McGraw Hill

MCGRAW-HILL RYERSON

ANNUAL REPORT

2003

LEARNING. THE JOURNEY TO SUCCESS.

LEARNING. THE JOURNEY TO SUCCESS.

Corporate Profile

McGraw-Hill Ryerson Limited (the "Company") has a long and illustrious history. It is built on the solid foundations of two respected publishing companies — McGraw-Hill Book Company, now known as The McGraw-Hill Companies, Inc., and The Ryerson Press.

The Company publishes and distributes educational and professional products in both print and non-print media. These products are designed to fulfill the individual needs of customers by providing effective and innovative educational and learning solutions. Product offerings include text and professional reference books, multimedia tools, and teaching, assessment, support, and monitoring solutions. The Company is committed to providing Canadians with material of the highest quality for their education and enjoyment.

The Company is structured on a market-focused basis and operates in three primary market areas through the following revenue divisions:

- Higher Education Division: post-secondary education, including universities, community, and proprietary colleges
- School Division: secondary and elementary schools
- Trade, Professional, and Medical Division: general interest non-fiction, business and computer disciplines, training and professional development, and medical.

McGraw-Hill Ryerson (MHR) is a public company listed on the Toronto Stock Exchange. It is operated independently, in close cooperation with various divisions and international subsidiaries of its majority shareholder, The McGraw-Hill Companies, Inc. Through this cooperation the Company benefits from its access to the significant product, market, and operational expertise of The McGraw-Hill Companies, Inc.

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McGraw-Hill Ryerson at a Glance

	KEY MARKETS	PRIMARY PROGRAMS	KEY ISSUES AND TRENDS	OUTLOOK
Higher Education Division	Universities, Community Colleges, Career Colleges	Business Economics Computer and Information Technologies Science Engineering English Psychology Social Sciences E-Services	Enrollment is increasing. Growth in web-based teaching and learning solutions. Mixed-mode educational models dominate. Content-enabling technologies will evolve and accelerate acceptance of e-content. Growing interest in wireless applications and use of Learning Object repositories in education. Consolidation among E-Learning companies.	Continued market penetration through a focus on integration strategy (*i*-Learning). Expansion of e-product and leadership services. New business models.
School Division	Secondary Schools, Elementary Schools	Mathematics Science Social Studies Literacy English Information Science Special Education	Marginal decline in student enrollment. Flat government spending on education. Focus on requirement to improve standards of academic achievement and accountability. Asynchronous curriculum renewal cycles.	Continuing focus on accountability for learning outcomes. Continuing demand for "localized" products. Growing interest in integrating technology.
Trade, Professional, & Medical Division	Booksellers, Distributors, Libraries, Non-Traditional booksellers, Direct to Professionals, Medical Schools	Business Computer General Interest Scientific Technical Medical Language	Dominance of major bricks-and-mortar and online book retailers. Demand for consumer and professional information in all formats. Reduced demand for computer books. Growth in medical student enrollment. Competition from online retailers and U.S. book wholesalers.	Increasing purchasing power of national accounts. Escalating demand for timely information. Pressure on availability, price, and service caused by the migration to online sourcing and purchasing. Industry-wide focus on supply chain improvements.
Chenelière/ McGraw-Hill	By publishing under a joint imprint, McGraw-Hill Ryerson Limited and Les Éditions de la Chenelière are able to concurrently publish French and English editions of secondary and post-secondary titles.			

Vision

To be recognized as a leading Canadian publisher of educational resources, information products, and services for lifelong learning and enjoyment.

Mission

To be a Canadian leader in developing and marketing quality information products and services to selected educational, professional, and consumer markets through innovation and teamwork. We will provide exceptional value to customers, growth and recognition opportunities for employees, and outstanding financial performance to our shareholders.

Culture

At McGraw-Hill Ryerson, we will work together to:

- strive to exceed our customers' expectations, by recognizing and anticipating their needs
- meet challenging but achievable company objectives and financial goals, with well-planned and clearly communicated strategies
- continually improve MHR's image in the marketplace, through the promotion of creative ideas, and the development of targeted, innovative products
- encourage a winning spirit and a positive working environment through the development of supportive, appreciative, and rewarding working relationships
- create a market-driven organization
- reward creativity, innovation, and risk-taking
- recognize diversity by treating individuals with respect and dignity

Values

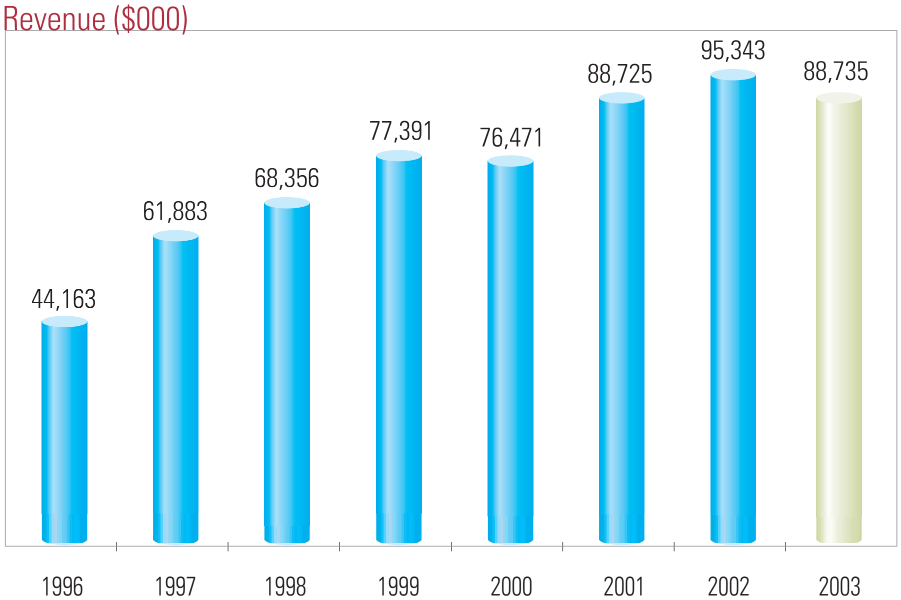
Customer focus
Profitability (short-term and long-term)
Innovation and improvement of products and systems
Commitment to quality
Employee development/lifelong learning
Employee recognition
Teamwork (collaboration, shared decision making within and between divisions)
Integrity, honesty, and ethical behaviour
Respect for individuals and their differences; high quality of work life

Financial Highlights

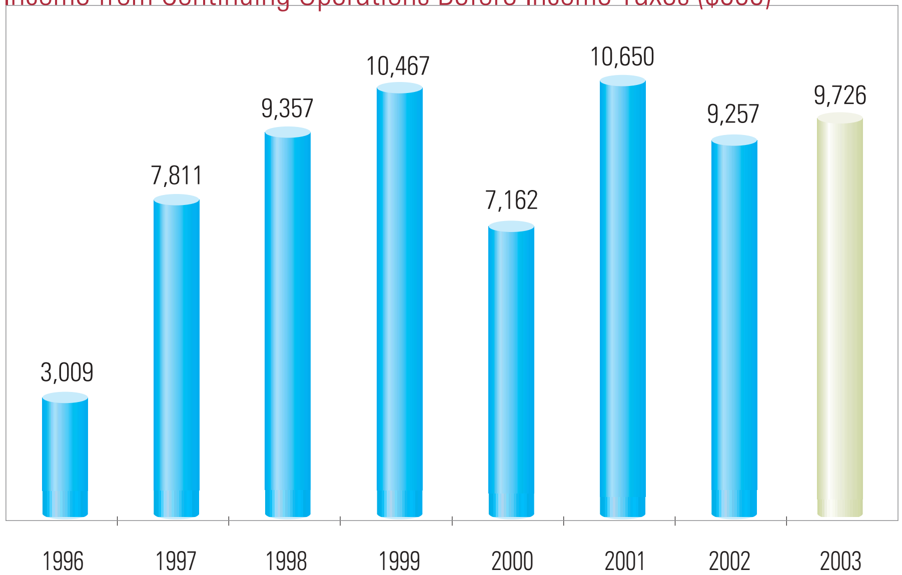
(In Thousands of Dollars, except Per Share Data)

