\$ 1,190.3	\$ 1,193.7	\$ 1,207.1	\$ 1,273.5	\$ 1,303.9	\$ 1,141.2	\$ 931.6	\$ 829.1	\$ 795.0	\$ 667.5
Short-term & long-term debt (average)	1,232.5	600.1	3.0	4.2	15.7	302.3	817.4	1,051.0	790.9	532.0	606.0
Shareholders' equity (average)	1,444.5	2,143.1	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
Cash (average)	(433.9)	(374.8)	(551.1)	(714.7)	(688.1)	(376.9)	(55.9)	(28.4)	(4.8)	(8.5)	(7.6)
Average invested capital	\$ 3,403.9	\$ 3,558.7	\$ 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
Return on invested capital	27.5%	30.9%	27.3%	25.6%	23.2%	18.8%	15.8%	14.6%	15.7%	15.8%	14.0%

<sup>(1)</sup> Adjustment to income from continuing operations to exclude the items affecting comparability of results discussed in the notes below. Adjustment for 2006 does not include the impact of the transformation of Sweets. After-tax interest expense is 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 items affecting comparability of results were included in the calculation of the eleven-year key ratios on page eight:

2008: Includes a \$73.4 million pre-tax restructuring charge (\$45.9 million after-tax, or \$0.14 per diluted share)

The Corporation adopted Statement of Financial Accounting Standards No. 160, "Noncontrolling interests in Consolidated Financial Statements, an amendment of ARB 51" (SFAS 160), in the first quarter of 2009, Please refer to page 17 for 2008 Operating Profit/(Loss) and Operating Profit Margin by Segment, as adjusted for

- 2007: Includes a \$43.7 million pre-tax restructuring charge (\$27.3 million after-tax, or \$0.08 per diluted share) and a \$17.3 million pre-tax gain (\$10.3 million after-tax, or \$0.03 per diluted share) on the sale of the Corporation's mutual fund data business and the impact of the Sweets transformation (see 2006 note below)
- 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 the Sweets building products database from a primarily print catalog offering to an integrated online service, which was recognized ratably over 2007. In 2006, the Corporation adopted Financial Accounting Standards Board Statement No. 123(R), "Share Based Payment." The Corporation 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 Corporation'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, a \$5.5 million loss (\$3.3 million after-tax) on the sale of the Healthcare Information Group, and a \$23.2 million pre-tax restructuring charge (\$14.6 million after-tax, or \$0.04 per diluted
  - Includes a \$10.0 million (\$0.03 per diluted share) increase in income taxes on the repatriation of funds
- 2004: The Corporation 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 Corporation's completion of various federal, state and local, and foreign tax audit cycles

In the first quarter of 2004 the Corporation 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 Corporation 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 Corporation 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 Corporation'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
- 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

# **Revenue by Segment**

(dollars in millions)	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
McGraw-Hill Education (g)	\$ 2,638.9	\$2,705.9	\$ 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
% increase/(decrease)*	(2.5%)	7.2%	(5.5%)	11.5%	2.0%	0.3%	2.3%	12.3%	14.1%	7.6%	3.0%
% of total revenue	41.5%	40.0%	40.4%	44.5%	45.6%	48.0%	49.8%	50.5%	48.0%	44.9%	44.7%
Financial Services	\$2,654.3	\$3,046.2	\$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
% increase/(decrease)*	(12.9%)	10.9%	14.4%	16.8%	16.2%	13.7%	11.3%	16.0%	3.6%	12.2%	18.1%
% of total revenue	41.8%	45.0%	43.9%	40.0%	39.2%	36.2%	33.0%	30.8%	28.3%	29.2%	27.9%
Information & Media (c)	\$1,061.9	\$1,020.2	\$ 984.5	\$ 931.1	\$ 799.7	\$ 772.6	\$ 809.5	\$ 846.1	\$1,007.6	\$1,030.0	\$1,015.6
% increase/(decrease)*	4.1%	3.6%	5.7%	16.4%	3.5%	(4.6%)	(4.3%)	(16.0%)	(2.2%)	1.4%	(2.0%)
% of total revenue	16.7%	15.0%	15.7%	15.5%	15.2%	15.8%	17.2%	18.7%	23.7%	25.9%	27.4%
Total revenue	\$6,355.1	\$6,772.3	\$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
% increase/(decrease)*	(6.2%)	8.3%	4.2%	14.3%	7.4%	3.9%	3.8%	6.7%	6.8%	7.2%	5.3%

<sup>\* %</sup> 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 data have been adjusted for all stock splits

- (a) 2008 income from continuing operations before taxes on income includes a \$73.4 million pre-tax restructuring charge (\$45.9 million after-tax, or \$0.14 per diluted share) which is comprised of the following: McGraw-Hill Education of \$25.3 million pre-tax, Financial Services of \$25.9 million pre-tax, Information & Media of \$19.2 million pre-tax, and Corporate of \$3.0 million pre-tax
  - The Corporation adopted Statement of Financial Accounting Standards No. 160, "Noncontrolling interests in Consolidated Financial Statements, an amendment of ARB 51" (SFAS 160), in the first quarter of 2009. Please refer to page 17 for 2008 Operating Profit/(Loss) and Operating Profit Margin by Segment, as adjusted for SFAS 160
- (b) 2007 income from continuing operations before taxes on income includes a \$43.7 million pre-tax restructuring charge (\$27.3 million after-tax, or \$0.08 per diluted share) which is comprised of the following: McGraw-Hill Education of \$16.3 million pre-tax, Financial Services of \$18.8 million pre-tax, Information & Media of \$6.7 million pre-tax, and Corporate of \$1.9 million pre-tax; the impact of the Sweets transformation (see note (c) below); and a \$17.3 million pre-tax gain (\$10.3 million after-tax, or \$0.03 per diluted share) on the sale of the Corporation's mutual fund data business which was part of the Financial Services segment
- During 2006, the Sweets building products database transitioned from a primarily print catalog offering to an integrated online service. In 2006, revenue and operating profit of \$23.8 million and \$21.1 million, respectively, of the bundled product were deferred and recognized ratably over the service period, primarily 2007
- (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, In 2006, the Corporation adopted Financial Accounting Standards Board Statement No. 123(R), "Share Based Payment." The Corporation incurred stock-based compensation expense of \$136.2 million (\$85.5 million after-tax, or \$0.23 per diluted share). The expense was charged as follows: 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 pretax. Included in this expense is a one-time charge for the elimination of the Corporation's restoration stock option program of \$23.8 million (\$14.9 million after-tax, or \$0.04 per diluted share) which impacted the segments as follows: McGraw-Hill Education, \$4.2 million pre-tax; Financial Services, \$2.1 million pre-tax; Information & Media, \$2.7 million pre-tax; and the remainder to Corporate
- 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 (\$3.3 million after-tax) on the sale of the Healthcare Information Group, and a \$23.2 million pre-tax restructuring charge (\$14.6 million after-tax, or \$0.04 per diluted share)
- (f) 2005 includes a \$10.0 million (\$0.03 per diluted share) increase in income taxes on the repatriation of funds
- 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

- (h) 2004 includes a non-cash benefit of approximately \$20.0 million (\$0.05 per diluted share) as a result of the Corporation's completion of various federal, state and local, and foreign tax audit cycles. In the first quarter of 2004 the Corporation 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%
- (i) In 2003, the Corporation 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 2000-2002 reflect net after-tax earnings/(loss) from the operations of S&P ComStock and the juvenile retail publishing business and 1996-1999 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
- 2003 income from continuing operations before taxes includes a pre-tax gain of \$131.3 million (\$58.4 million after-tax gain, or \$0.15 per diluted share) on the sale of real estate
- 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
- 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
- (m) 2000 income from continuing operations before taxes reflects a \$16.6 million gain on the sale of Tower Group International
- (n) 1999 income from continuing operations before taxes on income reflects a \$39.7 million gain on the sale of the Petrochemical publications
- (o) 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
- (p) 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 Corporation's 9.43% Notes

# **Operating Profit by Segment**

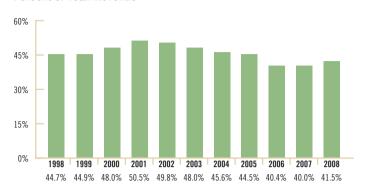
(dollars in millions, except per share data)	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
McGraw-Hill Education	\$ 316.5	\$ 400.0	\$ 329.1	\$ 410.2	\$ 340.1	\$ 321.8	\$ 333.0	\$ 273.3	\$ 307.7	\$ 273.7	\$ 202.1
% increase/(decrease)*	(20.9%)	21.5%	(19.8%)	20.6%	5.7%	(3.4%)	21.8%	(11.2%)	12.4%	35.4%	7.6%
% of total	21.6%	21.9%	20.8%	27.5%	26.2%	29.3%	32.9%	35.8%	34.0%	33.5%	29.7%
Financial Services	\$1,055.4	\$ 1,359.4	\$1,202.3	\$ 1,019.2	\$ 839.4	\$ 667.6	\$ 560.8	\$ 425.9	\$ 383.0	\$ 358.2	\$ 338.7
% increase/(decrease)*	(22.4%)	13.1%	18.0%	21.4%	25.7%	19.0%	31.7%	11.2%	6.9%	5.8%	38.1%
% of total	72.1%	74.6%	76.0%	68.4%	64.6%	60.7%	55.4%	55.7%	42.4%	43.8%	49.8%
Information & Media (c)	\$ 92.0	\$ 63.5	\$ 49.9	\$ 60.6	\$ 119.3	\$ 109.8	\$ 118.0	\$ 65.0	\$ 212.9	\$ 185.5	\$ 139.3
% increase/(decrease)*	45.0%	27.2%	(17.6%)	(49.2%)	8.6%	(7.0%)	81.6%	(69.5%)	14.8%	33.2%	(12.3%)
% of total	6.3%	3.5%	3.2%	4.1%	9.2%	10.0%	11.7%	8.5%	23.6%	22.7%	20.5%
Total operating profit	\$ 1,463.9	\$ 1,822.9	\$ 1,581.3	\$ 1,490.0	\$1,298.8	\$1,099.2	\$ 1,011.8	\$ 764.2	\$ 903.6	\$ 817.4	\$ 680.1
% increase/(decrease)*	(19.7%)	15.3%	6.1%	14.7%	18.2%	8.6%	32.4%	(15.4%)	10.6%	20.2%	14.9%
General corporate income/(expense) (j)	(109.1)	(159.7)	(162.9)	(124.8)	(124.1)	38.2	(91.9)	(93.0)	(91.4)	(83.3)	(80.7)
Interest expense	(75.6)	(40.6)	(13.6)	(5.2)	(5.8)	(7.1)	(22.5)	(55.1)	(52.8)	(42.0)	(48.0)
Income from continuing operations before taxes on income (a,b,c,d,e,j,k,l,m,n,o)	1,279.2	1,622.6	1,404.8	1,360.0	1,168.9	1,130.3	897.4	616.1	759.4	692.1	551.4
Provision for taxes on income (f,h)	479.7	609.0	522.6	515.7	412.5	442.5	325.4	238.4	292.4	269.9	215.0
Income from continuing operations before extraordinary item and cumulative adjustment	799.5	1,013.6	882.2	844.3	756.4	687.8	572.0	377.7	467.0	422.2	336.4
Discontinued operations:											
Net earnings/(loss) from discontinued operations (i)	_	-	-	-	(0.6)	(0.1)	4.8	(0.7)	4.9	3.4	2.9
Income before extraordinary item and cumulative adjustment	799.5	1,013.6	882.2	844.3	755.8	687.7	576.8	377.0	471.9	425.6	339.3
Early extinguishment of debt, net of taxes (p)	-	_	=	=	_	=	-	_	=	-	(8.7)
Cumulative effect on prior years of changes in accounting (p)	_	_	_	_	_	_	_	_	(68.1)	_	_
Net income	\$ 799.5	\$ 1,013.6	\$ 882.2	\$ 844.3	\$ 755.8	\$ 687.7	\$ 576.8	\$ 377.0	\$ 403.8	\$ 425.6	\$ 330.6
Basic earnings per share											
Income from continuing operations before extraordinary item and cumulative adjustment Discontinued operations (i)	\$ 2.53 _	\$ 3.01	\$ 2.47 _	\$ 2.25 _	\$ 1.99 _	\$ 1.81 _	\$ 1.48 0.01	\$ 0.97 —	\$ 1.21 0.01	\$ 1.07 0.01	\$ 0.85 0.01
Income before extraordinary item and cumulative adjustment	\$ 2.53	\$ 3.01	\$ 2.47	\$ 2.25	\$ 1.99	\$ 1.81	\$ 1.49	\$ 0.97	\$ 1.22	\$ 1.08	\$ 0.86
Extraordinary item and cumulative adjustment (p)	_	-	_	_	_	_	_	_	(0.18)	_	(0.02)
Net income	\$ 2.53	\$ 3.01	\$ 2.47	\$ 2.25	\$ 1.99	\$ 1.81	\$ 1.49	\$ 0.97	\$ 1.04	\$ 1.08	\$ 0.84
Diluted earnings per share											
Income from continuing operations before extraordinary item and cumulative adjustment	\$ 2.51	\$ 2.94	\$ 2.40	\$ 2.21	\$ 1.96	\$ 1.79	\$ 1.47	\$ 0.96	\$ 1.19	\$ 1.06	\$ 0.84
Discontinued operations (i) Income before extraordinary item							0.01		0.01	0.01	0.01
and cumulative adjustment  Extraordinary item and	\$ 2.51	\$ 2.94	\$ 2.40	\$ 2.21	\$ 1.96	\$ 1.79	\$ 1.48	\$ 0.96	\$ 1.20	\$ 1.07	\$ 0.85
cumulative adjustment (p)			_	_		_			(0.17)		(0.02)
Net income	\$ 2.51	\$ 2.94	\$ 2.40	\$ 2.21	\$ 1.96	\$ 1.79	\$ 1.48	\$ 0.96	\$ 1.03	\$ 1.07	\$ 0.83
* % increase //decrease) over prior year											

<sup>\* %</sup> increase/(decrease) over prior year

# **Segment Trends**

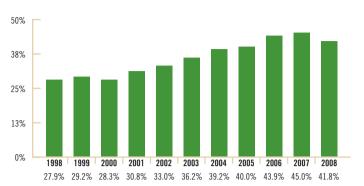
### **McGraw-Hill Education**

### **Percent of Total Revenue**

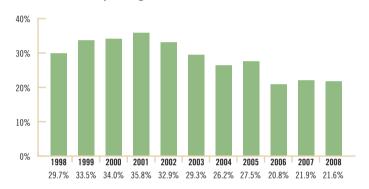


### **Financial Services**

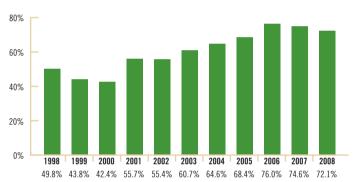
### **Percent of Total Revenue**



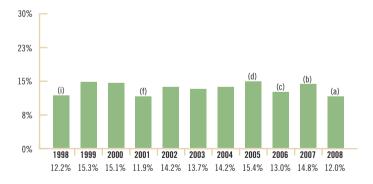
### **Percent of Total Operating Profit**



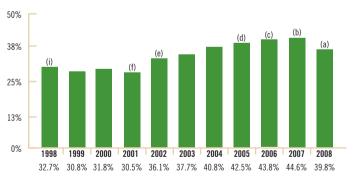
### **Percent of Total Operating Profit**



### **Operating Profit Margin**

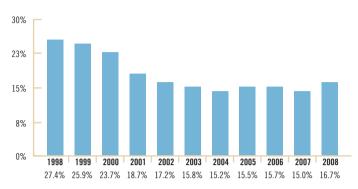


### **Operating Profit Margin**

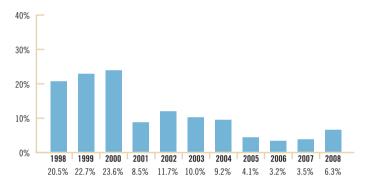


### **Information & Media**

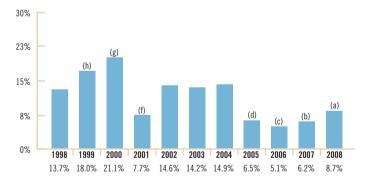
### **Percent of Total Revenue**



### **Percent of Total Operating Profit**



### **Operating Profit Margin**



Notes for Segment Trends (pages 12 and 13):

- (a) Operating margin for 2008 reflects a \$73.4 million pre-tax restructuring charge (\$45.9) million after-tax, or \$0.14 per diluted share) which is comprised of the following: McGraw-Hill Education of \$25.3 million pre-tax, Financial Services of \$25.9 million pre-tax, Information & Media of \$19.2 million pre-tax, and Corporate of \$3.0 million pre-tax
  - The Corporation adopted Statement of Financial Accounting Standards No. 160. "Noncontrolling interests in Consolidated Financial Statements, an amendment of ARB 51" (SFAS 160), in the first quarter of 2009. Please refer to page 17 for 2008 Operating Profit/(Loss) and Operating Profit Margin by Segment, as adjusted for SFAS 160
- Operating margin for 2007 reflects a \$43.7 million pre-tax restructuring charge (\$27.3 million after-tax, or \$0.08 per diluted share) which is comprised of the following: McGraw-Hill Education of \$16.3 million, Financial Services of \$18.8 million, Information & Media of \$6.7 million, and Corporate of \$1.9 million; the impact of the Sweets transformation (see note (c) below); and a \$17.3 million (\$10.3 million after-tax, or \$0.03 per diluted share) on the sale of the Corporation's mutual fund data
- (c) Operating margin for 2006 reflects a \$31.5 million pre-tax restructuring charge (\$19.8 million after-tax, or \$0.06 per diluted share) consisting of the following: \$16.0 million for McGraw-Hill Education, \$8.7 million for Information & Media, 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 the Sweets building products database from a primarily print catalog offering to an integrated online service, which was recognized ratably over 2007. In 2006, the Corporation adopted Financial Accounting Standards Board Statement No. 123(R), "Share Based Payment." The Corporation incurred stock-based compensation expense of \$136.2 million (\$85.5 million after-tax, or \$0.23 per diluted share). The expense was charged as follows: McGraw-Hill Education, \$31.6 million pre-tax; Financial Services, \$38.3 million pre-tax; Information & Media, \$22.9 million pre-tax; and Corporate, \$43.4 million pre-tax. Included in this expense is a one-time charge for the elimination of the Corporation's restoration stock option program of \$23.8 million (\$14.9 million after-tax, or \$0.04 per diluted share) which impacted the segments as follows: McGraw-Hill Education, \$4.2 million pre-tax; Financial Services, \$2.1 million pre-tax; Information & Media, \$2.7 million pre-tax; and the remainder to Corporate
- (d) 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 (\$3.3 million after-tax) on the sale of the Healthcare Information Group, and a \$23.2 million pre-tax restructuring charge (\$14.6 million, or \$0.04 per diluted share). The pre-tax restructuring charge by segment is as follows: McGraw-Hill Education of \$9.0 million; Financial Services of \$1.2 million; Information & Media of \$10.2 million; and Corporate of \$2.8 million
- Operating margin for 2002 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
- Operating margin for 2001 reflects the following items: a \$159.0 million provision (\$112.0 million after-tax, or \$0.29 per diluted share) for restructuring and asset writedown, a \$6.9 million pre-tax gain (\$0.01 per diluted share) on the sale of real estate, an \$8.8 million pre-tax gain (\$26.3 million after-tax, or \$0.07 per diluted share) on the sale of DRI, and a \$22.8 million pre-tax charge (\$21.9 million after-tax, or \$0.06 per diluted share) for the write-down of certain assets, the shutdown of Blue List, and the contribution of Rational Investors
- Operating margin for 2000 reflects a \$16.6 million gain on the sale of Tower Group International
- Operating margin for 1999 reflects a \$39.7 million gain on the sale of the Petrochemical publications
- Operating margin for 1998 reflects 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

