

MCGRAW-HILL COMPANIES INC

FORM 10-K405

(Annual Report (Regulation S-K, item 405))

Filed 3/28/1995 For Period Ending 12/31/1994

Address	1221 AVENUE OF THE AMERICAS NEW YORK, New York 10020
Telephone	212-512-2000
CIK	0000064040
Industry	Printing & Publishing
Sector	Services
Fiscal Year	12/31

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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, 1994

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 _____

McGRAW-HILL, INC.

(Exact name of registrant as specified in its charter)

NEW YORK

(State or other jurisdiction of
incorporation or organization)

13-1026995

(I.R.S. Employer
Identification No.)

1221 AVENUE OF THE AMERICAS, NEW YORK, N.Y.

(Address of principal executive offices)
Registrant's telephone number, including area code

10020

(Zip 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 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. X

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 X No

The aggregate market value of voting stock held by nonaffiliates of the registrant as of February 28, 1995, was \$3,439,082,214.

The number of shares of common stock of the registrant outstanding as of February 28, 1995 was 49,772,763 shares.

Part I, Part II and Part IV incorporate information by reference from the Annual Report to Shareholders for the year ended December 31, 1994.
Part III incorporates information by reference from the definitive proxy statement mailed to shareholders March 20, 1995 for the annual
meeting of shareholders to be held on April 26, 1995.

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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, law, 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 15,339 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. Substantially 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 8 through 11, 16 through 19 and 24 through 26 (textual material) of the Registrant's 1994 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, 1994 and the identifiable assets of each segment at the end of each year, are included in Exhibit (13), on page 43 and page 44 in the Registrant's 1994 Annual Report to Shareholders and is hereby incorporated by reference.

Item 2. Properties

The Registrant leases office facilities at 370 locations, 290 are in the United States. In addition, the Registrant owns real property at 26 locations; 22 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	1,635	See explanation below
Hightstown, NJ Office and Data Ctr. Warehouse	owned	490 412	See explanation below
New York, NY	leased owned	504 346	Financial Services Financial Services
Delran, NJ	leased	106	Datapro
Colorado Springs, CO Office Manufacturing Plant	owned	181 63	Shepard's/McGraw-Hill
Denver, CO	owned	88	Broadcasting
Indianapolis, IN	leased	58	Broadcasting
Englewood, CO Rocky Mt. Data Ctr. Office	owned	14 119	Corporate Data Center Financial Services
Lexington, MA	owned leased	53 122	Vacant Various Operating Units
Blue Ridge Summit, PA Office Book Dist. Ctr.	owned	67 114	TAB Books
Peterborough, NH	owned	51	Byte
Chicago, IL	leased	68	Various operating units

Domestic -----	Owned or Leased -----	Square Feet (thousands) -----	Business Unit -----
Washington, DC	leased	73	Various operating units
Kent, WA Warehouse/Dist. Ctr Office	leased	79 6	C.J. Tower
Monterey, CA	owned	270	CTB/McGraw-Hill School
Blacklick (Gahanna), OH Book Dist. Ctr. Office	owned	558 73	Various Operating Units
Westerville, OH	owned	59	Glencoe
New York, NY	leased	64	Professional Publishing
Grove City, OH Warehouse	leased	160	School
Dallas, TX Assembly Plant Warehouse	leased	148 72	School
Desoto, TX Book Dist. Ctr.	leased	382	School
Foreign -----			
Whitby, Canada Office Book Dist. Ctr.	owned	80 80	McGraw-Hill Ryerson Ltd.
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 941,000 square feet of the rentable space under a 30-year lease which includes renewal options for two additional 15-year periods. In addition, the Registrant subleases for its own account approximately 694,000 square feet of space for periods up to 25 years.

The largest complex owned by the Registrant is located in Hightstown, NJ which houses the offices for accounting operations, data processing services, order fulfillment, other service departments and a warehouse. The Registrant is in the process of consolidating its domestic book distribution operations by consolidating the distribution operations in Blue Ridge Summit, PA and Hightstown, NJ to Westerville and Blacklick, OH.

Item 3. Legal Proceedings

While the Registrant and its subsidiaries are defendants in numerous legal proceedings in the United States and abroad, neither the Registrant nor its subsidiaries are a party to, nor are any of their properties subject to, any known material pending legal proceedings which Registrant believes will result in a material adverse effect on Registrant's financial statements or business operations.

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	61	Chairman and Chief Executive Officer
Harold McGraw III	46	President and Chief Operating Officer
Robert J. Bahash	49	Executive Vice President and Chief Financial Officer
Michael K. Hehir	47	Executive Vice President, New Ventures
Robert N. Landes	64	Executive Vice President, Secretary and General Counsel
Thomas J. Sullivan	59	Executive Vice President, Administration
Frank J. Kaufman	50	Senior Vice President, Taxes
Barbara A. Munder	49	Senior Vice President and Executive Assistant to the Chairman
Frank D. Penglase	54	Senior Vice President, Treasury Operations
Thomas J. Kilkenny	36	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 Thomas J. Kilkenny.

Mr. Kilkenny, prior to his becoming an officer of the Registrant on December 1, 1993, was director of the Registrant's Corporate Audit Department since October 1, 1991. Previously he was with Ernst & Young LLP from 1980 through 1991.

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, 1995 was 5,606.

	1994	1993
Dividends per share of common stock:	----	----
\$.58 per quarter in 1994		
\$.57 per quarter in 1993	\$2.32	\$2.28

Information concerning other matters is incorporated herein by reference from Exhibit (13), from page 50 of the 1994 Annual Report to Shareholders.

Item 6. Selected Financial Data

Incorporated herein by reference from Exhibit (13), from the 1994 Annual Report to Shareholders, page 34 and page 35.

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

Results of Operations

Incorporated herein by reference from Exhibit (13), from the 1994 Annual Report to Shareholders, pages 28 to 33 and page 36.

Item 8. Consolidated Financial Statements and Supplementary Data

Incorporated herein by reference from Exhibit (13), from the 1994 Annual Report to Shareholders, pages 37 to 48 and page 50.

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 20, 1995 for the annual meeting of shareholders to be held on April 26, 1995.

Item 11. Executive Compensation

Incorporated herein by reference from the Registrant's definitive proxy statement dated March 20, 1995 for the annual meeting of shareholders to be held on April 26, 1995.

Item 12. Security Ownership of Certain Beneficial Owners and Management

Incorporated herein by reference from the Registrant's definitive proxy statement dated March 20, 1995 for the annual meeting of shareholders to be held April 26, 1995.

Item 13. Certain Relationships and Related Transactions

Incorporated herein by reference from the Registrant's definitive proxy statement dated March 20, 1995 for the annual meeting of shareholders to be held April 26, 1995.

PART IV

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

(a) 1. Financial Statements.

2. Financial Statement Schedules.

McGraw-Hill, Inc.

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:	
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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, 1994 are hereby incorporated by reference in Exhibit (13). With the exception of the pages listed in the above index, the 1994 Annual Report to Shareholders is not to be deemed filed as part of Item 14 (a)(1).

- (a) (3) Exhibits.
- (3) Articles of Incorporation of Registrant, 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.
- (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) 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 Form 10-K for the year ended December 31, 1993.
- (10)* Registrant's 1995 Key Executive Short Term Incentive Compensation Plan.
- (10)* Registrant's 1990 Key Executive Short-Term Incentive 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 Key Executive Short-Term Incentive Deferred Compensation Plan, incorporated by reference from Registrant's Form 10-K for the year ended December 31, 1993.
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- (10) Credit Agreement dated as of November 12, 1991 among the Registrant, the Banks' signatory thereto, and Bankers Trust Company, as Agent incorporated by reference from Registrant's Form SE filed November 18, 1991 in connection with Registrant's Form 8-K dated November 19, 1991.
- (10) First Amendment to Credit Agreement dated as of November 8, 1993 among the Registrant, the Banks' signatory thereto, and Bankers Trust Company, as agent, incorporated by reference from Registrant's Form 8-K dated November 15, 1993.
- (10) Second Amendment to Credit Agreement dated as of November 7, 1994 among the Registrant, the Banks' signatory thereto and Bankers Trust Company, as agent, incorporated by reference from Registrant's Form 8-K dated November 15, 1994.
- (10) Partnership Interest Purchase Agreement, dated as of October 4, 1993, with respect to the partnership interest of Macmillan School Publishing, Inc. in Macmillan/McGraw-Hill School Publishing Company incorporated by reference from Registrant's Form 8-K dated October 18, 1993.
- (10) Trademark Purchase and Sale Agreement (Macmillan), dated as of October 4, 1993, incorporated by reference from Registrant's Form 8-K dated October 18, 1993.
- (10) Trademark Purchase and Sale Agreement (Merrill), dated as of October 4, 1993, incorporated by reference from Registrant's Form 8-K dated October 18, 1993.
- (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.

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- (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.
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- (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)* Registrant's Director Deferred Compensation Plan, incorporated by reference from Registrant's Form 10-K for the year ended December 31, 1993.
- (12) Computation of ratio of earnings to fixed charges.
- (13) Registrant's 1994 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.
- (99) Supplemental Schedule.
- (b) Reports on Form 8-K.
- A report on Form 8-K was filed on November 15, 1994. Item 5 and Item 7 (Exhibit 10) were reported in said report on Form 8-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.

McGraw-Hill, Inc.

Registrant

By: /s/ Robert N. Landes

Robert N. Landes
Executive Vice President, Secretary and General Counsel
March 24, 1995

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on March 24, 1995 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/ 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/ Don Johnston

Don Johnston
Director

/s/ Peter O. Lawson-Johnston

Peter O. Lawson-Johnston
Director

/s/ Linda Koch Lorimer

Linda Koch Lorimer
Director

/s/ John L. McGraw

John L. 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/ Alva O. Way

Alva O. Way
Director

EXHIBIT INDEX

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- (23) Consent of Ernst & Young LLP, Independent Auditors.
- (27) Financial Data Schedule.
- (99) Supplemental Schedule.

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

Exhibit (3)

McGRAW HILL, INC.

BY-LAWS

(As amended April 27, 1994)

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

2. 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 (10)

McGRAW-HILL, INC.

**1995 KEY EXECUTIVE SHORT-TERM INCENTIVE
COMPENSATION PLAN**

1995 KEY EXECUTIVE SHORT-TERM INCENTIVE COMPENSATION PLAN

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Section 1. PURPOSE

The 1995 Key Executive Short-Term Incentive Compensation Plan is intended to increase the profitability of McGraw-Hill by providing the opportunity for key executives to earn incentive payments for outstanding achievement and performance. It is the purpose of the Plan to motivate executives to the attainment of demanding goals by providing recognition and rewards in the form of cash incentive awards. The Plan has the further purpose of fulfilling the Corporation's objective of offering a fully competitive total compensation package to its key McGraw-Hill employees, thus enabling McGraw-Hill to attract and retain executives of the highest caliber and ability.

Section 2. DEFINITIONS

The following terms used in the Plan are defined as follows:

AWARD YEAR - the calendar year of the Corporation during which Performance Objectives must be achieved by the Participant.

BOARD OF DIRECTORS - the Corporation's Board of Directors.

CEO - the Chief Executive Officer of the Corporation.

COMMITTEE - the Management Compensation Committee of the Board of Directors.

CORPORATION - McGraw-Hill, Inc. and its subsidiaries.

DISABILITY - "Disability" means eligibility for disability benefits under the terms of McGraw-Hill's Long-Term Disability Plan in effect at the time the Participant becomes disabled.

EARLY RETIREMENT - means termination of employment under a retirement Plan of McGraw-Hill provided that a participant is age 55 or older with at least 10 years of service and eligible to receive upon termination a McGraw-Hill pension benefit.

MANAGEMENT - The CEO and such other member of McGraw-Hill's management as the CEO may from time to time designate to take action with respect to the Plan.

McGRAW-HILL - McGraw-Hill, Inc. and its subsidiaries.

NORMAL RETIREMENT - means termination of employment from the Company on or after age 65.

PARTICIPANT - a key executive of McGraw-Hill who receives a Target Award under the Plan.

PERFORMANCE OBJECTIVES - significant business or individual objectives to be achieved by the Participant during the Award Year and upon which the percentage of payment of the Target Award shall be based.

PLAN - the McGraw-Hill 1995 Key Executive Short-Term Incentive Compensation Plan.

RETIREMENT - means Normal or Early Retirement.

TARGET AWARD - the cash payment that shall be made to the Participant if the Participant's Performance Objectives are achieved during the applicable Award Year.

Section 3. EFFECTIVE DATE

Subject to compliance with all applicable legal requirements, the Plan shall be effective as of January 1, 1995, and the 1995 calendar year shall be the first Award Year of the Plan. The Plan was approved by the Board of Directors on November 30, 1994. No future Target Award shall be granted subsequent to the 1999 Award Year unless the Plan is extended by the Board of Directors.

Section 4. ADMINISTRATION

The Committee shall be responsible for the implementation and administration of the Plan. No Committee member shall be eligible for a Target Award under the Plan while serving as a Committee member. The Committee's functions shall include, but not be limited to: (a) interpretation of the Plan (which interpretation shall be final and binding, unless otherwise determined by the Board of Directors) and establishment of the rules and regulations governing Plan administration; (b) selection of Participants; (c) determination of Target Awards; (d) approval of Performance Objectives; (e) determination of the degree of the attainment of the Performance Objectives; (f) determination of the size of individual awards and payments to Participants. In reaching its decisions, the Committee shall consider recommendations made by Management. The Committee may, in discharging its responsibilities under the Plan, delegate such duties to officers or other employees of McGraw-Hill as it deems appropriate. In addition, the Committee is authorized to use the services of the Corporation's Corporate Audit Department and/or independent auditors to determine the level of achievement of Performance Objectives.

Section 5. ELIGIBILITY

The Committee shall select Participants based on recommendations of Management. Selection as a Participant shall be limited to those key full-time employees of McGraw-Hill who, by virtue of their positions, have a demonstrable impact on either the profitability of a major business unit of McGraw-Hill, or upon the overall profitability of McGraw-Hill. No Committee member shall be eligible to be a Participant while serving as a Committee member, but a director of the Corporation who is also a full-time employee, but not a member of the Committee, shall be eligible to be a Participant. No Participant or employee of McGraw-Hill shall have any right to be awarded any Target Award or actual payment under the Plan.

Section 6. TARGET AWARD

The amount of the Target Award for each Participant shall be determined by the Committee at or near the start of the applicable Award Year based upon Management's recommendation.

Section 7. PERFORMANCE OBJECTIVES

Performance Objectives for each Participant shall be established as provided in this section at demanding levels so that their achievement reflects commendable performance by the Participant. The Performance Objectives may consist of Financial Objectives, Individual Objectives or a combination of Financial and Individual Objectives. Financial and Individual Objectives are defined as follows:

(a) FINANCIAL OBJECTIVES - Financial Objectives shall be expressed in terms of the most significant performance indicators for the particular business unit being considered, or McGraw-Hill as a whole, and shall be established at the start of each Award Year by Management, subject to review and approval by the Committee. At the same time, a "range" of achievement for financial objectives ranging from "zero" to "target" (100% of Target Award relating to Financial Objectives) to "maximum" (150% of Target Award relating to Financial Objectives) shall be established. The Committee shall have the authority to alter or adjust Financial Objectives during the course of an Award Year, or to alter or adjust the financial results otherwise reported or achieved by the Corporation during such Award Year, if it is deemed appropriate to do so.