	2003	2002	2001	2000	1999
Revenue and Earnings					
Revenue	**$88,735**	$95,343	$88,725	$76,471	$77,391
Net income for the year	**$ 6,104**	$ 6,156	$ 6,631	$ 4,639	$ 5,849
Cash Flow					
Cash provided by operating activities	**$13,891**	$ 5,602	$23,353	$ 413	$16,060
Additions to capital assets	**$ 436**	$ 4,058	$ 1,571	$ 1,185	$ 968
Net increase/(decrease) in cash during the year	**$ 7,331**	$(7,186)	$13,174	$(8,120)	$ 7,872
Closing Financial Position					
Total shareholders' equity	**$64,218**	$59,402	$54,444	$48,891	$46,006
Total assets	**$86,881**	$95,406	$86,054	$73,821	$74,689
Per Common Share					
Basic – net income per share for the year	**$ 3.06**	$ 3.08	$ 3.32	$ 2.32	$ 2.93
Diluted – net income per share for the year	**$ 3.06**	$ 3.08	$ 3.32	$ 2.32	$ 2.93
Dividends	**$ 0.645**	$ 0.60	$ 0.54	$ 0.54	$ 0.50
Book value	**$ 32.16**	$ 29.76	$ 27.27	$ 24.48	$ 23.04
Market value at December 31	**$ 37.50**	$ 33.25	$ 19.00	$ 16.00	$ 22.75
Financial Ratios					
% Return on average assets	**7%**	7%	8%	6%	9%
% Return on sales	**7%**	7%	8%	6%	8%

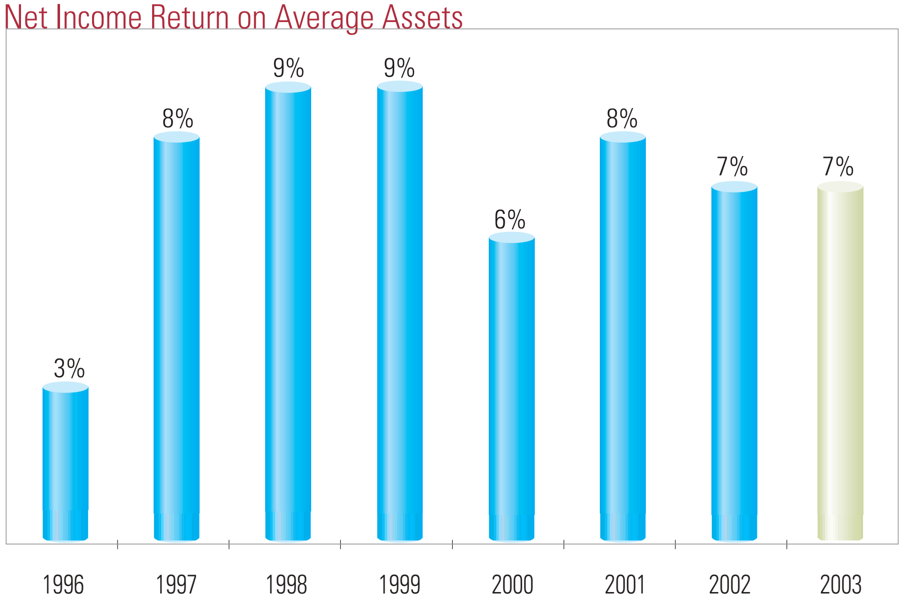
Revenue ($000)



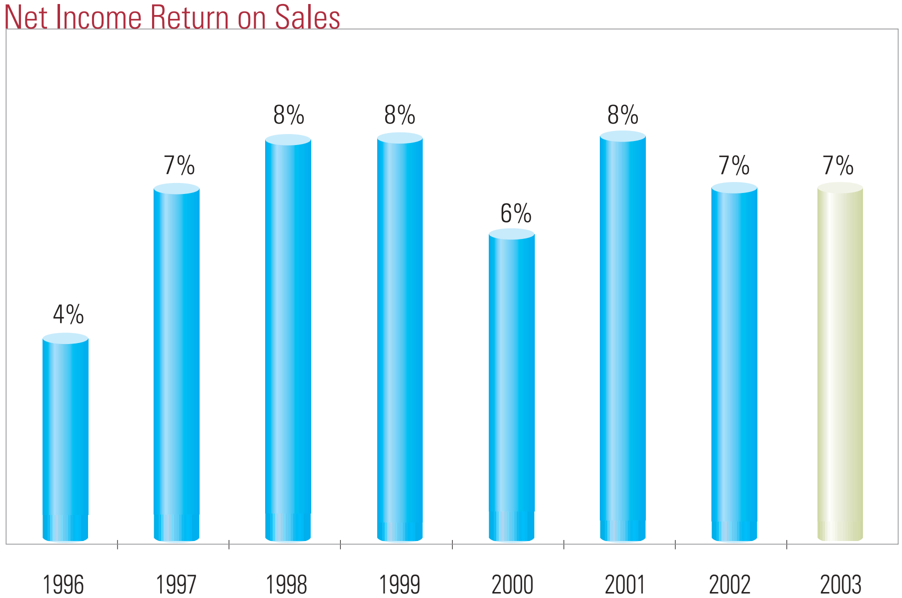
Income from Continuing Operations Before Income Taxes ($000)



Net Income Return on Average Assets



Net Income Return on Sales



Message to the Shareholders

In 2003, McGraw-Hill Ryerson reported a sales decrease of 6.9% and a profit decrease of 0.9%. The Higher Education Division reported a sales increase of 8.3%, which was offset by decreases in both our School and Trade, Professional, and Medical Divisions. Our increased gross margin percentage, combined with a decrease in expenses and a strengthening Canadian dollar, has helped us to generate bottom line results consistent with prior year.

Our Higher Education Division, which serves the post-secondary market for English-language titles, had a successful year and continued to gain market share. The Division continues to be a leader in the industry in the innovative use of technology supporting our learning materials.

Our School Division reported a 26.9% sales decline, partially attributed to one-time Ontario funding which had inflated results in 2002. Sales in 2003 were negatively impacted by reductions in funding for learning materials, especially in Ontario.

Our Trade, Professional, and Medical Division continued to see a decline in the market for computer titles but did report improvements in sales of medical and general interest titles. This Division continued to successfully develop its relationship with non-traditional retailers.

In a challenging sales year, the Company has had to maintain a strong focus on expense controls. The Company has, on an on-going basis, monitored the size and make-up of each of our Divisions based on current demands as well as growth potential in future years. The result is that Editorial, Selling, General, and Administration expenses have decreased by 5.6% in 2003.

The Company has also been able to improve its inventory management and cash collection results in 2003 with the help of the new Enterprise Resource Planning (ERP) system implemented in late 2002. Thus, we are in a very strong cash position at year-end.

The ERP system was further upgraded in 2003, with no adverse impact on sales results or customer satisfaction. In fact, results of a recent customer survey indicate increased customer satisfaction across virtually all areas of our operation, including order accuracy, delivery timelines, customer service, and general responsiveness.

For 2004, we expect modest sales growth fueled by continued growth in our Higher Education Division. This increase will be caused by the Double Cohort of students in Ontario entering second year, as well as a minor impact from students who delayed enrollment during 2003 because of the Double Cohort factor. Our School Division will continue its practice of concentrating on selective publishing targets in all provinces. Our Trade, Professional, and Medical Division expects to see increasing demand for its business, general interest, and medical titles, and will concentrate on these areas as the computer book market continues to decline. Finally, our Support Divisions will focus on reaping the benefits from further enhancements to the ERP system, expected to be implemented in early 2004.

In closing, we expect that our high-calibre workforce, products, and systems will all help to deliver a successful 2004.

H. Ian Macdonald, O.C., LL.D., D.UNIV., D.LITT.
Chairman of the Board of Directors

John D. Dill
President and Chief Executive Officer

CORPORATE GOVERNANCE

A primary concern of the Corporation's Board of Directors has been, and will continue to be, the effective governance of McGraw-Hill Ryerson Limited on behalf of all shareholders. The Company's Corporate Governance Committee meets regularly to review corporate governance matters. A review of the Corporation's governance policies is included in our Management Information Circular that accompanies this Annual Report.

HIGHER EDUCATION DIVISION

SALES PERFORMANCE

The Higher Education Division once again outpaced industry averages and for the fifth consecutive year achieved an increase in net sales. Powered by the market-leading Business & Economics team, the strength of the Division continues to be its Canadian publishing program, which now represents 50% of sales for the group, the highest ever. Continuing with the "*i*-Learning" (integrated Learning) approach in 2003, the focus of the sales, marketing, and editorial teams was one of creating unique solutions for customers who continue to face new and growing challenges in their educational environments. Faculty services, the integration of technology in the classroom, and a flexible choice of custom solutions are just three differentiating factors that led to a successful 2003. With our strong partnerships, well-attended national educational conference series, and innovative projects, the Higher Education Division is positioned well for future sales growth in 2004 and beyond.