# **Quarterly Revenue and Operating Profit by Segment**

# 2008 Quarterly Revenue and Operating Profit by Segment

(dollars in thousands, except earnings per share)		2008 vs.		2008 vs.		2008 vs.		2008 vs.	Total	2008 vs.
favorable/(unfavorable)	1Q	2007	2Q	2007	3Q	2007	40	2007	2008	2007
Revenue										
McGraw-Hill Education	\$ 330,156	(0.5%)	\$ 670,846	3.6%	\$1,131,352	(3.8%)	\$ 506,539	(8.0%)	\$2,638,893	(2.5%)
Financial Services	644,301	(11.6%)	735,477	(10.4%)	651,458	(14.2%)	623,051	(15.4%)	2,654,287	(12.9%)
Information & Media	243,414	3.2%	266,902	6.8%	265,731	5.3%	285,828	1.3%	1,061,875	4.1%
Total revenue	\$1,217,871	(6.1%)	\$1,673,225	(2.6%)	\$2,048,541	(6.4%)	\$1,415,418	(9.8%)	\$6,355,055	(6.2%)
Operating Profit/(Loss)										
McGraw-Hill Education	\$ (90,266)	0.5%	\$ 69,535	(13.5%)	\$ 351,479	(14.5%)	\$ (14,294)	N/M	\$ 316,454	(20.9%)
Financial Services	260,003	(25.3%)	299,227	(25.4%)	281,642	(18.8%)	214,555	(18.6%)	1,055,427	(22.4%)
Information & Media	11,726	18.6%	24,799	68.2%	22,847	22.6%	32,679	61.7%	92,051	45.0%
Total operating profit	\$ 181,463	(32.1%)	\$ 393,561	(20.7%)	\$ 655,968	(15.5%)	\$ 232,940	(17.7%)	\$1,463,932	(19.7%)
General corporate (expense)	\$ (33,856)	3.4%	\$ (33,536)	18.4%	\$ (9,701)	74.3%	\$ (32,029)	30.4%	\$ (109,122)	31.7%
Interest (expense)/income	(17,830)	N/M	(20,354)	(68.2%)	(22,002)	(42.7%)	(15,438)	(30.2%)	(75,624)	(86.4%)
Income before taxes on income	129,777	(43.8%)	339,671	(23.4%)	624,265	(13.7%)	185,473	(17.6%)	1,279,186	(21.2%)
Provision for taxes on income	48,667	44.2%	127,377	23.4%	234,099	13.7%	69,552	17.6%	479,695	21.2%
Net income	\$ 81,110	(43.6%)	\$ 212,294	(23.4%)	\$ 390,166	(13.7%)	\$ 115,921	(17.6%)	\$ 799,491	(21.1%)
Earnings per common share:										
Basic	\$0.25	(39.0%)	\$0.67	(17.3%)	\$1.25	(8.8%)	\$0.37	(14.0%)	\$2.53	(15.9%)
Diluted	\$0.25	(37.5%)	\$0.66	(16.5%)	\$1.23	(8.2%)	\$0.37	(14.0%)	\$2.51	(14.6%)

### 2007 Quarterly Revenue and Operating Profit by Segment

(dollars in thousands, except earnings per share)		2007 vs.		2007 vs.		2007 vs.		2007 vs.	Total	2007 vs.
favorable/(unfavorable)	1Q	2006	<b>2Q</b>	2006	3Q	2006	4Q	2006	2007	2006
Revenue										
McGraw-Hill Education	\$ 331,680	5.6%	\$ 647,324	5.8%	\$1,175,954	9.9%	\$ 550,873	4.3%	\$2,705,831	7.2%
Financial Services	728,882	21.5%	820,993	21.2%	759,614	12.5%	736,740	(7.2%)	3,046,229	10.9%
Information & Media	235,856	4.1%	249,862	4.7%	252,428	2.1%	282,075	3.6%	1,020,221	3.6%
Total revenue	\$1,296,418	13.7%	\$1,718,179	12.5%	\$2,187,996	9.8%	\$1,569,688	(1.5%)	\$6,772,281	8.3%
Operating Profit/(Loss)										
McGraw-Hill Education	\$ (90,680)	6.6%	\$ 80,402	18.7%	\$ 411,059	16.1%	\$ (791)	(118.1%)	\$ 399,990	21.5%
Financial Services	348,012	38.3%	401,368	27.9%	346,650	17.3%	263,447	(22.8%)	1,359,477	13.1%
Information & Media	9,886	N/M	14,740	13.8%	18,629	35.8%	20,212	(6.1%)	63,467	27.2%
Total operating profit	\$ 267,218	71.0%	\$ 496,510	25.8%	\$ 776,338	17.0%	\$ 282,868	(22.9%)	\$1,822,934	15.3%
General corporate (expense)	\$ (35,037)	13.8%	\$ (41,085)	(20.1%)	\$ (37,686)	20.1%	\$ (46,013)	(12.6%)	\$ (159,821)	1.9%
Interest (expense)/income	(1,204)	N/M	(12,099)	N/M	(15,423)	N/M	(11,855)	N/M	(40,581)	N/M
Income before taxes on income	230,977	95.4%	443,326	26.0%	723,229	18.8%	225,000	(31.0%)	1,622,532	15.5%
Provision for taxes on income	87,139	(98.2%)	166,248	(27.0%)	271,211	(19.8%)	84,375	30.4%	608,973	(16.5%)
Net income	\$ 143,838	93.8%	\$ 277,078	25.4%	\$ 452,018	18.2%	\$ 140,625	(31.3%)	\$1,013,559	14.9%
Earnings per common share:										
Basic	\$0.41	105.0%	\$0.81	30.6%	\$1.37	25.7%	\$0.43	(25.9%)	\$3.01	21.9%
Diluted	\$0.40	100.0%	\$0.79	31.7%	\$1.34	26.4%	\$ 0.43	(23.2%)	\$2.94	22.5%

### 2006 Quarterly Revenue and Operating Profit by Segment

(dollars in thousands, except earnings per share) favorable/(unfavorable)		10	2006 vs. 2005	20	2006 vs. 2005	30	2006 vs. 2005	40	2006 vs. 2005	Total 2006	2006 vs. 2005
lavorable/(ulitavorable)		IU	2003	Zų	2003	Jų	2003	44	2003	2000	2003
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	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/(Loss)											
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 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%)
Net income	\$	74,220	(5.7%)	\$ 220,961	13.3%	\$ 382,273	0.3%	\$ 204,777	8.2%	\$ 882,231	4.5%
Earnings per common share:											
Basic		\$0.20	(4.8%)	\$0.62	19.2%	\$1.09	6.9%	\$0.58	13.7%	\$2.47	9.8%
Diluted		\$0.20	0.0%	\$0.60	17.6%	\$1.06	6.0%	\$0.56	12.0%	\$2.40	8.6%

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 Corporation 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 adjusted for all stock splits

2008: In the second quarter, net income includes a \$23.7 million pre-tax restructuring charge (\$14.8 million after-tax, or \$0.05 per diluted share). The pre-tax restructuring charge by segment is as follows: McGraw-Hill Education of \$8.5 million, and Financial Services of \$15.2 million. In the third quarter, net income includes a \$23.4 million pre-tax restructuring charge (\$14.6 million after-tax, or \$0.05 per diluted share). The pre-tax restructuring charge by segment is as follows: McGraw-Hill Education of \$5.4 million, Financial Services of \$4.1 million, and Information & Media of \$13.9 million. In the fourth quarter, net income includes a \$26.3 million pre-tax restructuring charge (\$16.4 million after-tax, or \$0.05 per diluted share). The pre-tax restructuring charge by segment is as follows: McGraw-Hill Education of \$1.4 million, Financial Services of \$6.6 million, Information & Media of \$5.3 million, and Corporate of \$3.0 million

The Corporation adopted Statement of Financial Accounting Standards No. 160, "Noncontrolling interests in Consolidated Financial Statements, an amendment of ARB 51" (SFAS 160), in the first quarter of 2009. Please refer to page 17 for 2008 Operating Profit/(Loss) and Operating Profit Margin by Segment, as adjusted for SFAS 160

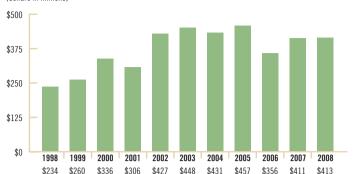
2007: In the first quarter, operating profit at the Financial Services segment includes a \$17.3 million pre-tax gain (\$10.3 million after-tax, or \$0.03 per diluted share) on the divestiture of the Corporation's mutual fund data business. In the third quarter, operating profit at the McGraw-Hill Education Segment includes a \$4.1 million gain on the divestiture of a product line. In the fourth quarter, net income includes a \$43.7 million pre-tax restructuring charge (\$27.3 million after-tax, or \$0.08 per diluted share). The pre-tax restructuring charge by segment is as follows: McGraw-Hill Education of \$16.3 million, Financial Services of \$18.8 million, Information & Media of \$6.7 million, and Corporate of \$1.9 million. 2007 revenue and operating profit also include the impact of the Sweets transformation (see 2006 note below)

2006: In 2006, the Corporation adopted Financial Accounting Standards Board Statement No. 123(R), "Share Based Payment." In the first, second, third and fourth quarters of 2006, respectively, the Corporation incurred 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). 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 Corporation'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 of \$5.6 million; Information & Media of \$5.7 million; and Corporate of \$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 of \$10.4 million; Information & Media of \$3.0 million; and Corporate of \$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 the Sweets building products database from a primarily print catalog offering to an integrated online service, which was recognized ratably over 2007

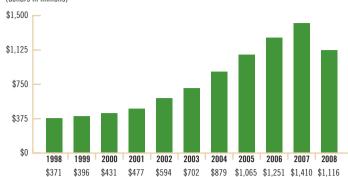
2005: In the third quarter, operating profit at the Financial Services segment includes a \$6.8 million pre-tax gain (\$4.2 million after-tax, or \$0.01 per diluted share) on the sale of the Corporate Value Consulting business. In the fourth quarter, operating profit at the Information & Media segment includes a \$5.5 million loss (\$3.3 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 of \$9.0 million; Financial Services of \$1.2 million; Information & Media of \$10.2 million; and Corporate of \$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

# **EBITDA**, Net of Investment in Prepublication Costs

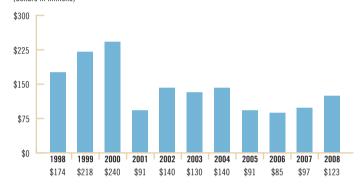
### McGraw-Hill Education, Net of Investment in Prepublication Costs (c) (dollars in millions)



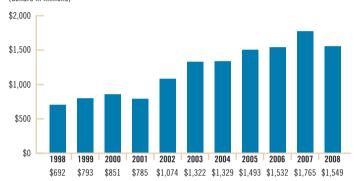
### Financial Services, Net of Investment in Prepublication Costs (c) (dollars in millions)



### Information & Media, Net of Investment in Prepublication Costs (dollars in millions)



### Total Company EBITDA, Net of Investment in Prepublication Costs (c) (dollars in millions)



### **EBITDA**, Net of Investment in Prepublication Costs

(dollars in thousands)	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
McGraw-Hill Education	\$ 316,454	\$ 399,990	\$ 329,125	\$ 410,213	\$ 340,067	\$ 321,751	\$ 332,949	\$273,339	\$307,672	\$273,667	\$202,076
Financial Services	1,055,427	1,359,477	1,202,289	1,019,201	839,398	667,597	560,845	425,911	383,025	358,155	338,655
Information & Media	92,051	63,467	49,888	60,576	119,313	109,841	118,052	65,003	212,921	185,551	139,352
Total operating profit	\$1,463,932	\$1,822,934	\$1,581,302	\$1,489,990	\$1,298,778	\$1,099,189	\$1,011,846	\$ 764,253	\$903,618	\$817,373	\$680,083
Unusual (loss)/gain (a)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (68,122)	\$ -	\$ (8,716)
Corporate (expense)/income (b)	(109,122)	(159,821)	(162,848)	(124,826)	(124,088)	38,185	(91,934)	(93,062)	(91,380)	(83,280)	(80,685)
Depreciation (c)	119,849	112,586	113,200	106,750	92,268	82,827	86,818	85,748	84,812	80,348	75,538
Amortization of intangibles (c)	58,497	48,403	48,387	44,235	32,470	32,973	36,270	84,108	63,508	54,366	51,310
Amortization of prepublication costs (c)	270,442	240,182	228,405	234,276	267,743	282,505	277,081	236,620	207,806	170,653	169,542
Investment in prepublication costs (c)	(254,106)	(298,984)	(276,810)	(257,795)	(237,760)	(213,954)	(246,577)	(293,002)	(249,333)	(246,341)	(194,978)
EBITDA	\$1,549,492	\$1,765,300	\$1,531,636	\$1,492,630	\$1,329,411	\$1,321,725	\$1,073,504	\$ 784,665	\$850,909	\$793,119	\$692,094

Notes for EBITDA, Net of Investment in Prepublication Costs (page 16):

The Corporation adopted Statement of Financial Accounting Standards No. 160, "Noncontrolling interests in Consolidated Financial Statements, an amendment of ARB 51" (SFAS 160), in the first quarter of 2009. Please refer to page 17 for 2008 Operating Profit/(Loss) and Operating Profit Margin by Segment, as adjusted for SFAS 160

- (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 Corporation's 9.43% debt
- (b) In 2003, corporate expense 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 in 2003 were included in discontinued operations

# **Selected Financials**

### 2008 Operating Profit/(Loss) and Operating Profit Margin by Segment, as Adjusted for SFAS 160

		<b>Operating Profit</b>		Operating Profit Margin		
(dollars in thousands, unaudited)	As Reported	Reclassification	As Adjusted	As Reported	As Adjusted	
Quarterly						
1Q 2008						
McGraw-Hill Education	\$ (90,266)	\$ (596)	\$ (90,862)	(27.3%)	(27.5%)	
Financial Services	260,003	4,049	264,052	40.4%	41.0%	
Information & Media	11,726	_	11,726	4.8%	4.8%	
Total	\$ 181,463	\$ 3,453	\$ 184,916	14.9%	15.2%	
2Q 2008						
McGraw-Hill Education	\$ 69,535	\$ 741	\$ 70,276	10.4%	10.5%	
Financial Services	299,227	3,915	303,142	40.7%	41.2%	
Information & Media	24,799	_	24,799	9.3%	9.3%	
Total	\$ 393,561	\$ 4,656	\$ 398,217	23.5%	23.8%	
3Q 2008						
McGraw-Hill Education	\$ 351,479	\$ 3,239	354,718	31.1%	31.4%	
Financial Services	281,642	3,410	285,052	43.2%	43.8%	
Information & Media	22,847	=	22,847	8.6%	8.6%	
Total	\$ 655,968	\$ 6,649	\$ 662,617	32.0%	32.3%	
4Q 2008						
McGraw-Hill Education	\$ (14,294)	\$ 1,560	\$ (12,734)	(2.8%)	(2.5%)	
Financial Services	214,555	3,556	218,111	34.4%	35.0%	
Information & Media	32,679	=	32,679	11.4%	11.4%	
Total	\$ 232,940	\$ 5,116	\$ 238,056	16.5%	16.8%	
Full Year 2008						
McGraw-Hill Education	\$ 316,454	\$ 4,944	\$ 321,398	12.0%	12.2%	
Financial Services	1,055,427	14,930	1,070,357	39.8%	40.3%	
Information & Media	92,051	_	92,051	8.7%	8.7%	
Total	\$1,463,932	\$19,874	\$1,483,806	23.0%	23.3%	

### **Stock-Based Compensation**

(dollars in thousands)	2008	2007	2006
McGraw-Hill Education	\$ (1,599)	\$ 27,665	\$ 31,649
Financial Services	(1,882)	44,226	38,322
Information & Media	(543)	22,106	22,938
Corporate	2,090	30,695	43,272
Total stock-based compensation expense (benefit)	\$ (1,934)	\$124,692	\$136,181

Notes for Selected Financials (page 17):

2008 Operating Profit/(Loss) and Operating Profit Margin by Segment, as Adjusted for SFAS 160:

Operating results reflect the impact of a reclassification of noncontrolling interests as required by Statement of Financial Accounting Standards No. 160, "Noncontrolling interests in Consolidated Financial Statements, an amendment of ARB 51" (SFAS 160), which was adopted in the first quarter of 2009. The new pronouncement requires separate reporting of net income attributable to noncontrolling interests. The amounts noted under "Reclassification" reflect net income attributable to noncontrolling interests that were previously reported within segment operating profit. The larger entities impacted by SFAS 160 are CRISIL Limited (Financial Services segment) and McGraw-Hill Ryerson (McGraw-Hill Education segment). This reclassification does not impact the Information & Media segment

Stock-Based Compensation:

2006: Includes a one-time charge for the elimination of the Corporation's restoration stock option program of \$23.8 million pre-tax (\$14.9 million after-tax, or \$0.04 per diluted share) which impacted the segments as follows: \$4.2 million to McGraw-Hill Education, \$2.1 million to Financial Services, \$2.7 million to Information & Media, and \$14.8 million to Corporate

SELECTED FINANCIALS 2009/2010 MHP Investor Fact Book 17

# **International Operations by Region and Segment**

Revenue from foreign sources was nearly \$1.8 billion in 2008 and represented 27.9% of The McGraw-Hill Companies' total revenue. Favorable foreign exchange rates contributed \$10.8 million to revenue in 2008.

Europe continues to be the most important contributor to The McGraw-Hill Companies' foreign revenue, producing 57.5% of the total in 2008.

### **Financial Services**

Financial Services continues to be the Corporation's largest international business. Standard & Poor's foreign revenue declined 2.6% in 2008 to just over \$1.0 billion and accounted for 59.7% of the Corporation's total foreign revenue. Favorable foreign exchange rates contributed \$16.9 million to revenue for this segment in 2008.

Since 1998, foreign revenue in this segment has grown at a compound annual rate of 15.2%.

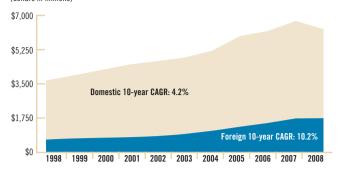
### McGraw-Hill Education

McGraw-Hill Education's foreign revenue grew by 3.1% to \$452.8 million in 2008 and accounted for 25.5% of the Corporation's total foreign revenue. Foreign exchange rates adversely impacted revenue by \$7.3 million for this segment in 2008.

### Information & Media

Information & Media's segment foreign revenue grew by 11.2% to \$263.6 million in 2008 and accounted for 14.8% of the Corporation's total foreign revenue in 2008. Foreign exchange rates had an immaterial impact on revenue for this segment in 2008.

