

MCGRAW-HILL COMPANIES INC

FORM 10-K (Annual Report)

Filed 3/26/1998 For Period Ending 12/31/1997

Address	1221 AVENUE OF THE AMERICAS NEW YORK, New York 10020
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Industry	Printing & Publishing
Sector	Services
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**UNITED STATES SECURITIES AND EXCHANGE
COMMISSION**
Washington, D. C. 20549
FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934 (FEE REQUIRED)

For the fiscal year ended December 31, 1997

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934 (NO FEE REQUIRED)

For the transition period from _____ to _____ Commission
File Number 1-1023

THE MCGRAW-HILL COMPANIES, INC.

(Exact name of registrant as specified in its charter)

NEW YORK	13-1026995
----- (State or other jurisdiction of incorporation or organization)	----- (I.R.S. Employer Identification No.)
1221 AVENUE OF THE AMERICAS, NEW YORK, N.Y.	10020
----- (Address of principal executive offices)	----- (Zip Code)
Registrant's telephone number, including area code	(212) 512-2000 -----

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
----- Common stock - \$1 par value	----- New York Stock Exchange Pacific Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None
(Title of class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

The aggregate market value of voting stock held by nonaffiliates of the registrant as of February 28, 1998, was \$7,462,074,689.

The number of shares of common stock of the registrant outstanding as of February 28, 1998 was 99,366,761 shares.

Part I, Part II and Part IV incorporate information by reference from the Annual Report to Shareholders for the year ended December 31, 1997. Part III incorporates information by reference from the definitive proxy statement mailed to shareholders March 24, 1998 for the annual meeting of shareholders to be held on April 29, 1998.

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PART I

Item 1. Business

The Registrant, incorporated in December 1925, serves business, professional and educational markets around the world with information products and services. Key markets include finance, business, education, construction, medical and health, computers and communications, aerospace and defense. As a multimedia publishing and information company, the Registrant employs a broad range of media, including books, magazines, newsletters, software, on-line data services, CD-ROMs, facsimile and television broadcasting. Most of the Registrant's products and services face substantial competition from a variety of sources.

The Registrant's 15,690 employees are located worldwide. They perform the vital functions of analyzing the nature of changing demands for information and of channeling the resources necessary to fill those demands. By virtue of the numerous copyrights and licensing, trade, and other agreements, which are essential to such a business, the Registrant is able to collect, compile, and disseminate this information. All book manufacturing and magazine printing is handled through a number of independent contractors. The Registrant's principal raw material is paper, and the Registrant has assured sources of supply, at competitive prices, adequate for its business needs.

Descriptions of the company's principal products, broad services and markets, and significant achievements are hereby incorporated by reference from Exhibit (13), pages 7 to 20 and pages 22 to 23 (textual material) of the Registrant's 1997 Annual Report to Shareholders.

Information as to Industry Segments

The relative contribution of the industry segments of the Registrant and its subsidiaries to operating revenue and operating profit and geographic information for the three years ended December 31, 1997 and the identifiable assets of each segment at the end of each year, are included in Exhibit (13), on page 40 in the Registrant's 1997 Annual Report to Shareholders and is hereby incorporated by reference.

Item 2. Properties

The Registrant leases office facilities at 383 locations: 300 are in the United States. In addition, the Registrant owns real property at 24 locations: 20 are in the United States. The principal facilities of the Registrant are as follows:

Domestic -----	Owned or Leased -----	Square Feet (thousands) -----	Business Unit -----
New York, NY	leased	1,428	See Explanation Below
New York, NY	leased	946	Financial Services See Explanation Below
New York, NY	leased	447	Various Operating Units See Explanation Below
New York, NY	leased	504	Financial Services
	owned	346	Financial Services
New York, NY	leased	64	Various Publishing Units
Hightstown, NJ	owned		See Explanation Below
Office and Data Ctr.		490	
Warehouse		412	100% Leased to Non-McGraw-Hill Tenant
Denver, CO	owned	88	Broadcasting
San Diego, CA	owned	43	Broadcasting
Indianapolis, IN	leased	54	Broadcasting
Indianapolis, IN	leased	79	CTB
Englewood, CO	owned	133	Financial Services
Lexington, MA	owned	53	Partially Vacant with Non-McGraw-Hill Tenant
	leased	122	Various Operating Units and Non-McGraw-Hill Subtenants
Peterborough, NH	owned	51	Byte
Chicago, IL	leased	68	Various Operating Units and Non-McGraw-Hill Subtenants
Washington, DC	leased	73	Various Operating Units
Kent, WA	leased		Tower Group International
Warehouse/Dist. Ctr.		79	
Office		6	

Domestic (Cont.) -----	Owned or Leased -----	Square Feet (thousands) -----	Business Unit -----
Redondo Beach, CA	leased	50	Tower Group International
Mather, CA	leased	56	CTB
Burr Ridge, IL	leased	115	Various Publishing Units See Explanation Below
Dubuque, IA Office	owned	107	Higher Education
Warehouse		279	
Monterey, CA	owned	215	CTB
Blacklick (Gahanna), OH Book Dist. Ctr.	owned	558	Various Operating Units
Office		73	
Westerville, OH	owned	59	Glencoe
Grove City, OH Warehouse	leased	160	School
Dallas, TX Assembly Plant	leased	148	School
Warehouse		72	
Desoto, TX Book Dist. Ctr.	leased	382	School
Foreign -----			
Whitby, Canada Office	owned	80	McGraw-Hill Ryerson Ltd./ Non-McGraw-Hill Tenant
Book Dist. Ctr.		80	
Maidenhead, England	leased	85	McGraw-Hill International (U.K.) Ltd.

The Registrant's major lease covers space in its headquarters building in New York City. The building is owned by Rock-McGraw, Inc., a corporation in which the Registrant and Rockefeller Group, Inc. are the sole shareholders. The Registrant occupies approximately 830,000 square feet of the rentable space under a 30-year lease expiring June 30, 2002 and subleases for its own account approximately 598,000 square feet of space. The company has entered into a supplemental agreement with Rock-McGraw, Inc. to surrender a portion of its occupied space starting in 1998.

The largest complex owned by the Registrant is located in Hightstown, NJ which houses the offices for accounting operations, data processing services, other service departments and a warehouse. The warehouse in Hightstown, NJ is leased to a tenant.

The Registrant leases approximately 75 percent of a building in Burr Ridge, IL. The building is owned by Burr Ridge Parkway Limited Partnership, in which the Registrant has a 50 percent ownership interest. The leased space is occupied by the higher education business that was acquired by the Registrant in October, 1996 from Times Mirror. During January 1998, the Registrant exercised its option to sell its interest in the limited partnership to Times Mirror for \$10.5 million.

At the end of 1997, the Registrant signed 2 new leases in the New York City area. The lease for the building at 55 Water Street for 946,048 square feet of space and expiring in March 2020 will house Standard & Poor's Financial Information Services and Standard & Poor's Ratings Services divisions. The lease at 2 Penn Plaza for 447,400 square feet also expires March 2020 and will house various Educational & Professional Publishing Group and Information & Media Services Group operations.

Item 3. Legal Proceedings

County of Orange v. McGraw-Hill Companies, Inc.

In previous filings, Registrant reported that a Complaint was filed on June 11, 1996, in the United States Bankruptcy Court, Central District of California, in an action captioned County of Orange v. McGraw-Hill Companies, Inc., d/b/a Standard & Poor's (Case No. SA 94-22272-JR; Adversary No. SA 96-01624-JR). The Complaint alleged that Standard & Poor's breached its contracts with Orange County, was professionally negligent and aided and abetted the County's officers in breaching their fiduciary duty by, inter alia, assigning unduly high ratings to debt instruments issued by the County and by failing to advise the County's Board of Supervisors of the illegal acts being committed by the County's officers. On October 17, 1996, the United States District Court, Central District of California, granted Registrant's motion to withdraw the Bankruptcy Court reference. The action was transferred to the United States District Court for the Central District of California (Case No. SA CV 96-765-GLT) upon the filing on December 4, 1996 of the Bankruptcy Court's ruling on Registrant's motion to dismiss the Complaint. In that ruling, the Bankruptcy Court granted Registrant's motion to dismiss the County's aiding and abetting claim, but denied it as to the breach of contract and professional negligence claims. Registrant appealed this decision to the District Court which, on March 18, 1997, dismissed the County's professional negligence claim, with leave to amend. On April 9, 1997, the County filed an Amended Complaint for breach of contract and professional malpractice. On April 28, 1997, the Registrant filed a motion to dismiss the professional malpractice claim, which was denied by the District Court on June 2, 1997. Discovery has commenced. The Registrant continues to believe that the allegations of the Complaint lack merit and intends to vigorously contest the action.

Julian H. Robertson, Jr. v. The McGraw-Hill Companies, Inc.

On September 5, 1997, a Complaint was filed in New York State Supreme Court in an action captioned Julian H. Robertson, Jr. v. The McGraw-Hill Companies, Inc., et al. (Index No. 105357/97); an Amended Complaint was filed on September 11, 1997. The Amended Complaint alleged that an article about Mr. Robertson entitled "The Fall of the Wizard of Wall Street" published in the April 1, 1996 issue of Business Week was false and defamatory. The Amended Complaint sought compensatory damages in the amount of \$500 million and punitive damages in the amount of \$500 million. On October 28, 1997, the Registrant filed a motion for summary judgment seeking dismissal of the Amended Complaint on statute of limitations grounds. On December 17, 1997, the parties announced in a joint statement that the Robertson litigation had been dismissed with prejudice pursuant to a settlement agreement. No money or other financial consideration was involved in the settlement.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of Registrant's security holders during the last quarter of the period covered by this Report.

Executive Officers of Registrant

Name ----	Age ---	Position -----
Joseph L. Dionne	64	Chairman and Chief Executive Officer
Harold McGraw III	49	President and Chief Operating Officer
Robert J. Bahash	52	Executive Vice President and Chief Financial Officer
John D. Negroponte	58	Executive Vice President, Global Markets
Jeffrey Williams	46	Executive Vice President, Global Markets and Strategic Development
Scott L. Bennett	48	Senior Vice President, Secretary and Associate General Counsel
Frank J. Kaufman	53	Senior Vice President, Taxes
Barbara B. Maddock	47	Senior Vice President, Human Resources
Barbara A. Munder	52	Senior Vice President, Corporate Affairs
Frank D. Penglase	57	Senior Vice President, Treasury Operations
Kenneth M. Vittor	48	Senior Vice President and General Counsel
Thomas J. Kilkenny	39	Vice President and Controller

All of the above executive officers of the Registrant have been full-time employees of the Registrant for more than five years except for Barbara Maddock, John Negroponte, and Jeffrey Williams.

Ms. Maddock, prior to her becoming an officer of the Registrant on August 1, 1994, was Senior Vice President, Human Resources for Cigna Healthcare from July 1993 through July 1994. Previously, she was with Philip Morris Companies, Inc. where she held a number of Human Resources positions from 1980 through 1993.

Mr. Negroponte, prior to his becoming an officer of the Registrant on September 2, 1997, was with the United States Diplomatic Corps for 37 years where he held numerous senior positions, including ambassador to Mexico, the Philippines, and Honduras.

Mr. Williams resigned from the Registrant on January 2, 1998. Prior to his becoming an officer of the Registrant on September 25, 1996, Mr. Williams was with Morgan Stanley for 17 years where he held numerous senior management positions, most recently in the Investment Banking Department as Managing Director, Global Telecommunications and Media since 1991.

On January 28, 1998, the Registrant's Board of Directors announced that effective as of April 29, 1998 following the Annual Meeting of Shareholders, Harold McGraw III shall become the Chief Executive Officer of the Registrant, and Joseph L. Dionne, who shall retire as of July 1, 1998, shall continue as non-executive Chairman of the Board of Directors of the Registrant.

PART II

Item 5. Market for the Registrant's Common Stock and Related Stockholder

Matters

The approximate number of holders of the Company's common stock as of February 28, 1998 was 5,286.

	1997	1996
	----	----
Dividends per share of common stock:		
\$.36 per quarter in 1997	\$1.44	
\$.33 per quarter in 1996		\$1.32

Information concerning other matters is incorporated herein by reference from Exhibit (13), from page 48 of the 1997 Annual Report to Shareholders.

Item 6. Selected Financial Data

Incorporated herein by reference from Exhibit (13), from the 1997 Annual Report to Shareholders, page 46 and page 47.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Incorporated herein by reference from Exhibit (13), from the 1997 Annual Report to Shareholders, pages 26 to 32.

Item 7A. Market Risk

Incorporated herein by reference from Exhibit (13), from the 1997 Annual Report to Shareholders, page 32.

Item 8. Consolidated Financial Statements and Supplementary Data

Incorporated herein by reference from Exhibit (13), from the 1997 Annual Report to Shareholders, pages 33 to 44 and page 48.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None

PART III

Item 10. Directors and Executive Officers of the Registrant

Information concerning directors is incorporated herein by reference from the Registrant's definitive proxy statement dated March 24, 1998 for the annual meeting of shareholders to be held on April 29, 1998.

Item 11. Executive Compensation

Incorporated herein by reference from the Registrant's definitive proxy statement dated March 24, 1998 for the annual meeting of shareholders to be held on April 29, 1998.

Item 12. Security Ownership of Certain Beneficial Owners and Management

Incorporated herein by reference from the Registrant's definitive proxy statement dated March 24, 1998 for the annual meeting of shareholders to be held April 29, 1998.

Item 13. Certain Relationships and Related Transactions

Incorporated herein by reference from the Registrant's definitive proxy statement dated March 24, 1998 for the annual meeting of shareholders to be held April 29, 1998.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K.

(a) 1. Financial Statements.

2. Financial Statement Schedules.

The McGraw-Hill Companies Index to Financial Statements And Financial Statement Schedules

	Reference
	Form 10-K
	Annual Report to Share- holders (page)
Data incorporated by reference from Annual Report to Shareholders:	
Report of Independent Auditors.....	45
Consolidated balance sheet at December 31, 1997 and 1996.....	34-35
Consolidated statement of income for each of the three years in the period ended December 31, 1997.....	33
Consolidated statement of cash flows for each of the three years in the period ended December 31, 1997.....	36
Consolidated statement of shareholders' equity for each of the three years in the period ended December 31, 1997.....	37
Notes to consolidated financial statements.....	38-44
Quarterly financial information.....	48
Consent of Independent Auditors.....	45
Consolidated schedule for each of the three years in the period ended December 31, 1997:	
II - Reserves for doubtful accounts and sales returns.....	50

All other schedules have been omitted since the required information is not present or not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements or the notes thereto.

The financial statements listed in the above index which are included in the Annual Report to Shareholders for the year ended December 31, 1997 are hereby incorporated by reference in Exhibit (13). With the exception of the pages listed in the above index, the 1997 Annual Report to Shareholders is not to be deemed filed as part of Item 14 (a)(1).

(a) (3) Exhibits.

(2) Exchange Agreement dated as of July 3, 1996 between The Times Mirror Company, Mosby-Year Book, Inc., and The McGraw-Hill Companies, Inc., as amended as of October 15, 1996, incorporated by reference from Registrant's Form 8-K filed October 29, 1996.

(3) Articles of Incorporation of Registrant incorporated by reference from Registrant's Form 10-K for the year ended December 31, 1995.

(3) By-laws of Registrant.

(4) Indenture dated as of June 15, 1990 between the Registrant, as issuer, and the Bank of New York, as trustee, incorporated by reference from registrant's Form SE filed August 3, 1990 in connection with Registrant's Form 10-Q for the quarter ended June 30, 1990.

(4) Instrument defining the rights of security holders, certificate setting forth the terms of the Registrant's 9.43% Notes due 2000, incorporated by reference from Registrant's Form SE filed August 3, 1990 in connection with Registrant's Form 10-Q for the quarter ended June 30, 1990.

(4) Instrument defining the rights of security holders, certificate setting forth the terms of the Registrant's Medium-Term Notes, Series A, incorporated by reference from Registrant's Form SE filed November 15, 1990 in connection with Registrant's Form 10-Q for the quarter ended September 30, 1990.

(10) Rights Agreement dated as of October 25, 1989 between Registrant and Manufacturers Hanover Trust Company, incorporated by reference from Registrant's Form SE dated October 26, 1989 in connection with Registrant's Form 8-A.

(10)* Restricted Stock Award Agreement dated December 4, 1987 incorporated by reference from Registrant's Form SE filed March 30, 1988 in connection with Registrant's Form 10-K for the year ended December 31, 1987.

(10)* Restricted Performance Share Award dated January 2, 1997, incorporated by reference from Registrant's Form 10-K for the year ended December 31, 1996.

(10) Indemnification Agreements between Registrant and each of its directors and certain of its executive officers relating to said directors' and executive officers' services to the Registrant, incorporated by reference from Registrant's Form SE filed March 27, 1987 in connection with Registrant's Form 10-K for the year ended December 31, 1986.

(10)* Registrant's 1983 Stock Option Plan for Officers and Key Employees, incorporated by reference from Registrant's Form SE filed March 29, 1990 in connection with Registrant's Form 10-K for the year ended December 31, 1989.

(10)* Registrant's 1987 Key Employee Stock Incentive Plan, incorporated by reference from Registrant's Form 10-K for the year ended December 31, 1993.

(10)* Registrant's 1993 Key Employee Stock Incentive Plan, incorporated by reference from Registrant's Proxy Statement dated March 25, 1997.

(10)* Registrant's 1996 Key Executive Short Term Incentive Compensation Plan, incorporated by reference from Registrant's Proxy Statement dated March 21, 1996.

(10)* Registrant's Key Executive Short-Term Incentive Deferred Compensation Plan incorporated by reference from Registrant's Form 10-K for the year ended December 31, 1996.

(10)* Registrant's Executive Deferred Compensation Plan, incorporated by reference from Registrant's Form SE filed March 28, 1991 in connection with Registrant's Form 10-K for the year ended December 31, 1990.

(10)* Registrant's Senior Executive Severance Plan, incorporated by reference from Registrant's Form SE filed March 29, 1989 in connection with Registrant's Form 10-K for the year ended December 31, 1988.

(10) Credit Agreement dated as of February 13, 1997 among the Registrant, the Banks' signatory thereto, and The Chase Manhattan Bank, as administrative agent incorporated by reference from Registrant's Form 8-K filed February 19, 1997.

(10)* Registrant's Employee Retirement Account Plan Supplement, incorporated by reference from Registrant's Form SE filed March 28, 1991 in connection with Registrant's Form 10-K for the year ended December 31, 1990.

(10)* Registrant's Employee Retirement Plan Supplement, incorporated by reference from Registrant's Form SE filed March 28, 1991 in connection with Registrant's Form 10-K for the year ended December 31, 1990.

(10)* Registrant's Savings Incentive Plan Supplement, incorporated by reference from Registrant's Form SE filed March 28, 1991 in connection with Registrant's Form 10-K for the year ended December 31, 1990.

(10)* Registrant's Senior Executive Supplemental Death, Disability & Retirement Benefits Plan, incorporated by reference from Registrant's Form SE filed March 26, 1992 in connection with Registrant's Form 10-K for the year ended December 31, 1991.

(10)* Registrant's 1993 Stock Payment Plan for Directors, incorporated by reference from Registrant's Proxy Statement dated March 21, 1993.

(10)* Resolutions Terminating Registrant's 1993 Stock Payment Plan for Directors, as adopted on January 31, 1996, incorporated by reference from Registrant's Form 10-K for the year ended December 31, 1996.

(10)* Registrant's Director Retirement Plan, incorporated by reference from Registrant's Form SE filed March 29, 1990 in connection with Registrant's Form 10-K for the year ended December 31, 1989.

(10)* Resolutions Freezing Existing Benefits and Terminating Additional Benefits under Registrant's Directors Retirement Plan, as adopted on January 31, 1996, incorporated by reference from Registrant's Form 10-K for the year ended December 31, 1996.

(10)* Registrant's Director Deferred Compensation Plan, incorporated by reference from Registrant's Form 10-K for the year ended December 31, 1993.

(10)* Director Deferred Stock Ownership Plan, incorporated by reference from Registrant's Proxy Statement dated March 21, 1996.

(12) Computation of ratio of earnings to fixed charges.

(13) Registrant's 1997 Annual Report to Shareholders. Such Report, except for those portions thereof which are expressly incorporated by reference in this Form 10-K, is furnished for the information of the Commission and is not deemed "filed" as part of this Form 10-K.

(21) Subsidiaries of the Registrant.

(23) Consent of Ernst & Young LLP, Independent Auditors.

(27) Financial Data Schedule.

(b) Reports on Form 8-K.

No report on Form 8-K was filed by the Registrant in the last quarter covered by this Form 10-K.

* These exhibits relate to management contracts or compensatory plan arrangements.

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Registrant has duly caused this annual report to be signed on its behalf by the undersigned, thereunto duly authorized.

The McGraw-Hill Companies, Inc.

Registrant

By: /s/ Kenneth M. Vittor

Kenneth M. Vittor
Senior Vice President and General Counsel
March 26, 1998

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on March 26, 1998 on behalf of Registrant by the following persons who signed in the capacities as set forth below under their respective names. Registrant's board of directors is comprised of fourteen members and the signatures set forth below of individual board members, constitute at least a majority of such board.