CANADIAN PUBLISHING PROGRAM

As the Canadian Publishing Program continues to offer market-leading titles in key disciplines such as Marketing, Accounting, Finance, and Psychology, new ground was broken in 2003 in such areas as Sociology, Physical Geology, Business Communication, and Anthropology. Continued investments in people and product were made to support the growth and opportunity in media technology. Innovative projects such as Learning Objects, Premium Online Learning Centres, Lyryx, and Study to Go were developed and positioned to support changing customer demands. In 2003, the Canadian Publishing Program grew 24% in sales, published 39 new titles, and signed projects worth an estimated $17 million in projected first-year sales.

The International Publishing Group of The McGraw-Hill Companies recognized the achievements of members of the McGraw-Hill Ryerson editorial team with awards for Adaptation of the Year and Editor of the Year.

BUSINESS UNCERTAINTIES

With the rise in enrollment brought upon by the Ontario Double Cohort in 2003, it was expected that industry sales would mirror the increase. This was not the case, because of a number of suspected factors, the most prevalent being the significant growth of substitutions for texts. Online piracy, peer-to-peer sharing, and photocopying increased significantly and this trend is one that has all educational publishers reviewing their practices. 2004 will see a continuation of the Double Cohort effect and an extension of the possible uncertainties that were seen in 2003. Customer/Industry surveys and research will allow the Higher Education Division to prepare for the upcoming year and be in a position to handle any uncertainties it faces.

OUTLOOK

The future continues to look bright for the Higher Education Division. Strong sales growth is expected in 2004 as many key initiatives take root and the *i*-Learning program continues. 2004 also marks the publication of a new edition of Canada's best selling higher education text, *Fundamental Accounting Principles*, 11th Edition, by Larson & Jensen. With the combination of innovative products, an active focus on faculty development, excellent sales, editorial, and marketing teams, plus a Higher Education market showing enrolment growth over the next 10 years, the Higher Education Division is positioned very well for success in the coming year.

Key Products and Services for 2003 were as follows:

1. Berkowitz, *Marketing*, 5/ce
2. Ross, *Fundamentals of Corporate Finance*, 4/ce
3. McShane, *Canadian Organizational Behaviour*, 4/ce
4. Jerome, *Business Mathematics in Canada*, 4/ce
5. Larson, *Fundamental Accounting Principles*, 10/ce
6. Garrison, *Managerial Accounting*, 5/ce
7. Nickels, *Understanding Canadian Business*, 4/ce

School Division

SALES PERFORMANCE

The School Division's sales and contribution both decreased compared to the prior year. These declines resulted in part from a 14% drop in industry sales — the consequence of the end of curriculum reform, accompanied by targeted funding for learning resources in Ontario, as well as the end of targeted funding for learning resources in British Columbia. Additionally, the purchasing focus in the market was concentrated in areas outside the publishing focus of the School Division.

CANADIAN PUBLISHING PROGRAM

Our 2003 science publishing program included the development of three custom resources — one for each of Newfoundland, Nova Scotia, and Alberta. Both *Chemistry 11/12* for Newfoundland and *Physics 11/12* for Nova Scotia involved leveraging existing MHR School Division assets for these curricula as well as developing new instructional material. *science.connect 2*, a contract publication for Alberta Learning, represented an extension of our fully integrated print and electronic student resource for high school general science. Responding to market needs in mathematics, we published *Mathematics: Applying the Concepts 9* — designed for Ontario students in the applied stream as well as supplemental resources for Grades 1–3 mathematics. In Social Sciences we published *Food for Today, First Canadian Edition*. Our Science and Mathematics titles exceeded first-year sales expectations. The School Division continues to engage in market research into the role and value of technology in Grade 7–12 classrooms. Part of this research includes the development of interactive learning activities for Grade 9 science in Alberta.

BUSINESS UNCERTAINTIES

While total funding for learning resources is expected to remain stable for 2004, there are risks in two key markets: British Columbia and Ontario. In British Columbia, targeted funding for learning resources has been removed and jurisdictions may allocate spending in a manner that best meets their performance improvement targets. In Ontario, our largest market, funding is being directed to supporting broad-based initiatives such as Pathways for Success rather than at learning resources specifically. Plans for curriculum renewal for 2004 and beyond are currently in flux, with most provinces expected to establish key milestone dates within the first six months of 2004.

OUTLOOK

Enrollment in the school market is expected to decline marginally. In Ontario, resource needs will continue to vary widely by jurisdiction and, with the exception of K–8 Mathematics, will be driven by the perceived need for new resources to support various provincial educational initiatives. The greatest uncertainties reside in Ontario where a new government, coupled with a larger than anticipated budget deficit, may result in changes to educational initiatives and associated funding.

In 2004, the School Division will focus on market research into curriculum revisions scheduled for 2005 and 2006. The broad scope of the electives publishing program at Glencoe/McGraw-Hill, combined with a strong list from other divisions of McGraw-Hill Companies Inc., will place the School Division in a strong position to support a wide range of courses. The current focus on early literacy and numeracy results in the K–3 panel will continue to offer opportunities for the diverse range of products available from SRA/McGraw-Hill and The Wright Group/McGraw-Hill.

The best-selling titles in the School Division for 2003 were as follows:

1. Dick, Edwards, Geddis, Gue, Brown, Callcott, James, McCaul, McGuire, *Physics 11/12 Atlantic Edition*
2. Edgar, Goldie, Jasper, Lindenberg, Makar, Martin, *ScienceFocus 9*
3. Knill, Dottori, Timoteo, Collins, Forest, Kestell, Macdonald, *MATHPOWER 8 W/E*
4. Knill, Dottori, Timoteo, Baxter, Fawcett, Forest, Kennedy, Pasko, Traini, *MATHPOWER 9 W/E*
5. Mustoe, Jansen, Webb, Doram, Hayhoe, Gaylor, Ghazariansteja, *Chemistry*
6. Colbourne, Fernandez, Hutton, Jantzen, MacFadyen, Sosnowski, Stoten, *science.connect 2*
7. Brosseau, Brosseau, Erdman, Miller, Speijer, *Mathematics Applying the Concepts 9 (1st year implementation package)*

Trade, Professional, and Medical Division

SALES PERFORMANCE

The Trade, Professional, and Medical Division faced a challenging Canadian retail marketplace in 2003. This was the first full year of operation for amazon.ca, and the launch of Sam's Club. Many retailers experienced reduced consumer traffic for reasons ranging from SARS and inclement weather to the ongoing economic uncertainty. Cautious consumer purchasing continued for most of the year, but improved markedly in the last quarter.

Overall, the Canadian trade market was flat, with national accounts and non-traditional retailers showing growth and traditional independents struggling. In non-fiction, growth in the juvenile and general interest categories, and a modest recovery in the business category, was offset by the continued double-digit drop in computing.

McGraw-Hill Ryerson, with a non-fiction list weighted toward business, general reference, medical, and computing, was able to minimize the computing exposure by investing resources in the first three categories. The net sales variance year over year was wholly attributable to a decline in the sales of computing titles.

The Company benefited from the breadth of McGraw-Hill's U.S. list. Their general interest, business, health, and language products were an integral part of our success and resulted in double-digit increases in these categories.

The Company re-launched the extensive Teach Yourself series and captured market share. Also, the management and strategy subsets of the business book category rebounded for both McGraw-Hill and Harvard Business School Press.

Medical delivered a strong sales year overall, and high double-digit increases through the bookstore channel. Although the computing category continued to decline, the Company saw success with the consumer level titles including the How To Do Everything With series.

A key strategy for 2003 was to increase customer value. We launched a Trade Customer Advisory Board in June 2003 to better understand our customers' needs and to ensure that our new Oracle system delivers the value they require. Over the next 18 months, we will work closely with this Board as a pilot for proposed system enhancements.

We continued to focus on cost containment throughout the year. In addition, we worked closely with our customers to improve inventory turns. An emphasis on product sell-through with key channels delivered a 21% reduction in returns for 2003 as compared with 2002.

BUSINESS UNCERTAINTIES

This Division's key concern is that Indigo's transition to SAP in 2004 may impact seasonality and volume of purchases and returns. The decline of the computer book market may also adversely impact the volume of returns. We will continue to monitor these issues, as well as the long-term effect of online book retailers on bricks-and-mortar operations.

OUTLOOK

Fiscal 2004 should be a solid year as the overall economy gains strength, fuelling consumer spending. We project double-digit growth for Medical with the release of the 16th edition of our flagship title: *Harrison's Principles of Internal Medicine*, and continued strength in business and general reference. Key strategies to increase our business in this division include: investing in medical, general interest, language, and business book marketing, improving supply chain in order to create customer value and meet 2004 targets to reduce cycle time, and improving fill rate and retail sell-through.