(b) **INDIVIDUAL OBJECTIVES** - Individual Objectives, if appropriate for a participant, shall be expressed in terms of significant qualitative or quantitative individual goals to be achieved during the Award Year. Individual Objectives usually shall be established jointly by the Participant and the Participant's immediate superior, subject to approval by the CEO, or his delegate. Any Individual Objectives for the CEO shall be established by the Committee; Individual Objectives for all Participants in Grades 25 and above shall be reviewed by the Committee or its delegate for consistency with overall Corporate goals and individual equity. A Participant's Individual Objectives may be altered or amended during an Award Year, if necessary, to properly reflect changed business conditions and priorities, subject to approval by the CEO or his delegate.

Section 8. NOTICE OF AWARD

Except as may otherwise be determined by the Committee, a Participant shall be notified in writing on or near the start of the Award Year of the amount of the Participant's Target Award.

Section 9. AWARD DETERMINATION

As soon as practicable following the completion of each Award Year, the level of achievement of Performance Objectives for each Participant and the amount of the Award payment shall be determined by Management. The Award payments for Participants in Grade 25 and above are subject to review and approval by the Committee. The level of achievement of the Performance Objectives shall be determined in the following manner:

- (a) **FINANCIAL OBJECTIVES** - For performance at or below the "zero" level of achievement, there shall be no payment. Performance between the "zero" level of achievement and the "target" level shall result in a payment in accordance with the established range of achievement payment schedule. Performance between the "target" and the "maximum" level of achievement (150% of target) shall result in a payment in accordance with the established range of achievement payment schedule.
- (b) **ADJUSTMENTS IN FINANCIAL CALCULATIONS** - The Committee in its sole discretion has the authority to effect adjustments from time to time in connection with determining the degree of achievement of the Financial Objectives for McGraw-Hill or a business unit of McGraw-Hill for the applicable year in question, and to make any other determinations, as it deems equitable, fair or advisable for the purpose of ascertaining the amount of any payments under this Plan.

(c) **INDIVIDUAL OBJECTIVES** - The attainment of Individual Objectives shall be determined by the Participant's superior, subject to review by Management and for Participants in Grade 25 and above by the Committee for consistent and equitable evaluations and judgments. The Committee shall decide the degree to which the CEO has attained his Individual Objectives, if any.

(d) **ACTUAL AWARDS** - The sum of the award based on achievement of Financial Objectives and, if applicable, Individual Objectives.

(e) **MAXIMUM AWARDS** - Where one or more objectives (but not necessarily all) have been clearly and demonstrably exceeded, a Participant may be paid an amount in excess of the portion of the award related to such objectives. The maximum award may not exceed 150% of the Target Award except in unusual circumstances approved by the Committee.

Section 10. PAYMENT OF AWARDS

Award payments shall be made, less required tax and applicable benefits withholdings, as soon as practicable after the determination and final approval of such payments as provided in Section 9.

Section 11. TERMINATION OF EMPLOYMENT

If a Participant's employment with McGraw-Hill terminates during an Award Year because of death, Disability or Retirement or with the approval of the Committee where severance is paid, the Participant (or the Participant's designated beneficiary or estate in the absence of a surviving designated beneficiary) shall receive a pro rata Award payment based on the portion of the Award Year the Participant was employed by McGraw-Hill in an eligible position while the Target Award was outstanding and the degree to which during such Award Year the Performance Objectives were judged to have been achieved. A Participant whose employment with McGraw-Hill terminates during an Award Year for any other reason shall not be eligible for any payment of an Award for such Award Year. Neither the Plan nor any action taken hereunder shall be construed as giving any Participant any right to be retained in the employ of McGraw-Hill. A leave of absence, approved by the Committee, shall not be deemed to be a termination of employment for purposes of this Plan, and may warrant a full or pro rata award as determined by the Committee.

Following the completion of an Award Year, no Award shall be payable to any Participant who voluntarily resigns his/her employment prior to the payment date for such Award. For purposes of the preceding sentence, death, Disability or Retirement shall not be deemed a voluntary resignation.

Section 12. TRANSFER

If a Participant is transferred within McGraw-Hill during an Award Year to a position that is not considered as eligible for participation in the Plan, the Committee may, in its sole and absolute discretion, authorize a pro rata Award Payment based on the number of full months during which the Participant was in an eligible position while the Target Award was outstanding and the degree to which during such Award Year the Performance Objectives were achieved.

Section 13. AMENDMENT, SUSPENSION OR TERMINATION OF PLAN

The Board of Directors may at any time based upon a recommendation of the Committee, amend, suspend, or terminate the Plan.

Section 14. NON-ASSIGNMENT OF RIGHTS.

A Participant's Target Award may not be assigned or transferred, and is not subject to attachment, garnishment, execution, or other creditor's processes. In the event of a Participant's death, the payment of the Award as provided in the Plan, if any, shall be made to the Participant's designated beneficiary, or estate in the absence of a surviving beneficiary.

Section 15. COSTS OF PLAN

The expenses incurred in administering the Plan, including any Committee fees, charges by the Corporation's independent auditors, or other costs, shall be borne by the Corporation.

Section 16. CHANGE OF CONTROL

In the event of a Change of Control of the Corporation, then immediately after such event becomes effective (the "Effective Date"), the Corporation shall pay to each Participant the pro rata amount of said Participant's Target Award for said Award Year, determined solely by the ratio which the number of calendar quarters during which the award had been outstanding (including the calendar quarter in which the Change of Control occurred) bears to four (4).

For purposes of this Plan, the term "Change of Control" shall mean any of the following events:

(i) The acquisition (other than from the Corporation) by any person, entity or "group", within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934 (the "Exchange Act"), (excluding, for this purpose, McGraw-Hill, or its subsidiaries, or any employee benefit plan of McGraw-Hill) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 20% or more of either the then outstanding shares of common stock or the combined voting power of the Corporation's then outstanding voting

securities entitled to vote generally in the election of directors; or

(ii) Individuals who, as of the date hereof, constitute the Board (as of the date hereof the "Incumbent Board") cease for any reason to constitute at least a majority of the Board, provided that any person becoming a director subsequent to the date hereof whose election, or nomination for election by the Corporation's shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board (other than an election or nomination of an individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of the Directors of the Corporation, as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) shall be, for purposes of this Plan, considered as though such person were a member of the Incumbent Board; or

(iii) Approval by the stockholders of the Corporation of a reorganization, merger, or consolidation, in each case, with respect to which persons who were the stockholders of the Corporation immediately

prior to such reorganization, merger or consolidation do not, immediately thereafter, own, directly or indirectly, more than 50% of the combined voting power entitled to vote generally in the election of directors of the reorganized, merged or consolidated company's then outstanding voting securities, or a liquidation or dissolution of the Corporation or of the sale of all or substantially all of the assets of the Corporation.

The reasonable legal fees incurred by any Participant to enforce his/her valid rights hereunder shall be paid for by the Corporation to the Participant in addition to sums otherwise due under this Plan, whether or not the Participant is successful in enforcing his/her rights or whether or not the matter is settled.

November 30, 1994

Exhibit (12)
McGRAW-HILL, INC.

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

	Years Ended December 31				
	1994	1993	1992	1991	1990
	(In thousands of dollars)				
Earnings					
Earnings from continuing operations before income tax expense, cumulative effect on prior years of changes in accounting in 1992, and unusual charges in 1993 (a)(b)(c)	\$341,816	\$293,243	\$264,877	\$255,608	\$299,715
Fixed charges	85,897	75,930	81,724	89,050	97,555
Capitalized interest	(353)	(536)	(836)	(507)	(842)
Total Earnings	\$427,360	\$368,637	\$345,765	\$344,151	\$396,428
	=====	=====	=====	=====	=====
Earnings from continuing operations before income tax expense and cumulative effect on prior years of changes in accounting in 1992 (b)(c)	\$341,816	\$ 63,443	\$264,877	\$255,608	\$299,715
Fixed charges	85,897	75,930	81,724	89,050	97,555
Capitalized interest	(353)	(536)	(836)	(507)	(842)
Total Earnings	\$427,360	\$138,837	\$345,765	\$344,151	\$396,428
	=====	=====	=====	=====	=====
Fixed Charges(b)					
Interest expense	\$ 55,650	\$ 46,998	\$ 49,935	\$ 59,350	\$ 68,651
Portion of rental payments deemed to be interest	30,247	28,932	31,789	29,700	28,904
Total Fixed Charges	\$ 85,897	\$ 75,930	\$ 81,724	\$ 89,050	\$ 97,555
	=====	=====	=====	=====	=====
Ratio of Earnings to Fixed Charges:					
Before unusual charges and cumulative adjustment	5.0x	4.9x	4.2x	3.9x	4.1x
After unusual charges but before cumulative adjustment	5.0x	1.8x	4.2x	3.9x	4.1x

(a) Unusual charges in 1993 totaled \$229.8 million before taxes in connection with the purchase of 50% interest in the Macmillan/McGraw-Hill School Publishing Company 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.

(b) 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 and capital leases, (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, School Publishing results are consolidated in the company's results.

(c) The cumulative adjustment in 1992 reflects the adoption of FAS 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions", \$183.5 million pretax, and FAS 112, "Employers' Accounting for Postemployment Benefits", \$25.3 million pretax.

EXHIBIT 13

	PAGE IN
	ANNUAL REPORT

Business (Textual Material)	8 through 11, 16 through 19 and 24 through 26
Management's Discussion and Analysis	28 to 33 and 36
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Consolidated Statement of Income	37
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EDUCATIONAL & PROFESSIONAL PUBLISHING

While textbooks and other printed materials still dominate the educational and professional publishing markets, they are increasingly sharing the stage with new technologies and media, including CD-ROM, online and laser disk. Outside the U.S., the surging economic growth of many developing nations is spurring demand for educational and technical information products.

The leader in many of the markets it serves, McGraw-Hill's Educational and Professional Publishing Group moved aggressively to protect and build its franchises by improving operating efficiencies, exploiting cross-company synergies and strengthening the quality of its products.

SCHOOL PUBLISHING

Whenever America's 50 million kindergarten, elementary and high school students open their textbooks, one in four of those textbooks bears the McGraw-Hill imprint. Whenever those same students take standardized tests, one in three of those tests is published by McGraw-Hill. And whenever school administrators log onto their PC-based administrative systems, one in five of those systems uses McGraw-Hill software products.

School Publishing is the nation's largest school textbook, test and administrative software publisher. In a market estimated at \$2.5 billion in sales in 1994, the company ranks first in both elementary and high school publishing, with the broadest range of products.

SCHOOL PUBLISHING OPERATION CONTINUES INTEGRATION

School Publishing took a number of steps in 1994 to strengthen its market position. Chief among these was implementing plans to consolidate its operations with McGraw-Hill's book publishing units following McGraw-Hill's attaining full ownership of the former Macmillan/McGraw-Hill School Publishing Company in October 1993.

The integration focuses on all aspects of distribution and accounting operations. Four distribution centers are being consolidated into two, where state-of-the-art systems will reduce the cycle time and increase the productivity of handling, fulfilling and shipping operations. Accounting functions were moved to a single site. In addition to cutting costs, the integration will improve customer service by speeding the delivery of orders.

CAPTURING GROWTH OPPORTUNITIES

As School Publishing took steps to control expenses, it also looked to build sales. This business scored considerable success in 1994 with textbook adoptions in Indiana, Texas, Tennessee and South Carolina. Its market leadership, broad range of product offerings and increased efficiency will pay additional dividends in coming years, when school purchases are expected to increase by more than 10% annually over 1994 levels. This includes purchases by large state school systems, such as those in Texas, California and Florida, in disciplines where McGraw-Hill is particularly strong.

In addition to textbooks, there is a growing demand for multimedia educational tools. While school spending on instructional materials is expected to stay relatively constant on a per capita basis, paralleling the expected 2% annual increase in school enrollment, the way those dollars are spent is changing. For example, the number of CD-ROM drives in classrooms today is growing by 500,000 every year.

Today, the market for stand-alone software that can be used in school as well as at home is growing by over 20% per year, and is expected to reach \$360 million in annual retail sales within the next few years. School Publishing plans to focus more directly on capturing this market, which is now dominated by software companies.

MORE MULTIMEDIA EDUCATION PRODUCTS INTRODUCED

McGraw-Hill is capitalizing on the growing demand for multimedia learning products. The company now produces such products in most high school subjects. In 1994, it furthered its leadership by producing and marketing several innovative offerings, including The Multimedia Literature program for grades 3 to 6. Developed in 1994 and introduced in early 1995, the CD-ROM product extends the A New View reading program to involve students and teachers in an interactive learning environment. Multimedia Literature integrates technology and textbook curricula, but it can also be used on a stand-alone basis in schools and homes.

Another example of this trend is a program with ABC News Interactive that combines School Publishing's leadership with ABC News' video programming expertise. The venture involves producing multimedia programs which include original and archival ABC News video and graphics, coupled with McGraw-Hill's text, teacher guides, class activities and teacher resource material.

TESTING AND SUPPLEMENTARY EDUCATION PRODUCTS EXPANDED

CTB/McGraw-Hill, which produces one-third of the nation's standardized education tests, is responding to changes in the testing market. The Goals 2000 legislation and numerous state initiatives to raise academic standards have created demand for new kinds of assessment instruments. CTB is developing new tests in print and electronic forms that will enable schools to measure student achievement in a changing academic environment.

SRA/McGraw-Hill, which publishes supplementary elementary and secondary school instruction materials, focused intently on broadening its product base in 1994. A number of products are currently under development, including early childhood, reading, science and math materials, as well as several multimedia, CD-ROM learning products.

PROFESSIONAL PUBLISHING

In addition to its leading position in the U. S. school market, McGraw-Hill also leads in serving educational and professional audiences throughout the world. Through its Professional Publishing Group, McGraw-Hill serves a global community in business, medicine, engineering, science and computing. The group is also responsible for the development of the school and college markets in Asia, Latin America, Europe and Canada.

SERVING THE GLOBAL NEED FOR KNOWLEDGE

To effectively serve its broad customer base, McGraw-Hill has developed a global network of 23 publishing centers providing products in 16 languages. With its long history in the emerging markets of Asia and Latin America, the company has achieved prominence unequalled by other publishers.

The combination of expanding economic development, strong demographics and educational investment in these markets represents excellent long-term opportunities for McGraw-Hill. The company is already recognized as one of the largest college publishers in the Spanish language, the largest Spanish-language medical publisher, the leading computer publisher in Spanish through its affiliation with Microsoft Press and a very significant force in school and vocational publishing throughout Latin America and Spain. McGraw-Hill is providing its products in several Asian languages, most notably Mandarin Chinese and Thai.

LEVERAGING NEW TECHNOLOGIES

McGraw-Hill, well known as a leader in professional information, is at the forefront of employing new technologies to better serve customers. In 1994, it became the first major publisher to make its full catalog available on the Internet. It also utilized a variety of online services to both market and distribute its products. This area has produced hundreds of book computer disk packages. Also in 1994, McGraw-Hill's Multimedia Encyclopedia of Science and Technology was released in conjunction with the Science Navigator on CD-ROM. This group also released the DRI/McGraw-Hill Encyclopedia of World Economics on CD-ROM. In addition to its electronic products, the Osborne/ McGraw-Hill unit published the year's leading references to the Internet. McGraw-Hill is recognized as a leading publisher in computer and communications technology.

COLLEGE PUBLISHING

1994 was a year of restructuring for the College division. The group revamped its management and marketing operations and its product list. Staff was cut 8% and suppliers were consolidated.