/s/ Joseph L. Dionne

Joseph L. Dionne
Chairman and Chief Executive Officer
Director

/s/ Harold McGraw III

Harold McGraw III
President and Chief Operating Officer
Director

/s/ Robert J. Bahash

Robert J. Bahash
Executive Vice President and
Chief Financial Officer

/s/ Thomas J. Kilkenny

Thomas J. Kilkenny
Vice President and Controller

/s/ Pedro Aspe

Pedro Aspe
Director

/s/ Vartan Gregorian

Vartan Gregorian
Director

/s/ John T. Hartley

John T. Hartley
Director

/s/ George B. Harvey

George B. Harvey
Director

/s/ Richard H. Jenrette

Richard H. Jenrette
Director

/s/ Linda Koch Lorimer

Linda Koch Lorimer
Director

/s/ Robert P. McGraw

Robert P. McGraw
Director

/s/ Lois D. Rice

Lois D. Rice
Director

/s/ Paul J. Rizzo

Paul J. Rizzo
Director

/s/ James H. Ross

James H. Ross
Director

/s/ Sidney Taurel

Sidney Taurel
Director

/s/ Alva O. Way

Alva O. Way
Director

EXHIBIT INDEX

Exhibit No.	Description
-----	-----
(3)	Amendment to By-Laws of Registrant
(12)	Computation of Ratio of Earnings to Fixed Charges
(13)	Registrant's 1997 Annual Report to Shareholders (Selected Pages)
(21)	Subsidiaries of Registrant
(23)	Consent of Ernst & Young LLP Independent Auditors
(27)	Financial Data Schedule

Exhibit (3)

THE MCGRAW-HILL COMPANIES, INC.

BY-LAWS

(As amended April 30, 1997)

ARTICLE I

STOCKHOLDERS

1. A meeting of the stockholders shall be held annually, wheresoever designated by the Board of Directors on the last Wednesday in April of each year or on such other date as a resolution of the Board of Directors may designate, for the purpose of electing directors, hearing the reports of officers and directors, and for the transaction of such other business required or authorized to be transacted by the stockholders. Any previously scheduled annual or special meeting of stockholders may be postponed by resolution of the Board of Directors, upon public notice given prior to the date scheduled for such meeting.
2. Unless waived in writing by all stockholders, notice of the time, place and object of such meeting shall be given by mailing, at least ten days previous to such meeting, postage prepaid, a copy of such notice, addressed to each stockholder at his address as the same appears on the books of the Company.
3. Special meetings of stockholders for whatsoever purpose shall be held at the principal office of the Company or at such other place as may be designated by a

resolution of the Board of Directors and may only be called pursuant to a resolution approved by a majority of the Board of Directors.

4. Notice of each special meeting, except where otherwise expressly provided by statute, and unless waived in writing by every stockholder entitled to vote, stating the time, place and in general terms the purpose or purposes thereof, shall be mailed not less than thirty nor more than fifty days prior to the meeting to each stockholder at his address as the same appears on the books of the Company.

5. At a meeting of stockholders the holders of a majority of the shares entitled to vote, being present in person or represented by proxy, shall be a quorum for all purposes, except where otherwise provided by statute or by the certificate of incorporation.

6. If at any meeting a quorum shall fail to attend in person or by proxy, a majority in interest of stockholders entitled to vote present or represented by proxy at such meeting may adjourn the meeting from time to time without further notice until a quorum shall attend and thereupon any business may be transacted which might have been transacted at the meeting as originally called had the same been then held. The Chairman of a meeting of stockholders may adjourn such meeting from time to time, whether or not there is a quorum of stockholders at such meeting.

7. The Chairman of the Board, and in his absence the President, and in his absence a Chairman appointed by the Board of Directors, shall call meetings of the stockholders to order and shall act as Chairman thereof.
8. The Secretary of the Company shall act as Secretary at all meetings of the stockholders and in his absence the Chairman of the meeting may appoint any person to act as Secretary.
9. At each meeting of stockholders every stockholder entitled to vote may vote in person or by proxy, and shall have one vote for each share of stock registered in his name. The Board of Directors may fix a day not more than fifty days prior to the day of holding any meeting of the stockholders as the day as of which stockholders entitled to notice of and to vote at such meeting shall be determined, and all persons who shall be holders of record of voting stock at such time and no other shall be entitled to notice of and to vote at such meeting.
10. At all elections of directors the polls shall be opened and closed, the proxies shall be received and taken in charge and all ballots shall be received and counted by two inspectors who shall be appointed by the Board. If any inspector shall fail to attend or refuse to act, the vacancy may be filled at the meeting by the

Chairman of the meeting. No candidate for election as director shall be appointed an inspector.

11. The inspectors shall, before entering upon the discharge of their duties, be sworn to faithfully execute the duties of inspector at such meeting with strict impartiality and according to the best of their ability.

ARTICLE I-A

NOMINATION OF DIRECTORS AND PRESENTATION OF BUSINESS AT STOCKHOLDER MEETINGS

1. Nominations of persons for election to the Board of Directors of the Company and the proposal of business to be considered by the stockholders may be made at an annual meeting of stockholders (i) pursuant to the Company's notice of meeting, (ii) by or at the direction of the Board of Directors or (iii) by any stockholder of the Company who was a stockholder of record at the time of giving of notice provided for in this Article I-A, who is entitled to vote at the meeting and who complied with the notice procedures set forth in this Article I-A.

2. For nominations or other business to be properly brought before an annual meeting by a stockholder pursuant to clause (iii) of Section 1 of this Article I-A, the stockholder must have given timely notice thereof in writing to the Secretary of the

Company. To be timely, a stockholder's notice shall be delivered to the Secretary at the principal executive offices of the Company not less than 60 days nor more than 90 days prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is advanced by more than 30 days or delayed by more than 60 days from such anniversary date, notice by the stockholder to be timely must be so delivered not earlier than the 90th day prior to such annual meeting and not later than the close of business on the later of the 60th day prior to such annual meeting or the 10th day following the day on which public announcement of the date of such meeting is first made. Such stockholder's notice shall set forth (i) as to each person whom the stockholder proposes to nominate for election or reelection as a director all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act") (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected); (ii) as to any other business that the stockholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any material interest in such business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made; (iii) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made

(a)

the name and address of such stockholder, as they appear on the Company's books, and of such beneficial owner and (b) the class and number of shares of the Company which are owned beneficially and of record by such stockholder and such beneficial owner.

Notwithstanding anything in the second sentence of this Section 2 to the contrary, in the event that the number of directors to be elected to the Board of Directors of the Company is increased and there is no public announcement naming all of the nominees for director or specifying the size of the increased Board of Directors made by the Company at least 70 days prior to the first anniversary of the preceding year's annual meeting, a stockholder's notice shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the Secretary at the principal executive offices of the Company not later than the close of business on the 10th day following the day on which such public announcement is first made by the Company.

3. Only such business shall be conducted at a special meeting of stockholders as shall have been brought before the meeting pursuant to the Company's notice of meeting. Nominations of persons for election to the Board of Directors may be made at a special meeting of stockholders at which directors are to be elected pursuant to the Company's notice of meeting (A) by or at the direction of

the Board of Directors or (B) provided that the Board of Directors has determined that directors shall be elected at such special meeting, by any stockholder of the Company who is a stockholder of record at the time of giving of notice provided for in this Article I-A, who shall be entitled to vote at the meeting and who complies with the notice procedures set forth in this Article I-A. In the event the Company calls a special meeting of stockholders for the purpose of electing one or more directors to the Board, any such stockholder may nominate a person or persons (as the case may be), for election to such position(s) as specified in the Company's notice of meeting, if the stockholder's notice required by Section 2 of this Article I-A shall be delivered to the Secretary at the principal executive offices of the Company not earlier than the 90th day prior to such special meeting and not later than the close of business on the later of the 60th day prior to such special meeting or the 10th day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the Board of Directors to be elected at such meeting.

4. Only such persons who are nominated in accordance with the procedures set forth in this Article I-A shall be eligible to serve as directors and only such business shall be conducted at a meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this Article I-A. The Chairman of the meeting of stockholders shall have the power and duty to

determine whether a nomination or any business proposed to be brought before the meeting was made in accordance with the procedures set forth in this Article I-A and, if any proposed nomination or business is not in compliance with this Article I-A, to declare that such defective nominations or proposal shall be disregarded.

5. For purposes of this Article I-A, "public announcement" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed by the Company with the Securities and Exchange Commission pursuant to Sections 13, 14 or 15(d) of the Exchange Act.

6. Notwithstanding the foregoing provisions of this Article I-A, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Article I-A. Nothing in this Article I-A shall be deemed to affect any rights of stockholders to request inclusion of proposals in the Company's proxy statement pursuant to Rule 14a-8 under the Exchange Act.

ARTICLE II

BOARD OF DIRECTORS

1. The business and affairs of the corporation shall be managed under the direction of the Board of Directors. Unless and until changed as provided in this Section 1 of this Article II, the number of directors constituting the Board of Directors shall be fourteen (14). The Board of Directors shall have power from time to time and at any time, by vote of a majority of the total number of directors which the corporation would have if there were no vacancies on the Board, to increase or reduce the number of directors constituting the Board of Directors to such number (subject to any limits contained in the certificate of incorporation) as the Board of Directors shall determine, but in no event to less than twelve (12) or more than twenty-five (25). Subject to the express terms and conditions of the certificate of incorporation and these By-Laws, the directors shall have the usual and customary powers and duties of directors of a corporation; also any and all powers given and permitted by law; and also power to exercise any and all powers of the corporation, and to do any and all acts without any prior action taken or consent given by the stockholders, unless required by law, or the certificate of incorporation, or by these By-Laws; the directors may exercise all powers, and do all acts and things which are not, by statute or by the certificate of incorporation or these By-Laws, expressly directed or required to be exercised or done by the stockholders.

2. Without prejudice to the general powers conferred by the last preceding section, and the other powers conferred by the certificate of incorporation and by these By-Laws, it is hereby expressly declared that the Board of Directors shall have the following powers, that is to say:

FIRST: From time to time to make and change rules and regulations, not inconsistent with these By-Laws, for the management of the Company's business and affairs.

SECOND: To purchase or otherwise acquire for the Company and property, rights or privileges which the Company is authorized to acquire, at such price and on such terms and conditions, and for such consideration, as they shall, from time to time, see fit.

THIRD: At their discretion to pay for any property or rights acquired by the Company, either wholly or partly, in money or in stocks, bonds, debentures or other securities of the Company.

FOURTH: To appoint and at their discretion remove or suspend such subordinate officers, agents or servants, permanently or temporarily, as they may, from time to time, think fit, and to determine their duties, and fix, and, from time to time, change their salaries or emoluments, and to require security in such instance and in such amounts as they think fit.

FIFTH: To confer by resolution upon any elected or appointed officer of the Company the power to choose, remove or suspend subordinate officers, agents or servants.

SIXTH: To appoint any person or persons to accept and hold in trust for the Company any property belonging to the Company, or in which it is interested, or for any other purpose, and to execute and do all such duties and things as may be requisite in relation to any such trust.

SEVENTH: To determine who shall be authorized on the Company's behalf, to sign bills, notes, receipts, acceptances, endorsements, checks, releases, contracts and documents.

EIGHTH: From time to time to provide for the management of the affairs of the Company, at home or abroad, in such manner as they see fit, and in particular, from time to time, to delegate any of the powers of the Board of Directors in the course of the current business of the Company, to any special or standing committee or to any officer or agent, and to appoint any persons to be the agents of the Company, with such powers (including the power to sub-delegate), and upon such terms, as may be thought fit.

NINTH: To appoint an Executive Committee of three or more directors and such other persons as may be added thereto by specific resolution of the Board, who may meet at stated times, or on notice to all by any of their own number; who shall generally perform such duties and exercise such powers as may be directed or delegated by the Board of Directors from time to time. The Board may delegate to such Committee authority to exercise the powers of the Board while the Board is not in session, except as otherwise provided by law. The Executive Committee shall keep regular minutes of its proceedings and report the same to the Board when required.

3. Each director shall serve for the term for which he shall be elected and until his successor shall be chosen and shall accept his election, but any director may resign at any time.
4. The directors may hold their meetings and may have an office and keep the books of the Company at such place or places as the Board from time to time may determine.
5. A regular meeting of the Board of Directors shall be held each year, either immediately following adjournment of the Annual Meeting of Stockholders or at such other time as may be fixed by the Chairman of the Board or the President but on a

date no later than 60 days following the adjournment of the Annual Meeting of Stockholders, for the purpose of electing officers, members of the Executive Committee, members of the other committees of the Board, and to organize the Board for the ensuing year. Regular meetings of the Board of Directors shall also be held monthly at such time and place as may be fixed by the Chairman of the Board, or the President. Notice shall be given to each director of the date of each regular meeting by the Secretary in the same manner as provided in Article II, Section 7, of these By-Laws for notice of special meetings of directors.

6. Special meetings of the Board shall be held whenever called by the Chairman, or by the President, or by the Secretary upon receiving the written request of a majority of the directors of the Board then in office. If so specified in the notice thereof, any and all business may be transacted by a special meeting.

7. The Secretary shall give notice to each director of each special meeting by mailing the same, at least two days before the meeting, or by telegraphing or telephoning not later than the day before the meeting. If every director shall be present at any meeting any business may be transacted without previous notice.

8. A majority of the entire Board of Directors shall constitute a quorum for the transaction of business, except where otherwise provided by statute or by the certificate

of incorporation or by these By-Laws, and a majority of those present at the time and place of any regular or special meeting may adjourn the same from time to time without notice.

9. Any one or more members of the Board may participate in a meeting of the Board by means of a conference telephone or similar communications equipment allowing all persons participating in the meeting to hear each other at the same time. Participation by such means shall constitute presence in person at a meeting.

ARTICLE III

COMMITTEES

1. The Board may appoint such committees, as it may deem advisable. Committees so appointed shall have such powers and duties as may be specified in the resolution of appointment.

2. Each committee shall keep regular minutes of its proceedings and report the same to the Board when required.

3. Any one or more members of any such committee may participate in a meeting of such committee by means of a conference telephone or similar communications equipment allowing all persons participating in the meeting to hear

each other at the same time. Participation by such means shall constitute presence in person at a meeting.

4. Any action required or permitted to be taken at any meeting of any committee may be taken without a meeting, if all members of the committee consent in writing to the adoption of a resolution authorizing the action and if the resolution and the written consent thereto are filed with the proceedings of the committee.

ARTICLE IV

OFFICERS

1. The elective officers of the Corporation other than directors shall be a Chairman of the Board of Directors, a President, one or more Vice-Presidents, a Secretary and a Treasurer. Any two of the aforesaid offices may be filled by the same person. For purposes of these By-Laws the office of Vice-President also may include one or more Executive Vice-Presidents and one or more Senior Vice-Presidents. The term of office of each of said officers shall continue until the next annual election of directors and the selection of his successor by the Board of Directors. Any officer may, at any time, with or without cause, be suspended or removed from office by the affirmative vote of a majority of the entire Board at a meeting thereof. The Chairman of the Board and the President shall be chosen from among the directors.

2. The Chairman of the Board when present shall preside at all meetings of the Board of Directors and at all meetings of the stockholders. He shall perform all duties incident to the office of the Chairman of the Board. The Chairman also shall be the Chief Executive Officer of the Corporation and shall be responsible for the general and active supervision and direction of the business, policies and activities of the Corporation, subject to the control of the Board of Directors. He may execute on behalf of the Corporation all authorized deeds, bonds, mortgages, contracts, documents and papers and may affix thereto the corporate seal when required. He shall have power to sign debentures and certificates of stock of the Corporation.

3. The President shall be the Chief Operating Officer of the Corporation and shall have general responsibility for directing, administering and coordinating the operational phases of the Corporation's business, subject to the control of the Chairman and Chief Executive Officer. He shall have such duties as the Board may from time to time determine or as may be prescribed by these By-Laws. He shall be responsible for seeing that the orders and resolutions of the Board are carried into effect. He may execute on behalf of the Corporation all authorized deeds, bonds, mortgages, contracts, documents and papers and may affix thereto the corporate seal when required. He shall have power to sign debentures and certificates of stock of the Corporation.

If the office of the Chairman of the Board shall be vacant, or if the person holding that office shall be absent, the President shall preside at meetings of stockholders and of the Board of Directors.

4. In the absence or inability to act of both the Chairman and the President, the Board may designate any senior corporate officer to perform the duties of temporary Chairman which shall include presiding at meetings of stockholders and of the Board of Directors.

5. The Board may elect or appoint one or more Vice-Presidents. Each Vice-President shall have such powers and shall perform such duties as may be assigned to him by the Board or by the President. In case of the absence or disability of the President the duties of that office shall be performed by whomever the Board shall determine by resolution.

6. The Secretary shall be sworn to the faithful discharge of his duties; he shall attend all meetings of the directors and stockholders, and shall record all the proceedings of such meetings in a book to be kept for that purpose, and shall perform like duties for standing committees when required. He shall have charge of the giving of notice of meetings of stockholders and directors, and perform all the duties assigned to him by the Board of Directors, or usual for the Secretary of a Corporation

to perform. He, or the Treasurer shall, with the Chairman or President sign all debentures and stock certificates of the Company.

7. The Treasurer shall keep or cause to be kept full and true books of account and records of all receipts and disbursements, property, assets and liabilities of the Corporation, in books belonging to the Company, and shall deposit all moneys, securities, and valuables of the Corporation in the name of and to the credit of the Corporation, in such depositories as shall be designated by the Board of Directors. He shall disburse funds of the Company as ordered by the Board, taking proper vouchers therefor and shall render to the President and the Board of Directors, at regular meetings or whenever required, an account of all financial transactions of the Company. He shall also have power to sign debentures and certificates of stock of the Company, checks, notes, bills of exchange or other negotiable instruments for and in the name of the Company. He shall perform all other duties incident to the position of Treasurer, subject to the control of the Board.

8. The Board of Directors shall have power to appoint one or more Assistant Treasurers, Assistant Secretaries, Controller or Assistant Controllers who shall have such powers and perform such duties as may be designated by the Board.

9. The amount of salaries, wages, or other compensation to be paid to the officers, employees and agents of the Company shall be determined from time to time by the Board or by an Executive Officer or Committee to whom this work shall be delegated. No officer shall be incapacitated to receive a regular salary or fixed compensation by reason of being a director of the Corporation.

ARTICLE IV-A

1. Bank Accounts, Deposits, Checks, Drafts and Orders Issued in the Company's Name. Any two of the following officers: the Chairman, President, any Vice-President, and the Treasurer, Secretary or Controller may from time to time (1) open and keep in the name and on behalf of the Company, with such banks, trust companies or other depositories as they may designate, general and special bank accounts for the funds of the Company, and (2) terminate any such bank accounts. Any such action by two of the officers as specified above shall be made by an instrument in writing signed by such two officers and filed with the Secretary. A copy of such instrument, certified by the Secretary or an Assistant Secretary, shall be evidence to all concerned that the designations or terminations therein contained are duly authorized on behalf of the Company at the time of the certification.

All funds and securities of the Company shall be deposited in such banks, trust companies or other depositories as are designated by the Board of Directors or

by the aforesaid officers in the manner hereinabove provided, and for the purpose of such deposits, the Chairman, President, any Vice-President, the Secretary, the Controller, the Treasurer or an Assistant Treasurer, and each of them, or any other person or persons authorized by the Board of Directors, may endorse, assign and deliver checks, notes, drafts, and other orders for the payment of money which are payable to the Company.

All checks, drafts, or orders for the payment of money, drawn in the name of the Company, may be signed by the Chairman, President, any Vice-President, the Secretary, the Treasurer or any Assistant Treasurer, or by any other officer or any employee of the Company who shall from time to time be designated to sign checks, drafts, or orders on all accounts or on any specific account of the Company by an "instrument of designation" signed by any two of the following officers: The Chairman, President, any Vice-President, and the Treasurer, and filed with the Secretary. The Secretary or any Assistant Secretary shall make certified copies of such instruments of designation and such certified copies shall be evidence to all concerned of the authority of the persons designated therein at the time of the certification. An instrument of designation may provide for (1) the facsimile signature of any person authorized to sign by such instrument or by this Section, or (2) the revocation of authority of any person (other than an officer named in this Section) to sign checks, drafts or orders drawn in the name of the Company.

ARTICLE IV-B

INDEMNIFICATION

1. Any person made or threatened to be made a party to any action or proceeding, whether civil or criminal, by reason of the fact that such person or such person's testator or intestate is or was a director, officer or employee of the Corporation or serves or served any other corporation, partnership, joint venture, trust, employee benefit plan or other enterprise in any capacity at the request of the Corporation shall be indemnified by the Corporation, and the Corporation may advance such person's related expenses, to the full extent permitted by law.

For purposes of this section, references to "the Corporation" shall include, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors, officers, and employees, so that any person who is or was a director, officer or employee of such constituent corporation, or is or was serving at the request of such constituent corporation any other corporation, partnership, joint venture, trust, employee benefit plan or other enterprise in any capacity at the request of the Corporation, shall stand in the same position under the provisions of this section with respect to the resulting or surviving corporation as such person would have with respect to such constituent corporation if its separate existence had continued.

ARTICLE V

CAPITAL STOCK

1. The instruments of debentures, certificate of shares of the preferred, preference and common capital stock of the Company shall be in such form as shall be approved by the Board of Directors. The certificates shall be signed by the Chairman of the Board or the President and also by the Secretary or the Treasurer. The seal of the Corporation shall be affixed to all certificates. The signatures of the officers upon a certificate may be facsimiles if the certificate is countersigned by a transfer agent or registered by a registrar other than the Corporation itself or its employee.
2. All certificates shall be consecutively numbered, and the names of the owners, the number of shares and the date of issue, shall be entered in the Company's books.
3. The Company or its duly authorized stock transfer agent shall keep a book to be known as the stock book, containing the names, alphabetically arranged, of all persons who are stockholders of the Corporation, showing their places of residence, the number of shares of preferred, preference and common stock held by each respectively, and the time when each became the owner thereof, also entries showing from and to whom such shares shall be transferred, and the number and

denomination of all revenue stamps used to evidence the payment of the stock transfer tax as required by the laws of the State of New York, which books shall be open daily, during usual business hours, for inspection by any person who shall have been a stockholder of record in such Corporation for a least six months immediately preceding his demand; or by any person holding or thereunto in writing authorized by the holders of at least five per centum of any class of its outstanding shares, upon at least five days written demand. Persons so entitled to inspect stock books may make extracts therefrom.

