



300 Water Street  
Whitby, Ontario  
L1N 9B6  
Canada

Tel: 905 430-5000  
Fax: 905 430-5020

<http://www.mcgrawhill.ca>

Attention: Business/Financial Editors

Stock Symbol: MHR

## McGraw-Hill Ryerson Reports Second Quarter Results July 27, 2006 - Whitby, Ontario

<u>Three Months to June 30, 2006</u> (\$000)	This Year	Year Ago
Sales, less returns	\$17,557	\$17,002
Other	<u>526</u>	<u>412</u>
Total revenue	\$18,083	\$17,414
Net Income (Loss)	(28)	719
Net Income (Loss) per share	\$ (0.01)	\$ 0.36
 <u>Six Months to June 30, 2006</u> (\$000)		
Sales, less returns	\$29,833	\$25,238
Other	<u>941</u>	<u>771</u>
Total revenue	\$30,774	\$26,009
Net Loss	(1,267)	(2,040)
Net Loss per share	\$ (0.63)	\$ (1.02)

**Note:** Financial information commences on page 4 of this press release.

### Summary

Our revenues are typically more heavily weighted towards the second half of the year. However, expenses are more evenly distributed across the year. Historically, this combination usually results in a net loss in the first half of the year and 2006 is no exception. For 2006, our year-to-date net loss is \$0.63 per share, compared to a net loss of \$1.02 per share last year.

### Three Months Ended June 30, 2006

Revenue of \$18.1 million was a 3.8% increase compared to prior year, as a result of increases in all divisions for the quarter.

The Higher Education Division reported sales of \$8.0 million which is an increase of 2.7% over the prior year's \$7.8 million.

The School Division reported sales of \$6.7 million which is consistent with second quarter sales in 2005.

The Professional Division sales increased by \$0.2 million to \$2.6 million due to large “Back to School” orders and improved sell through among several customers.

Operating expenses, comprised of cost of product and royalties increased to \$7.8 million from \$6.9 million in the prior year. This is driven by the revenue increase discussed above. Editorial, selling, general and administrative expenses increased 9.2% to \$8.3 million from \$7.6 million in the second quarter last year. These additional expenses were expected and are mainly the result of two factors: 1) costs to support the expanding publishing program in the School Division, and 2) the discontinuation of the Company’s warehousing contract with Les Editions de la Cheneliere (“DLC”) at the end of 2005, which had offset expenses in the prior year.

Loss before tax is \$0.02 million compared to income before tax of \$1.2 million in second quarter last year. This was mainly the result of the increase in expenses as discussed above.

### **Six Months Ended June 30, 2006**

All divisions are reporting increased sales over the prior year. Total revenue of \$30.8 million increased by 18.3% compared to the prior year revenue of \$26.0 million.

The Higher Education Division sales of \$12.0 million are an increase of 5.5% over the \$11.4 million in 2005. This increase is mainly from strong results primarily in the sciences and social studies.

School Division sales increased 34.5% to \$12.6 million compared to \$9.3 million in 2005. This increase was caused by additional one-time funding by the Ontario and British Columbia governments to purchase textbooks during the first quarter of 2006.

Professional Division sales increased by \$0.4 million to \$4.6 million, as a result of language and reference product sales for ‘back to school’ seasonal promotions, and improved sell through among national accounts. This Division is reporting a very strong market response to several key titles, including *A Thousand Barrels a Second*.

Operating expenses, comprised of cost of product and royalties, have increased by 17.2% to \$13.1 million. This increase is consistent with the sales increase. Margins have also remained consistent with the prior year’s results.

For the first half of the year, editorial, selling, general and administrative expenses have increased 10.2% over the prior year. However, the expenses have decreased as a percent of sales to 54.2% from 58.2%. The expense increase was expected and is mainly the result of two factors: 1) costs to support the expanding publishing program in the School Division, and 2) the discontinuation of the Company’s warehousing contract with Les Editions de la Cheneliere (“DLC”) at the end of 2005, which had offset expenses in the prior year.

Year to date loss before tax is \$2.0 million, compared to \$3.3 million last year. The majority of this decreased loss is caused by the \$4.8 million increase in revenue compared to the prior year.

**Notice to Reader**

***The attached financial statements have been prepared by management of McGraw-Hill Ryerson Limited. The financial statements for the three and six month periods ended June 30, 2006 and 2005 have not been reviewed by the auditors of McGraw-Hill Ryerson Limited.***

*In business since 1944, McGraw-Hill Ryerson Limited is a leading Canadian publisher of educational resources, and information products and services for lifelong learning and enjoyment. Revenue in 2005 was \$88 million. Additional information is available at <http://www.mcgrawhill.ca>.*

Gordon Dyer, Executive Vice President  
and Chief Financial Officer  
(905) 430-5032  
<http://www.mcgrawhill.ca>

**BALANCE SHEETS**

(unaudited)

(In thousands of dollars)