Key products in the Trade, Professional, and Medical Division in 2003:

1. *DVD Confidential 2: The Sequel*
2. Coxe, *The New Reality of Wall Street*
3. Gittleman, *The Fat Flush Cookbook*
4. Johnson, *How to Do Everything With Your Digital Camera, 3e*
5. Stillman, *Blue Pocket Book of French Verbs*
6. Tierney, *Current Medical Diagnosis & Treatment 2004*
7. Fitzpatrick, *Color Atlas & Synopsis of Clinical Dermatology, 4e*

Chenelière/McGraw-Hill ("DLC")

By publishing under a joint imprint, McGraw-Hill Ryerson Limited and Les Éditions de la Chenelière are able to concurrently publish French and English editions of secondary and post-secondary titles. Chenelière/McGraw-Hill enjoyed an excellent year in 2003 with French translations of successful titles from McGraw-Hill Ryerson. DLC and MHR are working together to develop English and French proposals simultaneously to fit various calls for resources across Canada.

In 2004, DLC's Higher Education Group will be publishing 43 new titles, most of which will be translations of McGraw-Hill Ryerson titles. For example, the group expects great results from the French Edition of Garrison's *Managerial Accounting* and Lind's *Statistical Techniques in Business and Economics*. Chenelière/McGraw-Hill will continue to build its School and Higher Education publishing program, in part through leveraging McGraw-Hill Ryerson's excellent list. The long-standing contract between McGraw-Hill Ryerson and DLC, which includes the joint imprint as well as agreements covering translation, warehousing and distribution, will continue to benefit both companies in 2004.

Key titles published for 2003 were as follows:

1. Berkowitz, *Marketing*
2. O'Brien, *Introduction aux systèmes d'information, 2e ed*
3. Larson, *Introduction à la comptabilité générale, 7e ed. (2 vol.)*
4. Shively, *Pouvoir et décision, 2e ed.*
5. Libby, Libby, Short, *Fondements de la comptabilité financière*

Major Support Initiatives

EDITORIAL, DESIGN, AND PRODUCTION DEPARTMENT

McGraw-Hill Ryerson's Editorial, Design, and Production (EDP) Department provides project management, financial analysis, technical production, and manufacturing services to the Editorial Divisions for a wide variety of product offerings. In 2003, EDP oversaw the production of more than 180 new titles.

Business alliances with key vendors allow for competitive pricing and ensure the highest quality of materials for McGraw-Hill Ryerson's products. These alliances help to guarantee the timely delivery of products to the Company's warehouse for distribution to customers. In addition, a close working relationship with its majority shareholder provides McGraw-Hill Ryerson with the opportunity to leverage the buying powers and established best practices of a multi-billion dollar corporation.

INFORMATION SYSTEMS AND TECHNOLOGY (IS&T)

The business and technology groups, who worked together to upgrade the Oracle ERP system during 2003, exerted a tremendous effort. This upgrade will allow McGraw-Hill Ryerson to better serve customers' needs in our traditional businesses as well as open doors to expanded opportunities in the digital world.

As we move forward in 2004, we are planning to enhance our B2B capabilities as well as leverage our Supply Chain Planning System to improve our internal operations and better serve our customers.

CUSTOMER SATISFACTION DIVISION

The Customer Satisfaction Division provides customer service and logistical support to ensure a high level of service to all of our customers. Our goal in 2003 was to increase customer satisfaction across all facets of our organization. According to a survey of our customers completed in late 2003, we have succeeded admirably with improved results in virtually all areas, including Customer Service, Order and Delivery Accuracy, Delivery and Invoice Timelines, and General Responsiveness.

HUMAN RESOURCES

A Business Process Documentation and Improvement team was established with three dedicated employees that worked intensively with every department to document their business processes, down to the procedure level. This documentation has been used for training new employees and as a base for process improvement. We introduced the Big Idea Program, a suggestion program that has produced 96 process improvement suggestions, one-third of which were implemented in 2003. The program paid out $8,800 in awards to our employees and generated significant expense savings.

Our progressive benefits plan (including a bonus plan covering all employees, flexible health benefits, and a company pension plan) has helped us attract and retain a very strong employee workforce. Although this was another challenging year for employees, morale and employee commitment has been maintained with a decrease in high-performing employee turnover.

Management's Discussion and Analysis of Operating Results and Financial Position

This management's discussion and analysis ("MD&A") provides a detailed analysis of McGraw Hill Ryerson's business and compares its 2003 financial results with those of the previous year. In order to better understand the MD&A, it should be read in conjunction with the Consolidated Financial Statements for the year ended December 31, 2003 and its related notes. The Corporation prepares and files its consolidated financial statements and MD&A using Canadian dollars and in accordance with Canadian generally accepted accounting principles ("GAAP"). The consolidated financial statements and MD&A, as well as additional information regarding McGraw-Hill Ryerson are available at www.sedar.com. This MD&A is made as of January 23, 2004.

Cautionary Note Regarding Forward-Looking Statements

Some of the information contained in this MD&A may contain "forward-looking statements." Forward-looking statements may include, among others, statements regarding our future plans, costs, objectives or economic performance, or the assumptions underlying any of the foregoing. In this MD&A we use words such as "may," "would," "could," "will," "likely," "believe," "expect," "anticipate," "intend," "plan," "forecast," "project," "estimate," and similar words to identify forward-looking statements. Forward-looking statements should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or the times at or by which such future performance will be achieved. Forward-looking statements are based on information available at the time and/or management's good faith belief with respect to future events and are subject to known and unknown risks, uncertainties, and other unpredictable factors, many of which are beyond our control. These risks and uncertainties include, but are not limited to, those described under the heading "Risks and Uncertainties," and could cause actual events or results to differ materially from those projected in any forward-looking statements. We do not intend, nor do we undertake any obligation, to update or revise any forward-looking statements contained in this MD&A to reflect subsequent information, events, or circumstances.

Selected Annual Financial Results (In Thousands of Dollars)

	2003	2002	2001	2000	1999
Net Sales	**86,864**	93,279	86,599	74,985	75,992
% increase/(decrease)	**(6.9)%**	7.7%	15.5%	(1.3%)	13.9%
% of Net Sales					
Higher Education sales	**58.7%**	50.5%	52.3%	50.2%	46.7%
School sales	**29.3%**	37.3%	34.0%	32.7%	28.4%
Trade, Professional, and Medical sales	**12.0%**	12.2%	13.7%	17.1%	24.9%
% of Net Sales					
Imported product sales	**51.4%**	54.5%	52.1%	54.6%	56.4%
Canadian and adaptations sales	**46.7%**	44.2%	45.8%	42.7%	36.9%
Agency sales	**1.9%**	1.3%	2.1%	2.7%	6.7%
Total expenses	**79,009**	86,086	78,075	69,309	66,924
% of total operating revenue	**91.0%**	92.3 %	90.2%	92.4%	88.1%
Net income	**6,104**	6,156	6,631	4,639	5,849
% of total operating revenue	**7.0%**	6.6%	7.7%	6.2%	7.7%
Net Income per share	**$3.06**	$3.08	$3.32	$2.32	$2.93
Total assets	**86,881**	95,406	86,054	73,821	74,689
Return on assets %	**7.0%**	6.5%	7.7%	6.3%	7.8%

REVENUE

McGraw-Hill Ryerson had a decrease in sales of 6.9% in 2003 with sales of $86.9 million compared to $93.3 million in 2002.

McGraw-Hill Ryerson's Higher Education Division enjoyed another year of strong sales growth and gained market share. Sales grew by 8.3% over 2002 with sales of $51.0 million in 2003 up from $47.1 million. The School Division sales suffered with lower sales of $25.4 million or 26.9% lower than $34.8 million in 2002. This resulted from the ending of the funding for the new curriculum in Ontario as well as the government's focus on the elementary school market, where the Company does not have a significant market share. Trade, Professional, and Medical sales declined 8.6% from 2002 sales of $11.4 million to $10.4 million, as a result of the weak demand for computer books.

Canadian publications and adaptations increased to 46.7% of total sales in 2003 from 44.2%, partly as a result of the growth in the Higher Education Publishing program as well as School's Canadian sales increasing as a percentage of their total sales. Sales of product imported from The McGraw-Hill Companies, Inc. decreased 11.3% from 2002 and made up 51.4% of total sales (54.0% in 2002). Agency sales increased slightly to 1.8% of total sales in 2003 from 1.5% in 2002. On average, the Company earns higher margins on Canadian publications than on imported product or agency product.

EXPENSES

In 2003, total expenses decreased 8.2% to $79.0 million from $86.1 million in the prior year. Expenses as a percentage of operating revenue decreased to 91.0% in 2003 from 92.3% in 2002.

Operating expenses, comprised of cost of product and royalties, decreased to $41.1 million from $45.1 million. This 9.0% decrease is due to the combination of the 6.9% decrease in overall sales, changing sales mix and the stronger Canadian dollar which improved our margins.