4. Shares shall be transferred only on the books of the Corporation by the holder thereof in person or by his attorney upon the surrender and cancellation of certificates for a like number of shares, and upon tender of stock transfer stamps or the equivalent in money sufficient to satisfy all legal requirements.

5. The Board may make such rules and regulations as it may deem expedient concerning the issue, transfer and registration of certificates of stock of the Company.

6. Certificates for shares of stock or for debentures in the Corporation may be issued in lieu of certificates alleged to have been lost, stolen, destroyed, mutilated, or abandoned, upon the receipt of (1) such evidence of loss, theft, destruction or

mutilation and a bond of indemnity in such amount, upon such terms and with such surety, if any, as the Board of Directors may require in each specific case, or

(2) a request by an appropriate governmental agency or representative for the reissuance of a stock certificate claimed to be abandoned or escheated in accordance with the abandoned property or similar law of the state, or (3) in accordance with general resolutions.

ARTICLE VI

SEAL

1. The Board shall provide a suitable seal, containing the name of the Corporation, the year of its creation, and the words "Corporate Seal, N.Y." or other appropriate words, which seal shall be in charge of the Secretary, to be used as directed by the Board.

ARTICLE VII

FISCAL YEAR

1. The fiscal year of the Corporation shall begin the first business day in January.

ARTICLE VIII

NOTICE AND WAIVER OF NOTICE

1. Any notice required to be given by these By-Laws may be given by mailing the same addressed to the person entitled thereto at his address as shown on the Company's books, and such notice shall be deemed to be given at the time of such mailing.
2. Any stockholder, director or officer may waive any notice required to be given by these By-Laws.

ARTICLE IX

AMENDMENTS

1. Subject to the terms and conditions of the certificate of incorporation, the Board of Directors shall have power to make, amend, and repeal the By-Laws of the corporation, by a vote of the majority of all the directors present at any regular or special meeting of the Board, provided a quorum is in attendance and provided further that notice of intention to make, amend or repeal the By-Laws in whole or in part at such meeting shall have been previously given to each member of the Board.

Exhibit (12)

**THE McGRAW-HILL COMPANIES, INC.
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES**

Years Ended December 31

	1997	1996	1995	1994	1993
	-----	-----	-----	-----	-----
	(In thousands of dollars)				
Earnings					
Earnings from continuing operations before income tax expense, provision for real estate write-downs and gain on the sale of Datapro in 1997, gain on exchange of Shepard's/MGraw-Hill in 1996, unusual charges in 1993 and 1996					
(a)(b)(c)(d)	\$ 478,622	\$ 415,974	\$ 382,126	\$ 341,816	\$ 293,243
Fixed charges	83,840	77,563	90,382	83,219	75,930
Capitalized interest	--	--	(421)	(353)	(536)
	-----	-----	-----	-----	-----
Total Earnings	\$ 562,462	\$ 493,537	\$ 472,087	\$ 424,682	\$ 368,637
	=====	=====	=====	=====	=====
Earnings from continuing operations before income tax expense (d)	\$ 465,873	\$ 809,705	\$ 382,126	\$ 341,816	\$ 63,443
Fixed charges	83,840	77,563	90,382	83,219	75,930
Capitalized interest	--	--	(421)	(353)	(536)
	-----	-----	-----	-----	-----
Total Earnings	\$ 549,713	\$ 887,268	\$ 472,087	\$ 424,682	\$ 138,837
	=====	=====	=====	=====	=====
Fixed Charges(d)					
Interest expense	\$ 56,771	\$ 51,347	\$ 63,832	\$ 55,650	\$ 46,998
Portion of rental payments deemed to be interest	27,069	26,216	26,550	27,569	28,932
	-----	-----	-----	-----	-----
Total Fixed Charges	\$ 83,840	\$ 77,563	\$ 90,382	\$ 83,219	\$ 75,930
	=====	=====	=====	=====	=====
Ratio of Earnings to Fixed charges:					
Before unusual charges, provision for real estate write-downs, gain on the sale of Datapro and gain on exchange of Shepard's/McGraw-Hill	6.7x	6.4x	5.2x	5.1x	4.9x
After unusual charges, provision for real estate write-downs, gain on the sale of Datapro and gain on exchange of Shepard's/McGraw-Hill	6.6x	11.4x	5.2x	5.1x	1.8x

(a) In 1997, the company recorded a \$33.2 million pre-tax one-time provision for real estate write-downs related to the consolidation of office space in New York City and a \$20.4 million pre-tax gain on the sale of Datapro Information Services.

(b) On October 15, 1996, the company completed the exchange of its Shepard's/ McGraw-Hill legal publishing unit for the Times Mirror Higher Education Group. The exchange resulted in a pre-tax gain of \$418.7 million and a one-time charge of \$25 million for costs of integrating the company's College division with the acquired higher education business.

(c) Unusual charges in 1993 totaled \$229.8 million before taxes in connection with the purchase of the remaining 50% interest in the Macmillan/McGraw-Hill School Publishing Company previously owned by Macmillan for \$337.5 million in cash. The unusual charges consisted of \$199.8 million primarily to adjust the company's original investment to values established in the purchase transaction. The charge was allocated primarily to goodwill and intangibles. The company also recorded a provision of \$30 million relating to the consolidation of certain functions of Macmillan/McGraw-Hill and the company's book publishing operations.

(d) For purposes of computing the ratio of earnings to fixed charges, "earnings from continuing operations before income taxes" excludes undistributed equity in income of less than 50%-owned companies. "Fixed charges" consist of (1) interest on debt, (2) the portion of the company's rental expense deemed representative of the interest factor in rental expense, and (3) the company's proportionate share of such fixed charges of the Macmillan/McGraw-Hill joint venture through September 30, 1993. Effective October 1, 1993, Macmillan/McGraw-Hill's results are consolidated in the company's results.

Exhibit (13)

OUR GROWING MARKETS

[PHOTO OMITTED]

Growth is a universal goal in the world of investor-owned corporations. At The McGraw-Hill Companies it's sustained by traveling many roads and to scores of countries. The gains in operating profits achieved for six straight years reflect a range of carefully planned corporate actions and positive external factors.

We've invested close to \$1 billion in acquisitions since the beginning of 1992. We've stepped up international expansion, intensified development of new products and services, strengthened our marketing efforts, entered new markets and initiated new alliances--always stressing innovative thinking.

We've substantially enhanced our technological capabilities to spark significant advances in electronic information distribution and electronic commerce (pages 10-13). We've designed human resources development programs and instituted hiring practices to assure that our workforce has the skills and talent the new millennium requires (pages 18-20).

We're benefiting from favorable political, social, economic and demographic influences worldwide and are constantly seeking ways to enhance our global position and presence. In recent years, our compound annual growth rate internationally has been nearly double the domestic rate, and we expect that trend to continue.

Nontraditional products again made important contributions to the uptrend sustained by Standard & Poor's Ratings Services in 1997. The target: 25% of revenue from nontraditional products by 2000.

- o Ratings of insurance companies, our leading nontraditional product, now include Lloyd's of London. Also in 1997, nontraditional ratings earned the support of a key trade association in Brazil, setting the stage for introduction of the service in that country.

- o Standard & Poor's bank loan ratings, introduced in 1995, now encompass more than 600 issues with a value exceeding \$200 billion. In 1997, Standard & Poor's added 115 new bank clients.

- o Ratings of structured finance, associated with large construction projects, reached record volume.

Striding closer to its goal of generating 30% of revenue from international sources by 2000, Standard & Poor's Ratings Services took several avenues to geographic expansion in 1997. All combine Standard & Poor's Ratings Services' global expertise with the knowledge and insight of local partners.

It acquired Argentina's leading rating service, moved toward creation of a new rating service in Brazil through a training and marketing

Standard & Poor's Extends Its Geographic Reach

AS A RESULT OF IMPORTANT ACQUISITIONS, STANDARD & POOR'S EXTENDED ITS BRAND TO RATINGS OF EUROPEAN AND ASIAN EQUITY FUNDS AND TO MUTUAL FUNDS DATA AND INFORMATION.

- o FUND RESEARCH, LTD. IN THE UNITED KINGDOM, ACQUIRED IN MAY, BECAME STANDARD & POOR'S FUND RESEARCH. IT ANALYZES AND RATES MORE THAN 700 EQUITY FUNDS OUTSIDE THE U.S. AND PROVIDES A BASE FOR FUTURE INTRODUCTION OF A RISK-RATING SYSTEM COVERING U.S. MUTUAL FUNDS.

- o MICROPAL, LTD., ALSO BASED IN THE U.K. AND ACQUIRED IN NOVEMBER, BECAME STANDARD & POOR'S MICROPAL. IT PROVIDES EXTENSIVE DATA ON MORE THAN 38,000 FUNDS IN 19 COUNTRIES AND IS USED BY NEARLY 200 MEDIA OUTLETS WORLDWIDE AS WELL AS BY FINANCIAL PROFESSIONALS. IT TOO ENVISIONS EXPANSION IN THE U.S. IN ADDITION, STANDARD & POOR'S ACQUIRED PUBLISHED IMAGE, INC., A BOSTON-BASED PRODUCER OF PRIVATE LABEL INVESTMENT NEWSLETTERS TAILORED FOR THE CUSTOMERS OF FIVE OF THE 10 TOP FUND COMPANIES AND SOME OF THE NATION'S LEADING BANKS AND BROKERS--ABOUT 12 MILLION INVESTOR ACCOUNTS IN ALL.

exchange agreement with a leading Brazilian institution, acquired a 10% interest in the leading rating service in India, signed an affiliation agreement with a highly regarded rating firm in South Africa (its first in Africa), and established the first rating service in Taiwan with several prominent Taiwanese partners. Standard & Poor's Ratings Services is now a fixture in 18 countries worldwide.

The status of English as the standard language of science, technology and cyberspace--coupled with the substantial number of U.S.-educated business and professional people around the world and the increasing need for skilled professionals in emerging countries--provides healthy growth potential for the Professional Publishing business.

In addition to its presence in the U.S. market, the Professional Publishing group encompasses international operations that serve educational and professional markets in Asia, Canada, Europe and Latin America. The Times Mirror Higher Education operations acquired in 1996 significantly strengthened Professional Publishing's sales opportunities outside the U.S. New products in 1997 included an updated edition of the renowned Encyclopedia of Science and Technology and 85 new titles from Osborne/McGraw-Hill, which specializes in computer subjects.

The family of Standard & Poor's indexes and variety of financial services products linked to them grow every year, spurred by their proven investor acceptance and appeal. More than \$600 billion is currently invested in funds tied to the S&P 500 Index alone.

In mid-1997, Standard & Poor's added a new index to track the performance of U.S. real estate investment trusts, or REITs. By the end of the year, several managers were using the new index for REIT-financial based products. Aside from the new REIT index, licensing of Standard & Poor's equity indexes was quite active. The largest growth in licensing came from institutions based outside the U.S.

For brokerage firms, Standard & Poor's introduced a variety of new portfolio products: the S&P Industrials Portfolio, S&P Intrinsic Value Fund, Smith Barney Strategic 10/A Plus Portfolio, Nuveen-Standard & Poor's Quality Equity Portfolio and Standard & Poor's Industry Turnaround Portfolio.

In 1997 nearly 20% of our revenue came from international sources, with expansion efforts focused on Latin America, Asia and Europe. We have more than 430 offices in over 30 countries.

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[Asia]

The McGraw-Hill Companies continued to expand its Asian operations in 1997, including establishing Taiwan's first ratings service in an alliance between Standard & Poor's and several prominent Taiwanese partners.

[Latin America]

Professionals in growing business centers such as Mexico City, Buenos Aires and Sao Paulo rely on us for the financial services and educational tools necessary to speed the development of emerging markets.

[Europe]

Business Week has increased its international circulation base to 167,000. With a global audience of 6.3 million, it is the world's most widely read business publication.

[North America]

Standard & Poor's Ratings Services rates debt and other capital market instruments in nearly 70 countries--valued at more than \$10 trillion.

Our links to the wired world

Asking "Can you make money on the 'Net?" in a cover feature last fall, Business Week concluded: "It can be done." Several business units of The McGraw-Hill Companies demonstrate how. Revenue from fee-based Web and other online services is rising. Today, more than 90% of the content created by our business units is available in digital form. Over the past three years we've created more than 80 Web sites for customer use; an increasing number of these sites will soon be accessible only to paying subscribers. Our broadening spectrum of video, software, and online products and services dates back much further.

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We now offer more than 100 online services and hundreds of CD-ROM products.

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The growing impact of electronic media/electronic commerce is visible in each of our three business segments. A key emphasis now is development of a unified, truly global distribution system on the Internet that showcases company brands and services and offers our customers one-stop electronic shopping.

The launch of the McGraw-Hill Learning Architecture makes available online economics, humanities, math, science and social sciences courses--plus others--to students at more than 30 colleges and universities. A total of 25 subject-focused online "Learning Centers" linked to our textbooks will be introduced during 1998. Students will have the option of buying access to these Learning Centers when they purchase their textbooks.

Nearly 25% of the revenue of The McGraw-Hill Construction Information Group (CIG) now comes from electronic products, most notably Dodge DataLine and Sweet's CD. CIG started two new Web sites in 1997 and redesigned the three it already offered.

F.W. Dodge delivers information in a variety of print and electronic formats. Dodge Dataline, with detailed information on more than 400,000 building projects, is the industry's most widely used online service, and it continues to expand.

Reshaping its information collection systems, Dodge is extending the scope of its coverage and speeding availability. The first of six new regional operations centers, which will be linked to 35 field reporting locations, opened in August. As part of the broad redesign of its editorial process, CIG's Construction News Publishing Network and its 12 regional publications have been integrated into Dodge operations.

The unparalleled databases of Standard & Poor's Financial Information Services are feeding an array of growing new services:

- o Standard & Poor's Compustat's Market Insight offers Standard & Poor's information and analyses and Standard & Poor's DRI country overviews to financial professionals.

- o Standard & Poor's Compustat's Portfolio Insight, integrating content from several Standard & Poor's units, gives mutual fund managers continuously updated information covering more than 10,000 U.S.-based publicly held companies, allowing instant measurement of performance against well-known benchmarks.

- o Standard & Poor's ComStock on the 'Net provides instant access to financial information on more than 250,000 worldwide stocks, options, futures, foreign exchange rates and indexes, along with access to news and analytic services.

- o Standard & Poor's Advantage lets investors access nine of Standard & Poor's most valuable databases, currently via CD-ROM and soon on the Internet.

- o Standard & Poor's Investment Center, a software product, integrates analysis and asset allocation advice and provides research information to assist financial planners in developing investment portfolios for clients.

An historic transition to a common currency for much of Western Europe is slated for January 1, 1999. Standard & Poor's MMS has launched the premiere online service tracking its progress. For the second straight year, bankers participating in an independent global survey named MMS Currency Insight, which analyzes factors driving currency markets worldwide, the best service of its kind.

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The four television stations in the Broadcast Group have become part of ABCNews.com, an extensive project designed to create a national network of Internet sites as a news and information source. The group had a record year, with several of its local news broadcasts ranking No. 1 in their time slots. It continued extending news reporting to nontraditional time periods and took other innovative steps to expand audiences. In Indianapolis, for example, WRTV can now be heard on a local FM radio station and has won a leading market share as a result. In San Diego, KGTV's 24-hour news service on cable now tops the ratings of its three competitive channels.

Tracking cargo shipments from international points to destinations in the U.S. became easier in 1997 as a result of TowerNet, a new cutting-edge software tool developed by Tower Group International, the leading provider of global trade services. TowerNet helps companies manage inbound logistics operations and comply with customs requirements.

As the nation's largest K-12 educational publisher we publish in virtually every classroom curriculum category. Nearly every program we publish includes an increasing amount of technology-based material to enhance the learning experience and to improve the effectiveness of educators. Our McGraw-Hill Home Interactive unit is producing technology-based products to build our market position and extend the learning experience beyond the classroom and into the home.

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Our lasting role in learning

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Learning never did stop at graduation. What's different now is scope. People have never had more aids available to nourish their careers and enable career changes, and they've never been so attentive to managing the intellectual and financial assets that accrue as they advance. Though our most visible role in education is in educational institutions, people learn from The McGraw-Hill Companies through all their working years and well into retirement. We inform and educate in many ways and in many domains. Learning, for example, is a hidden cornerstone of financial services. Obtaining and analyzing information is the first step toward intelligent investing. The learning process taps heavily into the multitude of financial information services we offer.

Creative collaborations have helped spark a strong uptrend at the McGraw-Hill Construction Information Group (CIG). Reflecting the success of the alliance with the American Institute of Architects (AIA) initiated in 1996, Architectural Record published the biggest issue (304 pages) in its 106-year history in May--its fifth month as the AIA's official member publication. CIG also started Architects Learning Source, giving AIA members access to more than 60 educational tools.

In October, in collaboration with Business Week, CIG announced the winners of the first Business Week/Architectural Record Awards, to be sponsored annually by the AIA. The program recognizes architecture's ability to solve corporate problems, increase workforce productivity and boost profits.

The McGraw-Hill Construction Information Group strategically used its publications to build alliances and its business with industry-leading professional organizations.

[Graphic Omitted]

CIG has launched alliances with two other important trade groups. With the Construction Specifications Institute it will jointly develop new products and services, including reference publications and continuing education activities. With the Design Build Institute of America, Engineering News-Record developed a new quarterly magazine, Design-Build, introduced in January 1998. It reflects the emergence and growing role of firms that consolidate the once separate functions of architect, engineer and contractor. The alliance also includes continuing education activities and a new awards program.

A headline in an industry newsletter--"McGraw-Hill Dominates Largest U.S. Adoptions"--documented the extraordinary success of Educational Publishing in 1997 and its widening lead position.

In Texas, the McGraw-Hill School Division's Adventures in Time and Place won a 60% share of social studies purchases and in California, the Spotlight on Literacy series and SRA/McGraw-Hill's reading series, Collections for Young Scholars, outsold all other elementary school reading/language arts programs, capturing a combined 35% market share.

California and Texas are the largest markets for textbooks. There also were notable victories in other states during an active adoption year--such as reading in Georgia, Mississippi and New Mexico; social studies in Arkansas and Indiana; and music in Louisiana--as well as in important "open" territories. (Textbook purchases in the 20 "adoption" states are guided by state-approved lists, in multiyear cycles; in "open" territories, individual school districts make purchases independently.)

Educational Publishing's book bag is full, broad and current, reflecting intense and far-ranging product development initiatives. Eight of the School Division's nine major programs are 1997 or 1998 copyrights, for example, while the ninth debuted in 1995.

Educational Publishing hopes to continue its winning streak. The adoption cycle calls for important purchases in core subjects in several states during 1998-2001 (such as California, Florida and Texas), and buying will also be active in open territories. New elementary math, spelling, art and health programs will be available.

In the secondary school market, Glencoe/McGraw-Hill has augmented its No. 1 market position by acquiring two product lines from Thomson Publishing that focus on computer and technology education.

In higher education, assimilation of the Times Mirror operations acquired in 1996 was the priority in 1997. The group will introduce more than 450 new or revised titles in 1998.

The McGraw-Hill brand is moving into the consumer marketplace down three principal avenues.

McGraw-Hill Home Interactive, launched in December 1996 with four multimedia CD-ROM titles, added seven more in 1997, focusing primarily on educational content.

McGraw-Hill Learning Materials debuted in October and now offers 54 workbooks for home use by kindergarten through eighth grade students. These products, which take our classroom expertise to a home setting so that parents can participate in teaching their children basic skills, are sold in such outlets as Barnes & Noble, Waldenbooks, Noodle Kidoodle and CompUSA.

Standard & Poor's introduced S&P Personal Wealth, an Internet-based personal investment service, in January 1998. It taps a variety of resources of The McGraw-Hill Companies (such as Business Week) to provide investment advice and specific recommendations. No other online service gives investors such extensive help.

Business people ever searching for ways to stay "ahead of the curve" got a new resource in January 1998. BusinessWeek Books debuted with the publication of Mastering the Art of Creative Collaboration. The new imprint--itself a creative collaboration between Business Week and the Professional Book Group--extends the Business Week brand and will appear on 9 to 12 books a year.

Business Week turned in higher revenue and profits for the third consecutive year, posting an increase in ad pages despite two fewer issues. It won a prestigious Loeb Award for a report on sexual harassment, while the impact of many other stories demonstrated both its continuing editorial excellence and competitive edge. The year's editorial highlights included early warning signals about the pending Asian financial crisis, coverage of the sleazy side of Wall Street, the New Economy, Silicon Valley (in a special double issue) and corporate governance.

Conferences, seminars and trade expositions have been staples of professional learning for decades as well as forums to discuss industry developments. Electronic communication hasn't reduced their appeal.

Our Information and Media Services units not only present an array of such events, but, at a number of prestigious trade shows, also provide news and information services under contract. Aviation Week, for example, was the official publication of the 1997 Paris Air Show and will serve the same role at important 1998 trade shows in Chile, China and Indonesia. Chemical Engineering published a daily newspaper at "Achema '97" in Frankfurt, Germany, the largest trade exposition in the chemical process industries, with 230,000 attendees.

MULTIMEDIA PRODUCTS, INCLUDING VIDEOS, CD-ROMS AND INTERNET-BASED AIDS, PLUS ADVISORY ASSISTANCE FROM THE NATIONAL GEOGRAPHIC SOCIETY, ENHANCED THE QUALITY OF ADVENTURES IN TIME AND PLACE, A MCGRAW-HILL SCHOOL DIVISION ELEMENTARY SOCIAL STUDIES PROGRAM THAT CAPTURED 60% OF THE 1997 TEXAS SCHOOL ADOPTION MARKET.

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We were the official media services provider at Telecom Interactive '97 in Geneva, Switzerland, and will return to that city in the same role for Telecom '99, the world's biggest telecommunications exposition. Four of our magazines--Business Week, BYTE, LAN Times and tele.com--collaborate at telecom events.