The division--which is the U.S.'s third largest college publisher--is focused on finding new ways to grow the business.

The sales force was expanded by over 22% in 1994, and a new editorial direction focused on specific college disciplines was installed across the board.

As it moves forward, College faces increasing change in the market it serves. While college enrollments are flat, sales of college educational material are projected to grow by about 4% per year. The mix of spending on instructional materials is changing. Students are buying fewer texts and the use of alternative instructional packages is increasing.

College's strategy is to concentrate its resources in areas where it can achieve or hold market leadership. Currently, it ranks first in publishing college foreign-language programs, and its accounting and economic texts sold well during the year. The division is actively exploring arrangements that would allow it to strengthen some product lines and replace weaker ones.

The College division is already a significant player in the field of custom-publishing, a fast-growing part of the industry that directly responds to changing market demands. Texts created from its Primis database (an online collection of information from which educators can "build" electronically their own customized course materials), are now used on over 1,000 college campuses. In 1994, Primis and the division's traditional custom-publishing operation were combined to enhance efforts in this area.

LEGAL PUBLISHING

To protect its traditional franchise and broaden its sources of revenue, Shepard's legal-publishing operation strengthened its core product line in 1994, developing new products aimed at specific segments of the market.

One of its major achievements was updating and releasing the 24-volume United States Citations, which contains legal citations that trace the history of court decisions at the federal level. As with an increasing number of Shepard's offerings, the new edition was also produced in a CD-ROM format.

Shepard's continued to expand into primary law publishing (which involves compiling and producing the actual laws rather than citations, court cases and other supporting information). It produced Desktop Codes, a series of volumes on family law in California; this electronic product has a potential market of 14,000 lawyers in the nation's largest state. Similar efforts are under way for other highly populated states.

FINANCIAL SERVICES

The collapse of barriers to the worldwide flow of information, greater access to technology, the globalization of capital markets and the rise of new financing and investment vehicles provide significant opportunities for McGraw-Hill's financial services businesses. In 1994, despite difficult equity and bond markets, these businesses performed well. This was accomplished by diversification and by strengthening and expanding products and services into domestic and international markets.

FINANCIAL INFORMATION SERVICES GROUP

The Financial Information Services Group ("FISG") began 1994 as a newly formed organization that combined under one roof nine separate units. By year-end, the Group was reorganized away from its "vertical" product-line orientation into a single cohesive business with four principal operating areas: Equity Services, which includes S&P equities research, index products and price information, S&P Compustat corporate financial data and the S&P Securities soft-dollar brokerage unit; Financial Data Services, which provides real-time news and price information on global equity, debt, currency and commodity markets; Municipal Securities Services, which combines J.J. Kenny municipal securities print and online pricing, news, interdealer brokerage, information and evaluation services; and DRI/McGraw-Hill, the global economic advisory, forecasting and consulting service.

With revenues and profits growing in 1994, FISG's strategy for the future is to leverage its strengths and resources in providing information to capital market participants. That information covers virtually all types of financial instruments (including U.S. treasury, corporate and municipal debt, equities, mutual funds and unit investment trusts, indices, commodities and foreign exchange) in a variety of markets (North and South America, Europe and Asia), via different formats (real-time and online electronic delivery, print publications, multimedia).

GROWTH THROUGH OPEN DISTRIBUTION OF INFORMATION

As part of this strategy, FISG moved toward open distribution of its information to the financial markets. Prior to 1994, certain FISG information was not distributed on a broad basis through information vendor's "screens," which are computer terminals used by financial industry participants to monitor or research market conditions for trading and investment activities. By implementing an open distribution strategy, whereby agreements with all the major financial information vendors are being signed, FISG has increased the universe to which it can distribute information and analysis to over 300,000 screens.

NEW PRODUCTS FILL NEW MARKET NEEDS

The development of new applications that build on existing strengths also contributed to FISG's growth in 1994. One example is the launch of the S&P SmallCap 600 Index, a product that serves as a benchmark for the performance of the fast-growing small capitalization equity market. The new index product leverages S&P's reputation in the equity markets and complements the broad array of S&P indices that represent the overall equity market. The products are licensed to securities and futures exchanges, and the Group receives a royalty when futures or options based on them trade.

Just as FISG's strategic focus helped it to marshal the expertise and resources to develop and introduce new products and services, it also brought greater operating efficiencies and cost savings. Staff was reduced in several areas, as redundant operations were eliminated. Nowhere was the drive to improve efficiency more notable than at DRI/ McGraw-Hill, which was downsized and refocused.

FISG's business development strategy and efforts come at a time when it faces significant growth opportunities in many of the markets it serves. The globalization of capital markets is increasing the demand for accurate, up-to-the-minute information and analysis on a broadening array of instruments, asset classes and companies.

CONTINUED STRONG INTERNATIONAL GROWTH

With international sales contributing 20% of revenue, FISG is already active in overseas markets. The Group, however, moved in 1994 to expand and solidify its international products and services.

For example, the CUSIP Service Bureau, administered by S&P under a long-term contract with the American Bankers Association, expanded ties with the official identifier for Mexican stocks and bonds. MMS International, the Group's real-time global information and analysis service for debt, currency and equity markets, launched a Latin American service during the year. This reflects the reintegration of many Latin American countries and companies into the global capital markets, and their desire to raise funds to finance business and operating activities.

Asia is an area of prime potential, and several FISG units expanded and strengthened their activities in the region. MMS International announced plans to open an office in Shanghai, its first in mainland China, which complements its existing Asian operations in Tokyo, Hong Kong and Singapore. In Japan, it launched a Japanese-language product which provides subscribers with next-day translations of North American and European market activity on their screens. Platt's, FISG's round-the-clock commodity information service, introduced Chinawire, the first daily publication, fax and telex service covering that country's expanding energy market. Another market trend from which FISG benefits is the move toward managed assets. The increase in mutual funds, separate accounts, unit trusts and other managed assets has been dramatic over the past decade. As this industry has grown, however, the competitive, regulatory and administrative burdens that asset management companies face have also increased. Thus, many such companies are looking to outsource their information and evaluation

services to independent organizations. FISG's Kenny S&P Evaluation Service is clearly the leader in providing pricing services for tax-exempt and taxable securities, and its business has grown substantially over the last three years.

S&P RATINGS GROUP

S&P Ratings' solid growth in the international and structured finance ratings business, plus its increasingly successful diversification strategy, helped it to offset a weak new issue market for corporate and municipal debt in 1994--a year in which such debt financings declined by 35%.

Rating U.S. debt issues remains S&P's core business. As it now rates very close to the entire domestic corporate and municipal bond markets, S&P's further growth in the field is dependent on cyclical economic factors, chiefly the level of interest rates. During periods of low interest rates, financing (and rating) activity booms; during periods of rising rates--such as in 1994--financing activity declines.

To diversify and grow its revenue sources, and to create recurring revenue streams through annual fee-based services, S&P Ratings has moved into areas where it can leverage its outstanding reputation in the industry and its long-standing expertise in analyzing and evaluating risk. Over the last several years, the group has broadened its international activities, introduced product extensions of existing services and developed and marketed new risk-evaluation services.

S&P DECENTRALIZES TO BOLSTER INTERNATIONAL GROWTH

The demand for capital by governments and companies in developing markets continues to increase. Many of these debt issuers, however, are not well-known in the major financial centers. As S&P Ratings helps to increase the universe of funds available to invest in debt financings, demand for ratings by cross-border issuers continues to grow. In 1994, for example, the group rated the newly issued debt of Uruguay, Slovakia and Malta. Sovereign debt ratings are key leading indicators of the potential for their countries' private sector financing activities in the international capital markets.

To capture this international business potential, S&P is decentralizing its ratings operations, following the concept that analytical services are best performed as close as possible to the countries and companies being rated. This increases S&P Ratings analysts' understanding of local market and business developments, as well as of the performance and financial condition of rated entities. It also facilitates business development by enhancing S&P's image among potential customers.

S&P Ratings continued with its globalization and decentralization strategy in 1994, opening its 10th international office, in Hong Kong. S&P Ratings' international network now numbers over 200 staff in Frankfurt, London, Madrid, Stockholm, Mexico City, Toronto, Tokyo, Melbourne, Paris and Hong Kong.

NEW MARKETS FOR RATINGS SERVICES

While corporate and municipal bond offerings were at low levels, other ratings areas experienced dynamic growth in 1994. Ratings of structured financings increased sharply during the year, reflecting a 20% increase in new issue volume in that asset class.

Ratings of derivatives products companies also increased during the year. While the derivatives industry has weathered some highly publicized and controversial developments, clients' demands for and uses of these innovative financial instruments continue to multiply. In response, the number of financial institutions engaged in trading derivatives has increased; many institutions have created separately capitalized, stand-alone subsidiaries through which their derivatives activities are conducted. The credit quality of these companies is often a source of competitive advantage (or disadvantage) in the marketplace, and the ratings of derivatives products companies fill an increasingly important market need. In a related move, S&P Ratings provided counterparty risk ratings for some 400 companies engaged in securities trading activities as principals or brokers.

Providing expanded risk evaluations for bond funds was another key area of growth in 1994. Underlying this growth is the increase in managed assets (as opposed to individual holdings of securities), and the increased volatility of those assets. For example, S&P now alerts investors in bond funds, exotic/hybrid securities and derivatives by adding an 'r' symbol (for market risk) following its well-known credit rating symbols.

Corporate credit ratings (which involve evaluating companies, many of them non-U.S., that do not have debt outstanding, but are interested in benchmarking themselves) was a new area of growth for S&P Ratings in 1994.

Outside the capital markets area, S&P Ratings expanded its risk evaluations of the claims-paying-ability (CPA) of insurance companies. In only a few years, S&P has provided CPAs for one-third of its target market of 1,200 U.S. insurers and 450 non-U.S. insurers.

INFORMATION AND MEDIA SERVICES

In 1994, increased advertising expenditures helped pull the magazine industry out of a several years-long slump. In this improving environment, McGraw-Hill's Information and Media Services businesses continued to focus sharply on improving their editorial products, introducing new products and controlling expenses. Broadcasting and international trade information businesses recorded exceptional growth in 1994.

BUSINESS WEEK

Business Week celebrated its 65th anniversary in 1994 with a tribute from its industry peers: it was awarded the National Magazine Award for General Excellence, the highest honor a magazine can win. The publication's editorial excellence has helped make it a global leader, with worldwide circulation of over 1 million, and a readership of over 6.7 million per week.

To advance this leadership, the magazine implemented several changes: new features were added, international news coverage was expanded, special issues were published and its design and logo were updated. Business Week also significantly strengthened its business side, bolstering its strategic planning, business development, marketing, circulation and research areas.

Business Week's ad pages improved modestly in 1994, with a 4% increase overall, but outperformed the magazine industry as a whole.

The sluggish advertising environment over the past few years has served as a powerful impetus to identify new growth opportunities. An immediate priority is to increase circulation outside the U.S. Non-U.S. circulation now accounts for 12% of total subscriptions and is targeted for 10% annual growth in the next few years.

To increase Business Week's appeal to international readers, the international edition has been refocused with 50% of its editorial product now customized for non-U.S. readers. To expand its presence in Asia, Business Week again sponsored an executive conference for Asian CEOs in Taiwan. The Taipei conference is one of many hosted by Business Week every year: one is held in Europe and another in South America, in addition to a series in the U.S.

Capitalizing on the information revolution on which it regularly reports, in 1994 Business Week launched McGraw-Hill's first interactive consumer online product through the American Online network. Business Week Online includes the entire editorial content of both the U.S. and international publications; it also features regular electronic conferences with the magazine's editors and staff.

PUBLICATION SERVICES

In 1994, Publications Services' focus on reinvigorating and broadening the scope of its strong franchises in selected markets paid off. The business serves over 1 million subscribers in the computer and communications, aviation, plastics, chemicals, energy and healthcare markets worldwide.

To realize its goal of being the leading provider of information, education and marketing services to its target markets, Publication Services is increasing database-driven information products and services which capitalize on the well-known brand names of its advertising-driven magazines and services. The central elements of the strategy are global expansion and continuous development of new products and services which are delivered in the customers' chosen format.

A few examples illustrate Publication Services' new focus. Aviation Week (in partnership with McGraw-Hill's SRA unit) produced Liftoff!, a multimedia educational series, which included a television program that aired on the Arts and Entertainment Network. A number of Publication Services businesses organized industry conferences and exhibitions worldwide. Healthcare publications expanded their sponsored newsletters.

Publication Services also continued its international growth in 1994 with the expansion of its editorial and testing licensing agreements. BYTE, for example, is now published in 14 languages in 144 countries, following the launch of Arabic- and Bulgarian-language editions.

CONSTRUCTION INFORMATION

Just as Publication Services is changing the way it delivers information to the markets it serves, so too is McGraw-Hill's Construction Information Group. CIG is the market leader in providing construction information to architects, engineers, contractors, developers, building product manufacturers, governments and trade associations.

The construction market is slowly recovering after a several-year downturn, which should bode well for CIG. CIG is developing new ways to deliver information and enhance its customers' ability to access that information. One example is its F.W. Dodge business, which delivers detailed information on over 500,000 construction projects to more than 50,000 customers per year. Several years ago, Dodge began providing this information electronically and demand for the online service grew dramatically in 1994. To foster continued growth in electronic usage, Dodge is introducing several online product enhancements in 1995 that will make it easier for customers to access its information on a more targeted basis.

CIG's second business, Sweet's, is also shifting towards multiple means of distributing data. The leader in its field, Sweet's produces annual catalogs, containing product information from over 2,000 building product manufacturers, for distribution via mail to over 100,000 potential customers. The business introduced a CD-ROM version of its product, called SweetSource, in 1993, and during 1994 succeeded in attracting advertisers who had never before advertised in the print version.

CIG's remaining operation includes Architectural Record, Engineering News-Record and 15 regional and local publications. These editorial products were strategically refocused in 1994. Production and distribution operations were consolidated, and an electronic database of editorial products was created. The unit also sought to tap into growing international demand for construction information. In 1994 it launched Construcción del Norte in Mexico, one of the leading publications in its market.

BROADCASTING

McGraw-Hill's television stations in Denver, Indianapolis, San Diego and Bakersfield, California, benefited in 1994 from the general rebound in the broadcast industry's advertising sales--fueled by increases in political and automotive advertising. The stations also worked to strengthen their strong positioning in the local markets they serve.

In Denver, for example, McGraw-Hill's KMGH-TV station will switch its affiliation to the ABC network. This change will allow KMGH to capitalize on ABC's programming, which complements the demographic characteristics of the Denver market. The company's stations in San Diego and Indianapolis extended their affiliate agreements with ABC.

TOWER GROUP INTERNATIONAL

Tower Group, the leading provider of such international trade logistics management services as customs brokerage and freight forwarding, continued to expand in 1994.

International trade continues to increase, with exports from and imports to the U.S. growing at over 6% annually. As trade increases, more companies appreciate the efficiency and value of outside service providers, who are expected to triple their share of this trade by the year 2000.

To capitalize on this growth, Tower Group initiated a number of changes during 1994. It signed an exclusive agreement with Hong Kong-based TransGlobal Logistics for international freight forwarding services in China, the Far East and India. It also purchased TransGlobal's offices in New York, Miami, Chicago, Los Angeles and San Francisco. Tower Group also signed an exclusive agreement with TradeRef, a Canadian software designer, to market its leading tariff and trade information program in North America.