### Domestic and Foreign Source Revenue Growth,\* 1998-2008 (dollars in millions)

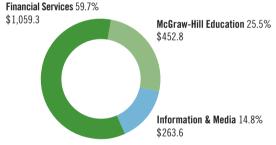


### Foreign Source Revenue by Geographic Region,\* 2008 (dollars in millions)



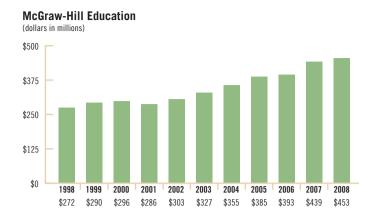
### Foreign Source Revenue by Segment,\* 2008

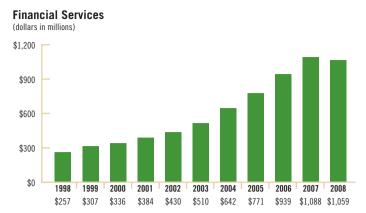
(dollars in millions)

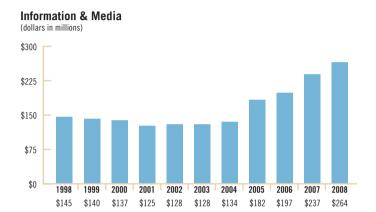


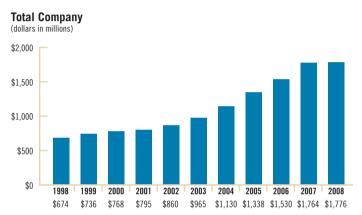
<sup>\*</sup> Foreign source revenue includes international sales by U.S. operations

# Foreign Source Revenue by Segment, 1998-2008









Summary of Domestic and Foreign S	Source Revenue, 1998–2008
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Revenue         \$4,579.4           Domestic         \$4,579.4           Foreign*         1,775.7           Total         \$6,355.1           Revenue by Segment           Domestic	\$5,008.5 1,763.8 \$6,772.3	\$4,725.0 1,530.1 \$6,255.1	\$4,665.8 1,337.8 \$6,003.6	\$4,120.1 1,130.4 \$5,250.5	\$3,924.9 965.4	\$3,847.7 860.0	\$3,739.0 795.0	\$3,483.0	\$3,243.5	\$3,039.2	4.2%
Foreign*         1,775.7           Total         \$6,355.1           Revenue by Segment	1,763.8	1,530.1	1,337.8	1,130.4	965.4				\$3,243.5	\$3,039.2	4.2%
Total \$6,355.1  Revenue by Segment		· · · · · · · · · · · · · · · · · · ·				860.0	70E 0				
Revenue by Segment	\$6,772.3	\$6,255.1	\$6,003.6	\$5,250.5			795.0	768.2	736.3	673.5	10.2%
, ,					\$4,890.3	\$4,707.7	\$4,534.0	\$4,251.2	\$3,979.8	\$3,712.7	5.5%
Domestic											
Domostio											
McGraw-Hill Education \$2,186.1	\$2,266.8	\$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	4.6%
Financial Services 1,595.0	1,958.6	1,807.1	1,629.6	1,413.1	1,258.8	1,126.0	1,014.3	868.8	856.7	779.8	7.4%
Information & Media 798.3	783.1	787.1	749.3	666.0	644.9	681.8	720.7	871.1	890.2	871.0	(0.9%)
Total \$4,579.4	\$5,008.5	\$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	4.2%
Foreign*											
McGraw-Hill Education \$ 452.8	\$ 439.1	\$ 393.4	\$ 384.8	\$ 354.5	\$ 327.4	\$ 302.6	\$ 285.6	\$ 295.5	\$ 289.6	\$ 271.7	5.2%
Financial Services 1,059.3	1,087.6	939.3	771.2	642.2	510.3	429.7	384.0	336.2	306.9	257.2	15.2%
Information & Media 263.6	237.1	197.4	181.8	133.7	127.7	127.7	125.4	136.5	139.8	144.6	6.2%
Total \$1,775.7	\$1,763.8	\$1,530.1	\$1,337.8	\$1,130.4	\$ 965.4	\$ 860.0	\$ 795.0	\$ 768.2	\$ 736.3	\$ 673.5	10.2%
Number of Employees											
Domestic 11,986	12,565	12,860	13,486	13,122	12,736	13,180	13,566	13,339	13,032	12,599	
Foreign 9,663	8,606	7,354	6,114	4,131	3,332	3,325	3,569	3,422	3,344	3,298	
Total 21,649	21,171	20,214	19,600	17,253	16,068	16,505	17,135	16,761	16,376	15,897	

Notes:

Years restated for discontinued operations

 $<sup>\</sup>ensuremath{^{\star}}$  Foreign source revenue includes international sales by U.S. operations

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"

# **Acquisitions and Divestitures**

Acquisition and divestiture amounts for 1998–2008 reflect those reported on McGraw-Hill's GAAP cash flow statement and are not indicative of actual purchase/sale prices due to purchase price adjustments and other timing differences in payments/receipts. Divestiture amounts also include proceeds received from the disposition of property and equipment.

2008	Acquisitions \$48,261,000  Maalot, Ltd. Case-Schiller® Home Price Indices (licensing agreement) Thomson Reuters databases Umbria, Inc. LinkedIn Corporation (0.45% interest)  Divestitures \$440,000 CRISIL Gas Strategies	FS FS FS I&M Corporate
2007	Acquisitions \$86,707,000  Hot Chalk, Inc. (6% interest) Reading Success (reading program) ClariFI, Inc. IMAKE/ABSX  Divestitures \$62,261,000  Benziger S&P mutual fund data business	MHE MHE FS FS MHE FS
2006	Acquisitions \$13,480,000  Heale Financial TheMarkets.com (5.51% interest after acquisition of additional 2.75% interest) Automotive Resources Asia, Ltd. Azteca America affiliate low-powered TV station in Bakersfield, CA  Divestitures \$12,381,000 The Review of Securities Regulation newsletters E-Source Power Magazine	FS I&M I&M FS I&M I&M
2005	Acquisitions \$461,842,000  TurnLeaf Solutions  ASSIRT Pty Limited  CRISIL Limited (58.5% interest after acquisition of additional 49.07% interest)  Taiwan Ratings Corporation (51% interest after acquisition of additional 1% interest)  TheMarkets.com (2.76% interest)  Vista Research, Inc.  Azteca America affiliate low-powered TV stations in Colorado and San Diego J.D. Power and Associates  USDTV  Divestitures \$131,335,000  Corporate Value Consulting  Standard & Poor's Securities, Inc.  Healthcare Information Group	MHE FS FS FS FS I&M I&M I&M I&M
2004	Acquisitions \$306,232,000 Grow.net, Inc. PRCEDU Corporation (8.7% interest) Capital IQ, Inc. Center for Business Intelligence (energy conference business only)  Divestitures \$46,904,000 Landoll, Frank Schaffer and related juvenile retail publishing businesses J.J. Kenny Drake, Inc.	MHE MHE FS I&M
		FS

2003	Acquisitions \$3,678,000 FriedWire, Inc.  Divestitures \$502,665,000 S&P ComStock Rock-McGraw, Inc. (45% interest)	I&M FS Corporate
2002	Acquisitions \$19,310,000 Bredex Corporation Clear Learning Open University Press Reality Based Learning EA Ratings Divestitures \$24,304,000 Lifetime Learning MMS International CAP	MHE MHE MHE FS MHE FS 1&M
2001	Acquisitions \$333,234,000 Frank Schaffer Publications Mayfield Publishing Company Uniscore, Inc. Visual Education Corporation Corporate Value Consulting Charter Research Corporation BizNet TV, Inc. Financial Times Energy Divestitures \$17,876,000 Data Resources Inc. Rational Investors	MHE MHE MHE FS FS 1&M 1&M
2000	Acquisitions \$703,719,000 Tribune Education Canadian Bond Rating Service Portfolio Management Data, LLC Thomas Murray Network Management Ltd. BuildPoint Corporation MPI Interactive - eBuilder, Inc. Divestitures \$142,418,000 Tower Group International	MHE FS FS FS 1&M 1&M
1999	Acquisitions \$67,085,000 Appleton & Lange, Inc. Emerging Markets Data Base IFIS, Inc. Micropal France Rational Investors, Inc. Thesys Information, Ltd. Divestitures \$67,244,000 Libri Italia SRL (School titles only) Petrochemical Publications (Chemical Engineering, Modern Plastics, Modern Plastics International)	MHE FS FS FS FS FS MHE
1998	Acquisitions \$24,720,000 Optical Data Corporation Xebec Multimedia Solutions, Ltd.  Divestitures \$66,479,000 Information Technology and Communications Group (BYTE, Data Communications, LAN Times, tele.com, NSTL)	MHE MHE

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

# How Technology is Changing the Marketplace and Driving Long-Term Global Growth

Connecting content and managing digital assets globally across all of The McGraw-Hill Companies is an essential part of the effort to grow revenue, reduce costs, and improve workflow and productivity. Technology investments support MHP's ability to provide its customers with products and services that represent the shift to an emerging model. For MHP, technology represents a tremendous opportunity in serving the business-to-business and business-to-consumer communities—an opportunity to enhance its offerings, embed its solutions into customers' workflow and infrastructure, and build stronger, broader relationships that add more value.

Traditional Model			Emerging Model
One-way customer relationships One-time unit sales	Drivers	Enablers	> Interactive customer relationships  > Subscription-based revenue
Long development cycles	Shrinking technology costs	Digital content repositories	> Rapid development cycles
One-size-fits-all	Broadband penetration	Multi-channel delivery	> Customized solutions
Physical inventory	Digital-savvy customers	Workflow integration	> Digital asset management
U.Scentric production		Web 2.0 (search, community)	> Global production & distribution
Third-party intermediary sales			> Direct-to-consumer sales/distribution

### Leveraging the Emerging Model in MHP's Key Markets

The emerging model is enabling MHP's three segments—Education, Financial Services and Information & Media—to maintain leadership positions in their respective fields, serving the enduring global needs for knowledge, capital, and information transparency. As a result, MHP is well situated for the future.

### **Education**

Politicians and corporate leaders around the world increasingly understand that an educated population is essential for competitiveness.

### **Short Term:**

Federal financial support for education is continuing to stay strong, easing the impact of budget cutbacks at the local and state levels.

### Long Term:

Enrollments at all levels are expected to rise by 9% over the next decade, propelling spending upwards.

### **Financial**

Global financial markets are still far from fully recovered from the financial crisis. Nevertheless, raising capital is an essential part of any market economy, and companies, individuals, and governments will still have a need to borrow for the foreseeable future.

### **Short Term:**

The gradual easing of the financial crisis will promote more of a return to normal credit markets and normal patterns of debt. Global debt underwriting in the first quarter of 2009 rose by 23% over a year earlier.

### **Long Term:**

As the global economy continues to expand, the global capital markets will grow along with it.

### Information

An increasingly information-driven global economy will create new opportunities for information providers such as McGraw-Hill. McGraw-Hill delivers critical information to the energy, construction, aerospace and defense, automotive, and general business markets.

### **Short Term:**

A volatile economy, with its sudden shifts and swerves, boosts the demand for useful information—in many formats and frequencies.

### Long Term:

The role of manufacturing in global trade is likely to shrink over time. In its place, the production and distribution of information and other intangibles is going to become more important.

# **Growth in Education Funding**

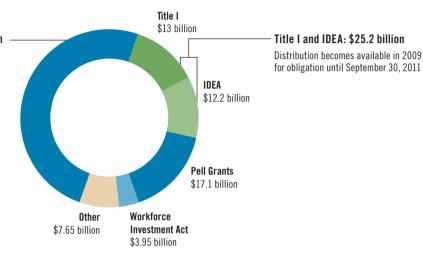
In February 2009, President Obama signed into law a \$787 billion economic stimulus bill, the American Recovery and Reinvestment Act (ARRA), which provides more than \$100 billion in supplemental education appropriations for fiscal years 2009 and 2010 (ending September 2010 and September 2011, respectively). The ARRA includes two types of funding: (1) a one-time \$53.6 billion appropriation known as the State Fiscal Stabilization Fund (SFSF) program (includes \$5 billion for a discretionary competitive fund to be awarded by the U.S. Secretary of Education), and (2) additional grants to the states. The grants to the states provide funds for specific pre-K-12 programs that use instructional materials and diagnostic or formative testing, including \$12.2 billion for IDEA (special education) and \$13 billion for Title I (disadvantaged students). The Act also provides Pell Grant funding for higher education.

### **American Recovery and Reinvestment Act of 2009**

More than \$100 billion in education appropriations

### State Fiscal Stabilization Fund: \$53.6 billion

- Formula: \$48.6 billion\* to be awarded by formula to state governors
- **Competitive:** \$5 billion to be awarded by U.S. Secretary of Education
- \$4.35 billion for "Race to the Top"
  - \$650 million for "What Works and Innovation"
- \* Funds may be used to restore K-12 and higher education budget cuts, for school modernization and any activity authorized by Elementary and Secondary Education Act (ESEA), Individuals with Disabilities Education Act (IDEA), or Federal Perkins Program



### American Recovery and Reinvestment Act (ARRA) Timeline for Education Appropriations

### \$44 billion available in April 2009

### April 1, 2009

- \$6.1 billion (50% of total) of IDEA, Part B
- \$5.0 billion (50% of total) of Title I, Part A
- Governors can apply for \$32.5 billion (67% of \$48.6 billion formula total) of State Fiscal Stabilization Fund

### Additional funds available in 2009/2010

### Summer/Fall 2009

- \$6.1 billion (remaining 50%) of IDEA, Part B to be awarded to states
- \$5.0 billion (remaining 50%) of Title I, Part A to be awarded to states
- \$16.1 billion (remaining 33%) of State Fiscal Stabilization Fund to be awarded to states
- \$17.1 billion available for Pell Grants and \$200 million for Work Study for 2009-2010 school year

### Fall 2009

\$3 billion for Title I. Part A available for school improvements, conditional on receipt of additional information by U.S. Department of Education

### Spring 2010-Fall 2010

\$5 billion released from the competitive Race To the Top/What Works and Innovation funds by the U.S. Secretary of Education

### **Deadlines for funds**

### September 30, 2010

Local education agencies must obligate 85% of total FY2009 Title I ARRA funds plus FY2009 Omnibus spending for Department of Education's discretionary programs: \$11.5 billion for IDEA and \$14.5 billion for Title I

### September 30, 2011

All remaining IDEA funds to be obligated

Source: U.S. Department of Education

# McGraw-Hill Education: Pre-K-12 Products Aligned with ARRA Funding

	Title	Name	Pre-K–6 Products and Services	6–12 Products and Services
TITLE I-A	ESEA (NCLB) Title I, Part A	School Improvement Funds for improving reading and math instruction in high-poverty, failing schools	Treasures, Little Treasures Reading Triumphs, Treasure Chest Tesoros de lectura Math Connects, Math Triumphs SRA Kaleidoscope 2–6 SRA Number Worlds Pre-K–6 Wright Group Pinpoint Math 4–7 Acuity™ 3–6 Writing Roadmap™ 3–6 Yearly ProgressPro™ 1–6 First Performances™ Pre-K–3 Fox Tracker™ Pre-K–3 TerraNova™ K–6 SUPERA® K–6 SUPERA® 2000 Pre-K–1 LAS Links™ Suite K–6	Glencoe Literature—Core Program Jamestown Reading Navigator™ Jamestown Print Expressions (ELL) Math Connects 6-8—Core Program Glencoe Math 9-12—Core Program Math Triumphs 6-12 SRA Corrective Reading: A Direct Instruction Program 3-12 SRA Corrective Math: A Direct Instruction Program 3-12 Grow MyGuide Acuity™ 6-8 Acuity Majebra Writing Roadmap™ 6-12 Yearly ProgressPro™ 6-8 TerraNova™ 6-12 SUPERA® 6-10 LAS Links™ Suite 6-12
TITLE II-A	ESEA (NCLB) Title II, Part A	Teacher and Principal Quality Training and Recruiting Funds to increase student achievement through strategies improving teacher/principal quality	Professional Development Modules for all product lines	Professional Development Modules for all product lines
TITLE II-D	ESEA (NCLB) Title II, Part D Subpart 1	Enhancing Education Through Technology Funds to support efforts that utilize technology to improve student academic achievement, integration into curricula, and instruction	Progress Reporter for <i>Treasures</i> All Online Student Books Acuity 3–6 Writing Roadmap 3–6 Yearly ProgressPro 1–6 Fox Tracker Pre-K–3 TerraNova Online 3–6	Jamestown Reading Navigator™ PassKey Virtual Labs Grow MyGuide Acuity 6–8 Writing Roadmap 6–12 Yearly ProgressPro 6–8 TerraNova Online 6–10
TITLE V-D	ESEA (NCLB) Title V, Part D Subpart 1	Fund for the Improvement of Education Teacher Incentive Fund	Treasures, Little Treasures Reading Triumphs, Treasure Chest Math Connects, Math Connects Pre-K Math Triumphs Leveled Reader Program Science Leveled Readers Macmillan/McGraw-Hill TimeLinks Leveled Readers Math Problem Solving Readers Math manipulatives	Glencoe Literature—Core Program Glencoe Read and Write Jamestown Reading Navigator™ Jamestown Print Expressions (ELL) Math Connects 6−8 Glencoe Math 9−12—Core Program Math Triumphs 6−12
NCLB	ESEA (NCLB) Section 1003(g)	School Improvement Grants "Race to the Top"—Funds to states that want to try new approaches in raising student achievement	Treasures, Reading Triumphs Tesoros de lectura, Treasure Chest Little Treasures Math Connects, Math Triumphs Math Connects Pre–K SRA Kaleidoscope 2–6 SRA Number Worlds Pre-K–6 Wright Group Pinpoint Math 4–7 Acuity 3–6 Writing Roadmap 3–6 Yearly ProgressPro 1–6 TerraNova K–6 SUPERA K–6 LAS Links™ Suite K–6	Jamestown Reading Navigator™ Glencoe Literature—Core Program Math Connects 6-8—Core Program Glencoe Math 9-12—Core Program Math Triumphs 6-12 SRA Corrective Reading: A Direct Instruction Program 3-12 SRA Corrective Math: A Direct Instruction Program 3-12 Grow MyGuide Acuity 6-8 Writing Roadmap 6-12 Yearly ProgressPro 6-8 TerraNova 6-12 SUPERA 6-10 LAS Links™ Suite 6-12
IDEA	IDEA, Part B Section 611	Special Education Grants to States Funds to local education agencies (LEAs) to supplement and/or increase the level of special education and related services provided to eligible students with disabilities	Reading Triumphs Math Triumphs Little Treasures Math Connects Pre-K Snapshots Video Science 3—5 SRA Kaleidoscope 2—6 SRA Number Worlds Pre-K—6 Wright Group Pinpoint Math 4—7 First Performances Pre-K—3 Fox Tracker Pre-K—3 Acuity 3—6 Writing Roadmap 3—6 Yearly ProgressPro 1—6 TerraNova K—6 SUPERA K—6 LAS Links™ Suite K—6 preLAS 2000 Pre-K—1	Jamestown Reading Navigator <sup>TM</sup> Math Triumphs Jamestown Print ActiveFolders Reading Essentials SRA Corrective Reading: A Direct Instruction Program 3–12 SRA Corrective Math: A Direct Instruction Program 3–12 Grow MyGuide Acuity 6–8 Writing Roadmap 6–12 Yearly ProgressPro 6–8 TerraNova 6–12 SUPERA 6–10 LAS Links <sup>TM</sup> Suite 6–12
	IDEA, Part B Section 619	Special Education Preschool Grants Funds to assist states in meeting the requirements for federal reporting which include: (1) Transitioning children from early intervention services to preschool services; (2) Providing special education services to preschool children with disabilities; (3) Ensuring the qualifications of staff; and (4) Assuring that children participate and progress in a curriculum aligned to state early learning standards	Little Treasures Math Connects Pre-K First Performances Pre-K—3 Fox Tracker Pre-K—3	N/A

ESEA—Elementary and Secondary Education Act, Title I
IDEA—Individuals with Disabilities Education Act

NCLB—No Child Left Behind Act

# **Response to Intervention**

The Individuals with Disabilities Education Act (IDEA) directs schools to focus more on helping children learn by addressing problems before a child is so far behind that a referral to special education services is required. IDEA underscores the importance of providing high-quality, scientifically-based instruction and interventions, and holds schools accountable to meet state grade-level standards.

More and more states are recognizing the important role intervention plays in a student's progress and have begun implementing a process known as Response to Intervention (RtI). RtI is a three-tiered scientific approach to learning that focuses on high-quality interventions while carefully monitoring student progress. Funding for Rtl programs comes primarily from IDEA, Part B. Though states and districts are at different points in their Rtl planning and implementation, it is expected to continue to grow in use:

- RtI implementations are rapidly extending to middle and high schools
- Implementation of RtI is moving across the curriculum, beyond reading and into math
- Of those districts with enough data to measure, nearly three times as many report improvements in Adequate Yearly Progress achievement

Tier 1 Students who require ongoing, intensive intervention

Tier 2 Students who require additional support and highly structured instructional intervention

Students at or near grade-level proficiency

### **Intervention Solutions to Help Struggling Students**

McGraw-Hill Education's intervention programs are for students who have fallen behind or need extra help to reach grade-level standards. These programs, which provide elementary and secondary school teachers with research-based instructional routines and explicit direct instruction to support students dealing with barriers to comprehension, combine traditional print materials with digital tools that help teachers maximize individual performance in reading, math, and science (see range of programs on page 23, primarily under IDEA).