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OUR RICH INTELLECTUAL CAPITAL

For us, nothing is more critical than the quality of the information, insight and knowledge we provide--our rich content, in all of the many ways it's created and delivered to our customers. The intelligence, creativity and skills of our people are assets that fundamentally underlie our balance sheet but don't appear on it. They've come to be called "intellectual capital"--difficult to measure but evident in many ways. The wealth of intellectual capital we possess fuels the power of our brands and our success.

[PHOTO OMITTED]

The acknowledged leadership in their respective fields achieved by so many of our brands is the most visible evidence of the breadth of our intellectual capital. Our products are integral to the analytic pursuits of investors, financial professionals, students, teachers, business executives, architects, builders, engineers, doctors and a diverse range of other people in a number of key industries worldwide.

Information, analysis and commentary from us are trusted and accepted as accurate and authoritative. That stature rests on the quality of our people and what they do. It also reflects a longstanding reputation for integrity. The list of McGraw-Hill experts saluted by trade and professional organizations for the excellence of their work and their contributions grows every year.

When news media seek an expert's perspective, they frequently come to our business units. Standard & Poor's and F.W. Dodge, for example, are fundamental and frequently quoted news sources. The McGraw-Hill Construction Information Group's annual forecast of construction industry trends is the preeminent barometer of that industry's outlook, and our evaluations of the "best" in a varied range of business and professional activities are followed closely. Standard & Poor's DRI is a leading source for expert economic forecasting. Editors and reporters from Aviation Week, Business Week and our other leading magazines are frequently called on by the general and business news media for their expertise.

Accomplishments that help drive company goals are honored through longstanding internal programs. Every January since 1986 we've conferred Excellence in Management Awards, to 13 stellar managers this year and more than 160 over the program's history. Our Excellence in Management Awards cite accomplishments that particularly demonstrate the managerial qualities and skills essential to our future growth. This year's winners included corporate and operating unit executives who have made especially significant contributions to our varied successes in geographic regions outside the U.S., electronic services and key educational markets.

This April, for the 19th year, we will present our Corporate Achievement Awards for editorial excellence and innovation. Twenty employee teams were honored at the Corporate Achievement Awards dinner last spring. Several had developed new products, such as the Spotlight on Literacy/Spotlight on Literature reading/language arts program. Others spearheaded product improvements, such as the Spanish curriculum reform program. Some collaborated on particularly incisive business reporting, such as stories in Business Week on corporate governance, identifying the best and worst boards of directors in the U.S.

Keeping the world up to speed starts with keeping ourselves up to speed. Continuing education has never received more attention. Standard & Poor's, for example, annually selects 60 key managers to participate in a management development program at the University of Virginia's Darden Graduate School of Business Administration. The program is specially structured to meet Standard & Poor's management needs.

Our Associate Development Program was started in 1993 to attract and develop exceptional men and women who have earned master's degrees from leading business schools. Standard & Poor's has its own Associate Development Program based on the Corporation's program.

Our global team of accomplished analysts, editors, researchers and reporters provides the valuable information, insight and analysis that help people in all walks of life achieve their lifetime goals.

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The McGraw-Hill Companies At-A-Glance

Group and Key Markets	Market Factors
Financial Services	
Standard & Poor's Financial Information Services	Increasing consumer financial self-reliance drives demand for education and information. Growth in mutual funds as the investment vehicle of choice stimulates the need for fund information. Equity inflows overwhelm other asset categories, resulting in increased need for analytical services by money managers. S&P 500 performance is outstripping most active fund managers, creating demand for index licenses by asset managers in the U.S. and internationally.
Investors, corporations, government agencies, financial institutions, portfolio managers, brokers, unit investment trusts and mutual fund managers, commodities, securities and foreign exchange traders, and libraries	
Standard & Poor's Ratings Services	Continued evolution and globalization of capital markets. Significant growth of asset securitization. Favorable interest-rate environment increases issuance of debt. Growth and volatility in nontraditional markets. New borrowing and refinancing accelerate growth in the structured finance market. Increasing demand for risk measurement and management techniques and services.
Global capital markets and related risk assessments	
Educational and Professional Publishing	
Educational Publishing	Baby boom's echo is swelling enrollments. Favorable outlook for state adoptions. State economies are in excellent shape, and elementary-high school spending continues on an upswing. Increasing demand for multimedia offerings.
Elementary, secondary, testing, vocational and postsecondary fields	
Higher Education and Consumer	College enrollments on the rise, with growth projected through 2002 significantly higher than the past five years. Technology and innovation drive changes in production and distribution. Over two-thirds of college students now have access to e-mail on campus. Multimedia and custom textbooks growing substantially faster than traditional products.
College, postgraduate and consumer markets	
Professional Publishing	Strong economy and low unemployment drive professional book sales. Computer and business book titles continue to lead the market. Projected growth in corporate training market. New technologies drive changes in production and distribution. Current slowdown in some Asian and South American markets notwithstanding, the long-term international growth potential remains high.
Engineering, science, medicine, law, healthcare, computer technology, business and government markets, and international educational and professional markets	
Information and Media Services	
Broadcasting Group	Strong economy, increased consumer spending, low inflation and low unemployment all contribute to favorable advertising market. For 1998, House and Senate races in California, Indiana and Colorado; gubernatorial races as well in California and Colorado.
Serving the Denver, Indianapolis, San Diego and Bakersfield, Calif., communities	
Business Week Group	Corporate profits and cash flow expected to remain favorable. Growing advertising sectors include computers, finance, business, consumer services and autos. New opportunities emerging for Web-based products and electronic advertising vehicles.
Business professionals and advertisers worldwide	

Information Technology and Communications Group	Growth in sophisticated telecom services. Greater emphasis on software applications that use the PC as a communications device.
Information technology and communications markets	Expansion of public networks. Consolidating vendor base.

McGraw-Hill Construction Information Group	Six years in a row of growth in construction market. For 1998, F.W. Dodge predicts non-residential market will continue to grow. Rapid advances in
Building products manufacturers, architects, engineers, contractors, real estate owners, developers and investors	Internet capabilities and software spur growth of new products. Intensifying competition in the marketplace.

Publication Services Group	Strong economy and corporate profits aid business publication advertising. Business magazines and trade show markets both growing. Utilities market evolving from a regulated to a deregulated market. Aviation market on an upswing, offset by consolidation. Healthcare information market grows.
Professionals and corporate executives around the world in aviation, healthcare and science and technology	

Tower Group International	Third-party management is expected to be a fast-growing market segment. Industry consolidation continues. Barriers to entry are rising, reflecting demand for value-added services.
Major North American importers and exporters	
=====	

Leading Brands and Companies

=====
Retail Division

Standard & Poor's ComStock
Standard & Poor's Index Services
S&P Personal Wealth
Standard & Poor's Micropal
Standard & Poor's Retail Brokerage

Institutional Division

Standard & Poor's Compustat
Standard & Poor's Securities, Inc.

Corporate Division

Standard & Poor's DRI

International Division

Standard & Poor's MMS
Standard & Poor's Platt's

Municipal Securities Division

Standard & Poor's J.J. Kenny
Standard & Poor's J.J. Kenny
Evaluation Services
Standard & Poor's J.J. Kenny
Information Services

Corporate Ratings

Insurance Ratings
Financial Institution Ratings
Managed Funds Ratings
Public Finance Ratings
Sovereign Ratings
Structured Finance Ratings
Infrastructure Finance Ratings
Ratings Information Services
Global Ratings Development

=====
McGraw-Hill School Division

Glencoe/McGraw-Hill
CTB/McGraw-Hill
SRA/McGraw-Hill
McGraw-Hill Consumer Products

McGraw-Hill Higher Education

McGraw-Hill College
WCB/McGraw-Hill
Irwin/McGraw-Hill
Dushkin/McGraw-Hill
Primis Custom Publishing
McGraw-Hill Lifetime Learning

Professional Book Group

Business/McGraw-Hill
Osborne/McGraw-Hill
Computing/McGraw-Hill
Continuing Education Center
McGraw-Hill Interamericana
McGraw-Hill Europe
Tata McGraw-Hill
McGraw-Hill Ryerson
McGraw-Hill Asia/Pacific

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

Business Week
Business Week International
Business Week Online

BYTE

Data Communications/
Data Communications International
LANTimes
tele.com

NSTL

F.W. Dodge
Sweet's Group
Architectural Record
Engineering News-Record
Design-Build

Aviation Week
Aviation Week & Space Technology
A/C Flyer
Business & Commercial Aviation
World Aviation Directory
O&M Magazine
Aviation Week Newsletters
Healthcare Information Group
Hospital Practice
The Physician and Sportsmedicine
Postgraduate Medicine
Healthcare Informatics
InfoCare
e.MD
Healthcare Education Group
Science & Technology Group
Chemical Engineering
Modern Plastics/Modern Plastics International Power
Electrical World
Electric Power International
Information Technologies for
Utilities/IT
Energy and Business Newsletters
Utility Data Institute

Tower Group International
Tower Group International Canada, Inc.

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Financial review

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Management's Discussion and Analysis

Operating Results

Consolidated Review

(in millions)	1997	1996	1995
Operating Revenue	\$3,534.1	\$3,074.7	\$2,935.3
% Increase	14.9	4.7	6.3
Operating Profit	\$ 599.2(a)	\$ 924.5(b)	\$ 508.6
% Increase (Decrease)	(35.1)	81.8	12.7
% Operating Margin	17	30	17
Income Before Taxes	\$ 471.3(a)	\$ 814.8(b)	\$ 386.3
Net Income	\$ 290.7(a)	\$ 495.7(b)	\$ 227.1

(a) Includes provision of \$33.2 million (\$19.9 million after taxes, or 20 cents per diluted share) for real estate writedowns for the consolidation of office space in New York City. Also includes gain on sale of Datapro Information Services of \$20.4 million (\$20.2 million after taxes, or 20 cents per diluted share). \$30.5 million of the real estate charge is reflected in operating profit.

(b) Includes gain on the exchange of the Shepard's/McGraw-Hill legal publishing unit for the Times Mirror Higher Education Group of \$418.7 million (\$260.5 million after taxes) and an unusual charge of \$25 million (\$14.9 million after taxes) for costs to integrate The McGraw-Hill Companies' College division with the acquired higher education business.

1997 Compared with 1996

Revenue and Earnings

In 1997 The McGraw-Hill Companies achieved significant growth in revenue and profit. The 14.9% growth in operating revenue reflects excellent sales in elementary-high school (el-hi) publishing; record revenue at Standard & Poor's Ratings Services from strong new issuance volume in the U.S. bond market and global expansion; and the acquisition of the former Times Mirror Higher Education Group. Excluding nonrecurring items, operating profit improved \$78.4 million, or 14.8%, reflecting the strong revenue growth. Net income increased 16.2% to \$290.7 million and diluted earnings per share increased to \$2.91 from \$2.50 last year.

Comparisons exclude the 1996 gain on the exchange of the Shepard's/McGraw-Hill legal publishing unit for the Times Mirror Higher Education Group of \$418.7 million (\$260.5 million after taxes, or \$2.61 per diluted share) and an unusual charge of \$25 million (\$14.9 million after taxes, or 15 cents per diluted share) for costs to integrate the College division with the acquired higher education business.

In 1997, the Datapro Information Services business was divested for \$25 million in cash; operating results reflect a gain of \$20.4 million (\$20.2 million after taxes, or 20 cents per diluted share). The pretax gain is recorded as other income on the consolidated statement of income and is reflected in the operating profit of the Information and Media Services segment. The McGraw-Hill London House and McGraw-Hill School Systems units were also divested in 1997 for \$29 million in cash; the proceeds approximated the book values of the properties.

1997 earnings reflect a one-time, noncash provision of \$33.2 million (\$19.9 million after taxes, or 20 cents per diluted share) for the consolidation of office space in New York City. This one-time provision is primarily for the writedown of a building to be sold as part of the office consolidation and the writedown of leasehold improvements for the surrender of office space to be vacated in the headquarters building. These actions were taken to consolidate into fewer and more efficient locations and to align future space requirements with growth plans. The 1997 operating profit of each segment and corporate expenses reflect the amount of the provision associated with each segment. New leases were signed for approximately 1.4 million square feet of office space through the year 2020.

Income before taxes, excluding the gain on the sale of Datapro and the facilities charge, increased 14.9% over 1996, reflecting the strong revenue gains.

Expenses

Operating expenses in 1997 increased 13.4%, reflecting higher revenue, investments in new products and modest inflationary increases in key expense categories, such as compensation. Operating expenses include the one-time \$33.2 million facilities charge. Combined printing, paper and distribution prices declined in 1997 by approximately 2% due to the impact of lower paper prices earlier in the year, the successful negotiations with suppliers and the leverage gained through the acquisition of the former Times Mirror Higher Education Group.

Selling and general expenses increased 15.3%, reflecting volume-related increases. A significant portion of both operating and selling and general expenses is compensation, which increased approximately 9% to \$927 million, reflecting the impact of merit increases, the acquisition

of the Times Mirror Higher Education Group and incentive related compensation.

Depreciation and amortization expense, including amortization of goodwill, intangible assets and prepublication costs, increased \$55 million, or 23%, due primarily to the impact of the acquisition of the Times Mirror Higher Education Group and the amortization of prepublication costs associated with 1997 el-hi adoptions.

In 1998, combined paper, printing and distribution prices are expected to increase between 3-4% primarily due to paper price increases that occurred in late 1997, nominal printing price increases and an expected postal rate increase. The impact of merit increases on compensation costs should approximate 4%.

Interest Expense

Net interest expense in 1997 was \$52.5 million compared with \$47.7 million in 1996, an increase of \$4.8 million, or 10.3%, resulting from an increase in average commercial paper interest rates from 5.4% in 1996 to 5.6% in 1997 and an increase in commercial paper borrowing levels. In 1998, interest expense will increase due to higher borrowing levels associated with capital expenditures, primarily for the build-out of new office space in New York City.

Provision for Income Taxes

The provision for taxes as a percent of income before taxes, excluding the gain on the sale of Datapro, was 40.0% in 1997 compared with 40.6% in 1996. The reduction in the effective tax rate reflects lower state taxes resulting primarily from the acquisition of the Times Mirror Higher Education Group. Including the gain on the sale of Datapro, the effective tax rate was 38.3% due to lower taxes on the gain.

In 1998, the provision for taxes as a percent of income before taxes is expected to decline to 39% due to favorable apportionment changes reducing state taxes.

1996 Compared with 1995

Revenue and Earnings

On October 15, 1996 the Shepard's/McGraw-Hill legal publishing unit was exchanged for the Times Mirror Higher Education Group and other consideration, including \$34 million in cash. The valuation of the properties exchanged was \$485 million. The divestiture of Shepard's reflected a strategy to focus investment and resources in businesses with significant growth opportunities and synergies with core businesses.

The acquisition of the Times Mirror properties - Richard D. Irwin, William C. Brown, Brown & Benchmark, Irwin Professional Publishing and Mosby College - established the company as the world's largest educational publisher. The acquired higher education businesses were integrated with the McGraw-Hill College division, resulting in the elimination of 500 positions and the consolidation of facilities and systems. The integration actions were largely completed in 1997.

Operating revenue increased 4.7% in 1996, reflecting a then-record year for Standard & Poor's Ratings Services and stronger results in school publishing and higher education. The exchange transaction did not significantly impact year-to-year revenue comparisons as the former Times Mirror Higher Education properties contributed \$59 million in revenue, while Shepard's revenue declined \$53 million due to the exchange transaction and the divestiture of the topical publishing unit at the end of 1995.

Excluding nonrecurring items, operating profit improved \$22.2 million, or 4.4%, primarily due to Standard & Poor's Ratings Services' global growth, a strong bond market and new products. Educational and Professional Publishing operating profit declined slightly as strong results in school publishing and higher education were offset by a decline in professional publishing's domestic profit, development costs for McGraw-Hill Home Interactive, and fourth quarter dilution from the exchange transaction. Information and Media Services operating profit declined, as improved profits at Business Week and the Construction Information Group were offset by declines in Publication Services and Broadcasting.

1995's results include a gain on the sale of the topical publishing division of Shepard's of \$23.8 million and a provision of \$26.8 million for the "best practices" program. Under the best practices program, actions were taken to improve the efficiency and effectiveness of major systems and processes, including various administrative functions and related technology. Approximately 750 positions were eliminated under this program, mostly in 1996.

Expenses

Operating expenses in 1996 increased \$104.7 million, or 7.8%, due to volume and modest inflationary increases in key expense categories, such as compensation. Paper, printing and distribution prices were held to a 1% increase. Selling and general expenses increased less than 1% as costs associated with the revenue increase were largely offset by cost reductions. Depreciation and amortization expenses increased \$7.2 million, or 3.1%, due to the impact of the acquisition of the Times Mirror Higher Education Group.

Interest Expense

Net interest expense in 1996 decreased \$11.1 million, reflecting a decrease in average commercial paper interest rates from 6.0% in 1995 to 5.4% in 1996, and reduced commercial paper borrowing levels.

Provision for Income Taxes

The provision for taxes in 1996 as a percent of income before taxes was 40.6%, excluding the gain on the exchange of the Shepard's/McGraw-Hill legal publishing unit for the Times Mirror Higher Education Group. Including the gain on the exchange transaction, the effective tax rate was 39.2% due to a lower state tax rate on the gain. The reduction in the effective tax rate from 41.2% in 1995 reflects the declining impact of nondeductible goodwill amortization on higher pretax earnings as well as favorable settlement of state tax audits.

Management's Discussion and Analysis

Segment Review

Educational and Professional Publishing			
(in millions)	1997	1996	1995
Operating Revenue	\$1,573.8	\$1,277.9	\$1,235.6
% Increase	23.2	3.4	6.3
Operating Profit	\$ 187.7 (a)	\$ 545.7 (b)	\$ 162.6 (c)
% Increase (Decrease)	(65.6)	235.6	29.3
% Operating Margin	12	43	13

(a) Includes an \$8.6 million provision for the consolidation of office space in New York City.

(b) Includes the pretax gain on the exchange of Shepard's/McGraw-Hill legal publishing unit for the Times Mirror Higher Education Group of \$418.7 million and an unusual charge of \$25 million for costs to integrate The McGraw-Hill Companies' College division with the acquired higher education business.

(c) Includes the pretax gain on the sale of the Shepard's/McGraw-Hill topical publishing unit of \$23.8 million and a best practices charge of \$15.1 million.

The Educational and Professional Publishing segment consists of three operating groups: Educational Publishing, Higher Education, and Professional Publishing (comprising International Publishing, Continuing Education Center, Professional Book and Medical Publishing). On October 15, 1996, the Shepard's/McGraw-Hill legal publishing unit was exchanged for the Times Mirror Higher Education Group, which is reflected from the date of acquisition in the segment results. Shepard's/McGraw-Hill had revenue of \$57 million in 1996.

In 1997, the Educational and Professional Publishing segment achieved record revenue and operating profit. The revenue growth of 23.2% reflects strong growth in el-hi publishing and the full year impact of the Times Mirror Higher Education Group. Operating profit, excluding the \$8.6 million provision in the segment for the consolidation of office space and last year's net gain on the exchange of Shepard's for the Times Mirror Higher Education Group, increased 29.2% to \$196.3 million. In 1996, revenue increased 3.4% and operating profit, excluding the unusual items in both 1996 and 1995, declined modestly from \$154 million to \$152 million due to development costs for McGraw-Hill Home Interactive, reduced profits in domestic professional publishing, and dilution from the timing of integration savings and the seasonal decline in earnings in the acquired higher education business resulting from the exchange transaction.

Educational Publishing

The Educational Publishing Group comprises four divisions: McGraw-Hill School, publisher of textbooks and instructional materials for elementary schools (grades K-8); Glencoe/McGraw-Hill, secondary school (grades 7-12) and postsecondary publisher; California Testing Bureau (CTB/ McGraw-Hill), producer of publications and provider of scoring for standardized achievement tests, customized testing and specialized educational software products; and Science Research Associates (SRA/McGraw-Hill), developer of supplementary elementary and secondary instructional materials.

Educational Publishing Group revenue grew 25.4% in 1997 to \$787 million, 50% of segment revenue. Market conditions were very strong, with a very favorable adoption cycle and a continued strong funding environment. The revenue growth reflects market share gains in adoption states and open territories. Two product offerings in the California reading adoption - McGraw-Hill School's basal program, Spotlight on Literacy, and the SRA/McGraw-Hill reading series, Collections for Young Scholars - combined for a market-leading 35% share. McGraw-Hill School's social studies program, Adventures in Time and Place, captured 60% market share in Texas. The reading and social studies programs also performed very well in other adoption states and open territories.

Despite limited adoption opportunities, Glencoe/ McGraw-Hill increased revenue and profit through its broad product base and successful new programs. SRA/ McGraw-Hill's performance improved due to the California reading adoption and increased sales of its skill-based learning materials. CTB/McGraw-Hill had strong revenue growth from its new testing series, TerraNova, and increased custom testing services; profit declined due to costs of introducing TerraNova and lower profit on custom contracts.

In 1998, Educational Publishing anticipates positive market conditions with a continued favorable funding environment, increasing enrollments and a less robust, yet still positive, adoption cycle. Major 1998 elementary adoptions include math in seven states, including Florida, where McGraw-Hill School and SRA/McGraw-Hill will both have product offerings, and the second year of the California reading adoption. Glencoe/McGraw-Hill will have stronger adoption opportunities in the secondary market, particularly in math and social studies. CTB/McGraw-Hill will face an increasingly competitive testing marketplace.

In 1996, despite an off-adoption year, Educational Publishing had a 5.1% increase in revenue and improved profits. Glencoe/McGraw-Hill achieved impressive revenue and profit growth. McGraw-Hill School revenue and profit declined from 1995, as expected, reflecting fall-off from 1995's Texas music adoption. SRA/McGraw-Hill's results improved as the acquisition of Open Court Publishing and sales of direct instruction materials more than offset revenue declines from 1995's Texas Early Childhood adoption. CTB/McGraw-Hill had higher revenue and profit.