Editorial, selling, general, and administrative expenses decreased 5.6% to $30.7 million from $32.5 million in 2002. These expenses were 35.3% of sales in 2003, compared to 34.8% in 2002. Expenses were reduced in the Trade, Professional, and Medical Division because of a predicted sales decline and in the editorial department in the School Division due to the end of the new curriculum funding by the Ontario government.

Total amortization expense increased 4.5%. Prepublication amortization increased 6.7% to $6.4 million from $6.0 million in the prior year. The increase is due to the investment in the Canadian publishing programs in the Higher Education and School Divisions of traditional as well as digital products. Depreciation expense has remained consistent year over year as capital expenditures were low this year.

The foreign exchange gain of $1.0 million is higher than the $0.5 million exchange loss in 2002 because of a strengthening Canadian dollar during our largest purchasing season. Similar cash levels led to a consistent interest expense year over year.

The effective tax rate increased to 37.2% from 33.5% in 2002 because of the increase in future tax rates by the Ontario government. This increase is also due to the change in mix between the specific assets and liabilities on which the deferred taxes are based.

Cash increased in the year by 51.9% to $21.5 million from $14.1 - million at the end of 2002. This increase is mainly the result of:

- The accounts receivable balance decreased to $15.0 million from $18.4 million in the prior year. The Company's collection performance is closely monitored in accordance with credit terms and industry standards. The aging of outstanding receivables has significantly improved throughout the year.
- Inventory levels decreased by 24.6% in the year, through better management of U.S. inventory and the cancellation of an agency relationship. The ending inventory balance was

Liquidity and Financial Resources (In Thousands of Dollars)

	2003	2002	2001	2000	1999
As at December 31, 2003					
Cash	**21,452**	14,121	21,307	8,133	16,253
Total assets	**86,881**	95,406	86,054	73,821	74,689
Working capital	**31,505**	23,881	22,744	20,748	21,478
Accounts receivable	**14,991**	18,372	15,804	15,866	15,788
Inventory	**11,483**	15,227	9,465	9,863	11,006
For the 12 Months Ended December 31, 2003					
Cash flow from operations	**13,891**	5,602	23,353	413	16,060
Prepublication investment	**4,836**	7,532	7,530	6,268	6,222
Capital asset additions	**436**	4,058	1,571	1,185	968
Dividends paid per share	**0.645**	0.60	0.54	0.50	0.40

$11.4 million, compared to $15.2 million at the end of 2002. The number of months' supply on hand has decreased over last year by 14%.

- Prepublication investment decreased from $7.5M to $4.8M due to the reduction in titles published by the School and the Trade, Professional, and Medical divisions.
- Capital asset purchases of $0.4 million ($4.1 million in 2002) consisted mainly of technology equipment purchases and building improvements. These purchases are in line with the continuing goal of leveraging new technologies. Purchases in 2002 included the ERP system ($2.5 million).

The Company has entered into operating leases, primarily for equipment, for which the estimated future minimum annual lease payments are $0.3 million in 2004 and $0.1 million in 2005.

The Company's cash flow is cyclical during the year due to our sales cycle, with high cash balances in the first and fourth quarters. During the low cash phase of the cycle, in the second and third quarters, the Company has a line of credit available to meet forecasted needs. The Company generated significant cash from operations in 2003, which will be used to help grow our business in future years.

Transactions with Related Parties

The Company is a subsidiary of The McGraw-Hill Companies, Inc. which owns 70.1% of the outstanding common shares. Under long-standing arrangements, the Company purchases books and educational materials from the parent company and various international subsidiaries of The McGraw-Hill Companies, Inc. Inventory purchases from the parent company in 2003 were $39.0 million, down from $44.8 million in 2002. In addition, the Company pays royalties to the parent company for any titles that have been adapted to the Canadian market.

The Company also sells books and educational materials to various international subsidiaries of The McGraw Hill Companies, Inc. These purchases and sales are recorded at the exchange rates in effect at the time of the transaction. In the normal course of business, the Company reimburses (and is reimbursed) for common expenses shared with other McGraw-Hill entities. All such reimbursements are done at cost, using exchange rates in effect at the time of the transactions.

The Company owed related parties $12.2 million at the end of 2003 compared with $24.6 million at December 31, 2002 and was owed $2.0 million by the related parties at the end of 2003 down from $6.4 million at the end of 2002.

Quarterly Results

Quarterly Income Statement ($000) – except Per Share Data

	Quarter Ended March 31			Quarter Ended June 30			Quarter Ended Sept. 30			Quarter Ended Dec. 31			Full Year		
	2003	2002	2001	**2003**	2002	2001	**2003**	2002	2001	**2003**	2002	2001	**2003**	2002	2001
Total Revenue	**$10,069**	$8,993	$9,064	**$18,158**	$17,884	$15,723	**$40,144**	$46,800	$42,503	**$20,364**	$21,666	$21,435	**$88,735**	$95,343	$88,725
Net Income (Loss) for the period	**$(1,071)**	(2,145)	(1,178)	**$ 317**	1,030	562	**$ 6,155**	7,212	5,961	**$ 703**	59	1,287	**$ 6,104**	$ 6,156	$ 6,631
Net Income (Loss) per share	**$ (0.54)**	(1.07)	(0.59)	**$ 0.16**	0.52	0.28	**$ 3.08**	3.61	2.99	**$ 0.35**	0.03	0.64	**$ 3.06**	3.08	3.32

The Company's sales are cyclical based on the education industry's school terms for the School and Higher Education divisions. As a result, the Company earns a significant amount of its total sales in the third and fourth quarters of each year.

In the fourth quarter of 2003, total revenue was down 6% compared to prior year. Net income increased by $0.6 million reflecting a significant improvement in gross margin. The improvement was caused by a change in sales mix as well as the strengthening Canadian dollar which helped to improve margin on product imported from McGraw-Hill Companies in the U.S.

The actual results for the year came in at the low end of the range that was stated in the forward looking statement of the third quarter press release.

The comparative quarterly information has been reclassified from statements previously presented to conform to the presentation of the 2003 quarterly information.

Critical Accounting Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates.

The critical accounting estimates included in the financial statements are as follows:

- The inventory obsolescence reserve is calculated by comparing the quantity on hand to the forecasted sales in the estimated remaining life of the title. This calculation is completed for each title.
- The allowance for doubtful accounts is calculated by reviewing any specifically identified aged accounts plus a general provision for the balance of the accounts.
- Estimate for sales return reserve is calculated using the forecasted rate of returns in future periods. This forecast is calculated separately for each segment, and is based on the average rate of returns over the past three years.

Other

The number of common shares outstanding as of January 23, 2004 was 1,996,638.

RISKS AND UNCERTAINTIES

Educational Funding Constraints

Educational funding varies from year to year depending on the current government's mandate. To help overcome the impact of public funding reductions, the Company has made great strides in researching, developing, and marketing innovative learning resources. These resources meet specific learning needs of students while reducing the number of required teacher-contact hours.

Format and Delivery of Future Learning Resources

The advent of new media is affecting the publishing industry in several ways: sales of non-print materials have begun to increase as a percentage of total sales; competition is appearing from non-traditional publishers, such as high-technology firms; there has been an increase in electronic piracy over the Internet; and, most importantly, the format of future learning resources remains uncertain.

In response to these evolving technological changes, all of the Company's divisions are developing innovative non-print products as well as working on ways to prevent piracy. Further investment in this market will be dependent on demand, cost, revenue management, and the acceptance of new technology by our customers.

Competition from Foreign-Based Virtual Bookstores

The advent of virtual bookstores in the U.S. has created an avenue for Canadian consumers and students to purchase published product directly from foreign retailers, thus eliminating the Canadian marketers and distributors of the product. In particular, students will be able to access a very large source of second-hand product, not previously experienced in Canada. Canadian virtual bookstores, on the other hand, have proven to be effective retailers of McGraw-Hill Ryerson product and the Company is aggressively pursuing this market segment.

Dependency on Superstores

While these entities, such as Indigo Books & Music Inc., account for a small portion of the Company's total business, their increasing influence in the marketplace can increase sales and returns volatility.

Foreign Exchange

The following table sets forth, for each period indicated, the exchange rate for Canadian dollars expressed in U.S. dollars at the end of that period.

	2003				2002	2001
	Mar. 31	June 30	Sept. 30	Dec. 31	Dec. 31	Dec. 31
Exchange Rate	0.676	0.736	0.741	0.771	0.633	0.628

A significant portion of the Company's purchases is incurred in U.S. dollars. As a result, major exchange rate fluctuations between the Canadian and U.S. dollars will either positively or negatively affect net income. The Company is employing policies to minimize the impact of these currency fluctuations.