# Jamestown Reading Navigator™

Jamestown Reading Navigator is a research-based, field tested online and print-based program developed to raise reading competencies and test scores of struggling students in grades 6 through 12.

- The online component improves students' comprehension by utilizing direct, explicit instruction and modeling of good reading practices
- The print-based reading materials encourage collaborative or independent learning
- Teachers can monitor student progress utilizing an online system where scores from formative and summative assessments are recorded

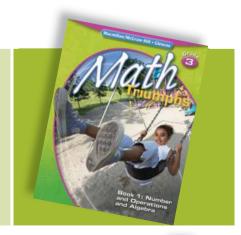
www.ReadingNavigator.com



### Math Triumphs

Math Triumphs is an RtI Level 3 Intervention Program designed for K-8 students who are two or more years behind in mathematics. It is the first intervention program designed around the National Council of Teachers of Mathematics (NCTM) Focal Points. Math Triumphs offers:

- Differentiated instruction, providing many ways a student can practice math skills
- Support for a variety of instruction settings, including after school, before school, summer school, pull-out programs, intersession, and tutoring
- A built-in assessment and monitoring system



www.macmillanmh.com



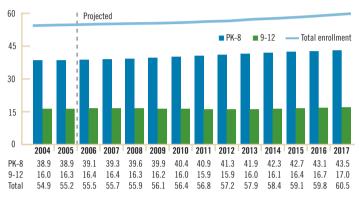
# **Pre-K-16: Growing Enrollments**

In the United States, school enrollments continue to be on the rise across the entire pre-K-16 student population. By 2017, 60.5 million students will be enrolled in grades pre-K-12, according to the latest projections by the National Center for Education Statistics. Enrollment continues to show steady growth in the public school pre-K programs currently provided by 38 states.

Enrollment in degree-granting higher education institutions is projected to increase 13% to 20.1 million students in 2017.

### **Enrollment in Elementary and Secondary Institutions**

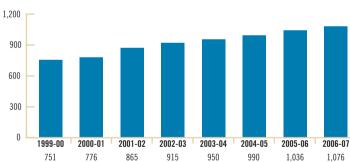
(enrollment in millions)



Source: U.S. Department of Education, National Center for Education Statistics, "Projections of Education Statistics to 2017"

### Public School Pre-Kindergarten Enrollment, 1999–2007

(number of students in thousands)



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

### **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 2017

Note: Detail may not sum to totals due to rounding

(1) Middle range of projections cited

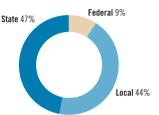
# **Public Education Funding and Expenditures**

Funding for pre-K-12 education in the United States reached \$521 billion in the 2005-06 school year. State and local governments contributed 91% of this total and the federal government provided 9%. In any given year, more than two-thirds of state funding comes from sales and income tax. At the local level, property taxes account for approximately 60% to 65% of the local funding total.

States spent an average of \$9,099 for each K-12 student in the 2005-06 school year. By 2017, expenditures are projected to increase more than 28% to \$11,600 per student.

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

Total Revenue: \$521 billion



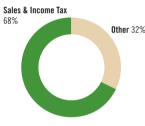
Source: U.S. Department of Education, National Center for Education Statistics, Common Core of Data "National Public Education Financial Survey, 2005-06

# 46 states' fiscal year is July 1 to June 30

Other fiscal years:	
Apr. 1–Mar. 31	New York
Sept. 1-Aug. 31	Texas
Oct. 1-Sept. 30	Alabama
Oct. 1-Sept. 30	Michigan

### **Sources of State Funding**

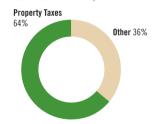
Total State Revenue: \$243 billion



Source: U.S. Census Bureau, "Public Education Finances Report: 2006'

### **Sources of Local Funding**

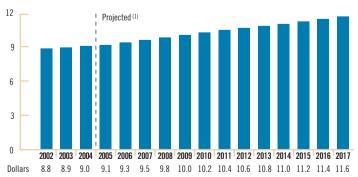
Total Local Revenue: \$231 billion



Source: U.S. Census Bureau, "Public Education Finances Report: 2006

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

(in thousands, in constant 2005-2006 dollars)



Source: U.S. Department of Education, National Center for Education Statistics, "Projections of Education Statistics to 2017

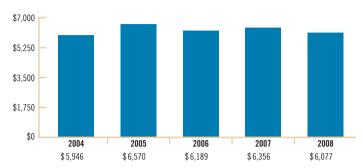
(1) Middle range of projections cited

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

In 2008, sales of textbooks and educational materials for the pre-K-12 school market decreased 4.4% to \$6.1 billion, according to the Association of American Publishers (AAP).

### Estimated Total Pre-K-12 Industry Net Sales

(dollars in millions)



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

### Pre-K-6 Net Sales by State (dollars in thousands) Basal and Supplemental Materials

			% <b>of</b>		
		2007	2007 Total	2006	2005
1	California	\$ 292,155	16.1%	\$ 292,477	\$ 236,929
2	New York	120,119	6.6%	117,874	95,291
3	Texas	112,496	6.2%	134,175	232,302
	Top 3 for 2007	\$ 524,770	28.9%	\$ 544,526	\$ 564,522
4	Florida	100,102	5.5%	110,529	107,867
5	Pennsylvania	74,033	4.1%	74,060	74,917
6	Illinois	72,690	4.0%	86,228	87,857
7	Georgia	72,085	4.0%	47,713	46,456
8	Ohio	68,169	3.8%	63,933	69,601
9	Tennessee	58,829	3.2%	24,992	27,610
10	New Jersey	57,615	3.2%	64,526	73,810
	Top 10 for 2007	\$1,028,293	56.6%	\$1,016,507	\$1,052,640
11	Indiana	50,650	2.8%	35,708	47,559
12	Arizona	49,318	2.7%	47,143	45,566
13	North Carolina	43,253	2.4%	61,074	38,155
14	Missouri	39,434	2.2%	36,453	32,354
15	Louisiana	36,538	2.0%	27,635	29,348
	Top 15 for 2007	\$1,247,486	68.6%	\$1,224,520	\$1,245,622
Ξ	All Others	\$ 569,809	31.4%	\$ 573,371	\$ 544,182
Ξ	Total Domestic U.S.	\$1,817,295	100.0%	\$1,797,893	\$1,789,806

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

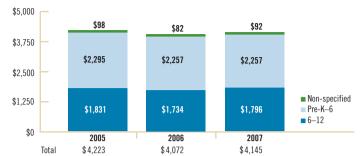
### Pre-K-6 Sales by Subject Category (dollars in millions)

	2007	% of 2007 total	2006	% of 2006 total	2005	% of <b>2005 total</b>
Reading/Literature	\$ 711	38.3%	\$ 707	38.4%	\$ 675	36.9%
Mathematics	518	27.9%	487	26.5%	493	27.0%
Science	239	12.9%	174	9.4%	133	7.3%
Social Studies	170	9.1%	194	10.5%	144	7.9%
Language Arts/English	73	4.0%	100	5.4%	101	5.5%
Music	53	2.9%	51	2.8%	92	5.0%
Religion	16	0.9%	19	1.0%	18	1.0%
All Others	75	4.1%	110	6.0%	171	9.4%
Total	\$1,857	100.0%	\$ 1,841	100.0%	\$ 1,827	100.0%

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

### 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

# 6-12 Net Sales by State (dollars in thousands)

Basal and Supplemental Materials

			% of		
		2007	2007 total	2006	2005
1	California	\$ 267,709	16.9%	\$ 252,435	\$ 201,519
2	Texas	193,333	12.2%	54,288	158,760
3	New York	93,904	5.9%	83,065	87,205
	Top 3 for 2007	\$ 554,946	34.9%	\$ 389,788	\$ 447,484
4	Florida	91,543	5.8%	126,188	127,625
5	Illinois	77,890	4.9%	76,833	59,791
6	Pennsylvania	58,968	3.7%	57,645	58,536
7	Georgia	57,630	3.6%	45,322	48,135
8	Ohio	50,457	3.2%	49,621	49,236
9	New Jersey	45,331	2.9%	46,803	47,906
10	Michigan	37,278	2.3%	40,743	33,098
	Top 10 for 2007	\$ 974,043	61.3%	\$ 832,943	\$ 871,811
11	Virginia	36,475	2.3%	51,940	62,522
12	Missouri	35,708	2.2%	36,229	35,172
13	Maryland	35,466	2.2%	39,296	37,079
14	Louisiana	34,820	2.2%	17,894	29,761
15	Arizona	32,710	2.1%	28,350	27,194
	Top 15 for 2007	\$1,149,222	72.3%	\$1,006,652	\$1,063,539
Ξ	All Others	\$ 439,289	27.7%	\$ 528,033	\$ 539,022
Ξ	Total Domestic U.S.	\$1,588,510	100.0%	\$1,534,691	\$1,602,562

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

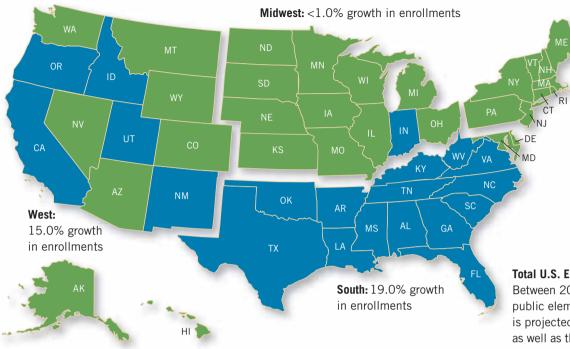
### 6-12 Sales by Subject Category (dollars in millions)

	2007	% of 2007 total	2006	% of 2006 total	2005	% of 2005 total
Mathematics	\$ 407	25.3%	\$ 266	17.1%	\$ 301	18.5%
Science	332	20.6%	313	20.0%	272	16.8%
Social Studies	289	17.9%	317	20.3%	326	20.1%
Foreign Language	142	8.8%	113	7.3%	174	10.7%
Reading/Literature	108	6.7%	182	11.7%	162	10.0%
Language Arts/English	98	6.1%	120	7.7%	97	6.0%
Business Education	47	2.9%	51	3.3%	58	3.6%
All Others	189	11.8%	198	12.7%	233	14.4%
Total	\$1,611	100.0%	\$1,561	100.0%	\$1,623	100.0%

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

# **Growing Enrollments In Key Adoption States**

Changing U.S. Pre-K-12 Enrollment by Region and State, 2005-2017



### **Mapping the Adoption Process**

In the adoption process, a state education board selects elementary and secondary 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.

### Adoption States (20 States):

States in which school districts must purchase educational materials that have been "adopted" at the state level in order to qualify for state funding.

### Open Territories (30 States):

States in which schools purchase educational materials independently.

### Notes:

Calif ornia: Adopts for grades K-8; grades 9-12 are open territory

Utah and Oregon: Issue state-recommended lists, but do not tie textbook purchases to funding

### Total U.S. Enrollment Growth: 10.0%

Northeast: 3.0% decline in enrollments

Between 2005 and 2017 enrollment in public elementary and secondary schools is projected to increase in 37 states as well as the District of Columbia and decline in 13 states, translating into a 10.0% national increase in public school enrollment overall.

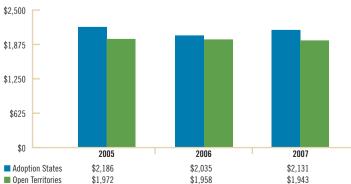
### **Projected Enrollment Growth in** Key Adoption States, 2005-2017

Texas	32.9%
Florida	28.9%
North Carolina	23.1%
Virginia	13.0%
California	8.7%

Source: U.S. Department of Education, National Center for Education Statistics, "Projections of Education Statistics to 2017

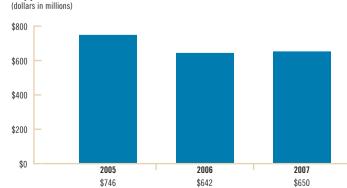
# **Adoption States, Open Territories, and Supplemental Sales**

# 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 \$71 million, \$78 million, and \$65 million for 2007, 2006, and 2005, respectively

### Supplemental Materials Market (Pre-K-12)



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

# **EI-Hi Adoption Opportunities**

Substantial growth in the state new adoption market is expected in 2010 and 2011 as key states plan to buy reading, math, and science. The state new adoption market may top \$1.0 billion in 2010 and again in 2011. Texas is scheduled to return to the market in 2010 to buy K-12 reading and literature with legislative approval to spend \$465.3 million for the programs. Florida is scheduled to buy K-12 math in 2010. States will also benefit from the more than \$100 billion federal stimulus for education.

### **Elementary School Adoption Schedule**

Bid Year	2008	2009	2010	2011	2012	2013	2014
Purchase Year	2009	2010	2011	2012	2013	2014	2015
Reading <sup>2</sup>	California Georgia	New Mexico Texas (Eng/ <i>Span K-5</i> )	Arkansas Mississippi Oklahoma <sup>1</sup> South Carolina (K-5)	Kentucky North Carolina Virginia (K-5)	Indiana (1-6) Tennessee West Virginia	Alabama Florida Idaho <sup>1</sup> Oklahoma <sup>1</sup> Oregon	Georgia Louisiana
Mathematics	Idaho Kentucky (P-6) North Carolina (K-5) Oregon South Carolina <sup>1</sup>	Florida Indiana (1-6) Oklahoma West Virginia	Alabama Tennessee Virginia	Arkansas	Georgia <sup>5</sup> Louisiana New Mexico	California Mississippi	Idaho Kentucky (PK-6) North Carolina (K-5) South Carolina <sup>1</sup> Texas (Eng/ <i>Span K-5</i> )
Social Studies	Indiana (1-6)	Virginia	Alabama Georgia Idaho Mississippi <sup>3</sup> New Mexico West Virginia	California Florida Mississippi <sup>4</sup> Oregon South Carolina <sup>1</sup>	Kentucky Oklahoma Texas (Eng/ <i>Span</i> )	Arkansas Louisiana North Carolina Tennessee	Indiana (1-6)
Science	Tennessee	Mississippi Oregon	Florida Indiana (1-6) Louisiana North Carolina	Alabama Idaho New Mexico Oklahoma Texas (Eng <i>l Span</i> ) Virginia West Virginia	Arkansas California South Carolina	Georgia Kentucky	Tennessee
Language Arts/ English <sup>2</sup>	California (Eng/ <i>Span</i> ) <sup>1</sup>	Tennessee (1-6) Texas (Eng/ <i>Span K-1</i> )	Arkansas Oklahoma South Carolina (K-5) Texas (Eng/ <i>Span 2-6</i> )	Kentucky North Carolina South Carolina <sup>1</sup>	ldaho¹ Mississippi	Indiana (1-6) Oregon West Virginia	Alabama Florida Georgia Louisiana
Health (H) Physical Education (PE)	North Carolina (H) Oklahoma (H, PE) Tennessee (H)	Alabama (H, PE) Idaho (H, PE) Kentucky (H, PE)	Georgia (H, PE) Indiana (H) (1-6) Louisiana (H, PE) South Carolina (H) (K-5)	Florida (H, PE) <sup>6</sup> New Mexico (H, PE) West Virginia (H)	Arkansas (H, PE) Mississippi (H, PE)	California (H)	North Carolina (H) Oklahoma (H, PE) Oregon (H, PE) Tennessee (H)
Art (A) Music (M) Drama (D)	Florida (M)	Arkansas (A, M) Idaho (A, M) <sup>1</sup>	Georgia (A, M, D) Kentucky (A, M)	Indiana (A, M 1-6) Louisiana (A, M) Mississippi (A, M) Tennessee (A, M)	Alabama (A, M, D) Florida (A) <sup>6</sup> New Mexico (A, M) North Carolina (A, M, D) Oklahoma (A, M) Oregon (A, M)	South Carolina (A, M, D)	California (A) Florida (M) <sup>6</sup> Texas (A, M) West Virginia (A, M)
Spelling	-	-	Arkansas Oklahoma South Carolina (K-5) Texas	Kentucky North Carolina (2-6) Tennessee (1-6)	ldaho Mississippi	Indiana (1-6) West Virginia	Alabama Georgia
Literature <sup>2</sup>	-	-	-	Kentucky	Indiana (Reading 1-6)	Alabama Oklahoma	Louisiana
World Languages	-	-	Oregon ( <i>Span K-6</i> )	-	Alabama California Florida	South Carolina	Texas Virginia
Computer Education	-	ldaho	Florida <sup>6</sup> Idaho Louisiana	Arkansas Idaho Mississippi	-	-	-
English as a Second Language (ESL)	Arkansas	North Carolina Tennessee (1-6)	Oklahoma Oregon Texas	-	-	Oregon	Arkansas
Handwriting	-	-	Arkansas Oklahoma South Carolina (K-3) Texas	Kentucky Louisiana North Carolina (1-5)	ldaho Indiana (1-3) Mississippi	West Virginia	Alabama
Dictionaries	_	-	Arkansas Oklahoma	-	ldaho Mississippi	-	Alabama Georgia

Source: AAP School Division/NASTA

Notes: Elementary adoptions are for grades K-6, unless otherwise noted Secondary adoptions are for grades  $6\!-\!12$ , unless otherwise noted

Schedules are subject to change. 2008 and 2009 bid years are in effect. 2010 to 2014 bid years reflect assumptions from various sources including state websites. Except for Bid Year 2009/Purchase Year 2010, all other calls by South Carolina are tentative

Italics indicate Spanish-language program

- (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) U.S. History only
- (4) Except U.S. History
- (5) Pending final decision and/or approval
- (6) Effective June 2009, Florida's state website only reflects core subjects. Districts can purchase non-core subjects; the formal state evaluation and contract process will not be required