Tower Group enhanced several key products, including TowerNet, the PC-based import management software program for trade shipments.

FINANCIAL REVIEW AND ANALYSIS

OPERATING RESULTS

CONSOLIDATED REVIEW

(in millions)	1994	1993	1992
Operating Revenue	\$2,760.9	\$2,195.5	\$2,050.5
% Increase	25.8	7.1	5.5
Operating Profit	\$ 451.3	\$ 352.6	\$ 344.3
% Increase	28.0	2.4	10.3
% Operating Margin	16	16	17
Share of Profit of Macmillan/ McGraw-Hill Joint Venture (a)	--	\$ 28.4	\$ 11.3
Income before Taxes	\$ 345.4	\$ 66.3(b)	\$ 267.3
Income before Cumulative Adjustment	\$ 203.1	\$ 11.4	\$ 153.2
Cumulative Effect on Prior Years of Changes in Accounting	--	--	\$(124.6)
Net Income	\$ 203.1	\$ 11.4(b)	\$ 28.6

(a) Represents McGraw-Hill's 50% share of profits through September 30, 1993. Macmillan/McGraw-Hill School Publishing Company is consolidated in McGraw-Hill's 1993 fourth quarter and 1994 full year results reflecting McGraw-Hill's 100% ownership.

(b) 1993 income before taxes and net income include unusual charges of \$229.8 million (\$160.8 million net of tax benefits) related to McGraw-Hill's acquisition of its partner's 50% interest in the Macmillan/McGraw-Hill School Publishing Company.

REVENUE AND EARNINGS

Operating revenue in 1994 grew to \$2,760.9 million, an increase of 25.8%. Net income was \$203.1 million, or \$4.10 per share, as compared to \$11.4 million, or 23 cents per share in 1993, after unusual charges of \$229.8 million (\$160.8 million after taxes or \$3.27 per share). Excluding last year's unusual charges, 1994 net income and earnings per share increased 17.9% and 17.1%, respectively. In 1993, operating revenue increased 7.1% while income, excluding unusual charges and before 1992's cumulative adjustment of \$153.2 million or \$3.13 per share, increased 12.5%. In 1992, net income after the cumulative adjustment was \$28.6 million, or 58 cents per share.

McGraw-Hill completed the purchase of the 50% interest in the Macmillan/McGraw-Hill School Publishing Company owned by Macmillan for \$337.5 million on October 4, 1993. The company now owns 100% of Macmillan/McGraw-Hill and it is included in McGraw-Hill's operations from the date of acquisition. McGraw-Hill's 1994 results reflect the first full year of its 100% ownership in the former joint venture. 1994 revenues for School Publishing were \$538 million. The former joint venture is consolidated in McGraw-Hill's results as the School Publishing market focus group in the Educational and Professional Publishing segment. McGraw-Hill's 50% share of the Macmillan/McGraw-Hill School Publishing Company's profits for 1993 includes only the first three quarters prior to full ownership. The inclusion of School Publishing in McGraw-Hill's consolidated results in 1993's fourth quarter increased revenues for the company by \$90.7 million or 4.4%. Due to the seasonal nature of School Publishing's business, 1993 fourth quarter income was negatively impacted by an incremental 8 cents per share due to the 100% ownership.

In connection with the acquisition of Macmillan/McGraw-Hill, the company recorded unusual charges of \$229.8 million (\$160.8 million net of tax benefits). The charges consisted of \$199.8 million to adjust the company's original investment to values established in the purchase transaction and were allocated primarily to goodwill and intangibles. In addition, the company recorded a provision of \$30 million related to the consolidation of certain functions of Macmillan/McGraw-Hill and the company's book publishing operations. This consolidation should be completed by mid-1995 and is expected to generate annual savings of more than \$10 million. The savings realized in 1994 were not significant as consolidation efforts were underway.

The company's 1992 earnings were impacted by the adoption of Statement of Financial Accounting Standards (SFAS) No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions, which covers primarily healthcare and life insurance benefits, and SFAS No. 112, Employers' Accounting for Postemployment Benefits. The company recorded a charge for the cumulative effect on prior years of these changes of \$124.6 million (net of tax benefits of \$84.2 million) or \$2.55 per share. The cumulative adjustment reduced 1992 net income to \$28.6 million or 58 cents per share. The company also adopted SFAS No. 109, Accounting for Income Taxes, in 1992 but its implementation did not have a significant impact on earnings except as it relates to the recognition of tax benefits on postretirement and postemployment obligations.

Income as a percent of revenue was 7.4% in 1994, slightly below the 1993 ratio of 7.8% before unusual charges. Return on average

shareholders' equity was 23.4% in 1994; 1993 return on average shareholders' equity was 1.3% due to the unusual charges.

Operating revenue increased \$565.4 million in 1994, \$459.4 million of which represents the inclusion of School Publishing for the first nine months of 1994. The remaining increase reflects expansion in international publishing, financial services and broadcasting. Operating profit for the three segments increased 28.0% in 1994, with Educational and Professional Publishing increasing \$76.4 million, or 154.7%.

Operating profit for this segment, excluding School Publishing, declined 6% due mainly to the shutdown of the Canadian legal information business, and competitive pressures in the home-study market. Financial Services' operating profit improved 8.1% and Information and Media Services posted an increase of 5.9%. Financial Services' performance reflects another record year in revenue by Standard & Poor's Ratings Group, with a slight decline in profits reflecting planned investments in new products and services and continued global expansion. The Financial Information Services Group contributed solid revenue growth and significant gains in operating profit. Revenue and profits improved at Information and Media Services, led by Broadcasting, with gains at Tower Group International and the computers and communications unit of Publication Services, offset by a decline in the Construction Information Group.

In 1993, operating revenue increased \$145 million, \$90.7 million of which was due to the inclusion of School Publishing for the fourth quarter. Operating profit for the three segments increased 2.4% in 1993, with Financial Services posting a gain of 19.3%. Information and Media Services posted a decline of 9.6% and Educational and Professional Publishing declined 21.2%. Excluding the fourth quarter loss for School Publishing, operating profit for Educational and Professional Publishing was flat compared to 1992. Financial Services' performance reflected another record year by Standard & Poor's Ratings Group due to the strong new issue market, expansion abroad and the introduction of new products and services. The Financial Information Services Group also contributed solid gains. In the Educational and Professional Publishing segment, continued growth in Spanish language international markets and gains at Shepard's produced revenue growth of 1.6%. Continued softness in the College business reduced profits for the segment. Revenue and profit declines in Information and Media Services reflected soft advertising markets in the first half that began to rebound later in the year and continued weakness in the construction information markets.

EXPENSES

Operating expenses in 1994 increased \$230.4 million or 21.8% largely reflecting the inclusion of School Publishing expenses for the entire year as compared to only the fourth quarter in 1993. Excluding School Publishing for the first nine months of the year, the company's operating expenses increased 7.8% reflecting volume increases in some market focus groups and modest inflationary increases in key expense categories, such as compensation. In 1994, combined printing, binding, paper and distribution prices decreased over 2%. This was due primarily to successful negotiations with printing, paper, and distribution suppliers, aided in part by the increased leverage gained through the acquisition of the Macmillan/McGraw-Hill School Publishing Company. Selling and general expenses increased \$161.7 million or 22.9%. Most of this increase was due to the inclusion of School Publishing for the first nine months of 1994. A significant portion of both operating and selling and general expenses is compensation, which increased approximately 20% to \$761.5 million, largely reflecting the inclusion of School Publishing for the first nine months of the year. The effect of merit increases on 1994 compensation cost was approximately 4.3%. Depreciation and amortization expense, including amortization of goodwill, intangible assets and prepublication costs, increased \$90.4 million, or 64.8% in 1994. This increase is almost entirely due to the amortization of goodwill and intangible assets and prepublication costs for School Publishing for the first nine months of 1994. The ratio of operating, selling and general, and amortization and depreciation expenses to total revenue in 1994 was 86.4% compared to 86.7% in 1993. In 1995, negotiations with printing, paper, and distribution suppliers will help to lessen the impact of rising postal and paper prices on McGraw-Hill. Despite significant postal and paper increases, overall manufacturing costs should be held to an increase of approximately 8%. Compensation costs are expected to be up slightly over 4% as a result of merit increases.

INTEREST EXPENSE

Net interest expense in 1994 was \$51.7 million compared to \$36.3 million in 1993, an increase of \$15.4 million due to the full year impact of the 1993 borrowings to finance the acquisition of the additional 50% of the Macmillan/McGraw-Hill School Publishing Company and increases in interest rates on commercial paper borrowings, partially offset by reduced borrowing levels from the beginning of 1994. The average commercial paper rate was 4.2% in 1994 and 3.3% in 1993 reflecting the increasing rates in 1994, ending the year at approximately 5.9%. In 1993, net interest expense decreased \$1.3 million because of the decline in interest rates on commercial paper borrowings partially offset by increased fourth quarter borrowings for the Macmillan/McGraw-Hill School Publishing acquisition.

PROVISION FOR INCOME TAXES

The provision for taxes as a percent of income before taxes was 41.2% in 1994 compared to 41.8% in 1993, excluding the impact of the unusual charges and related tax benefits of \$69 million. The reduction in the rate reflects the impact on the state tax rate of the integration of the operations of the former Macmillan/McGraw-Hill School Publishing Company.

FINANCIAL REVIEW AND ANALYSIS

SEGMENT REVIEW

EDUCATIONAL AND PROFESSIONAL PUBLISHING

(in millions)	1994	1993	1992
Operating Revenue	\$1,162.2	\$667.5	\$567.4
% Increase	74.1	17.6	6.6
Operating Profit	\$ 125.8	\$ 49.4	\$ 62.7
% Increase/(Decrease)	154.7	(21.2)	28.2
% Operating Margin	11	7	11

The Educational and Professional Publishing segment consists of four market focus groups: Professional Publishing (including International Publishing, Continuing Education Center, Professional Book and Medical Publishing), College, Legal Information and School Publishing. School Publishing is included in the segment results beginning in the fourth quarter of 1993, when McGraw-Hill acquired 100% ownership.

The Educational and Professional Publishing segment revenue increased \$494.7 million, or 74.1%, in 1994. \$459.4 million of the increase represents the inclusion of School Publishing for the entire year as opposed to only the fourth quarter in 1993. In 1993, revenue increased 17.6%; the increase was 1.6% without the inclusion of School Publishing revenue of \$90.7 million in the fourth quarter. 1994 operating profit more than doubled to \$125.8 million reflecting the inclusion of School Publishing for the entire year and improvement in College. 1993 operating profit declined 21.2% due to the impact of School Publishing's fourth quarter loss of \$13.8 million, a traditional loss quarter for school publishers. 1993 operating profits increased 0.7% excluding the impact of School Publishing.

The Professional Publishing Group accounts for 33% of 1994 segment revenues. For 1994, Professional Publishing achieved a 10% increase in revenue, but profits declined primarily due to the company's \$3.7 million share of a write-down by its Canadian subsidiary, McGraw-Hill Ryerson, for discontinuing CanCite, a legal information service providing citations and case law in Canada. Excluding the CanCite write-down and the Group's loss from its small discontinued Japanese operation, the International Publishing unit again posted increases in revenue and profits due primarily to the performance of the Asia Pacific and Ibero-America sectors as a result of the aggressive pursuit of regional growth opportunities. The Medical Publishing unit achieved revenue and profit growth aided by the release of the English version of the 13th edition of "Harrison's Principles of Internal Medicine" and continued focus on operational efficiencies. The McGraw-Hill Continuing Education Center revenue remained flat with last year, while profits decreased largely due to increased costs in obtaining and maintaining customers.

In 1995, overall market conditions should improve slightly for the Professional Publishing Group as the world's economic situation continues to improve. The Asia Pacific sector is strategically positioned to take advantage of the growth opportunities in that region. However, the devaluation and volatility of the Mexican peso and its impact throughout Latin America, which had no significant impact on 1994 operating results, will slow growth in the Ibero-America sector in 1995. In 1993, Professional Publishing revenues were flat with the prior year despite the adverse impact of recession, economic sluggishness and currency devaluation in several major markets. Operating profits improved from international publishing, particularly Ibero-America, and domestic professional book operations offset by a decline in home-study operations.

The College Group accounts for approximately 12% of 1994 segment revenues. In 1994 College revenues increased 2.4% over 1993, exceeding the industry performance of 1.5% as reported by the American Association of Publishers. The sales improvement was largely driven by double-digit growth in Primis Custom Publishing, and strong performances in economics and foreign language. Double-digit profit improvement resulted from the favorable sales performance and expense reductions. Market conditions will remain largely unchanged in 1995 as flat enrollments, used books, and student price sensitivity minimize sales growth potential. Despite these conditions, College is looking to continue to improve operating performance in 1995 through continued growth by Primis Custom Publishing, a larger 1995 front list, and an increase in the sales force. In addition, 1995 will reflect the full year impact of 1994 expense reductions. For 1993, College revenues were flat reflecting a weaker than expected front list performance and operating profits were lower primarily as a result of higher prepublication costs.

The Legal Information Group (Shepard's) accounts for approximately 9% of 1994 segment revenues. Shepard's revenues grew significantly as a direct result of the publication of its single largest citation revision, the United States Citations; the continued strong performance of existing and new citator CD-ROM products; and the ongoing growth from new primary law topical code products first published in 1993. Overall profits grew at a rate less than revenue as Shepard's continues to invest in new product development and new sales initiatives within both its Citation and Topical Business Units. Shepard's projects an increase in overall legal industry information spending over the next three years. The market is in a state of

transition from print to electronic-based research products and Shepard's has been accelerating its new product development efforts particularly towards technology-based products. These factors, and operating expense controls, should produce growth at Shepard's in 1995. In 1993, Shepard's revenue grew significantly as a direct result of the publication of five new major citator revisions while profits grew at a rate less than revenue due to certain one-time costs reflecting the growth of the topical publishing business.

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

School Publishing was included in 1993 segment results only for the fourth quarter due to the acquisition of the Macmillan/McGraw-Hill School Publishing Company on October 4, 1993. 1994 segment results reflect the first full year of McGraw-Hill's 100% ownership of the former joint venture. School Publishing accounts for 46% of 1994 segment revenues. School Publishing had a 13% reduction in revenue in 1994 compared to the full year 1993 due to the off-year in the elementary and secondary adoption cycles. In those states with adoptions, both School and Glencoe performed well. The most notable adoptions were for School's music and Glencoe's math programs. In 1994, School Publishing maintained its position as the largest U.S. school publisher. School Publishing had a full year increase in operating profit due to cost reduction measures, including reduced goodwill amortization resulting from last year's unusual charges and consolidation efforts begun in 1992. In 1995, the state adoption cycle improves. The Texas music (School) and early childhood (SRA) adoptions are significant as well as the various high school mathematics (Glencoe) adoptions. Overall, the industry anticipates a double-digit increase in revenue. The adoption cycle will hit another peak in 1997. In 1995, School Publishing will benefit from cost savings realized from the consolidation of certain functions with the company's other book publishing operations.

For the full year 1993, Macmillan/McGraw-Hill revenue grew 22.3% to \$617.4 million. Operating profit increased 48.0% to \$54.6 million. The revenue growth resulted from the successful introduction of several new elementary and high school programs and a favorable state adoption year. The new elementary reading program exceeded expectations in Texas, the largest state adoption in 1993. Operating profit in 1993 also improved due to the absence of charges recorded in 1992 for consolidation of certain facilities and operations. McGraw-Hill's 50% share of the Macmillan/McGraw-Hill School Publishing Company's profits for 1993 include only the first three quarters prior to full ownership. The 1993 share increased to \$28.4 million from \$11.3 million in 1992. The increase reflects the improved 1993 adoption cycle and the exclusion of the 1993 fourth quarter loss which is included in McGraw-Hill's consolidated results.