Higher Education

Revenue in Higher Education increased 64% in 1997 to \$336 million, 21% of segment revenue. The revenue increase reflects the full year impact of the former

Times Mirror Higher Education Group. Key frontlist titles driving the revenue increase include revisions of Knorre Puntos de Partida, An Invitation to Spanish, Garrison Managerial Accounting, and Mader Inquiry Into Life. Profits increased significantly due to the revenue growth and cost reductions from the integration program initiated with the acquisition. Most of the planned integration actions were completed in 1997 with the elimination of over 500 positions and the consolidation of facilities and systems.

In 1998, Higher Education expects to expand its frontlist, benefit from a strong backlist and continue growth in custom publishing. Profits should reflect the full year impact of 1997 integration actions. Enrollment trends are improving; however, students remain sensitive to the perceived high prices of books and used books continue to be a factor in the marketplace. Higher Education plans to expand its electronic delivery of content through products such as the McGraw-Hill Learning Architecture (MHLA) and customized products through Primis Custom Publishing.

In 1996, Higher Education revenue increased due to stronger frontlist sales, including McConnell's & Brue's Economics and Meig & Meigs' Accounting revisions, stronger backlist and Primis sales, and \$54 million in fourth quarter sales from the former Times Mirror Higher Education Group. Profit increased over 1995 due to the increased revenue and expense controls.

Professional Publishing

Revenue increased 16.0% to \$451 million, 29% of segment revenue. The revenue growth reflects an expanded publishing plan for business, computer and medical titles, the 8th edition of the Encyclopedia of Science and Technology, and the 14th edition of Harrison's Principles of Internal Medicine. Internationally, revenue grew significantly due to the full year impact of former Times Mirror products, the continuing recovery in Mexico and improved economic conditions in Canada. Professional Publishing profits were dampened by continued softness at the Continuing Education Center, the home-study business.

In 1998, Professional Publishing plans to expand its publishing plan and benefit from strong international education markets. Enhancement of course offerings is planned at the Continuing Education Center as a unit of the new McGraw-Hill Lifetime Learning unit.

In 1996, revenue grew approximately 1% as increased international revenue was offset by a decline in domestic revenue reflecting a difficult retail book market, a reduced publishing plan, and lower completion rates at the Continuing Education Center. Profit declined due to the domestic operating performance.

Financial Services			
(in millions)	1997	1996	1995
Operating Revenue	\$980.1	\$855.9	\$786.8
% Increase	14.5	8.8	5.5
Operating Profit	\$269.9(a)	\$262.1	\$230.9
% Increase	3.0	13.5	6.3
% Operating Margin	28	31	29

(a) Includes a \$20.4 million provision for the consolidation of office space in New York City.

The Financial Services segment consists of two operating groups: Standard & Poor's Ratings Services and Standard & Poor's Financial Information Services, which comprises divisions serving the following markets: Retail, Corporate, Institutional, Sales & Trading, and Municipal Securities.

Financial Services' segment revenue increased 14.5% to \$980.1 million and operating profit, excluding a \$20.4 million provision for the consolidation of office space, rose 10.8% to \$290.3 million. Operating margins declined slightly, reflecting investments in new products and services and global expansion. In 1996, the segment's revenue grew 8.8% and operating profit rose 13.5%.

Standard & Poor's Ratings Services

Standard & Poor's Ratings Services revenue rose in 1997 on record new issue volume in the U.S. bond market, rapid growth in global markets and expanded nontraditional ratings services. Corporate ratings growth reflects a favorable interest rate environment and the increasing demand for high yield bonds. Structured Finance grew, reflecting strong issuance in asset-backed and mortgage-backed markets. Public Finance revenue grew moderately in a favorable market environment. Nontraditional revenue continued to expand in areas such as managed funds and insurance. International revenue grew substantially, reflecting the acquisitions of Risk Analysis in Argentina and Fund Research in the UK, and continued global growth in all regions. The expanding global focus also includes a 50% joint venture in Taiwan Ratings Corporation, a 10% equity interest in CRISIL, India's leading rating service, and the signing of affiliation agreements with Fundacao Getulio Vargas in Brazil and CA Ratings in South Africa. 1997 operating profit rose, reflecting the higher revenue while funding larger investments in global expansion and product diversification.

In 1998, Standard & Poor's Ratings Services anticipates another strong year, dependent on a continuation of a favorable interest rate

environment, healthy bond market issuance, including noninvestment grade corporate debt, and continued expansion of the nontraditional business areas. Investment in international expansion will continue.

In 1996, Standard & Poor's Ratings Services revenue rose on higher bond market issuance in the U.S. municipal, corporate, and structured markets, primarily reflecting a favorable interest environment and increasing demand for funds from noninvestment grade issuers. Nontraditional revenue grew, reflecting continued product line diversification. International revenue also grew substantially, reflecting 100% ownership of ADEF, the former 50% joint venture in France, and continued global growth, particularly in Asia and Europe. Global franchise expansion continued with cooperation agreements signed with Pefindo in Indonesia and Feller-Rate in Chile. U.S. expansion continued with the opening of an office in Dallas to serve southwestern states. 1996 operating profit rose, reflecting the higher revenue while funding increased investments.

Management's Discussion and Analysis

Segment Review (continued)

Standard & Poor's Financial Information Services

Standard & Poor's Financial Information Services' 1997 revenue increased, driven by a strong economic climate in the financial services industry. The Retail Group's revenue increased due to continued healthy demand for equity-related information and services. In particular, Standard & Poor's ComStock grew as more individual investors seek real-time information to manage their own portfolios. In the Institutional sector, Standard & Poor's Compustat subscription revenue gained from increased demand for fundamental data used by money managers. In Sales & Trading, Standard & Poor's Platt's and Standard & Poor's MMS revenue improved, reflecting growth in demand for real-time fundamental information and analysis in the global financial and energy services markets. In the Corporate sector, Standard & Poor's DRI revenue was flat. Negatively influencing the revenue performance is a continuing contraction in the domestic municipal securities market. Operating profit declined in 1997, reflecting the weakness in the secondary municipal securities sector and more aggressive investment in new products, such as S&P Personal Wealth, a new service targeted to the individual investor market, which was launched in early 1998.

In 1998, Standard & Poor's Financial Information Services will complete the realignment of its operations around key core market segments. New product development will continue to be a priority, concentrating on real-time Web-based data, commentary, and analytical services for solution-oriented content and services. Growth plans will continue to be impacted by the strength of international markets. The November 1997 acquisition of Micropal Group Ltd., a leading provider of mutual funds data and information, will also contribute to product line expansion.

In 1996, Standard & Poor's Financial Information Services revenue grew at a modest rate. Revenue growth was fueled primarily by international market expansion, a healthy demand for equity-related information and services and increased demand in electronic subscription products. Negatively influencing revenue performance during the year was a continued contraction in the domestic municipal bond market. Greater competitive pressure in the corporate market and reduced government contracts hampered demand for consulting services offered by Standard & Poor's DRI. Operating profit grew at a greater rate than revenue due to strong expense controls.

Information and Media Services

(in millions)	1997	1996	1995
Operating Revenue	\$980.2	\$940.9	\$912.9
% Increase	4.2	3.1	7.0
Operating Profit	\$141.5 (a)	\$116.8	\$115.1
% Increase	21.2	1.5	6.3
% Operating Margin	14	12	13

(a) Includes a provision of \$1.5 million for real estate writedowns for the consolidation of office space in New York City and a gain on sale of Datapro Information Services of \$20.4 million.

The Information and Media Services segment comprises three operating groups: Information Services (Business Week, Publication Services, Information Technology and Communications, and Tower Group International); McGraw-Hill Construction Information Group; and the McGraw-Hill Broadcasting Group.

The Information and Media Services segment's revenue increased 4.2% to \$980.2 million in 1997 and operating profit, excluding the gain on the sale of Datapro and the facilities provision, increased \$5.8 million, or 5.0%. In 1996, revenue increased 3.1% and operating profit increased \$1.7 million, or 1.5%. 1995 operating profit reflected a best practice charge of \$6.3 million.

Information Services

Information Services 1997 revenue increased 3.3% to \$584 million, or 60% of segment revenue. The revenue growth was 6.9% excluding the divestiture of Datapro.

Business Week revenue and operating profit grew strongly in 1997, the third year of growth. The results reflect an increase in advertising pages of 5.8%, despite two fewer issues, and continued improvement in advertising and circulation margins. Enhanced marketing programs contributed to the performance. A successful 1998 is dependent on continued strength in advertising in North American and international markets, where growth is expected to be at a lower rate due to the Asian economic instability. In 1996, Business Week revenue and operating profit grew as advertising and circulation margins improved.

Publication Services comprises the Aviation Week, Healthcare Information and Science and Technology units. Revenue and operating profit increased in 1997, reflecting strong advertising page growth in the healthcare magazines; strong display and classified advertising, and circulation and ancillary product growth at Aviation Week; and enhanced profit levels in Science and Technology on modest revenue growth due to product line rationalization. In 1998, Publication Services expects to continue investing in circulation and new products and services. In

1996, Publication Services revenue increased due to growth in aviation and healthcare and several healthcare acquisitions, partially offset by declines in Science and Technology; operating profit rose modestly.

Revenue for the Information Technology and Communications Group declined in 1997, reflecting the divestiture of Datapro and a modest decline in advertising revenue. Revenue gains in tele.com, LAN Times and NSTL testing services were offset by lower advertising and circulation revenues at BYTE. The revenue decline at BYTE and increased marketing investments produced an operating loss. In 1998, continued difficult market conditions are expected. In 1996, Information Technology

and Communications revenue declined and operating profit declined significantly due to the revenue decline and the costs to launch tele.com.

Tower Group International revenue increased in 1997 due to growth in core U.S. customs brokerage business and expansion in other transportation services. Operating profit increased at a lower rate reflecting investments. In 1998, import growth is expected to continue as will investments in extended product offerings and global expansion. In 1996, revenue and operating profit increased due to the expansion of inbound air transportation, drawback and professional advisory services and the full year impact of the April 1995 acquisition of UCB Canada.

Construction Information

The McGraw-Hill Construction Information Group revenue increased 7.5% in 1997 to \$279 million, 28% of segment revenue. Revenue increased due to growth at F.W. Dodge and Sweet's as electronic products grew by 25% and also from new products such as the Sweet's Directory. Architectural Record and Engineering News Record had significant increases in advertising pages. Operating profit increased over 1996 due to the revenue growth and continued expense management. The contract value of new U.S. construction in the key nonresidential building sector rose 7% in 1997 compared to 5% in 1996.

In 1998, the contract value of nonresidential building is expected to rise at about half the rate of 1997. The Group should continue to benefit from new electronic products, product enhancements and opportunity-based partnerships and alliances to provide enriched content to customers.

In 1996, revenue increased as F.W. Dodge's growth outpaced 1995, Sweet's electronic revenue expanded and the construction magazines had strong growth in advertising pages. Operating profit increased over 1995 due to the revenue growth and expense savings.

Broadcasting

The McGraw-Hill Broadcasting Group operates four television stations: VHF stations in Denver, Indianapolis and San Diego and a UHF station in Bakersfield, California. All four stations are ABC affiliates. Broadcasting revenue increased 1.0% in 1997 to \$117 million, 12% of segment revenue. Revenue growth was limited by the loss of political advertising, which had reached record levels in 1996. The stations also faced declining ratings in ABC network prime-time programming in 1997. Cost reductions enabled profits to increase significantly.

In 1998, Broadcasting expects a healthy sales outlook. Political advertising should be an important contributor with U.S. Senate and House races in all markets and gubernatorial races in California and Colorado.

In 1996, Broadcasting revenue was slightly lower than the record level achieved in 1995; performance was hampered by declining ratings in ABC network prime-time and early morning programs. Advertiser spending in the San Diego market was also well below expectations. Political advertising in all four markets was strong and reached a record level for the Group. Operating profit declined accordingly.

Liquidity and Capital Resources

(in millions)	1997	1996
Working Capital	\$ 258.2	\$ 130.9
Total Debt	\$ 684.4	\$ 581.4
Accounts Receivable (before reserves)	\$1,155.1	\$1,041.7
% Increase	11	11
Inventories	\$ 290.5	\$ 273.2
% Increase	6	15
Investment in Prepublication Costs	\$ 166.8	\$ 183.0
% Increase (Decrease)	(9)	36
Capital Expenditures	\$ 78.7	\$ 63.3
% Increase	24	8

The company continues to maintain a strong financial position. Cash flow from operations, excluding \$150 million in tax payments on last year's gain on the Shepard's/Times Mirror Higher Education exchange, was \$523 million in 1997, compared with \$460 million in 1996. Cash flow from operations was sufficient to cover dividends, outlays for the purchase of property and equipment, investment in publishing programs, and the repurchase of common shares. 1996's cash flow from operations increased \$26.9 million from 1995, reflecting the acquisition of Times Mirror Higher Education.

In 1997, total debt increased \$103 million, reflecting the income tax payment on last year's exchange gain, partially offset by the retirement of commercial paper borrowings resulting from positive cash flow. Debt includes \$46 million of acquisition-related debt, primarily due to the former shareholders of Micropal Group Limited, classified as notes payable. Total debt as a percentage of total capital increased to 32.3% at the end of 1997 from 29.9% at the end of 1996. In 1996, total debt decreased \$47.3 million, reflecting the retirement of commercial paper borrowings from positive cash flow.

Commercial paper borrowings at December 31, 1997 were \$381 million. Commercial paper debt is supported by a \$800 million revolving credit agreement with a group of banks terminating in February 2002, and \$350 million has been classified as long-term. There are no amounts outstanding under this agreement.

\$250 million 9.43% senior notes, due in the year 2000, remain outstanding. Under a shelf registration that became effective with the Securities and Exchange Commission in mid-1990, an additional \$250 million of debt securities can be issued. The new debt could be used to replace a portion of the commercial paper borrowings with longer-term securities, when and if interest rates are attractive and markets are favorable.

Working capital at the end of 1997 of \$258 million was \$127 million above the level at the end of 1996, primarily due to larger accounts receivable balances from higher sales, net of larger current debt levels.

Earnings and cash flow are significantly impacted by the seasonality of businesses, particularly educational publishing. The first quarter is the least significant, accounting for 18% of revenues and only 5% of income in 1997. The third quarter is the most significant, generating nearly half of 1997 annual earnings. This seasonality in revenue also impacts cash flow and related borrowing patterns. The

Management's Discussion and Analysis

Liquidity and Capital Resources (continued)

company typically borrows in the first half of the fiscal year, and generates cash in the second half of the year, primarily from fourth quarter collections from customers in the education markets. This pattern is magnified in years where there is significant state adoption activity, such as in 1997. The acquisition of the Times Mirror Higher Education Group further impacted the seasonality of operating results.

Accounts receivable (before reserves) increased \$113.4 million, or 10.9%, primarily as a result of increased revenues. The year-to-year increase was effectively controlled through timely collections. Number of days sales outstanding, a key indicator of collection efficiency, increased two days in 1997 due to the increased sales in education markets where terms of sale are longer.

Finished goods and work-in-process inventories increased \$22.4 million, or 9.4%, primarily due to the large number of adoptions in 1997. Raw material inventory, primarily paper, declined \$5.1 million, reflecting the timing of paper purchases.

Capital expenditures, primarily the purchase of property and equipment, totaled \$79 million in 1997, compared with \$63 million in 1996. In 1997 and 1996, expenditures were primarily for computer equipment for business units and corporate departments, including the integration of the Times Mirror Higher Education units. In 1998, capital expenditures are expected to more than double due to the build-out of the new leased office space in New York City, construction of a building in Columbus, Ohio, and spending on systems replacement.

Net prepublication costs declined to \$326 million at December 31, 1997 as amortization expense exceeded additional spending. Prepublication investment totaled \$167 million in 1997, \$16 million less than 1996. 1998 prepublication spending is expected to increase approximately 20% from 1997 levels, reflecting an increase in investment for the 1999 and 2000 adoption years.

On January 31, 1996, the Board of Directors approved a stock repurchase program authorizing the purchase of up to four million shares of common stock. As of December 31, 1997, 2.7 million common shares have been repurchased at a cost of \$143.2 million. The repurchased shares were financed from internally generated funds. The repurchased shares will be used for general corporate purposes, including the issuance of shares for the exercise of employee stock options.

On January 28, 1998, an increase in the quarterly common stock dividend of three cents, or 8.3%, to 39 cents per share was announced.

In 1998, cash flow from operations is expected to be sufficient to cover dividends, investment in publishing programs and any share repurchases. Debt levels will be impacted by borrowings for the increase in capital expenditures.

The company has operations in various foreign countries. In the normal course of business, these operations are exposed to fluctuations in currency values. Management does not consider the impact of currency fluctuations to represent a significant risk. The company has naturally hedged positions in most countries with a local currency perspective and asset and liability offsets. The company's interest expense is sensitive to changes in the general level of U.S. interest rates. In this regard, changes in the U.S. rates affect the interest paid on a portion of its debt. The company does not generally enter into derivative financial instruments in the normal course of business, nor are such instruments used for speculative purposes.

The technology environment has been reviewed to assess Year 2000 risks. Plans have been developed to convert or replace systems to achieve Year 2000 compatibility. The cost for Year 2000 modifications will approximate \$15 million, mostly to be spent in 1998. Certain systems that are not Year 2000-compliant will be replaced as part of ongoing system development projects included in the company's capital expenditure program.

The company has communicated with its significant vendors, redistributors and customers to determine their plans to address the Year 2000 issue. While the company expects a successful resolution of these issues, there can be no guarantee that systems of other companies, on which our systems rely, will address all Year 2000 issues on a timely basis or that their failure to successfully address all issues would not have an adverse effect on the company.

"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995

This section, as well as other portions of this document, includes certain forward-looking statements about the company's business, new products, sales, expenses, cash flows and operating and capital requirements. Such forward-looking statements include, but are not limited to: future paper, printing and distribution prices; future compensation merit increase rates; Educational Publishing's level of success in 1998 adoptions; the contribution to revenue and profits from the former Times Mirror Higher Education businesses; the strength of international education markets; the strength of profit levels at Standard & Poor's Ratings Services; the level of success of new product development and strength of international markets at Standard & Poor's Financial Information Services; Business Week's success in expansion into international markets; the strength of the domestic advertising market; the level of import activity; the contract value of nonresidential building; McGraw-Hill Construction Information Group's ability to introduce new electronic products, product extensions and enhancements; Broadcasting's level of political advertising; the level of future cash flow, debt levels, capital 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 and political conditions, currency and foreign exchange volatility, the health of capital and equity markets, the successful marketing of new products, and the effect of competitive products and pricing and the timing of reducing costs in the newly merged higher education business.

Consolidated Statement of Income

Years ended December 31 (in thousands, except per-share data)	1997	1996	1995
Operating revenue	\$3,534,095	\$3,074,697	\$2,935,283
Expenses			
Operating	1,639,377	1,445,028	1,340,348
Selling and general	1,116,215	968,103	960,875
Depreciation and amortization	293,518	238,558	231,408
Total expenses	3,049,110	2,651,689	2,532,631
Gain on exchange of Shepard's/McGraw-Hill (Note 3)	--	418,731	--
Other income - net (Note 2)	38,823	20,724	42,385
Income from operations	523,808	862,463	445,037
Interest expense - net	52,542	47,656	58,766
Income before taxes on income	471,266	814,807	386,271
Provision for taxes on income (Note 7)	180,591	319,074	159,144
Net income	\$ 290,675	\$ 495,733	\$ 227,127
Basic earnings per common share (Note 1)	\$ 2.94	\$ 4.99	\$ 2.29
Diluted earnings per common share (Note 1)	\$ 2.91	\$ 4.96	\$ 2.28

See accompanying notes.

Consolidated Balance Sheet

December 31 (in thousands, except share data)	1997	1996

Assets		
Current assets		
Cash and equivalents (Note 1)	\$ 4,768	\$ 3,430
Accounts receivable (net of allowances for doubtful accounts and sales returns: 1997 - \$182,629; 1996 - \$162,260)	972,449	879,466
Receivable from broker-dealers and dealer banks (Note 1)	9,483	2,473

Inventories:		
Finished goods	233,105	219,295
Work-in-process	28,455	19,887
Paper and other materials	28,919	33,976

Total inventories	290,479	273,158
Prepaid income taxes	99,131	106,464
Prepaid and other current assets	88,111	84,592

Total current assets	1,464,421	1,349,583

Prepublication costs (net of accumulated amortization: 1997 - \$526,156; 1996 - \$486,960) (Note 1)	326,251	353,064
Investments and other assets		
Investment in Rock-McGraw, Inc. - at equity (Note 6)	72,292	66,899
Prepaid pension expense	111,895	104,515
Other	167,701	150,373

Total investments and other assets	351,888	321,787

Property and equipment - at cost		
Land	18,823	19,196
Buildings and leasehold improvements	264,237	285,123
Equipment and furniture	555,154	531,361

Total property and equipment	838,214	835,680
Less - accumulated depreciation	564,584	524,187

Net property and equipment	273,630	311,493

Goodwill and other intangible assets - at cost (net of accumulated amortization: 1997 - \$449,981; 1996 - \$411,606) (Notes 1 and 3)	1,308,284	1,306,312

	\$3,724,474	\$3,642,239
=====		

See accompanying notes.