# **Secondary School Adoption Schedule**

Bid Year	2008	2009	2010	2011	2012	2013	2014
Purchase Year	2009	2010	2011	2012	2013	2014	2015
Mathematics	Idaho Kentucky Oregon (6-8) South Carolina (6-8) <sup>1</sup>	Florida Indiana North Carolina Oklahoma Oregon (9-12) South Carolina (9-12) <sup>1</sup> West Virginia	Alabama South Carolina (9-12) <sup>1</sup> Tennessee Virginia	Arkansas	Georgia (6-8) <sup>5</sup> Louisiana New Mexico	California (6-8) Georgia (9-12) <sup>5</sup> Mississippi	Georgia <sup>1</sup> Idaho Kentucky South Carolina (6-8) <sup>1</sup>
Science	South Carolina (9-12) <sup>1</sup> Tennessee	Mississippi Oregon	Florida Indiana Louisiana North Carolina South Carolina (9-12) <sup>1</sup>	Alabama Idaho New Mexico Oklahoma Texas Virginia West Virginia	Arkansas California (6-8) South Carolina (6-8)	Georgia Kentucky South Carolina (9-12) <sup>1</sup>	Tennessee
Social Studies	Indiana	Virginia	Alabama Georgia Idaho Mississippi <sup>3</sup> New Mexico South Carolina (9-12) <sup>1</sup> West Virginia	California (6-8) Florida Mississippi <sup>4</sup> Oregon South Carolina (6-8) <sup>1</sup>	Kentucky Oklahoma Texas	Arkansas Louisiana North Carolina South Carolina (9-12) <sup>1</sup> Tennessee	Indiana
Literature <sup>2</sup>	Florida Georgia (6-8) New Mexico (9-12) South Carolina (9-12)	Georgia (9-12) New Mexico (6-8) Texas (Eng/ <i>Span 6</i> )	Arkansas Mississippi	Kentucky North Carolina South Carolina (6-8) Tennessee Virginia	Indiana (6-8) West Virginia	Alabama Indiana Oklahoma Oregon	Florida Georgia (6-8) Louisiana New Mexico (9-12) South Carolina (9-12)
Reading <sup>2</sup>	California (6-8) Georgia (6-8) New Mexico (9-12) <sup>1</sup>	New Mexico (6-8) <sup>1</sup> Texas (6-8) <sup>1</sup>	Arkansas (6-8) Mississippi (6-8) Oklahoma¹	Kentucky (6-8) North Carolina (6-8)	Indiana (6-8) Tennessee West Virginia (6-8)	Alabama (6-8) Florida Idaho¹ Oklahoma¹ Oregon (6-8)	Georgia (6-8) Louisiana New Mexico (9-12)
Language Arts/ English <sup>2</sup>	Alabama California (6-8) <sup>1</sup> (Eng/ <i>Span</i> ) Florida Georgia (6-8) South Carolina (9-12) <sup>1</sup>	Georgia (9-12) Tennessee	Arkansas Oklahoma Texas	Kentucky North Carolina South Carolina (6-8) <sup>1</sup> Virginia	ldaho¹ Mississippi	Indiana Oregon West Virginia	Alabama Florida Georgia (6-8) Louisiana New Mexico (9-12) South Carolina (9-12) <sup>1</sup>
World Languages	Arkansas Mississippi New Mexico (9-12) <sup>1</sup> Oklahoma West Virginia (7-12)	Georgia Idaho New Mexico (6-8) <sup>1</sup> North Carolina <sup>1</sup> Tennessee	Kentucky Oregon	Louisiana	Alabama California (6-8) Florida	Indiana Mississippi South Carolina	Arkansas New Mexico (9-12) <sup>1</sup> Oklahoma Texas Virginia West Virginia (7-12)
Business Education	Arkansas Idaho <sup>1</sup> Mississippi <sup>1</sup> Oklahoma South Carolina (9-12) <sup>1</sup>	Alabama Kentucky Louisiana	Florida <sup>1,6</sup> South Carolina (7-12) <sup>1</sup>	Georgia Indiana Tennessee	Florida <sup>6</sup> North Carolina South Carolina (9-12) <sup>1</sup>	Mississippi <sup>1</sup> New Mexico South Carolina (9-12) <sup>1</sup> Texas <sup>1</sup>	Arkansas Idaho Oklahoma South Carolina (9-12) <sup>1</sup>
Computer Education	ldaho Oklahoma	Alabama Idaho Kentucky	Florida <sup>6</sup> Idaho Louisiana South Carolina (7-12) <sup>1</sup>	Arkansas Idaho Mississippi Oklahoma Tennessee	Florida <sup>6</sup> North Carolina (7-12) South Carolina <sup>1</sup>	South Carolina (9-12) <sup>1</sup>	ldaho Oklahoma
Health (H) Physical Education (PE)	North Carolina (H) Oklahoma (H, PE) Tennessee (H)	Alabama (H, PE) Idaho (H, PE) Kentucky (H, PE)	Georgia (H, PE) Indiana (H) Louisiana (H, PE) South Carolina (PE 9-12)	Florida (H, PE) <sup>6</sup> New Mexico (H, PE) South Carolina (H) West Virginia (H)	Arkansas (H, PE) Mississippi (H, PE)	California (H 6-8)	North Carolina (H) Oklahoma (H, PE) Oregon (H, PE) Tennessee (H)
Family/ Consumer Science	Idaho Oklahoma Tennessee	Alabama Arkansas Kentucky Louisiana West Virginia	South Carolina (Non-Occup) <sup>1</sup>	Georgia Indiana North Carolina South Carolina <sup>1</sup>	Florida <sup>6</sup> Mississippi	New Mexico South Carolina (Occup) <sup>1</sup> Texas	ldaho Oklahoma Tennessee West Virginia
Art (A) Music (M) Drama (D) Speech (S)	Alabama (S 9-12) Florida (M) South Carolina (S 9-12) West Virginia (D)	Arkansas (A, M) Georgia (S 9-12) Idaho (A, M) <sup>1</sup> (D 9-12) Tennessee (S 9-12)	Arkansas (S 9-12) Florida (D, S 9-12) <sup>6</sup> Georgia (A, M, D) Kentucky (A, M, D) Oklahoma (S 9-12) Texas (S 6-8)	Indiana (A, M) Kentucky (S 9-12) Louisiana (A, M) Mississippi (A, M) (D 9-12) Tennessee (A, M) (D 9-12)	Alabama (A, M, D) Florida (A) <sup>6</sup> Idaho (S) Mississippi (S 9-12) New Mexico (A, M) (D 9-12) North Carolina (A, M, D) Oklahoma (A, M) (D 9-12) Oregon (A, M) Texas (S 9-12)	South Carolina (A, M, D) West Virginia (S 9-12)	Alabama (S 9-12) California (A 6-8) Florida (M) (D, S 9-12) <sup>6</sup> South Carolina (S 9-12) Texas (A, M) West Virginia (A, M, D)
Vocational/ Technical Education	Arkansas Idaho <sup>1</sup> Mississippi <sup>1</sup> North Carolina (9-12) Oklahoma South Carolina <sup>1</sup>	Alabama Arkansas (9-12) <sup>1</sup> Kentucky Louisiana	Florida <sup>1,6</sup> North Carolina (7-12) <sup>1</sup> South Carolina <sup>1</sup>	Georgia Indiana Tennessee Texas (9-12) <sup>1</sup>	Arkansas (9-12) <sup>1</sup> Florida <sup>1,6</sup> Mississippi <sup>1</sup> South Carolina (9-12) <sup>1</sup>	Mississippi <sup>1</sup> New Mexico North Carolina (7-12) Texas	Arkansas Idaho¹ North Carolina (9-12) Oklahoma South Carolina¹
Career/ Workforce Education	Arkansas Idaho (9-12) <sup>1</sup> Mississippi North Carolina Oklahoma	Alabama Kentucky Louisiana	_	Georgia	_	New Mexico South Carolina (9-12) <sup>1</sup> Texas (9-12)	Arkansas Idaho (9-12) North Carolina Oklahoma

# **Center for Digital Innovation**

To create the same digital environment in elementary and secondary classrooms that is emerging outside of school, McGraw-Hill Education has created a Center for Digital Innovation (CDI). The Center is focused on developing digital platforms that are customized by state standards, district requirements, and teacher and student needs for individualized instruction. Programs are designed to help teach 21st century skills through high-level critical thinking and the many different ways to use the Internet—skills essential in today's knowledge-based global economy.

To help all students acquire the skills they need, the Center is dedicated to supporting and promoting the four pillars of a solid academic foundation:

- **Data-driven instruction/learning** to enable schools to analyze data and develop the best instructional methods for each individual
- *Intervention* to help educators identify students at risk for poor learning outcomes and intervene early enough to make a difference
- Literacy skill development to give individuals the ability to reach their full potential through targeted instructional reading and intervention programs
- **Cognitive learning** approaches that are adapted to each learner's aptitude and intelligence enabling educators to support individuals at the point of need

# McGraw-Hill Education is helping accelerate the development of these necessary 21st century skills (1):

- Creativity and collaboration
- Critical thinking and problem solving
- Understanding of global issues and the ability to communicate and collaborate across all geographical and cultural boundaries
- Life-long learning habits to ensure adaptability to rapidly changing work environments
- The ability to harness the power of a variety of media and information technologies
- (1) List of skills taken primarily from Partnership for 21st Century Skills literature

www.mhecdi.com

### **Innovative Solutions, Greater Customization**

Led by an experienced team of former educators, expert engineers, and instructional designers, the Center is developing innovative, all-digital instructional programs that provide teachers with greater customization to enhance instruction and help students acquire the skills they need.

### eSuite packages for Everyday Mathematics and Imagine It!

The Center is designing the digital components for McGraw-Hill's instructional programs, including Everyday Mathematics and Imagine It!

Everyday Mathematics' online eSuite offers pre-K-6 teachers and students fully integrated resources, including:

- **ePlanner:** Lesson materials are online which saves teachers time when planning
- Assessment Management System: Identifies student and class progress
- Interactive Student Reference Books: Includes "Show Me" animations which visually explain math concepts step-by-step

Imagine It! is a pre-K-6 reading and language arts program that combines the strength of proven, research-based instruction with explicit instruction and practice in the five key areas of reading: phonemic awareness, phonics, vocabulary, comprehension, and fluency.

•Online activities: Teachers, students, and parents can find engaging online activities for students to practice anytime, anywhere as well as support for reading practice





www.EverydayMathSuccess.com



www.ImagineItReading.com



# **All-Digital Curriculum and Instruction for the Classroom**





Planet Turtle is the first mathematics instructional system that engages children as much as video games. The program's interactivity captures the attention of pre-K-3 students while building their computational fluency. Students:

- Customize their own turtle character to navigate through Planet Turtle and compete in two-player games as part of a meaningful learning experience
- Practice math skills aligned with curriculum standards
- Automatically receive individualized content in response to individual performance
- Learn collaborative skills by working together to solve problems



CINCH Mathematics is a complete K-6 math curriculum that uses the power of interactive whiteboards and versatile online capabilities to engage all students in learning. This all-digital program offers:

- Animated tools that help teach math concepts
- Engaging math skills practice
- Targeted instruction
- An individual action plan that helps organize a student to prepare better for lessons and tests





# CINCH

CINCH Project takes collaborative learning to a new Web 2.0 level. Teachers are now able to offer an educational experience in line with today's technological realities to better prepare their students for the emerging 21st century workplace. CINCH Project helps:

- Build classroom learning communities
- Enable collaboration in active, engaged content learning
- Develop critical thinking, collaborative strategies, and problem-solving skills
- Grow self-directed learners

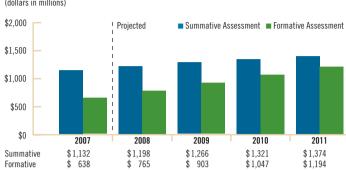
# **Transforming the Learning Continuum**

Education today is undergoing a profound change worldwide as students prepare to participate in the global economy. This transformation, aligned to accountability measures, technology advances, and the availability of comprehensive resources for students and parents as well as educators, is changing the way teachers teach, students learn and parents engage in classrooms around the world. McGraw-Hill Education, through its leading brands CTB and The Grow Network, is leveraging advances in assessment and reporting to create a more dynamic, transparent form of education—one that is much more individualized and efficient and aligned with true data-driven instruction.

As a leader in summative and formative assessment, online reporting capabilities, and student and parent action plans, McGraw-Hill Education is providing comprehensive solutions and best practices at home and abroad:

- Summative assessments that compare student performance nationally and provide valid and reliable measures of learning and growth
- Formative assessments that align with individual state standards, predict performance, and provide measures of performance growth
- Personalized study guides that address individual student needs
- Online multilingual assessment reporting that gives both families and schools exceptional clarity around
- Adult assessments and English-language proficiency resources that enable more learners to reach their education goals
- •International assessments and reports that guide the future of global education efforts

# K-12 Educational Testing: Projected Market Growth



\$2 169

Source: Outsell (formerly Eduventures), "Market Forecast to 2010"

\$1 963

### **Federally-Mandated Annual Testing**

\$1 770

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

<sup>\*</sup> Grade not specified. At the time of publication of the 2009/10 Investor Fact Book annual testing requirements mandated by the No Child Left Behind Act remain in effect

# Assessment and Reporting Solutions—Serving the Needs of All Learners

Pre-K-12

### Adult

\$ 2 368

\$2,568

# First Performances

Reading and mathematics assessments and instructional guidance for students: monitors student progress toward state standards (Grades pre-K-3)

# ParentNetwork

Personalized parent engagement plans based on student assessment results. Provides families with immediate 24/7 online access to their child's test results



All-in-one interim and formative assessment solution that informs teaching and improves student learning (Grades 3-12)



Assessment solution that supports data-driven instruction, measures student progress relative to state standards, and predicts student performance on state tests (Grades K-12)



Assessments and instructional guidance for English-language **learners** (Grades pre-K-12)



Innovative online writing assessments and instructional guidance aligned with national and state standards (Grades 3-12)



Personalized data-driven student learning pathways in print and online to help teachers differentiate instruction and accelerate student achievement



TABE Complete Language



Diagnostic assessments and instructional support for adult students, including Basic Education and English as a Second Language students

# **Technology to Enhance Teaching and Learning**

### **Diagnostic and Predictive Benchmark** Assessments for the Formative Market

Developed in consultation with administrators, principals, teachers and students, McGraw-Hill's Acuity™ helps teachers gauge student performance and deliver targeted classroom assessments and instructional resources so students receive immediate individualized assistance throughout the year. Acuity is a suite of diagnostic and predictive formative and interim assessments designed to show student growth toward state standards in reading, English/language arts, math, and science for grades 3–8 and in algebra for grades 6–12.

### Acuity features:

- Online and paper-and-pencil administration options to match the level of technology available in schools
- Informative reports that provide data teachers need to improve student achievement
- Instructional exercises tied to student performance and a state-correlated online item bank
- Custom, teacher-created tests to help students remain current on classroom instruction
- Compatibility with wireless student response devices to allow students to take the assessments "online" and eliminate the need to scan answer sheets

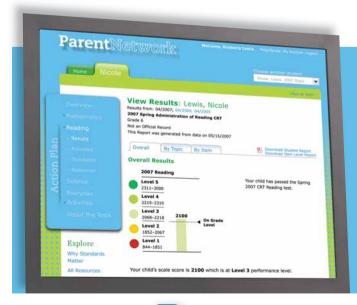


www.acuityforschool.com



### **Awards**

- Scholastic Administrator's 2009 "Best in Tech" for Reading/Response to Intervention Assessment
- District Administrator's "Reader's Choice Top 100 Product" for 2008
- 2009 CODIE Award Winner for "Best Student Assessment Solution" from the Software and Information Industry Association (SIIA)



### Reaching Parents Statewide through Technology

The Parent Network is the first system in the nation to deliver statewide student assessment results directly to parents online.

- Gives states and districts an innovative digital platform that provides meaningful and timely information
- Enables parents to remain continuously engaged in their child's academic growth and planning for college and beyond
- Offers Personal Action Plans and other resources to help students succeed

www.grownetwork.com

In Florida, the Parent Network has had more than 6.2 million visits and 160 million hits

# **Anytime, Anywhere Learning**

The integration of content, technology, and distribution offers significant opportunities for growth in a rapidly changing world. McGraw-Hill Education is answering the demand for anytime, anywhere learning and is improving the learning experience while helping students acquire 21st century skills.

Global demand for U.S. content in higher education remains strong, especially in the business disciplines and in engineering and computer science, and McGraw-Hill content is used throughout the world through export, adaptation, and translation programs. McGraw-Hill Education is also producing digital products for the global higher education market.

While the delivery of core instructional course content is still overwhelmingly print, the development of new online study tools is rapidly gaining traction in higher education. The nearly universal access to high-speed Internet service by North America's higher education student population is giving rise to new online study applications that are increasing students' efficiency and efficacy in their courses.

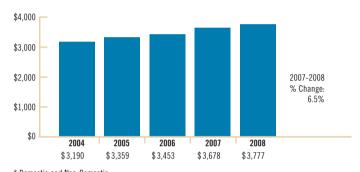
Online formative assessments (interactive study tools and selfquizzing) mimic what students do in a paper-pencil environment but allow the collection of performance data for immediate and accurate feedback to the student. The same data are cumulated for the instructor, allowing far more precise assessment of how well the whole class is mastering the content and allowing instructors to adjust instruction mid-course.

McGraw-Hill Education is producing adaptive tools ("intelligent software"), which have even greater potential to individualize feedback to students and improve learning outcomes.

A growing lineup of new digital offerings open up new revenue opportunities for McGraw-Hill Education and will shift the business model from the traditional one-time unit sale to more advantageous subscription-based revenue.

95% of McGraw-Hill's higher education textbooks can be downloaded from CourseSmart, a common industry eBook platform that standardizes delivery for students and instructors

### Estimated Higher Education Industry Sales of U.S. Publishers\* Rooks and Materials (dollars in millions)



\* Domestic and Non-Domestic Source: AAP. Includes sales of domestic and non-domestic products

### Online Courses—Meeting Students Where They Are Today

Online courses enable college students and working adults to take standard courses anytime, anywhere. Most traditional postsecondary institutions are increasing their offerings of fully online courses, and a number of totally online schools are emerging in the for-profit sector.

McGraw-Hill's instructional design enables its online courses to be used in an exclusively online program or in a blended learning environment that leverages the best of traditional and innovative online learning solutions.

More than one in five college students is taking at least one course online

Source: 2008 Sloan Survey of Online Learning



Understanding Business Online enhances learning by delivering key course concepts in an online, interactive format.

- Course is aligned to the market-leading textbook, Understanding Business, by Nickels, McHugh, and McHugh (McGraw-Hill)
- Augments but does not replace a textbook
- Supports different learning styles through animations, graphics, streaming video, and interactive activities
- Allows instructors to customize content with a modular topic and objective-based format

www.mhhe.com/ubonline

www.OnlineLearning.com



#### Connect. Learn. Succeed.

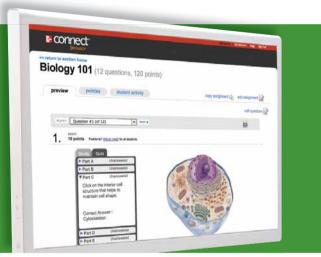
A robust new platform for college faculty and students, McGraw-Hill Connect™ bridges the printed page with a dynamic online learning environment. From practice questions and homework problems to quizzes and exams—McGraw-Hill Connect integrates media-rich e-books, study tools, and assessments all in one place. McGraw-Hill Connect can be integrated with course management systems such as Blackboard.

McGraw-Hill Connect™ is offered in many disciplines across the higher education curriculum

#### Media-Rich eBooks

The Art of Public Speaking by Stephen Lucas is the market's leading textbook in its field. As students read the book online, linked icons in Connect Lucas guide them to embedded media-rich interactive features, including a complete media and research library, study aids, speech preparation, and assessment tools. The online version provides flexibility, allowing Connect Lucas to be updated with new speeches all the time, keeping course content timely and relevant.





#### **Online Formative Assignments**

Instructors can assign problems, quizzes, and other homework online.

- Students receive immediate feedback
- •Instructors have better insight into how well the class is mastering the content and allows instructors to adjust instruction mid-course

#### Videos, Animations, Simulations, and Audio Files

Information is transformed into content students will study, retain, and understand with mastery.

#### **Lecture Capture**

Instructors can record and assign their class lectures to students as tagged, searchable content. Students can replay specific portions of any lecture by simply searching on a key word or phrase.

#### Speech Capture

Students in public speaking courses can upload video recordings of their speeches. Instructors watch the speech online and insert evaluations at precise points. This tool integrates the student's video and instructor's critiques all in one place.



connect.mcgraw-hill.com

## **Meeting the Information Needs of Global Professional Customers**

The McGraw-Hill Higher Education, Professional and International (HPI) Group continually leverages its powerful brands and must-have content to provide new services and tools to professionals around the world.

#### Medical: An Expanding Line of Subscription-Based Medical Specialty Sites

McGraw-Hill's online medical specialty sites provide researchers, physicians, medical students, professors, and healthcare professionals worldwide with fully-searchable market-leading texts, medical updates, curricular tools, illustrations, animations and videos, interactive self-assessments, comprehensive search platforms, and content downloadable to PDAs.