Outlook

During 2003 McGraw-Hill Ryerson continued to capitalize on the business and operational foundations laid over the last year with the new ERP system. Every element of the Company has been coordinated in a common strategic focus. Sales, marketing, editorial, production, warehouse and order fulfillment, customer satisfaction, finance, technology, and human resource functions are all working in concert to create an improved operation. With the conditions in the marketplace, however, the Company suffered a challenging sales year.

Fiscal 2004 is projected to be a stable year in which the Company expects to see modest revenue growth. The Company will benefit from the expansion of its product offerings into discipline areas in which it has not previously had a presence and from the continued growth in student enrollment at universities and colleges. The Company will also benefit from ongoing enhancements to its ERP system in 2004, which should result in improved internal operations and customer satisfaction.

The Company is, however, still faced with uncertainty in each of its markets. Funding availability, product format, and delivery methods are all subject to various levels of change. To meet these challenges, the Company continues to invest in high quality people and technology. Our goal is to meet the informational needs of our customers by developing innovative educational solutions, providing unparalleled customer satisfaction, and fully utilizing the vast array of resources of The McGraw-Hill Companies, Inc.

Management Report

To the Shareholders of McGraw-Hill Ryerson Limited

The financial statements and all the information in this Annual Report were prepared by the management of McGraw-Hill Ryerson Limited, which is responsible for their integrity and objectivity.

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

McGraw-Hill Ryerson'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 cost of these controls should not exceed the expected benefits in maintaining these controls. These controls further assure the quality of the financial records in several ways: 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 through the Corporation.

The financial statements in this report have been audited by Ernst & Young LLP, Chartered Accountants, in accordance with Canadian generally accepted auditing standards. The independent auditors were retained to express an opinion on the financial statements, which appears on page 21.

McGraw-Hill Ryerson's Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee, which meets periodically with management and the independent accountants to ensure that each group is carrying out its respective responsibilities. In addition, the independent accountants have full and free access to the Audit Committee and meet with it with no representatives from management present.

President and
Chief Executive Officer

Gordon Dyer
Executive Vice President
and Chief Financial Officer

Auditors' Report

To the Shareholders of McGraw-Hill Ryerson Limited

We have audited the balance sheets of McGraw-Hill Ryerson Limited as at December 31, 2003 and 2002, and the statements of income and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance 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.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Toronto, Canada
January 23, 2004

Chartered Accountants

Balance Sheets

(In Thousands of Dollars)

As at December 31	**2003**	2002	2001
Assets			
Current			
Cash	**$21,452**	$14,121	$21,307
Accounts receivable (net of allowance for book returns of $6,962 (2002 — $6,127 (note 8)	**14,991**	18,372	15,804
Due from affiliated companies (note 2)	**2,009**	6,400	3,395
Inventories	**11,483**	15,227	9,465
Prepaid expenses and other	**297**	360	394
Income taxes recoverable	**—**	1,639	—
Future tax assets (note 5)	**2,461**	2,187	2,350
Total current assets	**52,693**	58,306	52,715
Capital assets, net (note 3)	**20,673**	21,990	19,702
Other assets, net (note 4)	**13,515**	15,110	13,637
	$86,881	$95,406	$86,054
Liabilities and Shareholders' Equity			
Current			
Accounts payable and accrued charges	**7,298**	9,793	8,160
Income taxes payable	**1,708**	—	2,085
Due to parent and affiliated companies (note 2)	**12,182**	24,632	19,726
Total current liabilities	**21,188**	34,425	29,971
Future tax liabilities (note 5)	**1,475**	1,579	1,639
Total liabilities	**$22,663**	$36,004	$31,610
Commitments (note 6)			
Shareholders' Equity			
Share capital			
Authorized 5,000,000 common shares			
Issued and outstanding 1,996,638 common shares	**1,997**	1,997	1,997
Retained earnings	**62,221**	57,405	52,447
Total shareholders' equity	**64,218**	59,402	54,444
	$86,881	$95,406	$86,054

On behalf of the Board

H. Ian Macdonald, O.C., LL.D., Director

John D. Dill, Director

(See accompanying notes to financial statements.)

Statements of Income and Retained Earnings

(In Thousands of Dollars except Per Share Data)

Years ended December 31	**2003**	2002	2001
Revenue			
Sales, less returns	**$86,864**	$93,279	$86,599
Other	**1,871**	2,064	2,126
	88,735	95,343	88,725
Expenses			
Operating (note 2)	**41,058**	45,119	43,470
Editorial, selling, general, and administrative	**30,694**	32,498	28,566
Amortization (note 7)	**8,184**	7,829	5,750
Foreign exchange (gain) loss	**(1,014)**	529	269
Interest	**87**	111	20
	79,009	86,086	78,075
Income before income taxes	**9,726**	9,257	10,650
Provision for (recovery of) income taxes (note 5)			
Current	**4,000**	2,998	4,964
Future	**(378)**	103	(945)
	3,622	3,101	4,019
Net income for the year	**6,104**	6,156	6,631
Retained Earnings			
Retained earnings, beginning of year	**$57,405**	$52,447	$46,894
Dividends paid to shareholders ($0.645 per share; 2002 — $0.60 per share; 2001 - $0.54 per share)	**(1,288)**	(1,198)	(1,078)
Retained earnings, end of year	**$62,221**	$57,405	$52,447
Earnings per share			
Basic	**$ 3.06**	$ 3.08	$ 3.32
Diluted	**$ 3.06**	$ 3.08	$ 3.32

(See accompanying notes to financial statements.)

Statements of Cash Flows

(In Thousands of Dollars)

Years ended December 31	2003	2002	2001
Operating Activities			
Net income for the year	**$ 6,104**	$ 6,156	$ 6,631
Add (deduct) non-cash items			
Amortization (note 7)	**8,184**	7,829	5,750
Future income taxes	**(378)**	103	(945)
	13,910	14,088	11,436
Net change in non-cash working capital balances related to operations (note 10)	**(19)**	(8,486)	11,917
Cash provided by operating activities	**13,891**	5,602	23,353
Investing Activities			
Prepublication costs	**(4,836)**	(7,532)	(7,530)
Additions to capital assets	**(436)**	(4,058)	(1,571)
Cash used in investing activities	**(5,272)**	(11,590)	(9,101)
Financing Activities			
Dividends paid to shareholders	**(1,288)**	(1,198)	(1,078)
Cash used in financing activities	**(1,288)**	(1,198)	(1,078)
Net increase/(decrease) in cash during the year	**7,331**	(7,186)	13,174
Cash, beginning of year	**14,121**	21,307	8,133
Cash, end of year	**$21,452**	$14,121	$21,307

(See accompanying notes to financial statements.)

Notes to Financial Statements

(Tabular amounts are in Thousands of Dollars)

1 Summary of Significant Accounting Policies

The accompanying financial statements of McGraw-Hill Ryerson Limited (the "Company") have been prepared in accordance with Canadian generally accepted accounting principles. The most significant accounting policies are as follows:

Cash and Cash Equivalents

The Company considers all highly liquid instruments with a maturity date of ninety days or less at the date of acquisition to be cash equivalents.

Inventories

Inventories are stated at the lower of cost, on a first-in, first-out basis, and net realizable value.

Capital assets

Capital assets are recorded at cost less accumulated amortization. Amortization is provided on a straight-line basis at the following annual rates:

Building 2-1/2%
Computer equipment 3-7 years
Furniture, fixtures, and equipment 10% to 20%

Prepublication costs

Prepublication costs include third party services, preparation, and plate costs, which are amortized from the year of copyright over the lesser of five years, and the expected sales life of the related publication.

Contracts, copyrights, trademarks, agency rights, and goodwill

During 2002, the Company adopted the new recommendations of The Canadian Institute of Chartered Accountants relating "Goodwill and Other Intangible Assets." Pursuant to the new recommendations, goodwill is no longer amortized but is subject to an annual review for impairment, which consists of a comparison of the fair value of the assets to their carrying value. During 2003, the Company tested the amount allocated to goodwill and determined that no provision for impairment was required.

Costs of contracts, copyrights, trademarks, and agency rights were being amortized on a straight line basis over the lesser of their useful lives or 40 years.

Foreign exchange translation

Foreign cash balances and amounts receivable from or payable to foreign affiliates are translated into Canadian dollars at the rates of exchange prevailing at year end. Transactions denominated in foreign currencies are translated into Canadian dollars at the exchange rates at the date of the transactions. Any resulting gains or losses are included in net income for the year.

Revenue recognition

The Company recognizes revenue for product sales, net of estimated returns, when the products are shipped to customers, which is also when title passes to the customer.

Other revenue is comprised mainly of rental income, interest and other miscellaneous income, and is recognized as earned on a monthly basis.