	1997	1996

Liabilities and Shareholders' Equity		
Current liabilities		
Notes payable (Note 5)	\$ 77,395	\$ 24,518
Accounts payable	285,862	241,736
Payable to broker-dealers and dealer banks (Note 1)	9,331	2,400
Accrued royalties	96,801	89,789
Accrued compensation and contributions to retirement plans	181,393	142,235
Income taxes currently payable	100,685	235,573
Unearned revenue	219,698	229,216
Other current liabilities	235,077	253,196

Total current liabilities	1,206,242	1,218,663

Other liabilities		
Long-term debt (Note 5)	607,030	556,850
Deferred income taxes	111,022	150,319
Accrued postretirement healthcare and other benefits	196,508	198,709
Other non-current liabilities	169,021	156,580

Total other liabilities	1,083,581	1,062,458

Total liabilities	2,289,823	2,281,121

Commitments and contingencies (Notes 6 and 8)		

Shareholders' equity (Notes 9 and 10)		
\$1.20 preference stock, \$10 par value:		
authorized - 891,256 shares;		
outstanding - 1,362 shares in 1997 and 1,388 shares in 1996	14	14
Common stock, \$1 par value:		
authorized - 150,000,000 shares;		
issued - 102,919,231 shares in 1997 and 102,919,060 shares in 1996	102,919	102,919
Additional paid-in capital	35,469	37,473
Retained income	1,542,854	1,394,884
Accumulated other comprehensive income	(74,247)	(57,302)

Less - common stock in treasury - at cost (3,817,643 shares in 1997 and 3,388,398 shares in 1996)	159,447	107,410
Unearned compensation on restricted stock	12,911	9,460

Total shareholders' equity	1,434,651	1,361,118

	\$ 3,724,474	\$ 3,642,239
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Consolidated Statement of Cash Flows

Years ended December 31 (in thousands)	1997	1996	1995
Cash flow from operating activities			
Net income	\$ 290,675	\$ 495,733	\$ 227,127
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation	73,151	71,097	67,916
Amortization of goodwill and intangibles	50,034	39,190	38,548
Amortization of prepublication costs	170,333	128,271	124,944
Provision for losses on accounts receivable	80,600	65,116	65,385
Provision for facility reserve	33,152	--	--
Gain on sale of Datapro Information Services	(20,404)	--	--
Gain on exchange of Shepard's/McGraw-Hill for the Times Mirror Higher Education Group	--	(418,731)	--
Gain on sale of topical publishing	--	--	(23,782)
Provision for one-time integration costs	--	25,000	--
Other	7,541	5,839	6,120
Change in assets and liabilities net of effect of acquisitions and dispositions:			
Increase in accounts receivable	(185,814)	(118,235)	(144,007)
(Increase)/decrease in inventories	(20,742)	4,000	(30,804)
Increase in prepaid and other current assets	(4,303)	(15,880)	(7,957)
Increase in accounts payable and accrued expenses	91,423	40,717	51,697
Increase/(decrease) in unearned revenue	(5,145)	13,770	2,894
Increase/(decrease) in other current liabilities	(25,802)	(11,010)	6,670
Increase/(decrease) in interest and income taxes currently payable	(134,117)	166,646	23,913
Increase/(decrease) in prepaid/deferred income taxes	(19,770)	(24,807)	18,913
Net change in other assets and liabilities	(7,736)	(6,564)	5,659
Cash provided by operating activities	373,076	460,152	433,236
Investing activities			
Investment in prepublication costs	(166,784)	(182,978)	(134,118)
Purchase of property and equipment	(78,724)	(63,313)	(58,776)
Acquisition of businesses and equity interests	(43,780)	(31,195)	(36,246)
Proceeds from exchange of Shepard's/McGraw-Hill for the Times Mirror Higher Education Group	6,730	27,258	--
Disposition of businesses	54,521	6,383	34,828
Other	3,256	3,658	1,353
Cash used for investing activities	(224,781)	(240,187)	(192,959)
Financing activities			
Dividends paid to shareholders	(142,705)	(131,375)	(119,653)
Additions to/(repayment of) commercial paper and other short-term debt - net	62,340	(46,696)	(133,700)
Repurchase of treasury shares	(79,899)	(63,314)	--
Exercise of stock options	20,367	19,869	20,616
Other	(5,560)	(4,928)	(3,133)
Cash used for financing activities	(145,457)	(226,444)	(235,870)
Effect of exchange rate changes on cash	(1,500)	(341)	(2,213)
Net change in cash and equivalents	1,338	(6,820)	2,194
Cash and equivalents at beginning of year	3,430	10,250	8,056
Cash and equivalents at end of year	\$ 4,768	\$ 3,430	\$ 10,250

See accompanying notes.

Consolidated Statement of Shareholders' Equity

Years ended December 31, 1997, 1996 and 1995

(in thousands, except per-share data)	\$1.20 preference \$10 par	Common \$1 par	Additional paid-in capital	Retained income	Accumulated other compre- hensive income
Balance at December 31, 1994	\$ 15	\$ 102,918	\$ 17,855	\$ 923,052	\$ (45,224)
Net income	--	--	--	227,127	--
Other comprehensive income, net of tax - foreign currency translation adjustments	--	--	--	--	(11,023)
Comprehensive income	--	--	--	--	--
Dividends (\$1.20 per share)	--	--	--	(119,653)	--
Exercise of stock options	--	--	5,685	--	--
Restricted stock	--	--	3,152	--	--
Other	(1)	1	48	--	--
Balance at December 31, 1995	14	102,919	26,740	1,030,526	(56,247)
Net income	--	--	--	495,733	--
Other comprehensive income, net of tax - foreign currency translation adjustments	--	--	--	--	(1,055)
Comprehensive income	--	--	--	--	--
Dividends (\$1.32 per share)	--	--	--	(131,375)	--
Share repurchase	--	--	--	--	--
Exercise of stock options	--	--	3,886	--	--
Restricted stock	--	--	6,756	--	--
Other	--	--	91	--	--
Balance at December 31, 1996	14	102,919	37,473	1,394,884	(57,302)
Net income	--	--	--	290,675	--
Other comprehensive income, net of tax - foreign currency translation adjustments	--	--	--	--	(16,945)
Comprehensive income	--	--	--	--	--
Dividends (\$1.44 per share)	--	--	--	(142,705)	--
Share repurchase	--	--	--	--	--
Exercise of stock options	--	--	(8,252)	--	--
Restricted stock	--	--	6,186	--	--
Other	--	--	62	--	--
Balance at December 31, 1997	\$ 14	\$ 102,919	\$ 35,469	\$ 1,542,854	\$ (74,247)
(in thousands, except per-share data)	Less - common stock in treasury at cost	Less - unearned compensation on restricted stock	Total		
Balance at December 31, 1994	\$ 76,987	\$ 8,577	\$ 913,052		
Net income	--	--	227,127		
Other comprehensive income, net of tax - foreign currency translation adjustments	--	--	(11,023)		
Comprehensive income	--	--	216,104		
Dividends (\$1.20 per share)	--	--	(119,653)		
Exercise of stock options	(14,583)	--	20,268		
Restricted stock	(1,539)	(469)	5,160		
Other	(87)	--	135		
Balance at December 31, 1995	60,778	8,108	1,035,066		
Net income	--	--	495,733		
Other comprehensive income, net of tax - foreign currency translation adjustments	--	--	(1,055)		
Comprehensive income	--	--	494,678		
Dividends (\$1.32 per share)	--	--	(131,375)		
Share repurchase	63,314	--	(63,314)		
Exercise of stock options	(15,468)	--	19,354		
Restricted stock	(1,096)	1,352	6,500		
Other	(118)	--	209		
Balance at December 31, 1996	107,410	9,460	1,361,118		
Net income	--	--	290,675		

Other comprehensive income, net of tax - foreign currency translation adjustments	--	--	(16,945)

Comprehensive income			273,730
Dividends (\$1.44 per share)	--	--	(142,705)
Share repurchase	79,899	--	(79,899)
Exercise of stock options	(23,268)	--	15,016
Restricted stock	(4,463)	3,451	7,198
Other	(131)	--	193

Balance at December 31, 1997	\$ 159,447	\$ 12,911	\$ 1,434,651
			=====

See accompanying notes.

Notes to Consolidated Financial Statements

1. Accounting Policies

Principles of consolidation. The consolidated financial statements include the accounts of all subsidiaries and the company's share of earnings or losses of joint ventures and affiliated companies under the equity method of accounting. All significant intercompany accounts and transactions have been eliminated.

Use of estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash equivalents. Cash equivalents consist of highly liquid investments with maturities of three months or less at the time of purchase.

Inventories. Inventories are stated at the lower of cost (principally first-in, first-out) or market.

Prepublication costs. Prepublication costs, principally outside preparation costs, are amortized from the year of publication over their estimated useful lives, primarily three to five years, using either an accelerated or the straight-line method. It is the company's policy to evaluate the remaining lives and recoverability of such costs, which is often dependent upon program acceptance by state adoption authorities.

Goodwill and other intangible assets. Goodwill and other intangible assets that arose from acquisitions either consummated or initiated prior to November 1, 1970 are not amortized unless there has been a reduction in the value of the related assets. Goodwill and other intangible assets arising subsequent to November 1, 1970 of \$1.8 billion at December 31, 1997 and \$1.7 billion at December 31, 1996 are being amortized over periods of up to 40 years. The company periodically reviews its goodwill to determine if any impairment exists based upon projected, undiscounted net cash flows of the related business unit.

Receivable from/payable to broker-dealers and dealer banks. A subsidiary of J.J. Kenny Co. acts as an undisclosed agent in the purchase and sale of municipal securities for broker-dealers and dealer banks, and the company had matched purchase and sale commitments of \$282.4 million and \$117.1 million at December 31, 1997 and 1996, respectively. Only those transactions not closed at the settlement date are reflected in the balance sheet as receivables and payables.

Foreign currency translation. Assets and liabilities are translated using current exchange rates, except certain accounts of units whose functional currency is the U.S. dollar, and translation adjustments are accumulated in a separate component of shareholders' equity. Revenues and expenses are translated at average monthly exchange rates. Inventory, prepublication costs and property and equipment accounts of units whose functional currency is the U.S. dollar are translated using historical exchange rates and translation adjustments are charged and credited to income.

Revenue. Tuition revenue from home-study courses is recorded when the contracts are accepted. At the same time, provisions for cancellation and uncollectible accounts, and estimated costs to service the contracts, are recorded. Units whose revenues are principally from subscription income and service contracts record revenue as earned. Units whose revenues are principally from advertising generally record subscription income as received. Costs related to subscriptions generally are expensed as incurred.

Depreciation. The costs of property and equipment are depreciated using the straight-line method based upon the following estimated useful lives:

Buildings and leasehold improvements - 15 to 40 years
Equipment and furniture - 3 to 10 years

Advertising expense. The cost of advertising is expensed as incurred. The company incurred \$109 million, \$96 million and \$96 million in advertising costs in 1997, 1996 and 1995, respectively.

Earnings per common share. Basic earnings per common share are based on the average number of common shares outstanding during the year. Diluted earnings per common share include the effect of dilutive securities such as \$1.20 convertible preference stock, stock options and restricted performance shares. The number of shares issuable upon exercise of stock options has been reduced by the number of common shares assumed to have been purchased with the proceeds from the exercise of the options.

Accounting change. Effective December 31, 1997, the company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 128, Earnings per Share. The standard requires a change in the method used to compute earnings per share, a dual presentation of basic earnings per common share and diluted earnings per common share and the restatement of prior periods presented.

A reconciliation of the number of shares used for calculating basic earnings per common share and diluted earnings per common share follows:

(in thousands of shares)	1997	1996	1995
Average number of common shares outstanding	98,973	99,416	99,257
Effect of stock options and other dilutive securities	779	455	377
Average number of common shares outstanding including effect of dilutive securities	99,752	99,871	99,634

Restricted performance shares outstanding at December 31, 1997 of 365,700 were not included in the computation of diluted earnings per common share because the necessary vesting conditions have not yet been met.

Stock-based compensation. The company grants options for a fixed number of shares to employees with the exercise price equal to the fair value of the shares at the date of grant. The company accounts for stock option grants in accordance with APB Opinion No. 25, Accounting for Stock Issued to Employees, and, accordingly, recognizes no compensation expense for the stock option grants.

Reclassification. Certain prior-year amounts have been reclassified for comparability purposes.

2. Acquisitions and Dispositions

Acquisitions. In 1997, the company made seven acquisitions and equity investments, including Micropal Group Ltd., for \$43.8 million in cash, net of cash acquired, and \$41.9 million in debt. In 1996, excluding the exchange of Shepard's/McGraw-Hill for the Times Mirror Higher Education Group (TMHE), the company made four acquisitions, including Open Court Publishing, for \$31.2 million in cash, net of cash acquired. See Note 3 for details of the Shepard's/McGraw-Hill-TMHE exchange. In 1995, the company made six acquisitions, including UCB Canada, Inc., for \$36.2 million in cash. The effect of these acquisitions on the results of operations for the years presented was not material.

Noncash Investing Activities. Liabilities assumed in conjunction with the acquisition of businesses, including TMHE, are as follows:

(in thousands)	1997	1996	1995
Fair value of assets acquired	\$104,116	\$583,460	\$58,152
Cash paid (net of cash acquired)	43,780	3,937	36,246
Fair value of business exchanged	--	485,000	--
Liabilities assumed	\$ 60,336	\$ 94,523	\$21,906

Dispositions. In 1997, the company sold Datapro Information Services, McGraw-Hill School Systems and London House for \$54.5 million. The pretax gain on the sale of Datapro Information Services was \$20.4 million, which was included in other income. After taxes, the gain was \$20.2 million. The proceeds from the other two businesses sold approximated the book value of the properties. In 1996, other than the Shepard's/McGraw-Hill-TMHE exchange discussed in Note 3, there were no significant dispositions. In 1995, the company sold the topical publishing business of Shepard's/ McGraw-Hill. The pretax gain on this disposition was \$23.8 million, which was included in other income. After taxes, the gain was \$15.1 million.

3. Exchange of Shepard's/McGraw-Hill for Times Mirror Higher Education Group

On October 15, 1996, The McGraw-Hill Companies completed the exchange of its Shepard's/McGraw-Hill legal publishing unit for the Times Mirror Higher Education Group (TMHE) and other consideration, including \$34 million in cash. The valuation of the properties exchanged was \$485 million. The acquisition of TMHE was accounted for as a purchase and the net assets and results of operations of TMHE have been included in the consolidated financial statements since the date of acquisition. The excess of the transaction value over the tangible assets acquired was allocated to identifiable publishing intangible assets (\$231 million) being amortized over 18 to 30 years and goodwill (\$168 million) being amortized over 40 years.

The company recorded a pretax gain on the sale of Shepard's/ McGraw-Hill of \$418.7 million (\$260.5 million net of taxes, or \$2.61 per diluted share).

In connection with the acquisition of TMHE, the company recorded acquisition reserves of \$26.6 million. Such costs were primarily for employee severance as well as professional fees and various other costs associated with the acquisition. In addition, one-time charges of \$25 million related to the integration of the company's College Division with the acquired TMHE business were recorded in 1996. Such costs were attributed to employee severance, asset write-offs and other costs to integrate and consolidate the operations.

The following unaudited pro forma information presents the consolidated results of operations of the company for 1996 as if the exchange of businesses had occurred at the beginning of 1996. Pro forma results for 1996 are: operating revenue of \$3.2 billion, net income of \$225 million and diluted earnings per common share of \$2.25.

These pro forma results are not necessarily indicative of those that would have occurred had the exchange of businesses taken place at the beginning of 1996.

4. Segment Reporting and Geographic Information

A description of each of the company's three segments and their products, services and markets served is included on pages 22-23 of this annual report.

Operating profit by segment and geographic area is total operating revenue less expenses that are deemed to be related to the unit's operating revenue. Identifiable assets by segment and geographic area are those assets that are used in the operation of that unit. Corporate assets consist principally of cash and equivalents, investment in Rock-McGraw, Inc., prepaid pension expense and income taxes and leasehold improvements related to subleased areas.

Foreign revenue and profit are from book publishing and financial and information services operations in 31 countries. Transfers between geographic areas are recorded at cost plus a markup and intercompany revenue and profit are eliminated.

In June 1997, the Financial Accounting Standards Board issued SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, which is effective for fiscal years beginning after December 15, 1997. SFAS No. 131 will not have any impact on the financial results or financial condition of the company, but may result in certain changes in required disclosures of segment information.

A summary of information about the company's operations by segment and geographic area follows:

(in thousands)	Operating revenue	Operating profit	Assets at December 31	Depreciation and amortization+	Capital expenditures++
1997					
Educational and Professional Publishing	\$1,573,797	\$ 187,722	\$2,058,236	\$ 225,030	\$ 193,137
Financial Services	980,120	269,886	674,355	33,372	23,542
Information and Media Services	980,178	141,542	614,326	33,871	28,829
Total operating segments	3,534,095	599,150	3,346,917	292,273	245,508
Corporate	--	(75,342)	377,557	1,245	--
Interest expense - net	--	(52,542)	--	--	--
Total company	\$3,534,095	\$ 471,266*	\$3,724,474	\$ 293,518	\$ 245,508
1996					
Educational and Professional Publishing	\$1,277,895	\$ 545,652v	\$2,085,540	\$ 172,306	\$ 201,211
Financial Services	855,925	262,085	561,128	30,478	20,155
Information and Media Services	940,877	116,799	626,324	34,635	24,925
Total operating segments	3,074,697	924,536	3,272,992	237,419	246,291
Corporate	--	(62,073)	369,247	1,139	--
Interest expense - net	--	(47,656)	--	--	--
Total company	\$3,074,697	\$ 814,807*	\$3,642,239	\$ 238,558	\$ 246,291
1995					
Educational and Professional Publishing	\$1,235,578	\$ 162,604	\$1,573,601	\$ 166,847	\$ 154,560
Financial Services	786,786	230,934	562,742	29,331	19,960
Information and Media Services	912,919	115,069	620,114	33,086	18,048
Total operating segments	2,935,283	508,607	2,756,457	229,264	192,568
Corporate	--	(63,570)	300,710	2,144	326
Interest expense - net	--	(58,766)	--	--	--
Total company	\$2,935,283	\$ 386,271*	\$3,057,167	\$ 231,408	\$ 192,894
1997					
United States	\$3,015,679	\$ 509,025	\$3,300,504		
Foreign	518,416	90,125	423,970		
1996					
United States	\$2,624,703	\$ 853,061	\$3,274,513		
Foreign	449,994	71,475	367,726		
1995					
United States	\$2,528,553	\$ 448,876	\$2,707,536		
Foreign	406,730	59,731	349,631		

* Income before taxes on income.

+ Includes amortization of goodwill and intangible assets and prepublication costs.

++ Includes purchases of property and equipment and investments in prepublication costs.

v Operating profit includes a pretax gain on exchange of Shepard's/McGraw-Hill for the Times Mirror Higher Education Group of \$418.7 million and a one-time charge of \$25 million for costs of integrating the company's College Division with the acquired higher education business.

5. Debt

At December 31, 1997, the company had short-term borrowings of \$427 million, primarily representing domestic commercial paper borrowings of \$381 million and acquisition-related debt of \$46 million at an average interest rate of 5.6% maturing at various dates during 1998. The commercial paper borrowings are supported by the revolving credit agreement described below, and \$350 million has been classified as long-term.

The company has an \$800 million revolving credit agreement with a group of banks terminating in February 2002. Interest rates on amounts borrowed vary depending upon the source and are based on either the Eurodollar or a bank base rate, at the company's option. The credit agreement contains various warranties and covenants that must be complied with on a continuing basis. The agreement requires a commitment fee on the unused portion of the

credit line. At December 31, 1997, there were no borrowings under the agreement.

In 1990, the company issued \$250 million of 9.43% senior notes due September 1, 2000. The notes are unsecured obligations of the company and are not redeemable by the company prior to the maturity date.

At December 31, 1996, the company had short-term borrowings of \$325 million, primarily representing domestic commercial paper borrowings at an average interest rate of 5.4% maturing at various dates during 1997. The commercial paper borrowings were supported by the revolving credit agreement noted above and \$300 million of the commercial paper borrowings was classified as long-term.

A summary of long-term debt at December 31 follows:

(in thousands)	1997	1996
9.43% senior notes due 2000	\$250,000	\$250,000
Commercial paper supported		
by bank revolving credit agreement	350,000	300,000
Other (primarily acquisition related notes)	7,030	6,850
Total long-term debt	\$607,030	\$556,850

The company paid interest on its debt totaling \$52.1 million in 1997, \$50.1 million in 1996 and \$58.6 million in 1995.

The carrying amount of the company's commercial paper borrowings approximates fair value. The fair value of the company's 9.43% senior notes and other long-term debt at December 31, 1997 and 1996, totaling \$257.0 million and \$256.9 million, respectively, based on current borrowing rates for debt with similar terms and maturities, is estimated to be \$279.7 million and \$282.5 million, respectively.

6. Investment in Rock-McGraw, Inc.

Rock-McGraw owns the company's headquarters building in New York City. It is owned 45% by the company and 55% by Rockefeller Group, Inc.

The company currently occupies a portion of the rentable space. The lease is for 30 years ending in the year 2002 and includes renewal options for two additional 15-year periods. The company has entered into a supplemental agreement with Rock-McGraw to surrender a portion of its occupied space starting in 1998. In 1997, the company paid Rock-McGraw gross annual rentals of \$17.3 million (including various escalation payments) for the occupied space and \$13.8 million for space that it has sublet. Over the lease term, the company is recovering a portion of the rentals through its share of earnings of Rock-McGraw.

A summary of significant financial information for Rock-McGraw follows:

(in millions)	1997	1996	1995
Revenue	\$ 64.6	\$ 63.7	\$ 62.7
Net income	13.0	11.2	9.7
Depreciation expense	6.7	6.5	6.4
Total assets	228.4	208.8	200.7
Mortgage payable	20.2	23.8	27.5
Total liabilities	\$ 66.7	\$ 60.0	\$ 63.0

The building is financed by an 8 1/8%, 25-year mortgage repayable in quarterly installments of \$.9 million plus interest, with the balance of \$18.3 million due at maturity in 1998.