## ACCESS Medicine

Online access to more than 50 leading clinical resources that are fully-searchable and regularly updated. Used in more than 42 countries and by virtually all U.S. medical schools.

www.AccessMedicine.com

#### ACCESS PHARMACY

An online curricular resource developed to meet the changing demands of pharmacy education. www.AccessPharmacy.com

## HARRISON'S practice

A point-of-care clinical resource for internal medicine providing quick access to the latest diagnosis and treatment recommendations.

www.HarrisonsPractice.com

## McGraw-Hill's ACCESS SURGERY

A resource for surgical education that enables residency directors to customize a media-rich curriculum. www.AccessSurgery.com

McGraw-Hill's AccessMedicine weekly podcasts feature audio lectures by world-renowned academic physicians on the latest medical advances

http://books.mcgraw-hill.com/podcast/acm/

# ACCESS Anesthesiology

Dedicated to pain management, critical care, and perioperative medicine. AccessAnesthesiology:

- Gives anesthesiology residents a suite of detailed reference materials and multimedia learning aids
- Enables anesthesiology program directors to track and monitor residents' progress
- Provides practicing professionals with an in-depth resource for maintaining certification

www.AccessAnesthesiology.com





## **JAMA**evidence

Helps clinicians improve patient care by providing tools for teaching, learning, and applying evidence-based medicine. JAMAevidence:

- Demystifies principles of evidence-based medicine to turn theory into practice
- Enhances learning through a library of educational slideshows
- Provides clinicians with customizable worksheets to apply evidence-based medicine to their cases

www.JAMAevidence.com

## Accredited Learning for Physicians on the Go

McGraw-Hill supports busy physicians with the introduction of Continuing Medical Education (CME) credits.

- Innovative CME modules on *AccessEmergency Medicine* combine procedural videos with key texts and pre- and post-tests for a rich multimedia learning experience.
- www.AccessEmergencyMedicine.com
- Physicians can conduct clinical queries on Harrison's Practice using their Smartphone, PDA, or the Web and more easily earn CME credits to meet their yearly continuing education requirements.

www.HarrisonsPractice.com





#### Scientific and Technical: Supporting Research in the Corporate, Industrial, Government and Academic Sectors

# ACCESS Engineering

AccessEngineering is an online resource that features content from 250 of McGraw-Hill's industry-leading engineering titles across 14 engineering disciplines, as well a science and engineering dictionary with more than 30,000 terms in a fully-searchable, taxonomically-organized database

 New titles are added weekly. Personalization tools, including bookmarking and highlighting, allow content to be easily integrated into a subscriber's workflow

AccessEngineering's growing list of adoptions includes Caterpillar Inc., Melbourne University, the Chinese University of Hong Kong, and the Bharat Institute of Technology.

www.AccessEngineeringLibrary.com





# McGraw-Hill Science Encyclopedia of Science & Technology Online

AccessScience provides authoritative articles in all major areas of science and technology, including the fully-searchable content of *The McGraw-Hill Encyclopedia of Science and Technology,* 10th Edition. The site is updated daily and offers students, educators, and librarians:

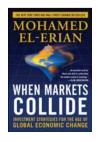
- 110,000+ definitions from the McGraw-Hill Dictionary of Scientific and Technical Terms
- •15,000 illustrations and graphics as well as multimedia content
- My AccessScience to save search results, bookmark articles, and archive favorite images

AccessScience's growing list of adoptions includes the Hong Kong Public Libraries, all of Pakistan's academic institutions and public libraries, and academic and public libraries across Scandinavia.

www.AccessScience.com

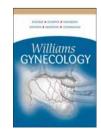
#### **Serving the Professional Community**

The HPI Group provides timely and authoritative knowledge to its global professional customers through the publication of nearly a thousand titles a year.



#### **Business:**

A leader in management, finance, and investing content, McGraw-Hill provides thought leadership titles such as When Markets Collide, which was named the 2008 "Business Book of the Year" by Financial Times/Goldman Sachs



#### Medical:

A leading medical publisher with global brands, McGraw-Hill provides expert solutions in every critical area of clinical medicine to medical students and practitioners throughout their careers



#### Technical:

McGraw-Hill's global author teams provide cutting-edge information to meet the emerging needs of engineering, computing, and technical professionals worldwide

#### Standard & Poor's

Standard & Poor's serves the global capital markets through S&P Credit Market Services and S&P Investment Services. S&P's resilient and diverse portfolio is helping insulate McGraw-Hill's Financial Services segment from the unprecedented credit crunch and very challenging economic environment. Revenue diversification is important to Standard & Poor's performance and includes:

- Geographic expansion: Extends S&P's ratings and non-ratings businesses into international capital markets
- Product/service expansion: Reduces S&P's dependence on new debt issuance by expanding non-transaction and non-ratings opportunities
- Fee structure: Creates a deferred revenue stream by emphasizing recurring annual fees through frequent issuer programs, surveillance fees, and subscription services

As financial professionals—especially investors—continue to search for financial stability, growth, and risk mitigation, S&P will play an increasingly important role in restoring market stability and confidence by serving the worldwide market demand for transparency, surveillance, pricing, multi-asset class analysis, research, risk management, and compliance.

#### Standard & Poor's Credit Market Services

A global leader in credit ratings and credit risk analysis, S&P Credit Market Services provides objective and independent opinions on credit risk. S&P's worldwide ratings organization builds its extensive knowledge and deep insight through its focus on sectors, type of debt, and geographic location. Analytical teams analyze issuers and debt obligations of corporations, financial institutions, insurance companies, states and municipalities, and sovereign governments, as well as provide insight into the credit risk associated with securitized instruments. Revenue for S&P Credit Market Services in 2008 was \$1.8 billion.

#### **Standard & Poor's Investment Services**

Standard & Poor's Investment Services provides comprehensive, value-added financial data and fixed income research and analysis, market indices, and independent research to facilitate the understanding and management of risk, and enable investment managers, investors, and financial advisors to make informed investment decisions across all asset classes. Standard & Poor's Investment Services consists of four areas: fixed income risk management services, financial data and analytics, index services, and equity research services. Revenue for S&P Investment Services in 2008 was \$900 million.

#### Standard & Poor's Revenue

	1	1Q		<b>2Q</b>		3Q		4Q		% of 2008		2008 vs.
(dollars in millions)	2008	2007	2008	2007	2008	2007	2008	2007	2008	Total	2007	2007
Credit Market Services	\$427.3	\$545.0	\$507.9	\$635.7	\$423.2	\$558.5	\$396.3	\$524.9	\$1,754.8	66.1%	\$2,264.1	(22.5%)
Investment Services	217.0	183.9	227.6	185.3	228.2	201.1	226.7	211.9	899.5	33.9%	782.1	15.0%
Total Revenue	\$644.3	\$728.9	\$735.5	\$821.0	\$651.5	\$759.6	\$623.1	\$736.7	\$2,654.3	100.0%	\$3,046.2	(12.9%)

#### Two Views of Credit Market Services Revenue

					7	6 UI ZUUO
(dollars in millions)	1Q 2008	<b>2Q 2008</b>	3Q 2008	<b>4Q 2008</b>	2008	Total
Transaction (a)	\$136.6	\$187.4	\$120.0	\$ 94.2	\$ 538.2	30.7%
Non-Transaction (b)	\$290.7	\$320.5	\$303.2	\$302.1	\$1,216.6	69.3%

					9	6 of 2008
(dollars in millions)	1Q 2008	<b>2Q 2008</b>	3Q 2008	<b>4Q 2008</b>	2008	Total
International	\$204.5	\$235.5	\$202.6	\$198.5	\$841.2	47.9%
Domestic	\$222.8	\$272.3	\$220.7	\$197.8	\$913.6	52.1%

Note: Beginning in the first quarter of 2009, the Corporation reclassified Bank Loan Ratings and Corporate Credit Estimates in S&P's Credit Market Services' revenue from non-transaction to transaction. These items were reclassified to create a more accurate view of S&P's transaction revenue which previously had been limited to public new issuance. The 2008 revenue amounts in the table above have been restated to reflect this change (a) Transaction: Revenue related to rating new issuance of corporate, public finance, structured finance instruments, bank loans, and corporate credit estimates (b) Non-Transaction: Revenue from annual fees for frequent issuer programs, surveillance, and subscriptions

9/ 64 2000

#### Standard & Poor's Leadership Actions in the Capital Markets

S&P is committed to playing a leadership role in addressing the issues currently facing the credit markets in collaboration with other market participants, regulators, and experts. S&P announced a series of new actions in early 2008 to further strengthen its ratings operations, increase transparency, and better serve capital markets worldwide. The steps reflect S&P's ongoing commitment and are organized into four areas:

Governance Ensuring integrity of the ratings process **Analytics** Enhancing quality of ratings analysis and opinions Information Providing greater transparency and insight to market participants

**Education** Educating the marketplace about credit ratings

and rated securities

Notable actions taken in early 2009 include the publication of Standard & Poor's "Guide to Credit Rating Essentials" which supports investor education by explaining what credit ratings are and are not, who uses them, and why they can be useful to the capital markets. In the area of governance, S&P appointed an Ombudsman to confidentially address issues and concerns raised both within and outside of the Corporation. The Ombudsman reports directly to the chairman and CEO of The McGraw-Hill Companies and has accountability to the Audit Committee of McGraw-Hill's Board of Directors. The Ombudsman will provide an annual report to the public.

Updates on Standard & Poor's actions are available at www.spnewactions.com

## **S&P Credit Market Services: Expanding World of S&P Ratings**

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. These S&P offerings are creating additional growth opportunities.

S&P rated over \$3 trillion in new debt and published more than 1 million new and revised ratings in 2008

#### How Standard & Poor's Plays a Role in a Changing Market

#### **Pre-Issuance**

#### Issuance

#### Post-Issuance

Benchmarking data, tools, and analysis to help issuers and related parties analyze and gauge the ratings impact of strategic decisions

Credit ratings and rationales serve as tools to help investors during the investment process

Products and services for monitoring and modeling creditworthiness and/or transaction performance to help market participants make informed decisions, evaluate ongoing risk, and meet regulatory requirements

#### **Representative S&P Products and Services**

#### Pre-Issuance

Small Business Portfolio Evaluator: An analytical model that helps issuers and underwriters assess the gross default and prepayment risk of small business loan nortfolios

Analytics on Demand: A leading provider of data, analytics, software, and services to the structured finance community

Rating Evaluation Service: A confidential assessment of how potential strategic actions may impact creditworthiness

**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

CDO Evaluator: A variety of benchmarks that enhance collateralized debt obligation (CDO) analysis. CDO Evaluator can be used to analyze mixed pools of assets containing not only corporate and asset-backed securities (ABS) credits but also emerging-market corporate credits

#### Issuance

Issue Ratings: S&P's traditional ratings on specific financial obligations or programs

**Issuer Ratings:** Assesses the creditworthiness or overall financial capacity of an obligor to pay its financial obligations

Bank Loan and Recovery Ratings: Issue-specific ratings that go beyond the overall corporate creditworthiness of the borrower to capture the impact of covenants, collateral, and other repayment protection provided specifically to holders of the senior bank debt

Counterparty Credit Ratings: Evaluates the creditworthiness of both public and private companies whether or not the rated company issues in the public deht markets

Financial Strength Ratings: Represents Standard & Poor's opinion of the financial security characteristics of an insurance organization, with respect to the organization's ability to pay under its insurance policies and contracts, in accordance with its terms

#### Post-Issuance

Market-Derived Signals: Captures the market's sentiment regarding a company's perceived credit risk. Based upon credit default swap spreads and augmented using proprietary modeling techniques that adjust for certain variables

**ABSXchange:** An Internet-based portal that offers deal performance data, portfolio monitoring capabilities, cash-flow analysis, and detailed reporting for the structured

RatingsDirect: Service for tracking S&P's global credit ratings, research, and risk analysis

Leveraged Commentary & Data: Daily loan market information for bankers and investors

CDS Accelerator: A desktop-based program that enables efficient quantification and analysis of the risk profiles of new and existing synthetic collateralized debt obligation (CDO) transactions

## S&P's Rating Track Record: Meeting the Test of Time

What is an S&P credit rating? It is an opinion about credit risk—the ability and willingness of an issuer to meet its financial obligations in full and on time. Credit ratings also indicate credit quality—the relative likelihood that an issue may default. S&P's global ratings scale provides a benchmark for evaluating the relative credit risk of issuers and issues worldwide.

How S&P ratings perform: The tables (at right) show the default rates experienced for each rating category over many years. For example, the 5-year cumulative default rate for a corporate bond rated AAA has been 0.27%, or less than three defaults for every 1,000 ratings. The 5-year cumulative default rate for AAA-rated structured finance issues has been 0.18%, or less than 2 per 1,000. The tables underscore another key point: Over time, the higher the S&P rating, the fewer defaults have been experienced. Global Corporate Cumulative Average Default Rates (a) (1981–2008) (%)

						_	-Time h	orizon (y	ears) —						
Rating	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
AAA	0.00	0.00	0.09	0.18	0.27	0.37	0.40	0.47	0.51	0.55	0.55	0.55	0.55	0.60	0.65
AA	0.03	0.08	0.14	0.25	0.34	0.45	0.56	0.65	0.73	0.83	0.92	0.99	1.08	1.15	1.20
Α	0.08	0.20	0.34	0.52	0.72	0.95	1.21	1.45	1.69	1.94	2.17	2.35	2.53	2.68	2.91
BBB	0.24	0.68	1.17	1.79	2.43	3.06	3.59	4.12	4.63	5.16	5.68	6.12	6.63	7.15	7.70
BB	0.99	2.88	5.07	7.18	9.07	10.90	12.41	13.74	15.00	16.02	16.89	17.64	18.28	18.76	19.33
В	4.51	9.87	14.43	17.97	20.58	22.67	24.46	25.93	27.17	28.41	29.54	30.50	31.45	32.32	33.14
CCC/C	25.67	34.10	39.25	42.29	44.93	46.24	47.45	48.09	49.53	50.33	51.03	51.77	52.33	52.93	52.93
Investment grade	0.12	0.33	0.57	0.88	1.19	1.51	1.80	2.07	2.34	2.62	2.87	3.08	3.30	3.52	3.76
Speculative grade	4.06	7.99	11.48	14.32	16.59	18.51	20.13	21.49	22.75	23.86	24.84	25.69	26.48	27.16	27.82
All rated	1.47	2.94	4.25	5.37	6.30	7.11	7.80	8.40	8.95	9.46	9.92	10.30	10.68	11.02	11.38

#### Global Structured Finance Cumulative Average Default Rates (a, b) (1978–2008) (%)

				—Im	ne horizo	n (years)	_			
Rating	1	2	3	4	5	6	7	8	9	10
AAA	0.08	0.15	0.17	0.18	0.18	0.19	0.20	0.20	0.20	0.20
AA	0.14	0.43	0.50	0.60	0.73	0.84	0.93	0.97	0.99	1.01
A	0.27	1.01	1.37	1.65	1.91	2.17	2.48	2.70	2.80	2.89
BBB	0.68	3.01	4.79	6.51	8.26	9.68	10.46	11.14	11.68	11.98
BB	2.02	5.64	8.31	9.81	11.03	12.39	13.43	13.98	14.21	14.28
В	4.64	8.84	12.36	14.65	16.66	18.42	19.77	20.86	21.62	22.01
CCC	43.80	50.63	55.11	58.40	60.58	61.80	62.04	62.37	62.79	62.79
CC	23.56	32.53	40.59	45.86	49.20	49.76	49.76	49.76	49.76	49.76
Investment grade	0.26	0.95	1.37	1.72	2.04	2.28	2.43	2.54	2.60	2.64
Speculative grade	6.51	10.57	13.74	15.71	17.31	18.79	19.88	20.62	21.07	21.27
All rated	1.13	2.26	3.01	3.54	3.98	4.33	4.55	4.69	4.77	4.82

Sources: Standard & Poor's Global Fixed Income Research and Standard & Poor's CreditPro®

(a) Average default rates are based on Conditional on Survival methodology

(b) AAA ratings from the same transaction are treated as a single rating in the calculation of this table

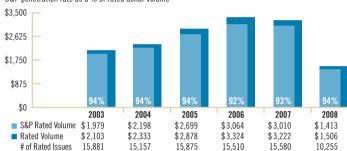
#### U.S. Debt Market

In 2008, despite a significant drop-off in new issuance, Standard & Poor's rated approximately 94% of the \$1.5 trillion of addressable debt issued in the U.S. market compared to 93% of the addressable market in 2007. 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 is comprised of five new-issue categories: (1) Corporates; (2) Municipals; (3) Mortgage-Backed Securities (Residential Mortgage-Backed Securities and Commercial Mortgage-Backed Securities); (4) Asset-Backed Securities; and (5) Collateralized Debt Obligations.

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

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

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



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

#### Municipals (a)

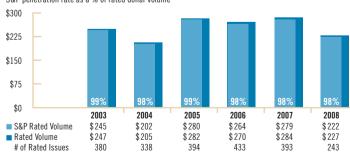
S&P penetration rate as a % of rated dollar volume



Source: Thomson Financial

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

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

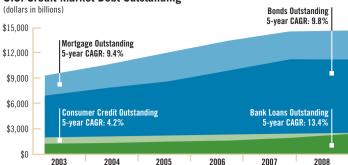


Source: Harrison Scott Publications/Standard & Poor's

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

#### U.S. Credit Market Debt Outstanding

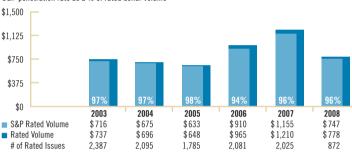


Source: Board of Governors of the Federal Reserve System dated December 11, 2008

Note: Excludes open market paper, treasury securities, agency and GSE-backed securities, municipal securities, and other loans and advances

#### Corporates (c)

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



Source: Thomson Financial

#### Mortgage-Backed (b, d, f)

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

- (d) Excludes agency deals. Includes home equity loans
- (e) Excludes asset-backed commercial paper and letters of credit
- (f) Includes commercial mortgage-backed securities and residential mortgage-backed securities; includes U.S. CRE CDOs

## **European and Asian Debt Markets**

#### **European Debt Market**

In 2008, Standard & Poor's rated approximately 84% of the \$1.3 trillion of addressable debt issued in the European market. While rated debt issuance was down more than 40% in Europe. Standard & Poor's utilized its European office network to capitalize on growth and opportunities in the region.

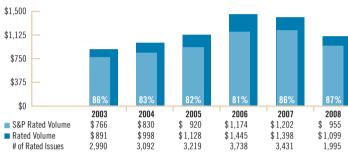
#### **Asian Debt Market**

In 2008, rated debt issue volume for corporates in Asia was \$194 billion, up 2% from 2007. Standard & Poor's 2008 market penetration was approximately 82% for corporates. Rated issuance for structured finance was \$72 billion, down 45% from 2007, and Standard & Poor's rated approximately 62% of that volume.

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

#### European Corporates (b, e)

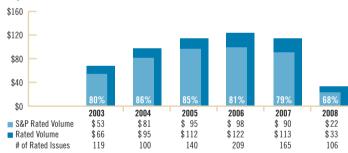
S&P penetration rate as a % of rated dollar volume



#### European Asset-Backed (a, c, e)

Source: Thomson Financial

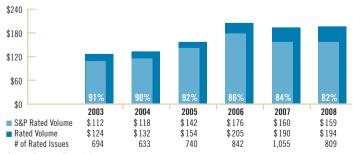
S&P penetration rate as a % of rated dollar volume



Source: Harrison Scott Publications/Standard & Poor's

#### Asian Corporates (b)

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



Source: Thomson Financial

Notes for debt issuance: (a) Excludes confidential and repo 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

#### Rated European Debt Market (a, b, c, d, e, f)

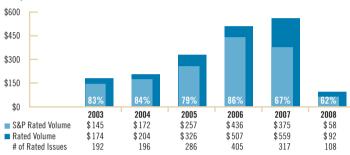
S&P penetration rate as a % of rated dollar volume



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

#### European Mortgage-Backed (a, d, e, f)

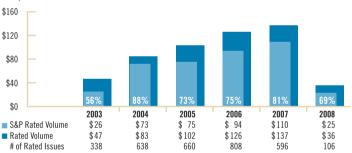
S&P penetration rate as a % of rated dollar volume



Source: Harrison Scott Publications/Standard & Poor's

#### European Collateralized Debt Obligations (CDOs) (a, e)

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

- (d) Includes home equity loans
- (e) European data includes Middle East and Africa regions
- (f) Includes commercial mortgage-backed securities and residential mortgage-backed securities

## **Ratings Diversification**

Standard & Poor's continues to diversify its business beyond new bond ratings. Product expansion has reduced S&P's reliance on bond issuance or interest-rate sensitive businesses by expanding offerings in such areas as bank loan and recovery ratings, counterparty ratings, and financial strength ratings. S&P also offers evaluations, including Rating Evaluation Services, which assess how actions may impact creditworthiness, and Servicer Evaluations, which examine a company's anticipated ability to service loan and asset portfolios.