As of	June 30, 2006	December 31, 2005	June 30, 2005
<b>ASSETS</b>			
<b>Current</b>			
Cash and cash equivalents	\$17,657	\$27,206	\$11,320
Accounts receivable	10,444	17,503	10,678
Due from parent and affiliated companies	3,860	2,638	4,415
Inventories	12,650	8,006	13,550
Prepaid expenses and other assets	1,163	407	952
Income taxes recoverable	4,365	190	4,690
Future tax assets	1,091	2,535	1,250
<b>Total current assets</b>	<b>51,230</b>	<b>58,485</b>	<b>46,855</b>
Capital assets, net	18,431	18,716	19,188
Other assets, net	11,716	10,483	11,797
<b>Total assets</b>	<b>\$81,377</b>	<b>\$87,684</b>	<b>\$77,840</b>
<b>LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>			
<b>Current</b>			
Accounts payable and accrued charges	\$8,912	\$ 9,966	\$ 6,999
Due to parent and affiliated companies	2,974	6,181	2,719
<b>Total current liabilities</b>	<b>11,886</b>	<b>16,147</b>	<b>9,718</b>
Future tax liabilities	428	398	1,078
<b>Total liabilities</b>	<b>12,314</b>	<b>16,545</b>	<b>10,796</b>
<b>Shareholders' Equity</b>			
Share capital			
Authorized – 5,000,000 common shares			
Issued and outstanding – 1,996,638 common shares	1,997	1,997	1,997
Retained earnings	67,066	69,142	65,047
<b>Total shareholders' equity</b>	<b>69,063</b>	<b>71,139</b>	<b>67,044</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$81,377</b>	<b>\$87,684</b>	<b>\$77,840</b>

See accompanying notes.

**STATEMENTS OF INCOME/(LOSS) AND RETAINED EARNINGS**

(unaudited)

(In thousands of dollars except per share data)

	Three months ended June 30		Six months ended June 30	
	2006	2005	2006	2005
<b>Revenue</b>				
Sales less returns	\$17,557	\$ 17,002	\$29,833	\$ 25,238
Other	526	412	941	771
<b>Total revenue</b>	<b>18,083</b>	17,414	<b>30,774</b>	26,009
<b>Expenses</b>				
Operating	7,823	6,942	13,081	11,166
Editorial, selling, general, and administrative	8,324	7,622	16,693	15,148
Amortization	1,765	1,640	2,807	2,747
Foreign exchange loss	191	38	186	228
<b>Total operating expenses</b>	<b>18,103</b>	16,242	<b>32,767</b>	29,289
<b>Income/(loss) before income taxes</b>	<b>(20)</b>	1,172	<b>(1,993)</b>	(3,280)
Provision for/(recovery of) income taxes				
Current	(127)	152	(2,037)	(2,642)
Future	135	301	1,311	1,402
	<b>8</b>	453	<b>(726)</b>	(1,240)
<b>Net income/(loss) for the period</b>	<b>\$ (28)</b>	\$ 719	<b>\$(1,267)</b>	\$ (2,040)
Retained earnings, beginning of period	\$67,514	\$ 64,718	\$69,142	\$ 67,836
Dividends paid to shareholders to date (2006 - \$0.405 per share; 2005 - \$0.375 per share)	(420)	(390)	(809)	(749)
<b>Retained earnings, end of period</b>	<b>\$67,066</b>	\$ 65,047	<b>\$67,066</b>	\$ 65,047
<b>Earnings (loss) per share</b>				
Basic	\$ (0.01)	\$ 0.36	\$ (0.63)	\$ (1.02)
Diluted	\$ (0.01)	\$ 0.36	\$ (0.63)	\$ (1.02)

Weighted average number of shares for basic and diluted earnings (loss) per share for 2006 and 2005 is 1,996,638.

**STATEMENTS OF CASH FLOW**

(unaudited)

(In thousands of dollars)

	Three months ended June 30		Six months ended June 30	
	2006	2005	2006	2005
<b>OPERATING ACTIVITIES</b>				
Net income/(loss) for the period	\$ (28)	\$ 719	\$(1,267)	\$ (2,040)
Add/deduct non-cash items				
Amortization	1,765	1,640	2,807	2,747
Future income taxes	134	320	1,474	1,297
Net change in non-cash working capital balances related to operations	(3,038)	(6,203)	(7,999)	(9,286)
<b>Cash used in operating activities</b>	<b>(1,167)</b>	<b>(3,524)</b>	<b>(4,985)</b>	<b>(7,282)</b>
<b>INVESTING ACTIVITIES</b>				
Prepublication costs	(1,599)	(1,088)	(3,370)	(1,982)
Additions to capital assets	(320)	(145)	(385)	(163)
<b>Cash used in investing activities</b>	<b>(1,919)</b>	<b>(1,233)</b>	<b>(3,755)</b>	<b>(2,145)</b>
<b>FINANCING ACTIVITIES</b>				
Dividends paid to shareholders	(420)	(390)	(809)	(749)
<b>Cash used in financing activities</b>	<b>(420)</b>	<b>(390)</b>	<b>(809)</b>	<b>(749)</b>
Net decrease in cash during period	(3,506)	(5,147)	(9,549)	(10,176)
Cash and cash equivalents, beginning of period	21,163	16,467	27,206	21,496
Cash and cash equivalents, end of period	17,657	11,320	17,657	11,320
<b>Supplemental cash flow information</b>				
Interest paid	\$ —	\$ —	\$ —	\$ —
Income taxes paid	\$ 890	\$ 1,406	\$ 1,995	\$ 2,502