Pension costs

The Company has a defined contribution pension plan for all employees for which the Company's contributions are expensed as incurred. The Company also has a supplemental employee retirement plan for executives. Total pension expense during the year is $789,000 (2002 - $655,000; 2001 - $568,000).

Income taxes

The Company uses the liability method of accounting for income taxes. Under the liability method, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Earnings per share

The weighted average number of common shares used in the computation of both basic and diluted earnings per share for 2003 is 1,996,638 (2002 – 1,996,638; 2001 – 1,996,638).

Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates.

2 Related Party Transactions

The Company is a subsidiary of The McGraw-Hill Companies, Inc. which owns 70.1% of the outstanding common shares. Transactions with related parties are as follows:

Under long-standing arrangements, the Company, in the normal course of business, purchases books and educational materials from the parent company and various international subsidiaries of The McGraw-Hill Companies, Inc.

The Company pays royalties to the parent company for any U.S. titles that have been adapted to the Canadian market.

The Company also in the normal course of business sells books and educational materials to various international subsidiaries of The McGraw-Hill Companies, Inc. These purchases and sales are recorded at the exchange rates in effect at the time of the transaction.

The Company reimburses (and is reimbursed) for common expenses shared with other McGraw-Hill entities. All such reimbursements are done at cost, using exchange rates in effect at the time of the transaction.

Terms of payment vary from 60 to 120 days, net from the transaction date and all amounts are non-interest bearing.

Amounts due from parent and affiliated companies consist of the following:

	2003	2002	2001
Parent	**$1,276**	$4,707	$2,367
Common-controlled enterprises	**733**	1,693	1,028
	$2,009	**$6,400**	**$3,395**

Amounts due to parent and affiliated companies consist of the following:

	2003	2002	2001
Parent	**$12,118**	$24,584	$19,726
Common-controlled enterprises	**64**	48	—
	$12,182	**$24,632**	**$19,726**

Related party transactions with parent and affiliated companies consist of the following:

	2003	2002	2001
Acquisition of capital assets from the parent company	**$ —**	2,500	—
Inventory purchases			
Parent	**$38,984**	$44,877	$40,563
Common-controlled enterprises	**456**	135	112

3 Capital Assets

Capital assets consist of the following:

	2003			2002			2001		
	Cost	**Accumulated amortization**	**Net book value**	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Land	**$ 3,598**	**$ —**	**$ 3,598**	$ 3,598	$ —	$ 3,598	$ 3,598	$ —	$ 3,598
Building	**17,741**	**5,466**	**12,275**	17,741	5,023	12,718	17,756	4,580	13,176
Computer equipment	**5,604**	**3,122**	**2,482**	5,624	2,164	3,460	3,442	2,066	1,376
Furniture, fixtures, and equipment	**3,784**	**1,466**	**2,318**	3,328	1,114	2,214	2,476	924	1,552
	$30,727	**$10,054**	**$20,673**	$30,291	$8,301	$21,990	$27,272	$7,570	$19,702

4 Other Assets

Other assets consist of the following:

	2003			2002			2001		
	Cost	**Accumulated amortization**	**Net book value**	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Prepublication costs	**$32,504**	**$19,352**	**$13,152**	$27,860	$13,113	$14,747	$21,105	$ 7,860	$13,245
Goodwill	**500**	**137**	**363**	500	137	363	500	137	363
Contracts, copyrights, trademarks, and agency rights	**—**	**—**	**—**	40	40	—	40	11	29
	$33,004	**$19,489**	**$13,515**	$28,400	$13,290	$15,110	$21,645	$8,008	$13,637

5 Income Taxes

Under the liability method of tax allocation, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities. Significant components of the Company's future tax assets and liabilities are as follows:

	2003	2002
Current future tax assets		
Allowance for book returns and other items	**2,461**	2,187
Non-current future tax liabilities (assets)		
Capital assets	**3,186**	2,926
Pre-publication costs	**(1,711)**	(1,347)
	1,475	1,579

The reconciliation of provision for income taxes computed at the statutory tax rates is as follows:

	2003	2002	2001
Tax at combined federal and provincial tax rates	**3,562**	3,575	4,446
Manufacturing and processing profits deduction	**(248)**	(207)	(332)
Increase (Reduction) in future income taxes resulting from statutory tax rate change	**244**	(515)	(272)
Other	**64**	248	177
	3,622	3,101	4,019

6 Lease Commitments

The Company has entered into operating leases, primarily for equipment, for which the estimated future minimum annual payments are as follows:

2004	$ 298
2005	142
2006	33

7 Amortization

Amortization consists of the following:

	2003	2002	2001
Capital assets	**$1,753**	$1,770	$1,402
Prepublication costs	**6,431**	6,030	4,335
Contracts, copyrights, trademarks, and agency rights	**—**	29	13
	$8,184	$7,829	$5,750

8 Financial Instruments

The Company's financial instruments consist of cash, short term deposits, accounts receivable, amounts due from/to parent and affiliated companies, accounts payable and accrued charges, and income taxes recoverable/payable. At December 31, 2003 and 2002, the fair value of the Company's financial instruments approximate their carrying value due to the short-term maturity of these instruments.

The Company's five largest customers make up approximately 29% (2002 – 29%; 2001 – 33%) of the accounts receivable balance and approximately 13% (2002 – 13%; 2001 – 19%) of net sales.

9 Segmented Disclosure

The Company is structured on a market-focus basis and operates in three primary market areas: post-secondary education, including universities and community colleges ("Higher Education"); secondary and elementary schools and proprietary colleges ("School"); and trade, professional, and medical, including retailers, distributors, libraries, non-traditional booksellers, direct marketing, and the medical sector ("Trade, Professional, and Medical"). The accounting policies of these operating segments are the same as those described in the summary of significant accounting policies.

	2003					2002				
	Higher Education	**School**	**Trade, Professional and Medical**	**Warehouse, Fulfillment & Support**	**Totals**	Higher Education	School	Trade, Professional and Medical	Warehouse, Fulfillment & Support	Totals
Sales, less returns	**$51,040**	**$25,415**	**$10,409**	**$ —**	**$86,864**	$47,134	$34,752	$11,393	$ —	$93,279
Amortization	**2,500**	**4,186**	**30**	**1,468**	**8,184**	2,013	4,306	55	1,455	7,829
Income (loss) before income taxes	**11,237**	**7,462**	**1,362**	**(10,335)**	**9,726**	9,618	10,823	433	(11,617)	9,257
Provision for income taxes	**—**	**—**	**—**	**3,622**	**3,622**	—	—	—	3,101	3,101
Total expenditures for additions to capital assets	**102**	**20**	**17**	**297**	**436**	340	228	25	3,465	4,058
Segment assets	**21,644**	**13,609**	**4,956**	**20,255**	**60,464**	26,747	14,915	7,623	21,297	70,582

Reconciliations

Segment Assets	2003	2002	2001
Segment assets	**$60,464**	$70,582	$58,578
Unallocated assets			
Cash	**21,452**	14,121	21,307
Due from affiliated companies	**2,009**	6,400	3,395
Prepaid expenses and other	**132**	114	32
Future income tax assets	**2,461**	2,187	2,350
Income taxes receivable	**—**	1,639	—
Contracts, copyrights, trademarks, agency rights, and goodwill	**363**	363	392
Total assets	**$86,881**	$95,406	$86,054

10 Statements of Cash Flows

The net change in non-cash working capital balances related to operations consists of the following:

	2003	2002	2001
Accounts receivable	**3,381**	(2,568)	(138)
Inventories	**3,744**	(5,762)	598
Prepaid expenses and other	**63**	34	342
Income taxes recoverable/(payable)	**3,347**	(3,724)	2,512
Due from parent and affiliated companies	**4,391**	(3,005)	3,802
Accounts payable and accrued charges	**(2,495)**	1,633	915
Due to parent and affiliated companies	**(12,450)**	4,906	3,886
	(19)	(8,486)	11,917
Supplemental cash flow information			
Interest paid	**87**	108	19
Net income taxes paid	**824**	4,639	3,884

Selected Financial Data

The following selected financial data of the Company, as it relates to the nine years ended December 31, 2002, is derived from the audited financial statements of the Company.