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. S&P's recovery ratings cover secured and unsecured debt.



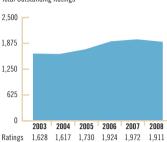


- \* Total for those organizations whose only rating is
- a Corporate Credit Rating

Source: Standard & Poor's

#### Financial Strength Ratings\* Total Outstanding Ratings

\* Formerly Claims-Paying Ability Ratings



## Counterparty Ratings\*

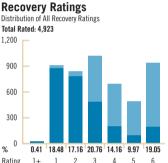


\* Total for those organizations whose only rating is a Counternarty Rating

Standard & Poor's Recovery

## Global Bank Loan Ratings





Rating and Description Expectations\* Highest expectation 100%\*\* of full recovery 90-100% Very high recovery Substantial recovery 70-90% Meaningful recovery 50-70% Average recovery 30-50% 10-30% Modest recovery 0-10% Negligible recovery

Recovery

Secured Recovery Ratings Unsecured and Subordinated Recovery Ratings

As of March 11, 2009

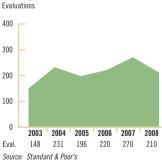
- \* Recovery of principal plus accrued but unpaid interest at the time of default
- \*\*Very high confidence of full recovery resulting from significant overcollateralization or strong structural features

#### **Evaluations**

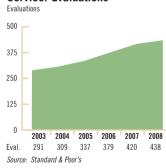
Rating Evaluation Service: A confidential, specific, and indicative assessment of how potential acquisitions, debt issues, stock repurchases, recapitalizations, consolidations, and other actions may impact a company's creditworthiness and credit rating.

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

#### **Rating Evaluation Service** Evaluation



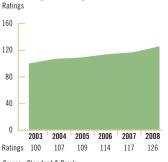
#### Servicer Evaluations



#### **Sovereign Ratings**

Standard & Poor's is a global leader in providing ratings and credit-related services for sovereign, sovereign-supported entities, and supranational issuers. Public sector coverage extends to local and regional governments, as well as to the healthcare, higher education, and housing sectors around the world. S&P's network of offices around the globe enables its regionally-based analysts to gain valuable local insights into the governments and issuers they rate.

#### Sovereign Ratings



Source: Standard & Poor's

## **S&P Investment Services: Contributing to Transparent, Efficient Financial Markets**

Standard & Poor's Investment Services offers a spectrum of modular and integrated products and services that contributes to transparent, efficient markets and meets the specific needs of the global investment community. From value-added data and information to insightful analysis, research and models, information is delivered via client-integrated workflow platforms, specific applications, and data feeds that clients can customize.

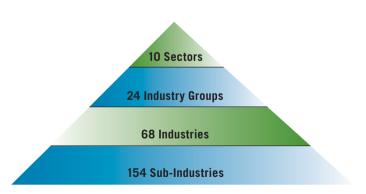
#### Standard & Poor's Investment Services consists of four areas:

	Description	S&P Products and Services
Fixed Income Risk Management Services	Offers a broad suite of cross-asset risk analytics, market research services, and data sets that are used by institutional investors for risk mitigation, cost control, and alpha-generation.	<ul> <li>RatingsDirect® Global Credit Portal</li> <li>Securities classifications</li> <li>Market value opinions and intrinsic scenario valuations</li> <li>Market, Credit and Risk Strategies</li> <li>Credit risk and structured finance analysis</li> </ul>
Financial Data & Analytics	Provides comprehensive fundamental and quantitative research solutions to over 2,700 investment managers, investment banks, private equity funds, advisory firms, and corporations worldwide.	- Capital IQ Platform - Capital IQ Data Feeds - ClariFI® - Compustat® - SystematIQ Research™ - Money Market Directories
Index Services	Offers investment professionals around the world an array of choices—from efficiently representative indices to broadly comprehensive benchmarks.	S&P 500 S&P Global 1200 S&P(Case-Shiller® Home Price Indices S&P GSCI S&P/LSTA U.S. Leveraged Loan 100 Index data Custom indices
Equity Research Services	Provides actionable, multi-asset class global research to wealth management institutions and financial advisors.	<ul> <li>MarketScope® Advisor</li> <li>Stock research and tools</li> <li>Fund Management Ratings</li> <li>Exchange-traded fund research and tools</li> <li>Mutual fund research and tools</li> <li>Portfolio tools</li> </ul>

#### **Creating a Global Standard**

#### Global Industry Classification Standard (GICS®)

GICS® is an enhanced industry classification system that was jointly developed by Standard & Poor's and MSCI Barra in 1999 in response to the global financial community's need for one complete, consistent set of global sector and industry definitions. GICS® has become a standard that is widely recognized by market participants worldwide. It sets a foundation for the creation of replicable, custom-tailored portfolios and enables meaningful comparisons of sectors and industries globally. More than 38,500 companies worldwide are classified in accordance with GICS®, with each company classified at the sub-industry level.



## **S&P Fixed Income Risk Management Services (FIRMS)**

Standard & Poor's Fixed Income Risk Management Services provides portfolio managers, credit officers, and risk managers serving the global financial markets—including the debt, structured finance, derivatives, and credit markets—with market intelligence and analytic insight for risk-driven investment analysis.

FIRMS solutions help investors perform greater due diligence, surveillance, and valuations on the financial instruments in their portfolio through the following services:

Credit Portal	Workflow tool for individuals and teams  Integrated credit information and analytics from S&P and third parties
	Direct links to S&P credit, structured finance, and market financial models
	Aggregate intelligence at the sector, sub-sector, and industry level with medians,
	peer group comparisons and industry snapshots
	Deep-dive data at entity, instrument, and deal level
	Robust structured finance content, including collateral and performance data
	Graphical views of deal participants
Pricing Services	"Market Value Opinions" on over 3 million fixed income securities daily
	Serving financial institutions representing \$12 trillion in assets under management
	- Custom delivery
	- Comprehensive real-time securities terms and conditions data on 1.8 million fixed
	income securities
	Corporate actions and dividend information for over 28,000 North American equities and 16,000 mutual funds
Integrated Tools 9. Data Library	Cross Reference Services® helps manage risk by identifying links among instruments,
Integrated Tools & Data Library	issuers, entities, parents, and obligors
	Proprietary models and applications
	Tool kits that allow for custom sorting and searching
	Linked global data sets that span all asset classes representing the universe of data
	aggregated for both commercial and ratings applications
Proprietary Models Library	Credit Risk Management Models
	- Proprietary S&P models covering probability of default
	- Insight on expected loss ratios on portfolios
	Credit and Cash Flow Models
	<ul> <li>Security and portfolio view of residential mortgage-backed securities, commercial mortgage-backed securities, asset-backed securities, and other emerging asset types</li> </ul>
	Derived Market Rating Models driven by market pricing
	Collateralized debt obligation (CDO) suite of products
	- Normalized CDO data
	- Comparative metrics and analytic models
	- Transparent credit rating criteria and analytic methodologies
	- CDO deal performance history
Analytic & Research Services	Independent and objective opinions from S&P
	Insight based on market movements and views
	Market, Credit and Risk Strategies (MCRS)
	Global Fixed Income Research (GFIR)
	Leveraged Commentary & Data (LCD News)
	<ul> <li>Valuation Scenario Services</li> <li>Allow investors to analyze underlying loan performance and attributes</li> </ul>
	- Determine "best fit" performance assumptions
	- Streamline workflow and simplify cross-portfolio comparisons

Note: Standard & Poor's Fixed Income Risk Management Services are performed separately from any other analytic activity of Standard & Poor's. The unit has no access to non-public information received by other units of Standard & Poor's

## **S&P Financial Data & Analytics**

Standard & Poor's Financial Data & Analytics offers six distinct product lines—Capital IQ Platform, Capital IQ Data Feeds, Compustat, ClariFI, SystematIQ, and Money Market Directories.

Capital IQ Platform	A Web- and Excel-based research product that combines deep information on companies, markets, and people worldwide with robust tools for fundamental analysis, idea generation, and workflow management.
Capital IQ Data Feeds	Data can be unbundled from the Capital IQ platform and delivered via file transfer protocol or Web services to help clients populate financial portals, customer relationship management systems, and other business applications.
Compustat	The premier global fundamental database for backtesting and quantitative analysis.
ClariFI	A powerful suite of quantitative applications for portfolio construction, attribution, backtesting, and optimization to help quantitative managers research and implement their alpha-generating strategies.
SystematIQ	Formed in 2009, this new group offers clients a wide range of quantitative research and consulting services to help investors outperform the market. SystematIQ Research's AlphaWorks™ is a fully transparent collection of global stock selection trading signals and alpha models built using a global point-in-time dataset with direct links into ClariFI's ModelStation®.
Money Market Directories	Money Market Directories is a comprehensive Web-based information resource tailored specifically for marketing to institutional investors.

#### Capital IQ: Fundamental analysis, idea generation, and workflow management

Capital IQ's platform and data feeds provide direct access to:

- **Company Fundamentals:** Comprehensive global coverage on 79,000 public companies, 1,000,000 private companies, and 11,000 private equity firms
- People Intelligence: Relationship intelligence tools and detailed profiles of over 1,700,000 private and public company investment professionals
- Transactions Data: Detailed profiles of 413,000 mergers and acquisitions, private equity, venture capital, private investment in public equity, spin-off, initial public offerings, bankruptcies, share buyback programs, and equity/debt public offering transactions, as well as 10 years of global ratings information on 17,900 issuers and 235,000 securities

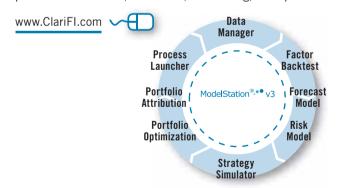


#### Capital IQ provides comprehensive

fundamental and quantitative research solutions to over 2,700 investment managers, investment banks, private equity funds, advisory firms, and corporations worldwide

#### ClariFI: Helping implement alpha-generating strategies

ClariFI's software and services enable quantitative managers to decrease the time it takes to research, test, and put into production their alpha-generating investment strategies, leading to reduced operational risk, decreased time-to-market, and significant competitive advantage. ClariFI's ModelStation® is a single solution that integrates the essential investment management stagesportfolio construction, attribution, backtesting, and optimization.



#### Compustat: The premier global fundamental database for backtesting and quantitative analysis

With fundamental and market data on over 89,000 global securities, Compustat provides institutional money managers and analysts around the world with vital company, index, and industry information to support their financial models and proprietary company and industry analysis. Compustat produces a variety of databases and software products including Backtester™, Xpressfeed, and Research Insight.

www.CompustatResources.com



## **Index Services: Providing an S&P Index for Every Type of Investment**

Standard & Poor's Index Services is the world's foremost provider of stock market indices. offering a wide variety of investable and benchmark indices that meet an array of investor needs. Standard & Poor's broad-based indices provide expansive access to the financial marketplace while its narrow-based indices give investors a greater ability to diversify portfolios. Partnerships with major exchanges throughout the world have resulted in enhanced investment choices and solutions for both retail investors and institutions alike.

Standard & Poor's flagship index series, including the S&P 500 and the S&P Global 1200, are world-renowned as investable, transparent, and replicable offerings designed to serve as proxies for the different markets they measure.

In 2008, over \$1.7 trillion in investable assets was directly tied to Standard & Poor's indices and \$5.1 trillion was benchmarked to **S&P** indices

## Indices for New Asset Classes, Investment Strategies and Markets

#### **Equity**

Families of indices for global and local markets, covering approximately 12,000 securities in over 80 countries with over 20 years of uninterrupted history. Basis for futures, options, and exchange-traded funds (ETFs).

#### **Emerging & Frontier**

Benchmark and investable emerging market series covering over 2,000 companies in 56 countries. The series has established history dating back to 1988.

#### Commodities

The S&P GSCI™ is widely recognized as the leading measure of commodity price movements and inflation in the world economy.

#### Real Estate

Investable and benchmark indices across the residential, commercial real estate investment trust (REIT) and global property markets. The S&P/Case-Shiller® Home Price Indices are recognized as the leading measure of the U.S. residential housing market.

#### Strategy

Fundamental investment strategies across asset classes and investment themes, including currency, arbitrage, fund of fund, dividend, equity long/short, x-alpha, equity research, and target allocation.

#### Thematic

Indices providing liquid exposure to emerging investment themes that cut across traditional industry definitions. including energy, sustainability, infrastructure, and natural resources.

#### **Fixed Income**

Broad market benchmarks measuring exposure to more liquid fixed income asset classes and less observable segments of the credit market, including municipal bonds, commercial paper, leveraged loans, and treasury bonds.

#### Custom

Indices custom-designed for asset managers, derivatives desks, brokerage houses, listed companies, pension plans, consultants, and stock exchanges.

#### Culture of Index Innovation

Standard & Poor's has a long history of creating indices that measure constantly evolving markets. New indices include:

- S&P Credit Default Swap (CDS) Indices reflect the credit default swap market for U.S. corporate credits. These indices increase transparency for market participants and offer insight into the performance of the U.S. CDS marketplace, including the investment-grade and high-yield markets. The S&P 100 CDS Index, the first CDS index based on an equity index, makes it easier to compare the performance of stocks and the \$57 trillion<sup>1</sup> CDS market.
- S&P VIX Futures Index Series is a suite of investable indices offering directional exposure to volatility through publicly-traded futures markets. Developed in cooperation with the Chicago Board Options Exchange (CBOE), the indices model returns from a long VIX futures position that is rolled continuously throughout the period between futures expiration dates.
- S&P U.S. Commercial Paper Index is a broad-based index designed to serve the investment community's need for a benchmark representing U.S. commercial paper which is a widelyheld investment among money market funds and other short-term investors. This index is the first of its type to be offered by a major index provider.
- S&P Risk Control Index Series enables investors to target and control the level of risk in an underlying S&P index. Standard & Poor's is the first independent index provider to make volatility-targeting indices widely available to investors.
- S&P Target Date Index Series is comprised of nine multi-asset class indices, each corresponding to a particular target retirement date. Each index is fully investable, with varying levels of exposure to equities and fixed income. This index series is innovative, in that asset class exposures are driven by a survey of large fund management companies that offer target date products.

(1) Bank of International Settlement, notional outstanding at month-end June 2008

#### 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 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, Korea Exchange, and other exchanges

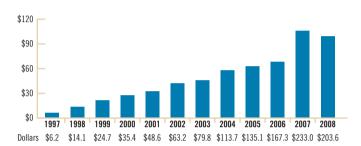
#### Record-Level ETFs Linked to S&P Indices

Exchange-traded funds (ETFs), which represent share ownership of an index fund but trade like shares of stocks, have become some of the most popular and actively-traded securities on stock markets around the world. Standard & Poor's has been at the forefront of ETF development since the launch of the S&P 500 SPDR (Standard & Poor's Depositary Receipts) in 1993, the S&P MidCap SPDR in 1995, and the Select SPDRs in 1998. 59 new ETFs linked to S&P indices were launched in 2008 (40 listed in the U.S. and 19 listed on international exchanges). Assets in the over 203 listed ETFs linked to S&P indices reached \$203.6 billion at year-end 2008. led by the SPDR S&P 500 ETF, the largest ETF in the world.

Futures and options volume linked to indices continues to grow. Trading in E-mini S&P 500 futures at the Chicago Mercantile Exchange (CME) reached a record 633.9 million contracts in 2008, up 52.6% compared to 2007. Trading in S&P 500 options at the Chicago Board Options Exchange (CBOE) reached a record 178.6 million contracts in 2008, up 13.0% from 2007. New instruments such as options on VIX, a measure of volatility of the S&P 500, and weekly options linked to the S&P 500 and S&P 100, continue to expand the range of products linked to Standard & Poor's indices.

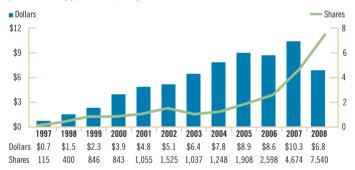
#### S&P Index-Based U.S. ETF Assets (a)

(dollars in billions)



Source: Standard & Poor's: 1996-2005: Bloomberg: 2006-2007

#### MidCap SPDR Trust Value/Average Daily Trading Volume\* (dollars in billions)/(shares in thousands)



\* MidCan SPDRS (MDY) started trading May 4 1995

Source: American Stock Exchange

#### S&P 500 Futures and "E-mini 500"\* Contracts Traded on the CME (contracts in millions)



\* E-mini 500 contracts started trading on September 9, 1997

Source: Chicago Mercantile Exchange

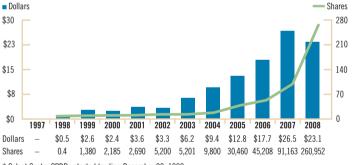
#### SPDR Trust Value/Average Daily Trading Volume

(dollars in billions)/(shares in thousands)



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

(dollars in billions)/(shares in thousands)

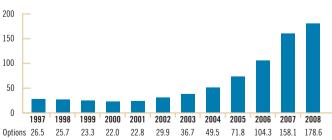


\* Select Sector SPDRs started trading December 22, 1998

Source: American Stock Exchange

#### S&P 500 Option Contracts Traded on the CB0E

(contracts in millions)



Source: Chicago Board Options Exchange

<sup>(</sup>a) 1996-2005 represents assets under management from SPDRs, iShares, iUnits, S-tracks ASX, Rydex and Lyxor (MIB), 2006-2008 includes all "other" S&P-based ETF assets (\$6.1 billion, \$5.4 billion and \$9.5 billion, respectively). Examples of "other" include: VXF (Vanguard Extended Market ETF), SDS (UltraShort S&P 500 ProShares), and IPRV (LN iShares S&P Listed Private Equity)

## **S&P Equity Research Services**

Dedicated to providing clients with timely, objective, and actionable investment intelligence, Standard & Poor's Equity Research Services delivers a broad range of strategies and recommendations which enables clients to navigate and seek success in even the most complex global markets.

Standard & Poor's serves clients across the globe in every segment of the institutional and retail financial sectors through three main areas: Standard & Poor's Equity Research Services was the leading independent provider in *The Wall Street Journal's* 2009 "Best on the Street" Analyst Survey, with 19 analysts winning in 22 different industry categories

#### **Global Equity Research**

Standard & Poor's Equity Research provides a single authoritative source of unbiased independent equity analysis and opinion. A worldwide team of 100 equity analysts covers approximately 2,000 stocks globally. Neither Standard & Poor's nor its parent company, The McGraw-Hill Companies, conducts any investment banking or securities underwriting activities. This independence allows Standard & Poor's to render uncompromised equity opinions and recommendations.

Standard & Poor's provides multi-asset class global research, analysis, strategies, and services to retail and wealth management institutions and advisors, as well as individual investors. S&P leverages its insight into securities with unique holdings-level analysis of investment products, providing more transparency and deeper understanding of performance. S&P covers a range of asset classes including equities, exchange-traded funds, mutual funds, variable annuities, and options.

#### **Fund Management Ratings**

Offering a unique combination of qualitative and quantitative analysis, Standard & Poor's fund ratings identify funds that are likely to consistently achieve their objectives. These ratings are based on in-depth interviews with fund management, focusing on investment philosophy, effectiveness of management, and quality of overall investment process. Standard & Poor's Fund Management Ratings provides fund ratings to the investing public on behalf of asset managers.

#### **S&P Investment Advisory Solutions**

Standard & Poor's leverages its intellectual capital to create model portfolios and customized investment solutions and strategies for leading asset management, mutual funds, and insurance firms, among others. Working with clients' requirements, S&P performs independent analysis and creates custom-tailored recommendations.