FINANCIAL SERVICES

(in millions)	1994	1993	1992
Operating Revenue	\$745.5	\$696.9	\$617.5
% Increase	7.0	12.8	11.1
Operating Profit	\$217.2	\$200.9	\$168.4
% Increase	8.1	19.3	17.7
% Operating Margin	29	29	27

The Financial Services segment consists of two market focus groups: Standard & Poor's Ratings Group and Financial Information Services Group, which comprises Financial Data Services (MMS International, Platt's, S&P ComStock and S&P MarketScope-Europe); Equity Services (S&P Equity Investor Services, S&P Compustat and S&P Securities); Municipal Securities Services (J.J. Kenny Drake, Kenny S&P Evaluation Services, Kenny S&P Information Services and CUSIP Service Bureau) and DRI/McGraw-Hill.

Financial Services revenue increased 7.0% and operating profit rose 8.1% to \$217.2 million in 1994. In 1993, the segment's revenue grew 12.8% and operating profit rose 19.3%.

The Standard & Poor's Ratings Group revenue increased in 1994, despite a 35% decline in Corporate and Municipal Bond issuance. The International, Insurance and Structured Finance units posted excellent financial performance offsetting the downturn in core markets. Bond Fund Risk ratings were introduced in 1994, measuring other risk factors in addition to credit risk. Other new products and product extensions also produced solid growth. Worldwide expansion has continued in 1994 with the purchase of 100% of Iberating (Spanish Rating Agency) in which the company previously owned 25% and the opening of a Hong Kong office which will be operational in January 1995. 1994 profits declined slightly reflecting investments for expansion and new products and services. The Ratings Group anticipates moderate growth in 1995. International, Structured Finance and Insurance anticipate growth while the core units, which are extremely dependent on U.S. Capital Markets, are expected to maintain 1994 levels. In 1993, S&P Ratings posted then record revenue and record earnings largely due to an all-time high in new issues and refinancing activity in both Corporate and Municipal bond markets. Continued worldwide expansion and implementation of new initiatives also contributed to 1993's performance.

The Financial Information Services Group experienced significant revenue and profit growth despite less than robust market conditions. The

overall performance of both the domestic bond and equity markets was depressed as a result

of the Federal Reserve's decision to raise interest rates six times in 1994. The Group significantly improved revenues and profits as a result of strong demand for financial information products overseas and through cost management efforts at DRI/McGraw-Hill. Internationally, MMS International, S&P ComStock, and Platt's benefited from the growth in crossborder capital market investment and the resulting increase in demand for market information and analysis. In the U.S., general interest rate uncertainty coupled with a significant decline in new securities issuance adversely impacted trading revenues at J.J. Kenny and S&P Securities. Revenue performance for the Group's U.S. equity information businesses, Equity Investor Services and S&P Compustat, was strong relative to the decline in brokerage industry profits and resultant cost cutting efforts by major clients. U.S. equity market performance is expected to be mixed in 1995 and higher interest rates will reduce new issuance volume growth in the bond markets. The strength of the Group's broad array of products and services, and continued favorable conditions in the international markets, should benefit the Financial Information Services Group in 1995. In 1993, the Group achieved revenue growth, but profits declined due to a poor performance at DRI/McGraw-Hill.

INFORMATION AND MEDIA SERVICES

(in millions)	1994	1993	1992
Operating Revenue	\$853.2	\$831.1	\$865.6
% Increase/(Decrease)	2.7	(4.0)	1.3
Operating Profit	\$108.3	\$102.3	\$113.2
% Increase/(Decrease)	5.9	(9.6)	(5.8)
% Operating Margin	13	12	13

The Information and Media Services segment is comprised of five market focus groups: Business Week, Publication Services (including Computers and Communications Information, Aviation Week, Healthcare Publications and Science and Technology), Construction Information, Broadcasting and Tower Group International.

The Information and Media Services segment's revenues increased 2.7% in 1994 and operating profit increased \$6.0 million or 5.9% to \$108.3 million. In 1993, revenue decreased 4.0% and operating profits declined 9.6% to \$102.3 million.

The Business Week Group's revenue represents 22% of 1994 segment revenue. Revenues declined slightly as a strong first half advertising performance was tempered by a weak second half in the domestic market while a reverse trend was experienced in the international marketplace. North American advertising pages, as measured by the Publishers Information Bureau, were up 4%. Profits were negatively impacted by the revenue decline, increased promotional expenses and an increased focus on the Asian market. 1995 advertising prospects are dependent on continued increases in the North American advertising market and strength in internationally sourced pages. In 1993, the Group's revenue and profits declined reflecting a decrease in advertising pages as a rebound in the second half of the year partially offset a decline in the first half.

The Publication Services Group accounts for 27% of 1994 segment revenue. Revenue for the Group grew 1.2% due to increased global advertising and newsletter revenue. Profits increased significantly as a result of the revenue increase and continuing cost containment programs.

Revenue for the Computers and Communications Information Group grew versus 1993 as a result of strong performances for LAN Times, Data Communications and National Software Testing Laboratories. Profits for the Group rose sharply year to year reflecting the growth in revenue and the impact of cost containment programs. In 1995, the Group will focus on increasing international revenue, introducing additional non-advertising related services, and continuing the migration of Datapro's product information delivery from print to electronic media. In 1993, revenue declined but profits rose as fewer advertising pages at BYTE and a lower subscriber base for Datapro were offset by effective cost management.

The Aviation Week Group's revenue in 1994 declined slightly versus 1993 as the gains registered by its newsletter and conference products were offset by a declining circulation base. Profits for the Group grew primarily as a result of solid expense management throughout the year. In 1995, the Aviation Week Group expects to maintain a dominant role in this market with revenue growth opportunities for the Group coming from expansion of ancillary and international products and services. In 1993, the Aviation Week Group reflected significant profit growth despite a small decline in revenue.

The Healthcare Publications' revenues and profits were lower in 1994 as contrasted with 1993 due to a decline in overall advertising pages in a soft marketplace. In 1995, the publications will increase their focus on healthcare's financial ramifications, including additional non-advertising based product offerings addressing the informational needs of managed healthcare organizations, hospitals, and healthcare manufacturers. In 1993, Healthcare Publications' revenues and profits declined due to severe regulatory and promotional pressures in the pharmaceutical industry.

The Science and Technology Group had revenue and profit growth in 1994 due to a strong market share increase for the Plastics publications and the introduction of several new conferences and newsletters in the Energy Group. In 1995, the Group will continue to focus on introducing new conferences,

vertical targeted publications, technical references and electronic services. In 1993, revenue and profits were down due to the sluggish global economy.

The Construction Information Group accounts for 29% of 1994 segment revenue. Results were disappointing with revenue and profits declining in 1994 versus 1993 as sales lagged behind a modest recovery in the construction market, where overall construction contract award data was up 6% versus the previous year, with the key non-residential sector reporting a 10% increase. Sweet's was negatively impacted by declines in advertising by building product manufacturers. However, electronic-based products showed strong growth in 1994. In 1995, the contract value of total non-residential building is expected to continue its rise, fostering an environment conducive to the Group's programs to increase revenue. Electronic based products should contribute significantly in 1995 as existing products are enhanced and new electronic products are introduced to the market. In 1993, the Group's revenue and profit declined, due to the continuing depressed construction market impacting Dodge, Sweet's and the Construction magazines.

Broadcasting accounts for 14% of 1994 segment revenue. The Broadcasting Group operates four television stations: VHF stations in Denver, Indianapolis and San Diego and a UHF station in Bakersfield, California. Revenue and operating profit grew substantially in 1994 to record levels. Political advertising played an important role in that growth. Non-political sales, fueled by exceptionally strong automotive advertising, were also very strong. Denver showed the greatest revenue and profit growth in the Group. The California recession continued to dampen sales growth in Bakersfield and San Diego, until late in the year when San Diego began to rebound. An improving economy in San Diego, new long-term ABC affiliation agreements in Indianapolis and San Diego, and the switch of Denver's affiliation from CBS to ABC, should mitigate some of the loss of political advertising in 1995. In 1993, revenue and operating profit were negatively impacted by the lack of political advertising and the continuing recession in California.

Tower Group International represents 8% of 1994 segment revenue. Tower Group experienced significant revenue growth in 1994 from increased import activity which was fueled by the strong performance of the U.S. economy and growth in Tower's logistics and management services. Export services benefited from the recovering markets in Europe. The Group expanded its core services and strengthened its import logistics services in key U.S. trade gateways. Investments were made in non-transaction products and services. Profitability improved significantly, substantially overcoming the impact of these investments and formidable competitive pressures. In 1995, the Tower Group anticipates strong import growth and a continuation of the development of its import logistics services from the Far East. Tower showed strong revenue growth in 1993 with slower profit growth due to competitive pricing pressures.

LIQUIDITY AND CAPITAL RESOURCES

(in millions)	1994	1993
Working Capital	\$116.1	\$ 62.9
Total Debt	\$762.8	\$928.7
Accounts Receivable (before reserves)	\$836.7	\$791.4
% Increase	6	18
Inventories	\$213.3	\$215.2
% Increase/(Decrease)	(1)	118
Investment in Prepublication Costs	\$118.4	\$ 74.5
% Increase	59	42
Purchases of Property and Equipment	\$ 77.1	\$ 49.8
% Increase/(Decrease)	55	(11)

The company continues to maintain a strong financial position. Cash flow from operations was \$414 million in 1994, which was sufficient to cover dividends and outlays for the purchase of property and equipment, investment in publishing programs and reduce commercial paper borrowings. Cash flow from operations declined \$52 million, reflecting the full year ownership of School Publishing in 1994 compared to only the fourth quarter in 1993. 1993's cash flow benefitted significantly from fourth quarter collections of School Publishing receivables, reflecting the seasonality of the School Publishing business and timing of the acquisition by the company. Cash expenditures in 1994 related to the consolidation of book publishing operations, primarily for severance costs and lease terminations, had a minimal impact on the company's liquidity.

Working capital at the end of 1994 of \$116.1 million was \$53.2 million above the level at the end of 1993 reflecting primarily reduced debt levels.

The acquisition of the Macmillan/McGraw-Hill School Publishing Company in 1993 has increased the seasonality of the company's businesses. The first quarter is the least significant to the company, accounting for 20% of revenues and only 7% of income in 1994. In the last half of the year, the company recognized 56% of revenues and close to 70% of income. This seasonality in revenue also impacts cash flow. While the company had a significant decrease in debt in 1994, most of this decline occurred in the fourth quarter, reflecting cash collections from customers in the education markets.

In 1994, total debt decreased \$166 million reflecting a reduction in commercial paper borrowings resulting from the company's cash flow of \$127 million and a reduction in the year to year cash balance of \$39 million, reflecting the timing of cash collections relative to commercial paper maturities. Total debt as a percent of total capital improved to 45.5% at the end of 1994 from 53.0% at the end of 1993. In 1993, total debt increased \$445.7 million, including \$337.5 million for the purchase of Macmillan's interest in Macmillan/McGraw-Hill and \$334.4 million of debt assumed with the acquisition. Shortly after the acquisition, McGraw-Hill prepaid \$120 million of

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ELEVEN-YEAR FINANCIAL REVIEW

(in thousands, except per-share data)	1994	1993	1992	1991
OPERATING RESULTS BY SEGMENT AND INCOME STATISTICS				
OPERATING REVENUE				
Educational and Professional Publishing	\$1,162,157	\$ 667,444	\$ 567,363	\$ 532,438
Financial Services	745,480	696,933	617,555	555,820
Information and Media Services	853,232	831,076	865,573	854,754
TOTAL OPERATING REVENUE	2,760,869	2,195,453	2,050,491	1,943,012
OPERATING PROFIT (Note c)				
Educational and Professional Publishing	125,765	49,374	62,746	48,928
Financial Services	217,212	200,865	168,394	143,056
Information and Media Services	108,343	102,344	113,198	120,242
TOTAL OPERATING PROFIT	451,320	352,583	344,338	312,226
Share of profit of Macmillan/McGraw-Hill School Publishing Company (Notes a and c)	--	28,376	11,280	27,483
Unusual charges (Notes b and c)	--	(229,800)	--	--
Gain on sale of interest in Nikkei/McGraw-Hill (Note d)	--	--	--	--
General corporate (expense)/income (Notes c and e)	(54,134)	(48,538)	(50,774)	(34,415)
Interest (expense)/income -- net	(51,746)	(36,342)	(37,557)	(46,987)
INCOME BEFORE TAXES ON INCOME	345,440	66,279	267,287	258,307
Provision for taxes on income	142,321	54,838	114,132	110,297
INCOME BEFORE CUMULATIVE ADJUSTMENT	203,119	11,441	153,155	148,010
Cumulative effect on prior years of changes in accounting (Note f)	--	--	(124,587)	--
NET INCOME	\$ 203,119	\$ 11,441	\$ 28,568	\$ 148,010
EARNINGS PER SHARE				
Income before cumulative adjustment	\$ 4.10	\$ 0.23	\$ 3.13	\$ 3.03
Cumulative adjustment (Note f)	--	--	(2.55)	--
Net income	\$ 4.10	\$ 0.23	\$ 0.58	\$ 3.03
Shares used to calculate earnings per share	49,499	49,189	48,889	48,821
Dividends per share of common stock	\$ 2.32	\$ 2.28	\$ 2.24	\$ 2.20
OPERATING STATISTICS				
Return on average shareholders' equity	23.4%	1.3%	3.0%	15.2%
Income before taxes as a percent of revenue	12.5	3.0	13.0	13.3
Income before cumulative adjustment as a percent of revenue	7.4	0.5	7.5	7.6
BALANCE SHEET DATA				
Working capital	\$ 116,102	\$ 62,887	\$ (19,596)	\$ 29,543
Total assets	3,008,533	3,084,163	2,508,140	2,515,544
Total debt	762,805	928,710	482,991	568,159
Shareholders' equity	913,052	823,008	908,760	998,975
NUMBER OF EMPLOYEES	15,339	15,661	13,393	13,539

(a) Reflects McGraw-Hill's 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.