7. Taxes on Income

Income before taxes on income resulted from domestic operations (including foreign branches) and foreign subsidiaries' operations as follows:

(in millions)	1997	1996	1995
Domestic operations	\$425.9	\$783.6	\$356.1
Foreign operations	45.4	31.2	30.2
Total income before taxes	\$471.3	\$814.8	\$386.3

A reconciliation of the U.S. statutory tax rate to the company's effective tax rate for financial reporting purposes follows:

	1997	1996	1995
U.S. statutory rate	35.0%	35.0%	35.0%
Goodwill amortization	1.3	0.7	1.7
Effect of state and local income taxes	4.0	3.7	5.5
Other - net	(2.0)	(0.2)	(1.0)
Effective tax rate	38.3%	39.2%	41.2%

The provision for taxes on income consists of the following:

(in millions)	1997	1996	1995
Federal:			
Current	\$154.2	\$281.4	\$104.9
Deferred	(21.2)	(19.3)	11.9
Total federal	133.0	262.1	116.8
Foreign:			
Current	19.1	11.8	7.3
Deferred	(0.4)	(0.7)	2.3
Total foreign	18.7	11.1	9.6
State and local:			
Current	33.1	48.8	28.0
Deferred	(4.2)	(2.9)	4.7
Total state and local	28.9	45.9	32.7
Total provision for taxes	\$180.6	\$319.1	\$159.1

The principal temporary differences between the accounting for income and expenses for financial reporting and income tax purposes as of December 31 follow:

(in millions)	1997	1996
Fixed assets and intangible assets	\$127.4	\$138.8
Prepaid pension and other expenses	73.7	70.2
Unearned revenue	38.5	41.2
Reserves and accruals	(149.0)	(152.7)
Postretirement and postemployment benefits	(90.7)	(95.9)
Other - net	12.0	42.3
Deferred tax liability - net	\$ 11.9	\$ 43.9

The company made net income tax payments totaling \$331.5 million in 1997, \$170.6 million in 1996 and \$111.4 million in 1995.

The company has not recorded deferred income taxes applicable to undistributed earnings of foreign subsidiaries that are indefinitely reinvested in foreign operations. Undistributed earnings amounted to approximately \$66 million at December 31, 1997, excluding amounts that, if remitted, generally would not result in any additional U.S. income taxes because of available foreign tax credits. If the earnings of such foreign subsidiaries were not indefinitely reinvested, a deferred tax liability of approximately \$17 million would have been required.

8. Rental Expense and Lease Obligations

Rental expense for property and equipment under all operating lease agreements was as follows:

(in millions)	1997	1996	1995
Gross rental expense	\$108.9	\$107.1	\$105.7
Less: sublease revenue	27.5	28.5	26.1
Net rental expense	\$ 81.4	\$ 78.6	\$ 79.6

The company is committed under lease arrangements covering property, computer systems and office equipment. Certain lease arrangements contain escalation clauses covering increased costs for real estate taxes and operating services.

In an effort to consolidate its New York City office space, the company entered into two new lease agreements in 1997 covering approximately 1.4 million square feet of office space. Both leases expire in the year 2020. The new lease arrangements coincide with the expiration of several existing leases in 1999 and the surrender of a portion of the company's occupied space in its headquarters building, referred to in Note 6, starting in 1998.

Minimum rental commitments under existing noncancelable leases with a remaining term of more than one year, including the company's headquarters building, are shown in the following table. The annual rental commitments for real estate through the year 2002 have been reduced by approximately \$18 million of revenue from existing noncancelable subleases.

(in millions)	
1998	\$ 53.1
1999	50.3
2000	52.4
2001	47.0
2002	44.3
2003 and beyond	784.8
Total	\$1,031.9

9. Capital Stock

The \$1.20 convertible preference stock may be converted into common stock at the option of the shareholder at the rate of one share of preference stock for 6.6 shares of common stock.

The number of common shares reserved for issuance for employee stock plan awards was 10,080,964 at December 31, 1997 and 6,350,994 at December 31, 1996. Under the Director Deferred Stock Ownership Plan, 158,298 and 160,000 common shares were reserved for issuance at December 31, 1997 and 1996, respectively.

On January 31, 1996, the Board of Directors approved a stock repurchase program authorizing the company to purchase up to four million shares of the company's common stock. Through December 31, 1997, the company had repurchased approximately 2.7 million shares of common stock at a total cost of \$143.2 million. The repurchased shares may be used for general corporate purposes, including the issuance of shares for the exercise of stock options.

Two million shares of preferred stock, par value \$1 per share, are authorized; none have been issued. 600,000 shares have been reserved for issuance under a Preferred Share Purchase Rights Plan adopted by the company's Board of Directors on October 25, 1989. Under the Plan, one right for each share of common stock outstanding was granted to shareholders of record on November 6, 1989. Each right entitles shareholders to buy a 1/200th interest in a share of a series of preferred stock at an exercise price of \$137.50 per right. The rights will not be exercisable or transferable until a party either acquires beneficial ownership of 20% or more of the company's common shares or announces a tender offer for 20% or more of the common shares. In the event the company is a party to a merger, reverse merger or other business combination, each right will entitle its holder to purchase, at the exercise price of the right, a number of shares of common stock of the surviving company having a market value of two times the exercise price of the right. The Plan also gives the Board of Directors the option to exchange one share of common stock of the company for each right (not owned by the acquirer) after an acquirer holds 20% but less than 50% of the outstanding shares of common stock. The rights are redeemable at one-half cent per right until a party acquires 20% or more of the company's common shares, and expire November 6, 1999.

10. Stock Plan Awards

The company applies the provisions of Accounting Principles Board Opinion (APBO) No. 25, Accounting for Stock Issued to Employees, in accounting for its stock-based awards. Accordingly, no compensation cost has been recognized for its stock option plans and the compensation cost that has been recognized for its restricted stock performance awards continues under APBO No. 25.

The company has two stock option plans: the 1993 and 1987 Key Employee Stock Incentive Plans.

The plans provide for the granting of incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock awards, deferred stock (applicable to the 1987 Plan only) or other stock-based awards to purchase a total of 14.1 million shares of the company's common stock - 4.6 million shares under the 1987 Plan and 9.5 million shares under the 1993 Plan, as amended.

Stock options may not be granted at a price less than the fair market value of the company's common stock at date of grant, vest in two years in equal annual installments and have a maximum term of ten years.

Beginning in 1997, participants who exercise an option by tendering previously owned shares of common stock of the company may elect to receive a one-time restoration option covering the number of shares tendered. Restoration options are granted at fair market value of the company's common stock on the date of the grant, have a maximum term equal to the remainder of the original option term, and are subject to a six-month vesting period.

Had the company elected to apply the provisions of Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation, net income would have been reduced by \$1.1 million, or \$.01 per diluted share for 1997, \$2.9 million, or \$.03 per diluted share for 1996, and \$1.8 million, or \$.02 per diluted share for 1995 after accounting for stock-based compensation effective for awards made January 1, 1995 and thereafter.

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions for 1997, 1996 and 1995, respectively: risk-free interest rate of 6.1%, 5.4% and 7.5%; dividend yield of 2.9%, 3.0% and 3.4%; volatility of 19% for 1997 and 15% for 1996 and 1995 and expected life of five years for all years.

A summary of the status of the company's stock option plans as of December 31 and activity during the year follows:

(in thousands of shares)	Shares	Weighted average exercise price

Outstanding at December 31, 1994	3,034	\$30.86
Options granted	878	33.57
Options exercised	(698)	29.79
Options cancelled and expired	(106)	34.00

Outstanding at December 31, 1995	3,108	\$31.67
Options granted	988	43.48
Options exercised	(654)	30.82
Options cancelled and expired	(142)	39.06

Outstanding at December 31, 1996	3,300	\$34.88
Options granted	1,368	50.41
Options exercised	(957)	33.20
Options cancelled and expired	(146)	44.32

Outstanding at December 31, 1997	3,565	\$40.92
=====		

At December 31, 1997, 1996 and 1995, options for 1,915,000, 2,076,000 and 1,955,000 shares of common stock were exercisable. The weighted average fair value of options granted during 1997, 1996 and 1995 was \$10.04, \$6.92 and \$6.38, respectively.

A summary of information about stock options outstanding and options exercisable at December 31, 1997 follows:

(in thousands of shares)		Options Outstanding		Options Exercisable	
Range of exercise prices	Shares	Weighted average remaining term	Weighted average exercise price	Shares	Weighted average exercise price

\$26.22 to \$34.88	1,559	5.0 years	\$31.69	1,559	\$31.69
\$42.38 to \$62.31	1,790	8.6 years	\$45.68	356	\$43.57
\$66.81 to \$68.75	216	4.9 years	\$68.06	-	-

\$26.22 to \$68.75	3,565	6.8 years	\$40.92	1,915	\$33.89
=====					

Under the Director Deferred Stock Ownership Plan, a total of 160,000 shares of common stock was reserved for issuance on July 1, 1996 and may be credited to deferred stock accounts for eligible Directors. In general, the Plan requires that 50% of eligible Directors' annual compensation plus dividend equivalents be credited to deferred stock accounts. Each Director may also elect to defer all or a portion of the remaining compensation and have an equivalent number of shares credited to the deferred stock account. Recipients under this Plan are not required to provide consideration to the company other than rendering service. Shares will be delivered as of the date a recipient ceases to be a member of the Board of Directors or within five years thereafter, if so elected. The Plan will remain in effect until terminated by the Board of Directors or until no shares of stock remain available under the Plan.

Restricted stock performance awards have been granted under the 1993 and 1987 Plans. These restricted stock awards will vest only if the company achieves certain financial goals over various vesting periods. Recipients are not required to provide consideration to the company

other than rendering service and have the right to vote the shares and to receive dividends.

Under SFAS No. 123, compensation cost is recognized for the fair value of the restricted stock awarded, which is its market value without restrictions at the date of grant. For performance incentive shares, adjustments are made for achievement of goals but not for subsequent changes in the market value of the stock.

A total of 319,695 restricted shares were issued at an average market value of \$48.62 in 1997, 289,358 shares at an average market value of \$43.79 in 1996 and 282,468 shares at an average market value of \$33.68 in 1995. The awards are recorded at the market value on the date of grant. Initially the total market value of the shares is treated as unearned compensation and is charged to expense over the respective vesting periods. Under APBO No. 25, for performance incentive shares, adjustments are also made to expense for changes in market value and achievement of financial goals. Restricted stock compensation charged to expense was \$16.0 million for 1997, \$12.0 million for 1996 and \$9.1 million for 1995. Restricted shares outstanding at the end of the year were 555,717 in 1997, 545,679 in 1996 and 539,356 shares in 1995.

11. Retirement Plans

The company and its subsidiaries have a number of defined benefit pension plans and defined contribution plans covering substantially all employees. The company's primary pension plan is a noncontributory plan under which benefits are based on employee career employment compensation. The company also has a voluntary deferred compensation plan under which the company matches employee contributions up to certain levels of compensation and an Employee Retirement Account Plan under which the company contributes a percentage of eligible employees' compensation to the employees' accounts.

For purposes of determining annual pension cost, prior service costs and the net asset at January 1, 1986 are being amortized straight-line over the average remaining service period of employees expected to receive benefits. The assumed return on plan assets of 9.5% is based on a calculated market-related value of assets, which recognizes changes in market value over five years.

A summary of pension cost for the company's domestic defined benefit plans follows:

(in millions)	1997	1996	1995
Service cost	\$ 16.2	\$ 16.9	\$ 13.2
Interest cost	33.2	30.8	28.5
Return on assets:			
Actual return	(136.1)	(103.4)	(122.2)
Deferred	81.4	52.9	75.7
Recognized Amortization of net asset at 1/1/86	(54.7)	(50.5)	(46.5)
Net amortization and deferral	0.2	0.9	(2.1)
Net negative pension cost	\$ (5.9)	\$ (4.9)	\$ (13.0)
Assumed rates - January 1:			
Discount rate (interest cost)	7 3/4%	7 1/4%	8 1/2%
Compensation increase factor	5 1/2	5 1/2	5 1/2
Return on assets	9 1/2	9 1/2	9 1/2

The company also has an unfunded supplemental benefits plan to provide senior management with supplemental retirement, disability and death benefits. Supplemental retirement benefits are based on final monthly earnings. Pension cost was approximately \$2 million for 1997, 1996 and 1995. The accumulated benefit obligation as of December 31, 1997 was \$18.7 million, including vested benefits of \$17.3 million, and the projected benefit obligation was \$19.8 million.

Total retirement plans cost was \$44.3 million for 1997, \$40.0 million for 1996 and \$31.3 million for 1995.

The funded status of the domestic defined benefit plans as of December 31 follows:

(in millions)	1997	1996
Actuarial present value of pension benefits:		
Vested benefits	\$(442.1)	\$(376.5)
Nonvested benefits	(21.8)	(17.4)
Accumulated benefit obligation	(463.9)	(393.9)
Additional amount related to projected compensation increases	(33.0)	(30.6)
Projected benefit obligation	(496.9)	(424.5)
Plan assets at market value - primarily listed stocks and U.S. government obligations	774.5	665.7
Excess of assets over projected benefit obligation	277.6	241.2
Unrecognized net asset at 1/1/86	(0.7)	(1.6)
Unrecognized prior service cost	18.5	6.6
Unrecognized net gain	(183.5)	(141.7)
Prepaid pension cost at December 31	\$111.9	\$104.5
Assumed rates - December 31:		
Discount rate	7 1/4%	7 3/4%
Compensation increase factor	5 1/2	5 1/2

The company has several foreign pension plans that do not determine the accumulated benefits or net assets available for benefits as disclosed above. The amounts involved are not material and are therefore not included.

12. Postretirement Healthcare and Other Benefits

The company and some of its domestic subsidiaries provide certain medical, dental and life insurance benefits for retired employees and eligible dependents. The medical and dental plans are contributory while the life insurance plan is noncontributory. The company currently does not fund any of these plans.

Postretirement benefits cost was \$7.6 million in 1997, \$8.3 million in 1996 and \$7.1 million in 1995. A summary of the components of the cost in 1997, 1996 and 1995 follows:

(in millions)	1997	1996	1995
Service cost	\$ 2.4	\$ 2.5	\$ 2.0
Interest cost	10.1	10.0	10.4
Net amortization and deferral	(4.9)	(4.2)	(5.3)
Postretirement benefits cost	\$ 7.6	\$ 8.3	\$ 7.1

A summary of the components of the unfunded postretirement benefit obligation as of December 31 follows:

(in millions)	1997	1996
Retirees	\$(102.3)	\$(98.0)
Fully eligible plan participants	(14.5)	(14.0)
Other active plan participants	(25.7)	(23.0)
Total accumulated postretirement benefit obligation	(142.5)	(135.0)
Unrecognized net gain	(37.0)	(44.2)
Unrecognized prior service cost	(17.0)	(19.5)
Accrued postretirement benefit obligation	\$(196.5)	\$(198.7)

The assumed weighted average healthcare cost trend rate ranges from 7.5% in 1998 decreasing ratably to 5.5% in 2002 and remaining at that level thereafter. Increasing the assumed healthcare cost trend rate by one percentage point in each future year would increase the accumulated postretirement benefit obligation at December 31, 1997 by \$11.4 million and 1997 benefit expense by \$1.1 million. The weighted average discount rate used to measure expense was 7.75% in 1997 and 7.25% in 1996; the rate used to measure the accumulated postretirement benefit obligation was 7.25% in 1997 and 7.75% in 1996.

Report of Management

To the Shareholders of
The McGraw-Hill Companies, Inc.

The financial statements in this report were prepared by the management of The McGraw-Hill Companies, Inc., which is responsible for their integrity and objectivity.

These statements, prepared in conformity with generally accepted accounting principles and including amounts based on management's best estimates and judgments, present fairly The McGraw-Hill Companies' financial condition and the results of the company's operations. Other financial information given in this report is consistent with these statements.

The McGraw-Hill Companies' management maintains a system of internal accounting controls designed to provide reasonable assurance that the financial records accurately reflect the company's operations and that the company's assets are protected against loss. Consistent with the concept of reasonable assurance, the company recognizes that the relative costs of these controls should not exceed the expected benefits in maintaining these controls. It further assures the quality of the financial records in several ways: a program of internal audits, the careful selection and training of management personnel, maintaining an organizational structure that provides an appropriate division of financial responsibilities, and communicating financial and other relevant policies throughout the corporation. The financial statements in this report have been audited by Ernst & Young LLP, independent auditors, in accordance with generally accepted auditing standards. The independent auditors were retained to express an opinion on the financial statements, which appears in the next column.

The McGraw-Hill Companies' Board of Directors, through its Audit Committee, composed entirely of outside directors, is responsible for reviewing and monitoring the company's financial reporting and accounting practices. The Audit Committee meets periodically with management, the company's internal auditors and the independent auditors to ensure that each group is carrying out its respective responsibilities. In addition, the independent auditors have full and free access to the Audit Committee and meet with it with no representatives from management present.

*/s/Joseph L. Dionne
Joseph L. Dionne
Chairman and Chief Executive Officer*

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

Report of Independent Auditors

The Board of Directors and Shareholders
of The McGraw-Hill Companies, Inc.

We have audited the accompanying consolidated balance sheets of The McGraw-Hill Companies, Inc. as of December 31, 1997 and 1996, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The McGraw-Hill Companies, Inc. at December 31, 1997 and 1996, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles.

/s/ Ernst & Young LLP

*New York, New York
January 27, 1998*

Eleven-Year Financial Review

(in thousands, except per-share data)	1997	1996	1995	1994
Operating results by segment and income statistics				
Operating revenue				
Educational and Professional Publishing	\$ 1,573,797	\$ 1,277,895	\$ 1,235,578	\$ 1,162,157
Financial Services	980,120	855,925	786,786	745,480
Information and Media Services	980,178	940,877	912,919	853,232
Total operating revenue	3,534,095	3,074,697	2,935,283	2,760,869
Operating profit(f)				
Educational and Professional Publishing(b)	187,722	151,921	162,604	125,765
Financial Services	269,886	262,085	230,934	217,212
Information and Media Services	141,542	116,799	115,069	108,343
Total operating profit	599,150	530,805	508,607	451,320
Share of profit of Macmillan/McGraw-Hill School Publishing Company (d and f)	--	--	--	--
Unusual charges (b,e and f)	--	(25,000)	--	--
Gain on exchange of Shepard's/McGraw-Hill (b)	--	418,731	--	--
Gain on sale of interest in Nikkei/McGraw-Hill (g)	--	--	--	--
General corporate (expense)/income (f and h)	(75,342)	(62,073)	(63,570)	(54,134)
Interest (expense)/income - net	(52,542)	(47,656)	(58,766)	(51,746)
Income before taxes on income (a and c)	471,266	814,807	386,271	345,440
Provision for taxes on income	180,591	319,074	159,144	142,321
Income before cumulative adjustment	290,675	495,733	227,127	203,119
Cumulative effect on prior years of changes in accounting (i)	--	--	--	--
Net income	\$ 290,675	\$ 495,733	\$ 227,127	\$ 203,119
Basic earnings per share				
Income before cumulative adjustment	\$ 2.94	\$ 4.99	\$ 2.29	\$ 2.06
Cumulative adjustment	--	--	--	--
Net income	\$ 2.94	\$ 4.99	\$ 2.29	\$ 2.06
Dilutive earnings per share				
Income before cumulative adjustment	\$ 2.91	\$ 4.96	\$ 2.28	\$ 2.05
Cumulative adjustment (i)	--	--	--	--
Net income	\$ 2.91	\$ 4.96	\$ 2.28	\$ 2.05
Dividends per share of common stock	\$ 1.44	\$ 1.32	\$ 1.20	\$ 1.16
Operating statistics				
Return on average shareholders' equity	20.8%	41.4%	23.3%	23.4%
Income before taxes as a percent of revenue	13.3	26.5	13.2	12.5
Income before cumulative adjustment as a percent of revenue	8.2	16.1	7.7	7.4
Balance sheet data				
Working capital	\$ 258,179	\$ 130,920	\$ 193,346	\$ 130,272
Total assets	3,724,474	3,642,239	3,057,167	2,960,285
Total debt	684,425	581,368	628,664	762,805
Shareholders' equity	1,434,651	1,361,118	1,035,066	913,052
Number of employees	15,690	16,220	15,452	15,339

(a) 1997 income before taxes on income reflects a \$33.2 million provision for the consolidation of office space in New York City and a \$20.4 million gain on the sale of Datapro Information Services.

(b) 1996 operating profit excludes a net gain on the exchange of Shepard's/ McGraw-Hill for the Times Mirror Higher Education Group comprising a \$418.7 million gain on the exchange and a \$25 million one-time charge for integration costs.

(c) 1995 income before taxes on income reflects a \$26.8 million provision for best practice initiatives and a \$23.8 million gain on sale of the topical publishing division of Shepard's/McGraw-Hill.

(d) Reflects The McGraw-Hill Companies' share of profit of Macmillan/ McGraw-Hill School Publishing Company through September 30, 1993. Macmillan/McGraw-Hill results are consolidated effective October 1, 1993 in the Educational and Professional Publishing segment.

(e) 1993 amount reflects unusual charges in connection with the acquisition of the additional 50% interest in Macmillan/McGraw-Hill.