#### MarketScope® Advisor

MarketScope Advisor (MSA) is an online platform that provides financial advisors with investment intelligence on multiple asset classes and comprehensive portfolio analysis tools. MSA enables financial advisors to stay connected to the market, make investment decisions, and grow their practice by giving them access to:

- S&P's award-winning equity research
- Intra-day market commentary, news, and analysis
- Information on 5,000 stocks, 500 exchange-traded funds, 21,000 mutual funds, and 60,000 variable annuities
- Workflow tools



www.equityresearch.standardandpoors.com



## **Information & Media: Providing Valuable Insights to Global Markets**

McGraw-Hill Information & Media's market-leading brands have a common focus: generating growth opportunities by integrating into customers' workflows and infrastructure. By strengthening its technology infrastructure, Information & Media is enhancing its valueadded relationships and better leveraging its brands' industry-leading positions. The development of a robust technology infrastructure with common capabilities—part of a strategic Company-wide effort to leverage technology—is the framework that Information & Media will build upon and use to reshape its business and deliver premium services that transform data into valuable insights.

#### Framework for Growth

## **Traditional Model**

Transactional, one-way customer relationships

Strong, media-specific brands

Traditional awareness advertising revenue models

Data pushed to customers

Product-focused technology

Long product shelf life

#### **Emerging Model**

- > Value-added customer relationships
- > Develop communities
- > Brand leadership supports entry into adjacent markets
- > Increased quality lead generation
- > Marketing intelligence through measurable advertising effectiveness
- > New ways to monetize audiences
- > Value-added analytical services integrated with customer applications
- > Produce more modular content
- > User-centric technology platforms
- > Customized experiences



# RECORD

## > Develop communities

User-generated content has become widespread on the Internet. Online communities provide an opportunity to build loyalty through a dialogue with industry experts and from their peers instead of a simple presentation of information

 ArchitecturalRecord.com enables architects to upload and share their project photos online



#### > New ways to monetize audiences

The greater Information & Media's ability to understand and segment online customer needs and behavior, the better positioned its brands are to compete for advertising dollars

 McGraw-Hill Construction generates premium prices for ads placed in its new video library that are targeted at specific customers



#### > Customized experiences

Advanced tools now enable the creation of a personalized customer

- Information & Media's brands package content into downloadable "widgets" for greater value and customer engagement
- PlattsOil news is followed on Twitter by energy market participants at http://twitter.com/plattsoil

## Platts: Meeting the Growing Global Demand of the Energy Markets

Platts is the leading provider of energy information worldwide. Its real-time global energy and metals news, price assessments, market commentary, and conferences enable thousands of traders, risk managers, analysts, and industry leaders in over 150 countries to make informed and up-to-the-minute trading and investment decisions. An independent provider, Platts has been a trusted source for actionable information and global benchmarks for more than a century.

In response to the extreme volatility in crude oil and other commodity prices during 2008, Platts heightened its focus on regulatory and policy issues both in the U.S. and the European Union and increased its news and pricing coverage in the emerging emissions, biofuels, renewables, and liquefied natural gas markets. It also extended its editorial expertise into Russia, China, and the Middle East through the addition of local-language publications and new price benchmarks.

#### Platts' Industry Coverage

Oil	Petrochemicals
Natural Gas	Metals
Electricity	Shipping
Coal	Renewables
Nuclear	Emissions

#### **Embedded in the Industry's Workflow**

The strength of the Platts brand has enabled it to embed its information directly into customers' workflows. Nearly 8,500 unique price assessments are produced daily across a host of commodities which are used to settle physical and financial contracts at exchanges such as the New York Mercantile Exchange, the Intercontinental Exchange, the Singapore Exchange, and the Russian Stock Exchange. Its Market-on-Close price assessment process, which identifies bids/offers and transactions by company of origin, has been used for oil and oil product price discovery for more than a decade.

Platts supports end-to-end trading and risk management workflows, enabling customers to identify opportunities to profit from market movements and better manage their risks.

#### Trading Workflow

Develop Trading	Find Trading	Execute	Settle
Strategy	Partners	Trades	Trades

#### **Risk Management Workflow**

Manage	Manage Price,	Develop	Analyze
Trading	Asset and	Risk Hedging	Forward
Compliance	Credit Risk	Strategies	Markets

#### Flexible Digital Delivery Options for Platts' News and Pricing Information

Platts' news, pricing information, and market commentary is delivered to customers in real-time as well as in print and online. Real-time options include:

- Platts' multiple alert services, including *Global Alerts*
- Platts on the Net, Platts' proprietary platform
- Multiple third-party market data service vendors including Reuters and Bloomberg®
- End-of-day prices fed directly into customers' risk management and accounting systems



#### **Platts LNG TraderNet**

Gas and power traders, energy analysts, and risk managers in the emerging liquefied natural gas (LNG) sector need fast, broad-spectrum market intelligence to factor all the volatile dynamics that affect commodity price movements on a daily basis. LNG TraderNet's interactive Web-based tools enable users to:

- Access Platts' comprehensive market intelligence
- View Platts' LNG daily spot assessments for Asia, a key pricing indicator
- Gauge financial opportunities using Platts' proprietary forward curves
- View existing and proposed regasification terminals and liquefaction facilities
- Interact with a map of terminals, facilities and ports to track oil tanker movements worldwide



## **Construction: Connecting Products, Projects and People Worldwide**

For more than a century, McGraw-Hill Construction has been a leading provider of construction project information, plans and specifications, product information, and industry news, trends and forecasts. In print and online, McGraw-Hill Construction offers tools, applications, and resources that easily integrate into its customers' workflows. Backed by Dodge, Sweets, *Architectural Record, Engineering News-Record* (ENR), *GreenSource, SNAP*, and 11 regional publications, McGraw-Hill Construction serves more than one million customers.

# Stimulus Edge: Helping Companies Compete for Government-Funded Projects

The American Recovery and Reinvestment Act of 2009 (ARRA) federal stimulus package is worth \$130 billion to the construction industry and will stimulate more construction activity for the next three years. McGraw-Hill Construction launched Stimulus Edge, a market intelligence product, to provide the construction industry's smaller manufacturers, contractors, and suppliers with the tools and the leads to compete successfully for stimulus contracts. Subscribers can:

- Focus on projects in one or more of nine U.S. regions or choose a nationwide view
- Search projects verified as ARRA-funded and see details of plans and specifications
- Receive daily email alerts of the new stimulus projects
- Access the site's Stimulus Resource Center which provides insights into the construction industry's progress toward recovery and draws from McGraw-Hill Construction's architecture, engineering, and construction magazines and market research



More than 11,500 "shovel-ready" projects and 7,000 ARRA-funded projects are tagged in the McGraw-Hill Construction Network

As of June 2009

www.construction.com/stimulus



#### McGraw-Hill Construction Business Essentials: Get Smarter, Get Seen/Found, Find Work, Do Work

Woodaw IIIII	Construction Pasiness Essentials. Act omartor, dot occin tound, time work, po work
Get Smarter	Research and market intelligence improves customers' understanding of their markets, the economy, and industry trends  Market research, trends, and forecasts, including McGraw-Hill Construction Outlook  Thought leadership in the areas of "Green" and interoperability/business information modeling  Specific research and intelligence devoted to the stimulus package and ARRA
Get Seen/Found	Customers can reach audiences through an integrated offering of industry-leading publications in print, online, and at events  • Engineering News-Record (ENR) and ENR.com reach contractors, engineers, and owners  • Architectural Record and ArchitecturalRecord.com reach architects, owners, and design professionals  • GreenSource and GreenSourceMag.com reach green design and construction decision makers  • Sweets Network reaches 300,000 construction professionals monthly. Sweets.com has 2.5 million visits annually  • SNAP (Sweets News and Products), which brings together trends and data on building products and materials, reaches 45,000 architects including every active architectural firm in the U.S.
Find Work	Customers can find projects, identify project players, and build their pipeline  The McGraw-Hill Construction Network® contains more than 90% of all construction projects in the U.S. and Canada with construction values of \$500,000 or more  Network Express provides a daily feed of building project leads from the McGraw-Hill Construction Network® that seamlessly integrate into any customer relationship management system
Do Work	Customers save money, increase productivity, and reduce risk through digital design and construction tools  Project Document Manager provides the architecture, engineering, and construction community with the ability to digitally manage all project documents over the entire lifecycle of a project on a single, secure platform

## **Providing Information Solutions to the Global Aerospace and Defense Industry**

AVIATION WEEK is the global leader in providing strategic news and information to the \$2 trillion global aviation, aerospace and defense industries, serving over 1.2 million professionals in 185 countries. Anchored by its flagship Aviation Week & Space Technology, AVIATION WEEK continues to evolve its portfolio to meet the needs of the industry with even greater global perspective and the latest technology platforms.

#### An expanding global footprint

- Launched MRO Middle East Conference in 2009 to serve the maintenance, repair and overhaul needs of the region
- Executive Roundtables held around the world to stimulate thought leadership and forward action within industry and government
- Exclusive media partner for leading industry events, including Aero India 2009 and Singapore 2010
- An official member of the Society of British Aerospace Companies (SBAC)
- Expanded its events with the launch of Aerospace & Defense Management forums

#### **Publications**

Aviation Week & Space Technology Business & Commercial Aviation Business Intelligence Newsletters Defense Technology International Overhaul & Maintenance ShowNews 1 4 1

#### **Online Analytical Tools and Services**

AviationWeek com AWIN (Aviation Week Intelligence Network) World Aerospace Database

#### **Events**

MRO Conference series Management Forums (including "Green" and supply chain) Aerospace & Defense Programs Aerospace & Defense Finance



#### Ares Defense Technology Blog

The Ares defense technology blog provides daily insight on the interplay of defense technology, funding, operations, programs, and policies. Ares complements AVIATION WEEK's portfolio of media services for the defense industry, including Defense Technology International and a conference series that includes the Defense Technology & Requirements Conference.

- Ares received a 2009 Jesse H. Neal Business Journalism award for "Best Blog" for its editorial excellence and industry impact
- Ares was cited by the Dutch Parliament for its ongoing coverage of the F-35, which has the highest program value of any fighter in history (valued at \$200-\$300 billion), and the first truly global alliance of weapons system manufacturers/suppliers

www.AviationWeek.com/ares



AviationWeek.com, the leading Web site for aerospace and defense professionals, continues to experience year-over-year growth. The latest Web and social networking tools, including blogs, videos, photo galleries and profiles, are expanding the user base and increasing overall time spent on the site.

 AVIATION WEEK's renowned editorial experts consistently blog about defense, commercial and business aviation, maintenance, repair and overhaul (MRO), and space

Aviation Week Intelligence Network (AWIN) is a subscription service that provides integrated access to industry news, data, analytics, and business information across key industry sectors.

- Enhanced with faster search, improved user interface, and even deeper data
- Named the number one paid subscription Web site in *BtoB* magazine's 2008 "Great Media Web Sites"



## J.D. Power and Associates: Listening to the Voice of the Customer

Companies in 60 countries turn to J.D. Power and Associates' quality and customer satisfaction research for the insight and information they need in a rapidly changing world. Each year, more than 20 million survey-related communications capture the opinions, perceptions, and expectations of consumers and business customers. J.D. Power industry performance benchmarks and analytical research are woven into the operations of leading companies around the world to measure customer satisfaction and drive improved business practices.

- ■45% of J.D. Power's business comes from non-automotive industries
- •27% of J.D. Power's business comes from outside the U.S.
- China is one of J.D. Power's fastest growing markets

Extensive media coverage has helped to build the J.D. Power brand without requiring significant advertising or marketing expenditures. In 2008, more than 110,000 television commercials and nearly 7 billion print ad impressions referenced J.D. Power awards.

#### J.D. Power's **Industry Coverage**

**Automotive** 

**Electronics** 

**Financial Services** 

Healthcare

Insurance

Marine

**Real Estate** 

Telecom

Travel

**Utilities** 

#### Web Intelligence

J.D. Power and Associates' new Web Intelligence Division analyzes social media that not only delivers feedback in the form of data, but also provides insights into the online dialogue that millions of consumers conduct on a daily basis via blogs, message boards, and other forms of online content. Using leading-edge technology and algorithms, J.D. Power transforms the unstructured data of the online community into actionable insights by identifying important themes and topics of interest by demographic profile, complementing the company's core research capabilities across multiple industries.



#### Vehicle Launch Index

Today, ensuring that new vehicle models are launched successfully is more critical than ever to automakers. The J.D. Power and Associates Vehicle Launch Index provides auto manufacturers with information that quantifies how new vehicle models perform during their launch years. It also provides a real-time, comprehensive view into marketplace activity that allows manufacturers to more quickly respond to changing industry conditions. Performance is measured against industry and segment benchmarks on a monthly basis. It also examines factors including turn rate, credit quality, residual factor, dealer gross profit, vehicle pricing, and incentives.

#### **Digital Delivery**

The J.D. Power Business Center is a new Web site application designed to create a single, integrated delivery platform for all J.D. Power products. Analysis tools are user-friendly and very powerful—all designed to help clients get the most out of this actionable information. Clients receive interactive rank charts, company summary charts, gap analysis, and automated search tools to analyze responses to open-ended survey questions.

#### J.D. Power and Associates Awards

Here is a sampling of awards J.D. Power presents to companies ranking highest in Quality and **Customer Satisfaction:** 

#### U.S. Awards

Credit Cards: American Express Automotive Dealer Service: Lexus Homeowner's Insurance: Amica Mass Merchandiser Pharmacies: Target Full Service Investment Firms: Raymond James

#### **International Awards**

Japan Hotels: ¥35,000 or More per Night Segment: Ritz Carlton China Initial Quality Premium Midsize Segment: Volkswagen Sagitar India Performance, Execution and Layout, Midsize Car Segment: Maruti SX4 UK Retail Banking: The Co-Operative Bank Spain Broadband Internet Providers: Orange



## **BusinessWeek**

BusinessWeek is a global source of essential business insight that inspires leaders to turn ideas into action. Through content, context, and collaboration, BusinessWeek moderates global conversations and moves business professionals forward.

Key initiatives in 2008 included the groundbreaking collaboration with readers called Business@Work, the new franchise ranking the world's most influential companies, and the launch of Business Exchange, BusinessWeek's first foray into social media, online information aggregation, and crowdsourcing.

#### **Global Edition**

BusinessWeek's global print edition continued to innovate in 2008 with the several new initiatives:

BusinessWeek's unprecedented collaboration with its audience culminated in the special August 2008 double-issue focused on workplace challenges. This initiative, called "Business@Work," was designed to more deeply engage BusinessWeek's audience, bringing together the wisdom of readers and editors in an interactive, collaborative exchange.





BusinessWeek also launched a new franchise issue in December 2008 called, "The World's Most Influential Companies." This annual special report names the top 10 most influential companies in the world with the help of an advisory board of 14 academics, consultants, and industry leaders worldwide.

#### **Global Advertising Pages**

Year	Pages
2008	1,882.38
2007	2,243.83
2006	2,741.77
2005	2,759.45

Note: 2005 North America only Source: Publishers Information Bureau (PIB)

#### **Advertising Rates, 2009**

	Global	% change		% change
	Edition(1)	vs. 2008	SmallBiz(2)	vs. 2008
Rate Base	900,000	0.0%	675,000	0.0%
4-Color Page Rate	\$112,200	3.5%	\$76,900	3.5%
B/W Page Rate	\$ 76,100	3.5%	\$52,000	3.6%

(1) Published 47x a year (2) Published 6x a year

#### **Rate Base for Local-Language Editions**

		0		
	2006	2007	2008	2009
Al-Arabiya (Arabic)	25,000	30,000	30,000	30,000
Bulgaria	10,000	16,500	16,500	16,500
China	120,000	140,000	140,000	160,000
Indonesia	25,000	27,000	27,000	27,000
Romania	10,000	15,000	20,000	20,000
Turkiye (Turkey)	10,000	20,000	25,000	25,000
Thailand	-	15,000	15,000	15,000
Total	200,000	263,500	273,500	293,500

Source: BusinessWeek's internal data

**BusinessWeek.com reaches 10.2 million monthly** unique users, and the site is showing strong growth internationally

#### BusinessWeek.com

To engage its audience more deeply, BusinessWeek.com unveiled several initiatives in 2008:

- "What's Your Story Idea?"—a blog in which readers suggest stories for BusinessWeek's writers
- "Dialogue with Readers"—which highlights stories that have generated a lively stream of quality comments, with a link to the writer's responses to readers' comments
- "My Take"—guest columns written by readers
- "In Your Face"—featuring thought-provoking comments from readers, along with their photos
- "Five Questions For..."—which encourages readers to submit questions that BusinessWeek staff will ask leading corporate executives and public officials





## **Business Exchange**

In 2008, a new innovative online offering called Business Exchange was launched. Business Exchange allows BusinessWeek readers and the broader global audience of business professionals to tap into the collective brain power of an online community centered around business topics.

Using Business Exchange, any member of the public can:

- Create, find, and track relevant business topics and interact with the online community
- Search for and add other Business Exchange users—including BusinessWeek writers and editors
- Access and leverage their existing LinkedIn and Twitter profiles

#### **Business Exchange received the min 2009**

"Best of the Web" award for Best New Site

bx.businessweek.com >



#### **Print Circulation and Subscription Rates**

	<b>Average Paid</b>		Print			
	Circulation		Subscription	% change		
Global Edition(1)	(12/31/2008)	% of total	Rates, 2008	vs. 2007	SmallBiz(2)	% of total
Single Copy	33,903	3.6%	\$ 4.99	0.0%	_	-
<b>Annual Subscription</b>	901,917	96.4%	\$59.97	0.0%	_	_
Total	935,820	100.0%	-		675,000	100.0%

<sup>(1)</sup> Published 47x a year

Source: Audit Bureau of Circulation (ABC)

## **BusinessWeek.com**

(2008 average, in thousands)	Page Views	Unique Users
United States	36,995	6,278
Europe, Middle East, Africa	4,702	1,057
Asia Pacific	4,514	811
Other *	2,145	525
Total	48,356	8,670

<sup>\*</sup> Includes North America (non-U.S.), South America, Central America, and the Caribbean

Source: Omniture

<sup>(2)</sup> Published 6x a year

## **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 and our prospects, new products, sales, expenses, tax rates, cash flows, prepublication investments and operating and capital requirements. Such forwardlooking statements include, but are not limited to: the strength and sustainability of the U.S. and global economy; the duration and depth of the current recession; Educational Publishing's level of success in 2009 adoptions and in open territories and enrollment and demographic trends; the level of educational funding; the strength of School Education including the testing market, Higher Education, Professional and International publishing markets and the impact of technology on them; the level of interest rates and the strength of the economy, profit levels and the capital markets in the U.S. and abroad; the level of success of new product development and global expansion and strength of domestic and international markets; the demand and market for debt ratings, including collateralized debt obligations ("CDO"), residential and commercial mortgage and asset-backed securities and related asset classes; the continued difficulties in the credit markets and their impact on Standard & Poor's and the economy in general; 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 strength and the performance of the domestic and international automotive 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, manufacturing expenses, distribution expenses, 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 debt and equity markets, including interest rates, credit quality and spreads, the level of liquidity, future debt issuances including residential and commercial mortgage-backed securities and CDOs backed by residential mortgages and related asset classes; 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, automotive, computer and aviation industries; the successful marketing of new products, and the effect of competitive products and pricing.

### **Principal Executives**

#### Harold McGraw III

Chairman, President and Chief Executive Officer

#### Corporate

#### - Robert J. Bahash

Executive Vice President and Chief Financial Officer

#### Bruce D. Marcus

Executive Vice President and Chief Information Officer

#### David L. Murphy

Executive Vice President Human Resources

#### - D. Edward (Ted) Smyth

Executive Vice President, Corporate Affairs and Executive Assistant to the Chairman, President and CEO

#### Charles L. Teschner, Jr.

Executive Vice President Global Strategy

#### Kenneth M. Vittor

Executive Vice President and General Counsel

#### **Operations**

#### Peter C. Davis

President
McGraw-Hill Education

#### **Deven Sharma**

President Financial Services

#### Glenn S. Goldberg

President
Information & Media

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June 2009

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