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

(c) 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

(in thousands, except per-share data)	1990	1989	1988	1987
OPERATING RESULTS BY SEGMENT AND INCOME STATISTICS				
OPERATING REVENUE				
Educational and Professional Publishing	\$ 534,724	\$ 483,666	\$ 437,590	\$ 408,252
Financial Services	505,641	432,314	399,242	390,131
Information and Media Services	898,273	872,983	836,734	801,352
TOTAL OPERATING REVENUE	1,938,638	1,788,963	1,673,566	1,599,735
OPERATING PROFIT (Note c)				
Educational and Professional Publishing	70,196	44,107	48,185	30,464
Financial Services	123,999	85,081	81,765	81,557
Information and Media Services	170,788	192,254	175,384	176,564
TOTAL OPERATING PROFIT	364,983	321,442	305,334	288,585
Share of profit of Macmillan/McGraw-Hill School Publishing Company (Notes a and c)	21,601	13,688	2,349	11,585
Unusual charges (Notes b and c)	--	(220,000)	(149,564)	--
Gain on sale of interest in Nikkei/McGraw-Hill (Note d)	--	--	221,783	--
General corporate (expense)/income (Notes c and e)	(28,370)	6,546	5,005	3,418
Interest (expense)/income -- net	(55,627)	(35,038)	(5,290)	(4,506)
INCOME BEFORE TAXES ON INCOME	302,587	86,638	379,617	299,082
Provision for taxes on income	130,112	46,847	194,112	134,288
INCOME BEFORE CUMULATIVE ADJUSTMENT	172,475	39,791	185,505	164,794
Cumulative effect on prior years of changes in accounting (Note f)	--	8,000	--	--
NET INCOME	\$ 172,475	\$ 47,791	\$ 185,505	\$ 164,794
EARNINGS PER SHARE				
Income before cumulative adjustment	\$ 3.53	\$ 0.82	\$ 3.83	\$ 3.27
Cumulative adjustment (Note f)	--	0.16	--	--
Net income	\$ 3.53	\$ 0.98	\$ 3.83	\$ 3.27
Shares used to calculate earnings per share	48,819	48,725	48,475	50,410
Dividends per share of common stock	\$ 2.16	\$ 2.00	\$ 1.84	\$ 1.68
OPERATING STATISTICS				
Return on average shareholders' equity	18.8%	5.3%	21.2%	19.5%
Income before taxes as a percent of revenue	15.6	4.8	22.7	18.7
Income before cumulative adjustment as a percent of revenue	8.9	2.7	11.1	10.3
BALANCE SHEET DATA				
Working capital	\$ 44,193	\$ 22,743	\$ (72,023)	\$ (66,214)
Total assets	2,534,708	2,208,249	1,729,562	1,619,935
Total debt	622,372	503,434	148,434	186,476
Shareholders' equity	954,260	880,154	922,803	825,265
NUMBER OF EMPLOYEES	13,868	13,741	13,891	13,879

(in thousands, except per-share data)	1986	1985	1984
OPERATING RESULTS BY SEGMENT AND INCOME STATISTICS			
OPERATING REVENUE			
Educational and Professional Publishing	\$ 327,903	\$ 318,853	\$ 302,191
Financial Services	357,998	327,422	266,296
Information and Media Services	741,891	714,080	707,935
TOTAL OPERATING REVENUE	1,427,792	1,360,355	1,276,422
OPERATING PROFIT (Note c)			
Educational and Professional Publishing	37,109	34,328	33,010
Financial Services	81,558	72,088	54,965
Information and Media Services	166,679	158,219	173,498
TOTAL OPERATING PROFIT	285,346	264,635	261,473
Share of profit of Macmillan/McGraw-Hill School Publishing Company (Notes a and c)	30,037	29,461	28,162
Unusual charges (Notes b and c)	--	--	--
Gain on sale of interest in Nikkei/McGraw-Hill (Note d)	--	--	--
General corporate (expense)/income (Notes c and e)	(23,519)	(17,609)	(18,720)
Interest (expense)/income -- net	3,915	7,840	10,669
INCOME BEFORE TAXES ON INCOME	295,779	284,327	281,584
Provision for taxes on income	141,770	136,923	137,413
INCOME BEFORE CUMULATIVE ADJUSTMENT	154,009	147,404	144,171
Cumulative effect on prior years of changes in accounting (Note f)	--	--	--
NET INCOME	\$ 154,009	\$ 147,404	\$ 144,171
EARNINGS PER SHARE			

Income before cumulative adjustment	\$ 3.04	\$ 2.92	\$ 2.86
Cumulative adjustment (Note f)	--	--	--

Net income	\$ 3.04	\$ 2.92	\$ 2.86
Shares used to calculate earnings per share	50,651	50,541	50,410
Dividends per share of common stock	\$ 1.52	\$ 1.40	\$ 1.24

OPERATING STATISTICS			
Return on average shareholders' equity	18.8%	20.0%	21.9%
Income before taxes as a percent of revenue	20.7	20.9	22.1
Income before cumulative adjustment as a percent of revenue	10.8	10.8	11.3

BALANCE SHEET DATA			
Working capital	\$ 65,641	\$ 163,236	\$ 125,472
Total assets	1,446,588	1,257,735	1,160,538
Total debt	56,403	5,932	4,484
Shareholders' equity	861,418	776,674	697,931

NUMBER OF EMPLOYEES	13,257	13,027	13,338
=====			

(d) 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).

(e) 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.

(f) 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. See Note 1. In 1989, the company recognized the cumulative effect of a change in accounting for income taxes under SFAS No. 96.

Macmillan/McGraw-Hill notes payable and replaced that debt with commercial paper borrowings.

The company's commercial paper borrowings at December 31, 1994 were \$499 million. This debt is supported by an \$800 million revolving credit agreement with a group of banks terminating in November 1999, and \$400 million has been classified as long-term.

The company has \$250 million of 9.43% senior notes due in the year 2000. Under a shelf registration which became effective with the Securities and Exchange Commission in mid-1990, the company can issue an additional \$250 million consolidated statement of income of debt securities. 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.

Accounts receivable (before reserves) increased \$45.3 million or 5.7% primarily as result of increased revenue. This year to year increase was effectively controlled through timely collections. A portion of the increase was in the international market where terms of sales and repayment are traditionally longer. Number of days sales outstanding, a key indicator of collection efficiency, was 73 days at year end which is a one day increase from 1993. During the course of the year, days sales outstanding averaged 75 days which is even with results achieved in 1993. This demonstrates that receivables continue to be managed effectively despite the growth in international business.

Finished goods and work-in-process inventories decreased \$7.9 million, or 4%, despite higher revenues, due to tighter inventory management and control. Raw materials, primarily paper, increased \$5.9 million to mitigate rising paper prices.

Capital expenditures for the purchase of property and equipment totaled \$77.1 million in 1994, \$49.8 million in 1993 and \$55.9 million in 1992. In 1994, there were significant expenditures for the purchase of a building which houses some of the company's Financial Information Services' units in New York, leasehold improvements and equipment purchases for the move of the School Publishing operations in New York and computer equipment for the market focus groups. The year to year increase also reflects the 1994 full year impact of School Publishing capital expenditures. Purchases of property and equipment in 1995 are expected to approximate the level in 1994.

Net prepublication costs decreased to \$270.5 million at December 31, 1994 as amortization expense exceeded 1994 spending. Prepublication investment totaled \$118.4 million in 1994, an increase of \$44 million over 1993, reflecting ownership of School Publishing for a full year in 1994. 1995 prepublication investment will increase significantly, reflecting investment for 1996 and primarily 1997 adoption years as well as College and Professional Publishing titles.

In 1995, the company expects that cash flow from operations will be sufficient to cover dividends, outlays for the purchase of property and equipment, investment in publishing programs and further reduce debt. The quarterly common stock dividend was increased by two cents in the first quarter of 1995 to 60 cents per share.

CONSOLIDATED STATEMENT OF INCOME

Years ended December 31 (in thousands, except per-share data)	1994	1993	1992
OPERATING REVENUE	\$2,760,869	\$2,195,453	\$2,050,491
EXPENSES:			
Operating	1,286,252	1,055,845	977,166
Selling and general	868,932	707,277	670,000
Depreciation and amortization	230,026	139,619	119,219
TOTAL EXPENSES	2,385,210	1,902,741	1,766,385
Share of profit of Macmillan/McGraw-Hill School Publishing Company (Note 2)	--	28,376	11,280
Unusual charges related to acquisition of additional 50% of Macmillan/McGraw-Hill School Publishing Company (Note 2)	--	(229,800)	--
Other income -- net	21,527	11,333	9,458
INCOME FROM OPERATIONS	397,186	102,621	304,844
Interest expense -- net	51,746	36,342	37,557
INCOME BEFORE TAXES ON INCOME	345,440	66,279	267,287
Provision for taxes on income (Note 4)	142,321	54,838	114,132
INCOME BEFORE CUMULATIVE ADJUSTMENT	203,119	11,441	153,155
Cumulative effect on prior years of changes in accounting for postretirement and postemployment benefits (Note 1)	--	--	(124,587)
NET INCOME	\$ 203,119	\$ 11,441	\$ 28,568
EARNINGS PER COMMON SHARE (NOTE 1)			
Income before cumulative adjustment	\$ 4.10	\$ 0.23	\$ 3.13
Cumulative adjustment	--	--	(2.55)
Net income	\$ 4.10	\$ 0.23	\$ 0.58
Average number of common shares outstanding during year	49,499	49,189	48,889

See accompanying notes.

CONSOLIDATED BALANCE SHEET

December 31 (in thousands, except share data)	1994	1993
ASSETS		
CURRENT ASSETS		
Cash and equivalents (Note 1)	\$ 8,056	\$ 47,953
Accounts receivable (net of allowance for doubtful accounts: 1994 -- \$78,732; 1993 -- \$79,461)	757,949	711,919
Receivable from broker-dealers and dealer banks (Note 1)	23,047	19,136
Inventories:		
Finished goods	140,168	166,584
Work-in-process	47,795	29,259
Paper and other materials	25,290	19,385
Total inventories	213,253	215,228
Prepaid income taxes	70,556	92,912
Prepaid and other current assets	51,226	44,634
Total current assets	1,124,087	1,131,782
PREPUBLICATION COSTS (NET OF ACCUMULATED AMORTIZATION: 1994 -- \$346,172; 1993 -- \$282,052) (Note 1)	270,506	285,445
INVESTMENTS AND OTHER ASSETS		
Investment in Rock-Mcgraw, Inc. -- at equity (Note 5)	57,652	53,077
Prepaid pension expense	95,110	87,655
Other	142,502	159,861
Total investments and other assets	295,264	300,593
PROPERTY AND EQUIPMENT -- AT COST		
Land	19,295	13,544
Buildings and leasehold improvements	291,554	286,605
Equipment and furniture	477,822	453,303
Total property and equipment	788,671	753,452
Less -- accumulated depreciation	442,889	408,126
Net property and equipment	345,782	345,326
GOODWILL AND OTHER INTANGIBLE ASSETS -- AT COST (net of accumulated amortization: 1994 -- \$336,523; 1993 -- \$308,548) (Notes 1 and 2)		
	972,894	1,021,017
	\$3,008,533	\$3,084,163

See accompanying notes.

	1994	1993

LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Notes payable (Note 6)	\$ 105,288	\$ 171,143
Accounts payable	176,314	178,466
Payable to broker-dealers and dealer banks (Note 1)	21,909	18,695
Accrued royalties	58,707	57,508
Accrued compensation and contributions to retirement plans	118,465	124,648
Income taxes currently payable	54,300	42,783
Unearned revenue	239,715	248,036
Other current liabilities	233,287	227,616

Total current liabilities	1,007,985	1,068,895

OTHER LIABILITIES		
Long-term debt (Note 6)	657,517	757,567
Deferred income taxes	129,750	119,548
Accrued postretirement healthcare and other benefits	191,650	190,985
Other non-current liabilities	108,579	124,160

Total other liabilities	1,087,496	1,192,260

Total liabilities	2,095,481	2,261,155

COMMITMENTS AND CONTINGENCIES (NOTES 5 AND 7)		

SHAREHOLDERS' EQUITY (NOTES 8 AND 9)		
\$1.20 preference stock, \$10 par value: authorized -- 891,256 shares;		
outstanding -- 1,514 shares in 1994 and 1,599 in 1993	15	16
Common stock, \$1 par value: authorized -- 150,000,000 shares;		
issued -- 51,459,116 shares in 1994 and 51,458,836 in 1993	51,459	51,459
Additional paid-in capital	69,314	63,512
Retained income	923,052	834,250
Foreign currency translation adjustments	(45,224)	(28,577)

	998,616	920,660
Less -- common stock in treasury -- at cost		
(1,787,007 shares in 1994 and 2,045,457 in 1993)	76,987	87,687
unearned compensation on restricted stock	8,577	9,965

Total shareholders' equity	913,052	823,008

	\$3,008,533	\$3,084,163
=====		

CONSOLIDATED STATEMENT OF CASH FLOWS

Years ended December 31 (in thousands)	1994	1993	1992
CASH FLOW FROM OPERATING ACTIVITIES			
Net income	\$ 203,119	\$ 11,441	\$ 28,568
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation	64,281	54,941	51,325
Amortization of goodwill and intangibles	37,489	27,939	22,994
Amortization of prepublication costs	128,256	56,739	44,900
Provision for losses on accounts receivable	67,508	60,401	64,067
Unusual charges related to acquisition of additional 50% of Macmillan/McGraw-Hill School Publishing Company (Note 2)	--	229,800	--
Undistributed share of profit of Macmillan/McGraw-Hill joint venture (Note 2)	--	(26,318)	(2,030)
Cumulative effect of changes in accounting (Note 1)	--	--	124,587
Other	3,862	1,234	4,042
Change in assets and liabilities net of effect of acquisitions and dispositions:			
(Increase)/decrease in accounts receivable	(120,286)	79,403	(66,313)
(Increase)/decrease in inventories	(7,026)	11,258	1,139
(Increase)/decrease in prepaid and other current assets	(6,549)	6,909	1,627
(Decrease)/increase in accounts payable and accrued expenses	(3,290)	7,822	20,642
(Decrease)/increase in unearned revenue	(9,088)	17,376	20,906
Increase/(decrease) in other current liabilities	6,082	(15,636)	12,816
Increase/(decrease) in interest and income taxes currently payable	12,293	4,746	(2,565)
Increase/(decrease) in prepaid/deferred income taxes	39,048	(39,141)	32,857
Net change in other assets and liabilities	(1,780)	(23,358)	(55,991)
Cash provided by operating activities	413,919	465,556	303,571
INVESTING ACTIVITIES			
Investment in prepublication costs	(118,377)	(74,489)	(52,485)
Purchase of property and equipment	(77,068)	(49,808)	(55,922)
Acquisition of businesses and equity interests (Note 2)	(1,219)	(323,913)	(17,242)
Disposition of property and equipment	12,262	492	920
Other	3,355	--	9,979
Cash used for investing activities	(181,047)	(447,718)	(114,750)
FINANCING ACTIVITIES			
Dividends paid to shareholders	(114,317)	(111,833)	(109,386)
Debt for acquisition of Macmillan/McGraw-Hill	--	337,500	--
Repayment of commercial paper and other short-term debt -- net	(165,785)	(105,611)	(81,669)
Repayment of long-term debt -- net	(317)	(120,390)	(2,434)
Exercise of stock options	13,983	19,047	4,718
Other	(1,450)	(558)	(1,591)
Cash (used for)/provided by financing activities	(267,886)	18,155	(190,362)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(4,883)	(1,268)	(1,860)
Net change in cash and equivalents	(39,897)	34,725	(3,401)
Cash and equivalents at beginning of year	47,953	13,228	16,629
CASH AND EQUIVALENTS AT END OF YEAR	\$ 8,056	\$ 47,953	\$ 13,228

See accompanying notes.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
Years ended December 31, 1994, 1993 and 1992

(in thousands, except per-share data)	\$1.20 preference \$10 par	Common \$1 par	Additional paid-in capital	Retained income	Foreign currency translation adjustments	Less -- common stock in treasury at cost	Less -- unearned compensation on restricted stock
BALANCE AT JANUARY 1, 1992	\$17	\$51,455	\$58,904	\$1,015,460	\$ (5,833)	\$102,976	\$18,052
Net income	--	--	--	28,568	--	--	--
Dividends (\$2.24 per share)	--	--	--	(109,386)	--	--	--
Exercise of stock options	--	--	213	--	--	(4,505)	--
Restricted stock	--	--	55	--	--	20	(2,490)
Foreign currency translation adjustments -- net	--	--	--	--	(15,918)	--	--
Other	(1)	4	232	--	--	957	--
BALANCE AT DECEMBER 31, 1992	16	51,459	59,404	934,642	(21,751)	99,448	15,562
Net income	--	--	--	11,441	--	--	--
Dividends (\$2.28 per share)	--	--	--	(111,833)	--	--	--
Exercise of stock options	--	--	4,348	--	--	(14,699)	--
Restricted stock	--	--	(302)	--	--	2,272	(5,597)
Foreign currency translation adjustments -- net	--	--	--	--	(6,826)	--	--
Other	--	--	62	--	--	666	--
BALANCE AT DECEMBER 31, 1993	16	51,459	63,512	834,250	(28,577)	87,687	9,965
Net income	--	--	--	203,119	--	--	--
Dividends (\$2.32 per share)	--	--	--	(114,317)	--	--	--
Exercise of stock options	--	--	3,513	--	--	(10,470)	--
Restricted stock	--	--	2,093	--	--	(1,569)	(1,388)
Foreign currency translation adjustments -- net	--	--	--	--	(16,647)	--	--
Other	(1)	--	196	--	--	1,339	--
BALANCE AT DECEMBER 31, 1994	\$15	\$51,459	\$69,314	\$ 923,052	\$(45,224)	\$ 76,987	\$ 8,577

See accompanying notes.