(f) 1989 and 1988 operating profit excludes unusual charges of \$220 million and \$149.6 million, respectively, as follows:

	1989	1988
Educational and Professional Publishing	\$ 33,140	\$ 20,534
Financial Services	94,899	67,155
Information and Media Services	15,554	29,009

Total operating segments	143,593	116,698
Macmillan/McGraw-Hill joint venture units	--	7,866
Corporate expense	76,407	25,000
Total company	\$220,000	\$149,564

1993	1992	1991	1990	1989	1988	1987
\$ 667,444	\$ 567,363	\$ 532,438	\$ 534,724	\$ 483,666	\$ 437,590	\$ 408,252
696,933	617,555	555,820	505,641	432,314	399,242	390,131
831,076	865,573	854,754	898,273	872,983	836,734	801,352
2,195,453	2,050,491	1,943,012	1,938,638	1,788,963	1,673,566	1,599,735
49,374	62,746	48,928	70,196	44,107	48,185	30,464
200,865	168,394	143,056	123,999	85,081	81,765	81,557
102,344	113,198	120,242	170,788	192,254	175,384	176,564
352,583	344,338	312,226	364,983	321,442	305,334	288,585
28,376	11,280	27,483	21,601	13,688	2,349	11,585
(229,800)	--	--	--	(220,000)	(149,564)	--
--	--	--	--	--	--	--
--	--	--	--	--	221,783	--
(48,538)	(50,774)	(34,415)	(28,370)	6,546	5,005	3,418
(36,342)	(37,557)	(46,987)	(55,627)	(35,038)	(5,290)	(4,506)
66,279	267,287	258,307	302,587	86,638	379,617	299,082
54,838	114,132	110,297	130,112	46,847	194,112	134,288
11,441	153,155	148,010	172,475	39,791	185,505	164,794
--	(124,587)	--	--	8,000	--	--
\$ 11,441	\$ 28,568	\$ 148,010	\$ 172,475	\$ 47,791	\$ 185,505	\$ 164,794
\$ 0.12	\$ 1.57	\$ 1.52	\$ 1.77	\$ 0.41	\$ 1.92	\$ 1.64
--	(1.28)	--	--	0.08	--	--
\$ 0.12	\$ 0.29	\$ 1.52	\$ 1.77	\$ 0.49	\$ 1.92	\$ 1.64
\$ 0.12	\$ 1.57	\$ 1.52	\$ 1.77	\$ 0.41	\$ 1.91	\$ 1.64
--	(1.28)	--	--	0.08	--	--
\$ 0.12	\$ 0.29	\$ 1.52	\$ 1.77	\$ 0.49	\$ 1.91	\$ 1.64
\$ 1.14	\$ 1.12	\$ 1.10	\$ 1.08	\$ 1.00	\$ 0.92	\$ 0.84
1.3%	3.0%	15.2%	18.8%	5.3%	21.2%	19.5%
3.0	13.0	13.3	15.6	4.8	22.7	18.7
0.5	7.5	7.6	8.9	2.7	11.1	10.3
\$ 62,887	\$ (19,596)	\$ 29,543	\$ 44,193	\$ 22,743	\$ (72,023)	\$ (66,214)
3,043,232	2,473,021	2,482,679	2,501,130	2,181,718	1,705,547	1,602,181
928,710	482,991	568,159	622,372	503,434	148,434	186,476
823,008	908,760	998,975	954,260	880,154	922,803	825,265
15,661	13,393	13,539	13,868	13,741	13,891	13,879

(g) In May 1988, the company sold its 49% interest in Nikkei/McGraw-Hill, Inc., a magazine publishing operation in Japan, for \$283.1 million. The gain on sale was \$221.8 million (\$109.8 million after taxes).

(h) General corporate income for 1989 includes gains on dispositions of businesses totaling \$48.8 million, 1988 includes gains on dispositions of \$26.5 million and 1987 includes gains from the settlement of a portion of the company's pension obligation of \$20.1 million.

(i) The cumulative adjustment in 1992 reflects the adoption of the provisions of Statement of Financial Accounting Standards (SFAS) No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions, and SFAS No. 112, Employers' Accounting for Postemployment Benefits. In 1989, the company recognized the cumulative effect of a change in accounting for income taxes under SFAS No. 96.

Supplemental Financial Information

Quarterly Financial Information (unaudited)

(in thousands, except per-share data)	First quarter	Second quarter	Third quarter	Fourth quarter	Total year

1997					
Operating revenue	\$ 652,935	\$ 836,652	\$1,143,740	\$ 900,768	\$3,534,095
Income before taxes	24,977	108,593	225,973	111,723	471,266
Net income	14,986	65,156	143,499	67,034	290,675
Earnings per share:					
Basic	0.15	0.66	1.45	0.68	2.94
Diluted	0.15	0.65	1.44	0.67	2.91

1996					
Operating revenue	\$ 583,851	\$ 710,934	\$ 949,009	\$ 830,903	\$3,074,697
Income before taxes (Note a)	27,259	96,240	192,773	498,535	814,807
Net income (Note a)	16,192	57,166	114,508	307,867	495,733
Earnings per share:					
Basic	0.16	0.57	1.16	3.10	4.99
Diluted	0.16	0.57	1.15	3.08	4.96

1995					
Operating revenue	\$ 568,548	\$ 712,782	\$ 904,351	\$ 749,602	\$2,935,283
Income before taxes	23,727	89,864	179,970	92,710	386,271
Net income	13,951	52,841	105,822	54,513	227,127
Earnings per share:					
Basic	0.14	0.53	1.07	0.55	2.29
Diluted	0.14	0.53	1.06	0.55	2.28
=====					

(a) The fourth quarter of 1996 includes a gain on exchange of Shepard's/McGraw-Hill for the Times Mirror Higher Education Group of \$418.7 million (\$260.5 million after taxes, or \$2.61 per diluted share) and a one-time charge of \$25 million (\$14.9 million after taxes, or 15 cents per diluted share) for costs of integrating the company's College Division with the acquired higher education business.

High and low sales prices of The McGraw-Hill Companies common stock on the New York Stock Exchange*

	1997	1996	1995
First quarter	\$53 1/8-44 7/8	\$46 1/4-42 3/4	\$36 5/8-31 7/8
Second quarter	62 7/8-49 7/8	49 1/4-42 1/8	38 7/8-35 5/8
Third quarter	69 5/8-59	45 7/8-37 1/4	42 3/8-37 5/8
Fourth quarter	74 3/4-63 1/8	48 1/4-42 1/2	43 7/8-39 1/2
Year	74 3/4-44 7/8	49 1/4-37 1/4	43 7/8-31 7/8
=====			

*The New York Stock Exchange is the principal market on which the Corporation's shares are traded.

Shareholder Information

To obtain a free copy of the annual Form 10-K filed with the Securities and Exchange Commission, which contains certain additional information, contact:

Corporate Affairs Department
The McGraw-Hill Companies
1221 Avenue of the Americas
New York, N.Y. 10020-1095
<http://www.mcgraw-hill.com>

Shareholder Services and
Transfer Agent

Questions or changes relating to shareholder accounts should be directed to the Corporation's transfer agent:

ChaseMellon Shareholder Services
Post Office Box 3315
South Hackensack, N.J. 07606-1937
888-201-5538
www.chasemellon.com

Dividend Reinvestment Plan

This plan offers shareholders the opportunity to reinvest their dividends and make optional payments toward the purchase of additional shares of the Corporation's common stock. For more information, contact ChaseMellon at 888-201-5538.

Shareholders may contact The McGraw-Hill Companies directly about their stock by calling Shareholder Relations, 212-512-2192.

Annual Meeting

The 1998 annual meeting will be held at 11 a.m. on Wednesday, April 29, at the Corporation's headquarters, 1221 Avenue of the Americas, New York, N.Y. 10020-1095.

Stock Exchange Listing

The McGraw-Hill Companies is listed on the New York Stock Exchange (MHP).

Additional Information

Media inquiries relating to the Corporation should be directed to the Corporate Affairs Department, 212-512-3640.

Exhibit (21)

THE MCGRAW-HILL COMPANIES, INC.

Subsidiaries of Registrant

Listed below are all the subsidiaries of Registrant, except certain inactive subsidiaries and certain other McGraw-Hill's subsidiaries which are not included in the listing because considered in the aggregate they do not constitute a significant subsidiary as of the end of the year covered by this Report.

	State or Jurisdiction of Incorporation -----	Percentage of Voting Securities Owned -----
The McGraw-Hill Companies, Inc.	New York	Registrant
CM Research, Inc.	New York	100
Capitol Radio Engineering Institute, Inc.	Delaware	100
*National Radio Institute	Delaware	100
DRI Europe, Inc.	Delaware	100
International Advertising/ McGraw-Hill, Inc.	Delaware	100
J.J. Kenny Company, Inc.	New York	100
*J.J. Kenny Drake, Inc.	New York	100
*Kenny Services, Inc.	New York	100
McGraw-Hill Broadcasting Company, Inc.	New York	100
McGraw-Hill Capital Corporation	Delaware	100
McGraw-Hill Capital, Inc.	New York	100
*International Valuation Services, Inc.	Delaware	40
McGraw-Hill Financial Publications, Inc.	Delaware	100
McGraw-Hill Interamericana, Inc.	New York	100
McGraw-Hill International Enterprises, Inc.	New York	100
*McGraw-Hill Korea, Inc.	Korea	100
*McGraw-Hill (Malaysia) Sdn.Bhd	Malaysia	100
McGraw-Hill News Bureaus, Inc.	New York	100
McGraw-Hill Publications Overseas Corporation	New York	100
McGraw-Hill Real Estate, Inc.	New York	100
McGraw-Hill World University, Inc.	Delaware	100
MMS International	Nevada	100
Money Market Directories, Inc.	New York	100
Rock-McGraw, Inc.	New York	45
S&P ComStock, Inc.	New York	100
Standard & Poor's International Ratings, Ltd.	New York	100
*Credit Ratings Information Services of India Limited	India	9.6
*Taiwan Ratings Corporation	Taiwan	50
Standard & Poor's Investment Advisory Services, Inc.	Delaware	100
Standard & Poor's Ltd.	Delaware	100
*Fund Research Limited	United Kingdom	100
Standard & Poor's Securities, Inc.	Delaware	100
Tower Group International, Inc.	New York	100
*Tower Group International Canada Inc.	Canada	100

	State or Jurisdiction of Incorporation -----	Percentage of Voting Securities Owned -----
Editora McGraw-Hill de Portugal, Ltda.	Portugal	100
Editorial Interamericana, S.A.	Colombia	100
Editoriales Pedagógicas Asociadas, S.A.	Guatemala	100
McGraw-Hill Book Company Australia Pty. Limited	Australia	100
*McGraw-Hill Book Company New Zealand, Pty. Limited	New Zealand	100
*Standard & Poor's (Australia) Pty. Ltd.	Australia	100
McGraw-Hill Data Services - Ireland, Ltd.	Ireland	100
McGraw-Hill Holdings (U.K.) Limited	Great Britain	100
*McGraw-Hill International (U.K.) Limited	Great Britain	100
McGraw-Hill Information Systems Company of Canada Limited	Ontario, Canada	100
McGraw-Hill/Interamericana de Chile Limitada	Chile	100
McGraw-Hill/Interamericana de Espana, S.A.	Spain	100
*Standard & Poor's Espana, S.A.	Spain	100
McGraw-Hill/Interamericana de Venezuela S.A.	Venezuela	100
McGraw-Hill/Interamericana Editores, S.A. de C.V.	Mexico	100
*Ediciones Pedagógicas, S.A. de C.V.	Mexico	100
McGraw-Hill/Interamericana, S.A.	Panama	100
*Editora McGraw-Hill de Espana S.A.	Panama	100
McGraw-Hill Libri Italia	Italy	100
McGraw-Hill Ryerson Limited	Ontario, Canada	70
Medical China Publishing Limited	Hong Kong	25
MHFSCO, Ltd.	U.S. Virgin Islands	100
Micropal Group Limited	United Kingdom	100
*Dividend Analysis Limited	United Kingdom	100
*Micropal Limited	United Kingdom	100
*Micropal Accounting Portfolio Services Inc.	Delaware	100
*Micropal Asia Limited	Hong Kong	100
*Micropal Deutschland GmbH	Germany	100
*Micropal Limited (Ireland)	Ireland	100
*Micropal S.A.	France	100
*Micropal Inc.	Massachusetts	100
*Micropal Data, Inc.	Iowa	100
Science Research Associates, Pty., Ltd.	Australia	100
Standard & Poor's - ADEF	France	100
Standard & Poor's International, S.A.	Belgium	100
Standard & Poor's AB	Sweden	100
Standard & Poor's, S.A. de C.V.	Mexico	100
Tata McGraw-Hill Publishing Company Private Limited	India	66.25

*Subsidiary of a subsidiary.

Exhibit (23)

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in this Annual Report on Form 10-K of The McGraw-Hill Companies, Inc. ("Company") of our report dated January 27, 1998, included in the 1997 Annual Report to Shareholders of The McGraw-Hill Companies, Inc.

Our audits also included the consolidated financial statement schedule of The McGraw-Hill Companies, Inc. listed in Item 14 (a). This schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, the consolidated financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also consent to the incorporation by reference in the Registration Statement on Form S-3 (No. 33-33667) pertaining to the Debt Securities of The McGraw-Hill Companies, Inc. and in the Registration Statements on Form S-8 pertaining to the 1983 Stock Option Plan for Officers and Key Employees (No. 2-84058), the 1987 Key Employee Stock Incentive Plan (No. 33-22344), the 1993 Key Employee Stock Incentive Plan (No. 33-49743, No. 33-30043), the Director Deferred Stock Ownership Plan (No. 33-06871) and The Savings Incentive Plan of McGraw-Hill, Inc. and Its Subsidiaries, The Employee Retirement Account Plan of McGraw-Hill, Inc. and Its Subsidiaries, The Standard & Poor's Savings Incentive Plan for Represented Employees, The Standard & Poor's Employee Retirement Account Plan for Represented Employees, The Employees' Investment Plan of McGraw-Hill Broadcasting Company, Inc. and Its Subsidiaries (No. 33-50856) and in the related prospectuses of our report dated January 27, 1998 with respect to the consolidated financial statements incorporated therein by reference, and our report included above with respect to the consolidated financial statement schedule included in this Annual Report (Form 10-K) of The McGraw-Hill Companies, Inc.

ERNST & YOUNG LLP

/s/ ERNST & YOUNG LLP

New York, New York
March 26, 1998

ARTICLE 5

MULTIPLIER: 1,000

PERIOD TYPE	YEAR	YEAR	YEAR
FISCAL YEAR END	DEC 31 1997	DEC 31 1996	DEC 31 1995
PERIOD END	DEC 31 1997	DEC 31 1996	DEC 31 1995
CASH	4,768	3,430	10,250
SECURITIES	0	0	0
RECEIVABLES	1,155,078	1,041,726	935,352
ALLOWANCES	182,629	162,260	127,202
INVENTORY	290,479	273,158	238,030
CURRENT ASSETS	1,464,421	1,349,583	1,192,583
PP&E	838,214	835,680	827,307
DEPRECIATION	564,584	524,187	491,178
TOTAL ASSETS	3,724,474	3,642,239	3,057,167
CURRENT LIABILITIES	1,206,242	1,218,663	999,237
BONDS	0	0	0
PREFERRED MANDATORY	14	14	14
PREFERRED	0	0	0
COMMON	102,919	102,919	102,919
OTHER SE	0	0	0
TOTAL LIABILITY AND EQUITY	3,724,474	3,642,239	3,057,167
SALES	3,534,095	3,074,697	2,935,283
TOTAL REVENUES	3,534,095	3,074,697	2,935,283
CGS	3,049,110	2,651,689	2,532,631
TOTAL COSTS	3,049,110	2,651,689	2,532,631
OTHER EXPENSES	0	0	0
LOSS PROVISION	80,600	65,116	65,385
INTEREST EXPENSE	52,542	47,656	58,766
INCOME PRETAX	471,266	814,807	386,271
INCOME TAX	180,591	319,074	159,144
INCOME CONTINUING	290,675	495,733	227,127
DISCONTINUED	0	0	0
EXTRAORDINARY	0	0	0
CHANGES	0	0	0
NET INCOME	290,675	495,733	227,127
EPS PRIMARY	2.94 ¹	4.99 ¹	2.29 ¹
EPS DILUTED	2.91 ²	4.96 ²	2.28 ²

¹ Amount reported is EPS BASIC.² Amount reported is EPS FULLY DILUTED.

ARTICLE 5

MULTIPLIER: 1,000

PERIOD TYPE	9 MOS	9 MOS
FISCAL YEAR END	DEC 31 1997	DEC 31 1996
PERIOD END	SEP 30 1997	SEP 30 1996
CASH	19,183	9,883
SECURITIES	0	0
RECEIVABLES	1,274,089	1,046,586
ALLOWANCES	188,142	128,903
INVENTORY	316,587	264,272
CURRENT ASSETS	1,613,924	1,342,698
PP&E	808,269	854,055
DEPRECIATION	547,988	535,069
TOTAL ASSETS	3,812,496	3,229,750
CURRENT LIABILITIES	1,340,426	1,120,144
BONDS	0	0
PREFERRED MANDATORY	14	14
PREFERRED	0	0
COMMON	102,919	102,919
OTHER SE	0	0
TOTAL LIABILITY AND EQUITY	3,812,496	3,229,750
SALES	2,633,327	2,243,794
TOTAL REVENUES	2,633,327	2,243,794
CGS	2,264,587	1,905,433
TOTAL COSTS	2,264,587	1,905,433
OTHER EXPENSES	0	0
LOSS PROVISION	64,296	50,047
INTEREST EXPENSE	40,917	36,906
INCOME PRETAX	359,543	316,272
INCOME TAX	135,902	128,406
INCOME CONTINUING	223,641	187,866
DISCONTINUED	0	0
EXTRAORDINARY	0	0
CHANGES	0	0
NET INCOME	223,641	187,866
EPS PRIMARY	2.26 ¹	1.89 ¹
EPS DILUTED	2.24 ²	1.88 ²

¹ Amount reported is EPS BASIC.² Amount reported is EPS FULLY DILUTED.

ARTICLE 5

MULTIPLIER: 1,000

PERIOD TYPE	6 MOS	6 MOS
FISCAL YEAR END	DEC 31 1997	DEC 31 1996
PERIOD END	JUN 30 1997	JUN 30 1996
CASH	6,788	4,828
SECURITIES	0	0
RECEIVABLES	1,019,350	867,344
ALLOWANCES	142,040	106,737
INVENTORY	360,001	294,239
CURRENT ASSETS	1,450,799	1,209,702
PP&E	849,072	839,370
DEPRECIATION	546,274	518,829
TOTAL ASSETS	3,767,392	3,116,586
CURRENT LIABILITIES	1,368,591	1,096,203
BONDS	0	0
PREFERRED MANDATORY	14	14
PREFERRED	0	0
COMMON	102,919	102,919
OTHER SE	0	0
TOTAL LIABILITY AND EQUITY	3,767,392	3,116,586
SALES	1,489,587	1,294,785
TOTAL REVENUES	1,489,587	1,294,785
CGS	1,339,090	1,157,425
TOTAL COSTS	1,339,090	1,157,425
OTHER EXPENSES	0	0
LOSS PROVISION	40,595	35,287
INTEREST EXPENSE	25,618	23,831
INCOME PRETAX	133,570	123,499
INCOME TAX	53,428	50,141
INCOME CONTINUING	80,142	73,358
DISCONTINUED	0	0
EXTRAORDINARY	0	0
CHANGES	0	0
NET INCOME	80,142	73,358
EPS PRIMARY	0.81 ¹	0.73 ¹
EPS DILUTED	0.80 ²	0.73 ²

¹ Amount reported is EPS BASIC.² Amount reported is EPS FULLY DILUTED.

ARTICLE 5

MULTIPLIER: 1,000

PERIOD TYPE	3 MOS	3 MOS
FISCAL YEAR END	DEC 31 1997	DEC 31 1996
PERIOD END	MAR 31 1997	MAR 31 1996
CASH	4	14,350
SECURITIES	0	0
RECEIVABLES	892,993	799,243
ALLOWANCES	153,243	115,126
INVENTORY	308,032	268,008
CURRENT ASSETS	1,262,921	1,112,277
PP&E	833,709	829,553
DEPRECIATION	535,300	504,458
TOTAL ASSETS	3,552,077	3,004,823
CURRENT LIABILITIES	1,153,686	952,440
BONDS	0	0
PREFERRED MANDATORY	14	14
PREFERRED	0	0
COMMON	102,919	102,919
OTHER SE	0	0
TOTAL LIABILITY AND EQUITY	3,552,077	3,004,823
SALES	652,935	583,851
TOTAL REVENUES	652,935	583,851
CGS	620,200	550,415
TOTAL COSTS	620,200	550,415
OTHER EXPENSES	0	0
LOSS PROVISION	21,526	18,419
INTEREST EXPENSE	11,384	11,419
INCOME PRETAX	24,977	27,259
INCOME TAX	9,991	11,067
INCOME CONTINUING	14,986	16,192
DISCONTINUED	0	0
EXTRAORDINARY	0	0
CHANGES	0	0
NET INCOME	14,986	16,192
EPS PRIMARY	0.15 ¹	0.16 ¹
EPS DILUTED	0.15 ²	0.16 ²

¹ Amount reported is EPS BASIC.² Amount reported is EPS FULLY DILUTED.

THE MCGRAW-HILL COMPANIES, INC.

SCHEDULE II - RESERVES FOR DOUBTFUL ACCOUNTS AND SALES RETURNS

(Thousands of dollars)

	Balance at beginning of year	Additions charged to income	Deductions	Other	Balance at end of year
	-----	-----	-----	-----	-----
			(A)	(B)	
Year ended 12/31/97					
Allowance for doubtful accounts	\$ 85,965	\$80,600	\$68,244	\$	\$ 98,321
Allowance for returns	76,295	8,013	-----	-----	84,308
	\$162,260	\$88,613	\$68,244	\$	\$182,629
	=====	=====	=====	=====	=====
Year ended 12/31/96					
Allowance for doubtful accounts	\$ 79,980	\$65,116	\$67,237	\$ 8,106	\$ 85,965
Allowance for returns	47,222	8,296	-----	20,777	76,295
	\$127,202	\$73,412	\$67,237	\$28,883	\$162,260
	=====	=====	=====	=====	=====
Year ended 12/31/95					
Allowance for doubtful accounts	\$ 78,732	\$65,385	\$64,137	\$	\$ 79,980
Allowance for returns	44,078	3,144	-----	-----	47,222
	\$122,810	\$68,529	\$64,137	\$	\$127,202
	=====	=====	=====	=====	=====

(A) Accounts written off, less recoveries.

(B) Reserves acquired in connection with the purchase of the Times Mirror Higher Education Group.