(in thousands, except per-share data)	Total
BALANCE AT JANUARY 1, 1992	\$ 998,975
Net income	28,568
Dividends (\$2.24 per share)	(109,386)
Exercise of stock options	4,718
Restricted stock	2,525
Foreign currency translation adjustments -- net	(15,918)
Other	(722)
BALANCE AT DECEMBER 31, 1992	908,760
Net income	11,441
Dividends (\$2.28 per share)	(111,833)
Exercise of stock options	19,047
Restricted stock	3,023
Foreign currency translation adjustments -- net	(6,826)
Other	(604)
BALANCE AT DECEMBER 31, 1993	823,008
Net income	203,119
Dividends (\$2.32 per share)	(114,317)
Exercise of stock options	13,983
Restricted stock	5,050
Foreign currency translation adjustments -- net	(16,647)
Other	(1,144)
BALANCE AT DECEMBER 31, 1994	\$ 913,052

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.

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 3 to 5 years, using either the sum-of-the-years-digits or the straight-line method.

GOODWILL AND OTHER INTANGIBLE ASSETS. Goodwill and other intangible assets which 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 \$1.2 billion at December 31, 1994 and 1993, 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 \$311.1 million and \$424.4 million at December 31, 1994 and 1993, 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. Inventory 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 contract is 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

EARNINGS PER COMMON SHARE. Earnings per common share and common share equivalents are based on the average number of such shares outstanding during the year. Common share equivalents consist of \$1.20 preference stock, stock options and restricted performance incentive 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. The number of restricted performance shares issued has been reduced by the number of shares assumed to have been repurchased using unearned compensation as exercise proceeds.

ACCOUNTING CHANGES. Effective January 1, 1992, the company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions which requires that the cost of such retirement benefits be recognized during the employees' service period with the company. The company's previous practice was to recognize the expense for these benefits as claims or premiums were paid. The company elected to immediately recognize the transition obligation and recorded a charge of \$109.5 million, net of income taxes of \$74 million, or \$2.24 per share, as the cumulative effect of a change in accounting as of the date of adoption. The change increased 1992 postretirement benefits costs by \$7.3 million, net of income taxes of \$5.4 million, or \$.15 per share.

Effective January 1, 1992, the company also adopted the provisions of SFAS No. 112, Employers' Accounting for Postemployment Benefits. The company accrued certain separation benefits and disability-related liabilities resulting in a charge of \$15.1 million, net of income taxes of \$10.2 million, or \$.31 per share as the cumulative effect of a change in accounting as of the date of adoption. The adoption of SFAS No. 112 did not have a significant effect on 1992 expense.

The company also changed its accounting for income taxes in 1992 to comply with the requirements of SFAS No. 109, Accounting for Income Taxes. This change did not have a

significant effect on 1992 earnings except as it relates to the recognition of tax benefits on postretirement and postemployment obligations.

RECLASSIFICATION. Certain prior year amounts have been reclassified for comparability purposes.

2. ACQUISITIONS

MACMILLAN/MCGRAW-HILL SCHOOL PUBLISHING COMPANY. On October 4, 1993, the company purchased the 50% interest in the Macmillan/McGraw-Hill School Publishing Company owned by Macmillan, a subsidiary of Maxwell Communication, Inc., for \$337.5 million in cash. Macmillan/McGraw-Hill had been formed as a joint venture in 1989 to combine the company's and Macmillan's elementary, secondary, vocational education and test publishing businesses. The company now owns 100% of Macmillan/McGraw-Hill and it is consolidated in McGraw-Hill's operations from the date of acquisition of the additional 50% interest. Prior to the acquisition of the additional 50% interest, the company accounted for its 50% interest under the equity method. The acquisition was accounted for as a purchase and, accordingly, the purchase price was allocated to 50% of Macmillan/McGraw-Hill's assets and liabilities based on their estimated fair values at September 30, 1993. The excess of the purchase price over the estimated fair value of the net tangible assets acquired was recorded as identifiable intangibles (\$148.6 million) and goodwill (\$94.4 million), and is being amortized over 20 to 35 years and 23 to 38 years, respectively.

In conjunction with the acquisition, the company recorded in the third quarter of 1993 a non-recurring charge of \$199.8 million (\$143.2 million net of tax benefits or \$2.91 per share) primarily to adjust the company's original investment to values established in this transaction. This charge was allocated primarily to goodwill and intangibles. In addition, the company recorded a provision of \$30 million (\$17.6 million net of tax benefits or \$.36 per share) related to the consolidation of certain functions of Macmillan/McGraw-Hill and the company's book publishing operations.

The following unaudited pro forma summary presents the consolidated results of operations of the company for 1993 and 1992, as if the acquisition of the additional 50% of Macmillan/ McGraw-Hill had occurred at the beginning of 1992, after giving effect to certain adjustments, including amortization of goodwill and other intangibles, increased interest expense from debt issued to fund the acquisition and related income tax effects. The summary excludes the total non-recurring charge of \$160.8 million after taxes, but includes its effect on amortization. The 1992 net income and earnings per share are before the cumulative adjustment for accounting changes.

Years ended December 31 (in millions, except per-share data)	1993	1992
Operating revenue	\$2,722.2	\$2,555.4
Net income	184.0	160.5
Earnings per common share	3.74	3.28

These pro forma results are not necessarily indicative of those that would have occurred had the acquisition taken place at the beginning of 1992.

A summarized income statement for the Macmillan/ McGraw-Hill School Publishing Company for the nine months ended September 30, 1993 and for the year ended December 31, 1992 follows:

(in millions)	(unaudited) 9 months ended September 30, 1993	12 months ended December 31, 1992
Operating revenue	\$526.7	\$504.9
Expenses:		
Operating	230.9	212.8
Selling and general	197.4	215.2
Amortization of goodwill and intangibles	30.0	40.0
Total expenses	458.3	468.0
Operating profit	68.4	36.9
Interest expense	14.2	17.8
Net profit before partners' income taxes	\$ 54.2	\$ 19.1

OTHER ACQUISITIONS. The company has made several other acquisitions and equity investments at a total cost of \$1.2 million in 1994, \$23.1 million in 1993 and \$10.6 million in 1992. In 1992 the company also made earnout payments totaling \$6.1 million based upon the

achievement of earnings goals by businesses acquired in prior years. The effect of these acquisitions on the results of operations for the years presented was not material.

NON-CASH INVESTING ACTIVITIES. Liabilities assumed in conjunction with the acquisition of businesses are as follows:

(in thousands)	1994	1993	1992
Fair value of assets acquired	\$1,520	\$ 835,569*	\$31,034
Cash paid (net of cash acquired)	1,219	323,913	16,742
Liabilities assumed	\$ 301	\$ 511,656	\$14,292

* Net of McGraw-Hill's investment in Macmillan/McGraw-Hill School Publishing Company.

3. 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 the inside back cover of this Annual Report.

Operating profit by segment and geographic area is total operating revenue less expenses which 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 profits are from book publishing and financial and information services operations in 24 countries. Transfers of books between geographic areas are recorded at cost plus a mark-up and intercompany revenue and profits are eliminated.

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

SEGMENT REPORTING

(in thousands)	Operating revenue	Operating profit	Assets at December 31	Depreciation and amortization+	Capital expenditures++
1994					
Educational and Professional Publishing	\$1,162,157	\$ 125,765	\$1,611,302	\$171,249	\$144,414
Financial Services	745,480	217,212	553,240	29,027	34,613
Information and Media Services	853,232	108,343	564,530	28,550	15,358
Total operating segments	2,760,869	451,320	2,729,072	228,826	194,385
Corporate	--	(54,134)	279,461	1,200	1,060
Interest expense -- net	--	(51,746)	--	--	--
Total company	\$2,760,869	\$ 345,440*	\$3,008,533	\$230,026	\$195,445
1993					
Educational and Professional Publishing	\$ 667,444	\$ 49,374	\$1,619,932	\$ 78,794	\$ 87,473
Financial Services	696,933	200,865	542,774	28,027	21,321
Information and Media Services	831,076	102,344	591,034	31,409	15,371
Total operating segments	2,195,453	352,583	2,753,740	138,230	124,165
Macmillan/McGraw-Hill joint venture	--	28,376	--	--	--
Unusual charges related to acquisition of additional 50% of Macmillan/McGraw-Hill School Publishing Company	--	(229,800)	--	--	--
Corporate	--	(48,538)	330,423	1,389	132
Interest expense -- net	--	(36,342)	--	--	--
Total company	\$2,195,453	\$ 66,279*	\$3,084,163	\$139,619	\$124,297
1992					
Educational and Professional Publishing	\$ 567,363	\$ 62,746	\$ 628,316	\$ 58,948	\$ 61,450
Financial Services	617,555	168,394	508,919	26,942	31,125
Information and Media Services	865,573	113,198	634,876	31,931	15,682
Total operating segments	2,050,491	344,338	1,772,111	117,821	108,257
Macmillan/McGraw-Hill joint venture	--	11,280	511,155	--	--
Corporate	--	(50,774)	224,874	1,398	150
Interest expense -- net	--	(37,557)	--	--	--
Total company	\$2,050,491	\$ 267,287*	\$2,508,140	\$119,219	\$108,407
1994					
United States	\$2,402,976	\$ 408,846	\$2,683,759		
Foreign	357,893	42,474	324,774		
1993					
United States	\$1,886,425	\$ 316,830	\$2,769,691		
Foreign	309,028	35,753	314,472		
1992					
United States	\$1,737,442	\$ 309,649	\$2,239,095		
Foreign	313,049	34,689	269,045		

* 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.

4. TAXES ON INCOME

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

(in millions)	1994	1993	1992
Domestic operations	\$319.3	\$38.7	\$240.3
Foreign operations	26.1	27.6	27.0
Total income before taxes	\$345.4	\$66.3	\$267.3

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

	1994	1993	1992
U.S. statutory rate	35.0%	35.0%	34.0%
Unusual charges	--	33.5	--
Goodwill amortization	1.9	13.1	3.7
Effect of state and local income taxes	6.1	10.6	8.4
Other -- net	(1.8)	(9.5)	(3.4)
Effective tax rate	41.2%	82.7%*	42.7%

* Excluding unusual charges, the 1993 effective tax rate was 41.8%.

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)	1994	1993
Fixed assets and intangible assets	\$ 117.6	\$ 115.4
Prepaid pension and other expenses	61.5	54.8
Unearned revenue	33.0	31.3
Reserves and accruals	(106.1)	(105.3)
Postretirement and postemployment benefits	(92.4)	(94.5)
Other -- net	45.6	24.9
Deferred tax liability -- net	\$ 59.2	\$ 26.6

The provision for taxes on income consists of the following:

(in millions)	1994	1993	1992
Federal:			
Current	\$ 75.8	\$ 62.8	\$ 43.3
Deferred	28.5	(25.8)	27.5
Total federal	104.3	37.0	70.8
Foreign:			
Current	8.8	5.4	9.8
Deferred	(3.2)	1.6	(0.7)
Total foreign	5.6	7.0	9.1
State and Local:			
Current	20.9	22.6	28.6
Deferred	11.5	(11.8)	5.6
Total state and local	32.4	10.8	34.2
Total provision for taxes	\$142.3	\$ 54.8	\$114.1

The company made income tax payments totaling \$83.9 million in 1994, \$78.4 million in 1993 and \$78.2 million in 1992.

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 \$60 million at December 31, 1994, excluding amounts which, 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 \$16 million would have been required.

5. 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 significant 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. In 1994, the company paid Rock-McGraw gross annual rentals of \$16.4 million (including various escalation payments) for the occupied space and \$17.5 million for space which 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)	1994	1993	1992
Revenue	\$ 61.8	\$ 52.4	\$ 47.7
Net income	10.0	5.3	4.7
Depreciation expense	6.4	5.2	4.0
Total assets	198.0	178.5	170.9
Mortgage payable	31.2	34.8	38.5
Total liabilities	\$ 70.1	\$ 60.7	\$ 58.3

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.

6. DEBT

At December 31, 1994, the company had short-term borrowings of \$505 million, of which \$499 million represented domestic commercial paper borrowings at an average interest rate of 5.9% maturing at various dates during 1995. The commercial paper borrowings are supported by the revolving credit agreement described below, and \$400 million has been classified as long-term.

The company has an \$800 million revolving credit agreement with a group of banks terminating in November 1999. Interest rates on amounts borrowed vary depending upon the source and are based on any one of the Eurodollar, Certificate

of Deposit or prime rates, 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, 1994, 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 and unsubordinated obligations of the company and are not redeemable by the company prior to the maturity date.

At December 31, 1993, the company had short-term borrowings of \$671.1 million, of which \$667.7 million represented domestic commercial paper borrowings at an average interest rate of 3.3% maturing at various dates during 1994. The commercial paper borrowings were supported by revolving credit agreements and \$500 million of the commercial paper borrowings was classified as long-term.

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

(in thousands)	1994	1993
9.43% senior notes due 2000	\$250,000	\$250,000
Commercial paper supported by bank revolving credit agreement	400,000	500,000
Other	7,517	7,567
Total long-term debt	\$657,517	\$757,567

The company paid interest on its debt totaling \$51.7 million in 1994, \$33.8 million in 1993 and \$38.4 million in 1992.

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, 1994 and 1993 totaling \$257.5 million and \$257.6 million, respectively, based on current borrowing rates for debt with similar terms and maturities is estimated to be \$271 million and \$308 million, respectively.

7. RENTAL EXPENSE AND LEASE OBLIGATIONS

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

(in millions)	1994	1993	1992
Gross rental expense	\$114.4	\$100.3	\$109.0
Less: sublease revenue	23.7	22.0	23.0
Net rental expense	\$ 90.7	\$ 78.3	\$ 86.0

The company is committed under lease arrangements covering report of management report of independent auditors property, computer systems and office equipment. Certain of the lease arrangements, including the lease for the company's headquarters building, contain escalation clauses covering increased costs for real estate taxes and operating services.

Minimum rental commitments under existing noncancelable leases with a remaining term of more than one year, including the company's headquarters building referred to in Note 5, are shown in the following table. The annual rental commitments for real estate through the year 2002 have been reduced by approximately \$20 million of revenue from existing noncancelable subleases.

(in millions)	
1995	\$ 58.6
1996	52.0
1997	42.8
1998	34.2
1999	26.1
2000 and beyond	86.5
Total	\$300.2

8. 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 3.3 shares of common stock.

The number of common shares issuable for the exercise of stock options was 1,755,114 at December 31, 1994 and 2,054,087 at December 31,

1993. Under the Directors' Stock Payment Plan, 19,388 common shares were reserved for issuance at December 31, 1994 and 20,000 at December 31, 1993.

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 1/100th interest in a share of a series of preferred stock at an exercise price of \$275 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 cent per right until a party acquires 20% or more of the company's common shares and expire November 6, 1999.

9. STOCK PLAN AWARDS

The company has three stock option plans: the 1993 and 1987 Key Employee Stock Incentive Plans and the 1983 Stock Option Plan. The 1983 Plan, which provided for the granting

of incentive stock options and nonqualified stock options to purchase 1,200,000 shares of the company's common stock, expired January 25, 1993 except as to options then outstanding.

The 1993 and 1987 Key Employee Stock Incentive 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 4,600,000 shares of the company's common stock -- 2,300,000 shares under each plan.

The 1993 Directors' Stock Payment Plan requires that 20% of eligible Directors' annual retainer be paid in common stock beginning in 1994. Under this plan, a total of 20,000 shares of stock may be issued. Recipients of stock under this Plan 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. The term of the plan is ten years.

Restricted stock performance awards have been granted under the 1987 Plan. 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.

1994 option activity was as follows:

	1987 Plan	1983 Plan

Outstanding at beginning of year	947,781	452,144
Options granted	442,725	--
Less:		
Options exercised	158,879	84,846
Options canceled and expired	66,128	16,003

Outstanding at end of year	1,165,499	351,295

Exercisable at end of year	661,949	292,745

Shares of common stock reserved for issuance at beginning of year	1,601,943	452,144

Shares of common stock reserved for issuance at end of year	1,403,819	351,295

Price range of options outstanding at end of year	\$52.44 to \$69.75	\$44.13 to \$67.38

Price range of options exercised during year	\$52.44 to \$69.75	\$37.00 to \$67.38
=====		

A total of 117,976 restricted shares were issued at an average market value of \$67.87 in 1994. In 1993, 98,209 restricted shares were issued at an average market value of \$61.11. 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. For performance incentive shares, adjustments are also made to expense for changes in market value and achievement of financial goals. Unearned compensation charged to expense was \$5.2 million for 1994, \$3.0 million for 1993 and \$3.0 million for 1992. Restricted shares outstanding at the end of the year were 274,947 shares in 1994, 271,120 shares in 1993, and 357,219 shares in 1992.

10. 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)	1994	1993	1992

Service cost	\$ 16.4	\$ 11.5	\$ 10.6
Interest cost	27.7	25.0	21.7
Return on assets:			
Actual return	(7.4)	(45.9)	(24.7)
Deferred	(37.5)	5.9	(12.1)

Recognized	(44.9)	(40.0)	(36.8)
Amortization of net asset at 1/1/86	(6.1)	(6.1)	(6.1)
Amortization of prior service cost	1.2	1.1	--

Net negative pension cost	\$ (5.7)	\$ (8.5)	\$(10.6)

Assumed rates -- January 1:			
Discount rate (interest cost)	7 1/4%	7 3/4%	7 3/4%
Compensation increase factor	6	6	6
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 \$2.4 million for 1994, \$2.2 million for 1993, and \$1.9 million for 1992. The accumulated benefit obligation as of December 31, 1994 was \$13.6 million including vested benefits of \$12.5 million and the projected benefit obligation was \$15.2 million.

Total retirement plans cost was \$36.7 million for 1994, \$25.7 million for 1993 and \$19.6 million for 1992.

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

(in millions)	1994	1993
Actuarial present value of pension benefits:		
Vested benefits	\$(309.2)	\$(322.1)
Non-vested benefits	(13.9)	(14.6)
Accumulated benefit obligation	(323.1)	(336.7)
Additional amount related to projected compensation increases	(19.6)	(22.9)
Projected benefit obligation	(342.7)	(359.6)
Plan assets at market value -- primarily listed stocks and U.S. government obligations	486.1	485.7
Excess of assets over projected benefit obligation	143.4	126.1
Unrecognized net asset at 1/1/86	(10.7)	(16.7)
Unrecognized prior service cost	8.7	8.3
Unrecognized net gain	(56.6)	(40.6)
Prepaid pension cost at December 31	\$ 84.8	\$ 77.1
Assumed rates -- December 31:		
Discount rate	8 1/2%	7 1/4%
Compensation increase factor	5 1/2	6

The company has several foreign pension plans which 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.

11. POSTRETIREMENT HEALTHCARE AND OTHER BENEFITS

The company and 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 \$9.3 million in 1994, \$12.6 million in 1993 and \$20.2 million in 1992. A summary of the components of the cost in 1994, 1993 and 1992 follows:

(in millions)	1994	1993	1992
Service cost	\$ 2.2	\$ 2.4	\$ 5.5
Interest cost	10.6	12.8	14.7
Net amortization and deferral	(3.5)	(2.6)	--
Postretirement benefits cost	\$ 9.3	\$12.6	\$20.2

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

(in millions)	1994	1993
Retirees	\$(100.9)	\$(111.2)
Fully eligible plan participants	(12.8)	(13.4)
Other active plan participants	(18.8)	(19.1)
Total accumulated postretirement benefit obligation	(132.5)	(143.7)
Unrecognized net gain	(44.5)	(30.1)
Unrecognized prior service cost	(24.7)	(27.2)
Accrued postretirement benefit obligation	\$(201.7)	\$(201.0)

The assumed weighted average healthcare cost trend rate ranges from 11.0% in 1995 decreasing ratably to 5.5% in 2002 and remains 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, 1994 by \$10.5 million and 1994 benefit expense by \$1.1 million. The weighted average discount rate used to measure expense was 7.5% in 1994 and 8% in 1993; the rate used to measure the accumulated postretirement benefit obligation was 8.5% in 1994 and 7.5% in 1993.

Effective in 1993, the company changed its healthcare plan for future retirees which contributed to a reduction in 1993 expense of \$4.4 million after tax or \$.09 per share. These changes reduced the accumulated postretirement benefit obligation by approximately \$30 million, which is being amortized over the remaining eligibility period of the active plan participants.

REPORT OF MANAGEMENT

TO THE SHAREHOLDERS OF MCGRAW-HILL, INC.

The financial statements in this report were prepared by the management of McGraw-Hill, 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 McGraw-Hill's financial condition and the results of the company's operations. Other financial information given in this report is consistent with these statements.

McGraw-Hill's 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.

McGraw-Hill's 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 MCGRAW-HILL, INC.

We have audited the accompanying consolidated balance sheets of McGraw-Hill, Inc. as of December 31, 1994 and 1993, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1994. 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. The 1992 financial statements of the Macmillan/McGraw-Hill School Publishing Company (in which the company had a 50% interest in 1992) were audited by other auditors whose report has been furnished to us; insofar as our opinion on the consolidated financial statements for 1992 relates to the data included for Macmillan/McGraw-Hill School Publishing Company, it is based solely on their report.

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 and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors (for the period referred to above), the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of McGraw-Hill, Inc. at December 31, 1994 and 1993, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1994, in conformity with generally accepted accounting principles.

As described in Note 1 to the consolidated financial statements, in 1992 the company changed its method of accounting for income taxes, postretirement benefits other than pensions and postemployment benefits.

New York, New York
February 2, 1995

SUPPLEMENTAL FINANCIAL INFORMATION
Quarterly Financial Information (unaudited)

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

1994					
Operating revenue	\$559,774	\$648,279	\$855,517	\$697,299	\$2,760,869
Income before taxes	25,454	81,702	153,338	84,946	345,440
Net income	14,967	48,041	90,162	49,949	203,119
Earnings per share	0.30	0.97	1.82	1.01	4.10

1993					
Operating revenue	\$466,947	\$490,907	\$554,969	\$682,630	\$2,195,453
Income/(loss) before taxes (Note a)	26,614	71,748	(108,804)	76,721	66,279
Net income/(loss) (Note a)	15,250	43,177	(91,868)	44,882	11,441
Earnings per share	0.31	0.88	(1.87)	0.91	0.23

1992					
Operating revenue	\$454,808	\$484,275	\$532,724	\$578,684	\$2,050,491
Income before taxes	21,579	64,214	103,497	77,997	267,287
Income before cumulative adjustment	12,365	36,794	59,304	44,692	153,155
Cumulative effect of changes in accounting (Note b)	(124,587)	--	--	--	(124,587)
Net income/(loss)	(112,222)	36,794	59,304	44,692	28,568
Earnings per share:					
Income before cumulative adjustment	0.25	0.75	1.22	0.91	3.13
Cumulative adjustment	(2.55)	--	--	--	(2.55)
Net income/(loss)	(2.30)	0.75	1.22	0.91	0.58
=====					

(a) The third quarter of 1993 includes unusual charges related to the acquisition of the additional 50% of Macmillan/McGraw-Hill School Publishing Company of \$229.8 million (\$160.8 million after taxes, or \$3.27 per share). See Note 2.

(b) The first quarter 1992 cumulative adjustment is comprised of after-tax charges for changes in accounting for postretirement benefits of \$109.5 million or \$2.24 per share and postemployment benefits of \$15.1 million or \$.31 per share. See Note 1.

HIGH AND LOW SALES PRICES OF MCGRAW-HILL COMMON STOCK ON THE NEW YORK STOCK EXCHANGE*

	1994	1993	1992
First quarter	\$73 - 64 1/2	\$63 7/8 - 56 1/2	\$63 3/8 - 56 1/2
Second quarter	69 7/8 - 62 1/2	64 3/8 - 55 1/4	66 1/2 - 57 1/2
Third quarter	77 1/4 - 66 3/8	69 7/8 - 58 3/8	59 3/8 - 53
Fourth quarter	74 3/4 - 63 7/8	75 1/4 - 65 3/4	63 1/4 - 57 1/2
Year	77 1/4 - 62 1/2	75 1/4 - 55 1/4	66 1/2 - 53
=====			

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

Exhibit (21)

McGRAW-HILL, 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 ----- Registrant
McGraw-Hill, Inc.	New York	100
CM Research, Inc.	New York	100
Capitol Radio Engineering Institute, Inc.	Delaware	100
*National Radio Institute	Delaware	100
Columbia Computing Services, Inc.	Delaware	100
Computer and Communications Information Group, Inc.	New Jersey	100
DRI Europe, Inc.	Delaware	100
Editorial McGraw-Hill/Interamericana del Caribe, Inc.	New York	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
Liberty Brokerage Investment Corp.	Delaware	25
McGraw-Hill Broadcasting Company, Inc.	New York	100
McGraw-Hill Capital, Inc.	New York	100
*International Valuation Services, Inc.	Delaware	40
McGraw-Hill Financial Publications, Inc.	Delaware	100
McGraw-Hill International Enterprises, Inc.	New York	100
McGraw-Hill News Bureaus, Inc.	New York	100
McGraw-Hill Publications Overseas Corporation	New York	100
MMS International	Nevada	100
Money Market Directories, Inc.	New York	100
Rock-McGraw, Inc.	New York	45
Shepard's/McGraw-Hill, Inc.	Delaware	100
S&P ComStock, Inc.	New York	100
Standard & Poor's International Ratings, Ltd.	New York	100

	State or Jurisdiction of Incorporation -----	Percentage of Voting Securities Owned -----
Standard & Poor's Ltd.	Delaware	100
Standard & Poor's Securities, Inc.	Delaware	100
Tower Group International, Inc.	New York	100
Calificadora de Valores, S.A. de C.V.	Mexico	100
Columbia Administration Software Publishing Corporation	British Columbia	100
Columbia Computing Services, Ltd.	Canada	100
Editora McGraw-Hill de Portugal, Ltda.	Portugal	100
Editorial Interamericana, S.A.	Colombia	100
Editoriales Pedagogicas Associadas, 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 Mexico, S.A. de C.V.	Mexico	100
*Ediciones Pedagogicas, S.A. de C.V.	Mexico	100
McGraw-Hill/Interamericana de Venezuela S.A.	Venezuela	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.	United States	
	Virgin Islands	100

	State or Jurisdiction of Incorporation -----	Percentage of Voting Securities Owned -----
Nueva Editorial Interamericana, S.A. de C.V.	Mexico	100
Nordisk Rating AB	Sweden	100
Science Research Associates, Pty., Ltd.	Australia	100
Science Research Associates, Limited	United Kingdom	100
Standard & Poor's - ADEF	France	50
Standard & Poor's International, S.A.	Belgium	100
Tata McGraw-Hill Publishing Company Private Limited	India	40

*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 McGraw-Hill, Inc. of our report dated February 2, 1995, included in the 1994 Annual Report to Shareholders of McGraw-Hill, Inc.

Our audits also included the consolidated financial statement schedule of McGraw-Hill, 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 McGraw-Hill, 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), the 1993 Stock Payment Plan for Directors (No. 33-49741), 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 Savings Incentive Plan of Standard & Poor's Corporation and Its Participating Subsidiaries, The Employee Retirement Account Plan of Standard & Poor's Corporation and Its Participating Subsidiaries, Employees' Investment Plan of McGraw-Hill Broadcasting Company, Inc. and Its Subsidiaries (No. 33-50856) and in the related prospectuses of our report dated February 2, 1995 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 McGraw-Hill, Inc.

/s/ ERNST & YOUNG LLP

*New York, New York
March 23, 1995*

ARTICLE 5

MULTIPLIER: 1,000

PERIOD TYPE	YEAR
FISCAL YEAR END	DEC 31 1994
PERIOD END	DEC 31 1994
CASH	8,056
SECURITIES	0
RECEIVABLES	836,681
ALLOWANCES	78,732
INVENTORY	213,253
CURRENT ASSETS	1,124,087
PP&E	788,671
DEPRECIATION	442,889
TOTAL ASSETS	3,008,533
CURRENT LIABILITIES	1,007,985
BONDS	0
COMMON	51,459
PREFERRED MANDATORY	15
PREFERRED	0
OTHER SE	0
TOTAL LIABILITY AND EQUITY	3,008,533
SALES	2,760,869
TOTAL REVENUES	2,760,869
CGS	2,385,210
TOTAL COSTS	2,385,210
OTHER EXPENSES	0
LOSS PROVISION	67,508
INTEREST EXPENSE	51,746
INCOME PRETAX	345,440
INCOME TAX	142,321
INCOME CONTINUING	203,119
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	203,119
EPS PRIMARY	4.10
EPS DILUTED	4.10

Exhibit 99

McGRAW-HILL, INC.

SCHEDULE II - RESERVE FOR DOUBTFUL ACCOUNTS

Years ended December 31, 1994, 1993 and 1992
(Thousands of dollars)

Year	Balance at beginning of year	Additions charged to income	Deductions	Other	Balance at end of year
-----	-----	-----	-----	-----	-----
			(A)		
1994	\$79,461	\$67,508	\$68,237	\$ -	\$78,732
1993	80,768	60,401	65,534	3,826 (B)	79,461
1992	74,157	64,067	57,516	60 (C)	80,768

(A) Accounts written off, less recoveries.

Reserves acquired in connection with the purchase of:

(B) Macmillan/McGraw-Hill School Publishing Co.

(C) Geo. S. Bush & Co., Inc.