Comparative Statement of Income (000s) – except Per Share Data

Years ended December 31	**2003**	2002	2001	2000	1999	1998	1997	1996	1995
Revenue	**$88,735**	$95,343	$88,725	$76,471	$77,391	$68,356	$61,883	$44,163	$38,544
Expenses	**79,009**	86,086	78,075	69,309	66,924	58,999	54,072	41,154	36,450
Income Taxes	**3,622**	3,101	4,019	2,523	4,618	4,150	3,363	1,392	472
Income from continuing operations	**$ 6,104**	$ 6,156	$ 6,631	$ 4,639	$ 5,849	$ 5,207	$ 4,448	$ 1,617	$ 1,622
Income from continuing operations per share	**$ 3.06**	$ 3.08	$ 2.32	$ 2.32	$ 2.93	$ 2.61	$ 2.23	$ 0.81	$ 0.81
Loss from discontinued operations net of tax	—	—	—	—	—	—	—	—	—
Net income (loss)	**$ 6,104**	$ 6,156	$ 6,631	$ 4,639	$ 5,849	$ 5,207	$ 4,448	$ 1,617	$ 1,622
Net income (loss) per share	**$3.06**	$ 3.08	$ 3.32	$ 2.32	$ 2.93	$ 2.61	$ 2.23	$ 0.81	$ 0.81
Dividends paid per share	**$ 0.645**	$ 0.60	$ 0.54	$ 0.54	$ 0.50	$ 0.40	$ 0.20	$ 0.20	$ 0.20

Balance Sheet Data

Total Assets	**$86,881**	$95,406	$86,054	$73,821	$74,689	$62,348	$55,005	$55,103	$48,176

Dividend Policy

Dividends have been paid on the common shares of the Company at an annual rate of sixty-four and one-half cents (0.645¢) per share since this rate was established with the quarterly payment of sixteen and one-half cents (16.5¢) per share on May 29, 2003. At their meeting held on April 24, 2003, the Board of Directors approved an increase in the quarterly dividend to 16.5¢ per share to shareholders of record as at May 8, 2003. This dividend increase took effect with the payment of the first quarter dividend on May 29, 2003.

The determination to declare or pay dividends is entirely at the discretion of the Board of Directors of the Company, based upon recommendations from the Finance Committee of the Board of Directors, and will depend upon the Company's financial condition, results of operations, capital requirements, and such other factors as the Board of Directors and Finance Committee consider relevant.

President's Club Awards

The Gold Award for Outstanding Contribution

Selection Criteria:

- Selflessly acts for the benefit of others in the Company
- Unfailingly dedicated to fulfilling and exceeding the needs of the organization
- Acts to support McGraw-Hill Ryerson's culture and values
- Impacts organizational results significantly

Award: Gold Coin + $1,000 + Engraved Plaque

2003 Winner — Margaret Henderson (EDP)

The Norma Christensen Editorial Excellence Award

Selection Criteria:

The person or team who best embodies

- The drive and perseverance to create great product with success in the marketplace
- An uncompromising commitment to quality
- The highest editorial standards

Award: $1,000

2003 Winner — Sara Goodchild, School

The Seary Award for Outstanding Sales

Selection Criteria:

- Sales success in meeting and exceeding the annual sales target
- Tenacity in the pursuit of meeting customer needs
- Working as an outstanding team player to keep their division successful
- Dedication to the culture of McGraw-Hill Ryerson
- Unfailing good humour

Award: $1,000

2003 Winner — Barry Smith, School

The Heather Somerville Marketing Excellence Award

Selection Criteria:

The person or team who

- Develops, plans, and executes a successful marketing effort
- Demonstrates initiative, creativity, perseverance, and competitive drive

Award: $1,000

2003 Winner — Michelle Stephens, Trade, Professional, and Medical

The Theresa Courneyea Outstanding Service Award

Selection Criteria:

- The person or team that demonstrates the commitment to quality, teamwork, and creativity in meeting and exceeding the needs of customers

Award: $1,000

2003 Winner — A/R Team: Sharon Kennedy, Cecilia Bastien, Jeff Kirkland, Zadene Blades, Angela Ciulla, Susan DeCambra, Lauretta Train, Pat Pryde

The Murray Lamb Creativity and Innovation Award

Selection Criteria:

- The person or team that develops or effectively implements a creative or innovative idea, product, program, or process that significantly benefits the company.

Award: $1,000

2003 Winner — James Buchanan, Tom Gale, Russell Potter, Erich Volk, Darren Hick, Jennifer DiDomenico-Wong, Kim Verhaeghe, Sharon Loeb

Throughout the year, 74 Employee Recognition Awards were presented to employees who made a significant contribution to the Company and are recommended to management by anyone in the Company.

Scholarships

The Pat Vidler Scholarship was presented to seven very deserving children of employees in 2003:

- Ravi and Sandeep Dhillon, children of Suk Dhillon, Warehouse.

  Ravi will be graduating from York University this semester with BScN Honors in Nursing .

  Sandeep is 18 years old, graduated from grade 12 with good marks, and is in his first year at York University. Sandeep is taking Health Sciences and Kinesiology.

- Ryan Stitt, son of Diane Stitt in Customer Satisfaction.

  Ryan is currently enrolled in Architecture at Carleton University in Ottawa. He has been the recipient of both art and technology awards.

- Meghan Snook, daughter of Jeff Snook, Higher Education Division.

  Meghan is currently enrolled in the Licensed Practical Nursing Program (LPN) at Durham College (Oshawa).

- Megan Smith, daughter of Barry Smith, School Division

  Megan is currently enrolled in the Bachelor of Commerce Co-op Program at Dalhousie University.

- Evan Powell, son of Clive Powell, EDP.

  Evan is currently enrolled in International Studies and Political Science at Glendon College, the French Language campus of York University.

- Amanda Allison, daughter of Linda Allison, School.

  Amanda Allison is attending Trent University where she is studying History (with minors in English and Sociology).

McGraw-Hill Ryerson's 2003 Corporate Contribution Programs

McGraw-Hill Ryerson Limited believes Canadians will flourish in communities that are healthy, well educated, culturally rich, and socially secure. The Company will support programs that increase the abilities of people in our communities to learn, grow intellectually, master new skills, and maximize their individual talents for school, work, and community.

Matching Gift Program

The Company will match any employee's financial gift to any non-profit Canadian organization that supports education, learning, and literacy up to a maximum of $2,000 per employee per year (including the United Way matching contributions). In 2003, there were no matches.

United Way Program

McGraw-Hill Ryerson will match any employee's United Way contribution. When an employee contributes a day's pay to the United Way, he/she may take a paid day off work to perform volunteer work to support the activities of any non-profit organization or a worthy project in the community. In 2003, the Company matched employee contributions of $9,182.20.

Employee Volunteer Support Program

When an employee participates, on a regular basis, for a year or more, in a qualified program of volunteer support through schools and non-profit organizations (education, health or fitness, and social services) and has an ongoing commitment of at least fifty hours a year, McGraw-Hill Ryerson will support the program with a $300 contribution. In 2003, the Company supported three organizations for a total of $900.

Directors

1. Robert J. Bahash

Executive Vice President – Chief Financial Officer, The McGraw-Hill Companies, Inc. since 1988
Joined McGraw-Hill in 1974
Became a Director in 1988
Previous posts include:
Senior Vice President, Finance and Manufacturing
Senior Vice President, Corporate Financial Operations
Member of the Finance Committee

2. James G. Barnes

Professor of Marketing
Memorial University of Newfoundland since 1968
Became a Director in 1988
Previous posts include:
Dean, Memorial University – 1978-1988
Co-Founder and a Director – Bristol Group
Chairman of the Corporate Governance and Nominating Committee
Member of the Audit Committee

3. J. Mark DesLauriers

Partner
Osler, Hoskin & Harcourt LLP
Joined Osler, Hoskin & Harcourt in 1983
Became a Director in 2001
Chairman of the Compensation Committee
Member of the Executive Committee

4. John D. Dill

President and Chief Executive Officer McGraw-Hill Ryerson Limited
Joined McGraw-Hill Ryerson in 1993
Became a Director in 1993
Previous positions include:
President, John Wiley and Sons Canada Limited
Senior management positions at Holt Rinehart and Winston
Member of the Executive Committee and the Finance Committee

5. Henry Hirschberg

President, McGraw-Hill Education, The McGraw-Hill Companies, Inc. since 2002
Became a Director in 2003
Previous positions include:
Group President, McGraw-Hill Higher Education, Professional and International
President, Pearson Higher Education Group
Member of the Executive Committee and the Compensation Committee

6. Brian D. Heer

Group President, McGraw-Hill Higher Education, Professional and International Publishing, The McGraw-Hill Companies, Inc., since January 2003
Joined The McGraw-Hill Companies, Inc. in 1999
Became a Director in 2001
Previous positions include:
President, International Publishing Group
President, Prentice Hall Canada
Executive Vice President, International Thomson Publishing Scientific, Technical, Medical and Professional Group in the U.S.
President and CEO of Van Nostrand Reinhold
Member of the Audit Committee

7. H. Ian Macdonald

Chairman of the Board of Directors of McGraw-Hill Ryerson Limited since 1996
Became a Director in 1985
President Emeritus and Professor of Economics and Public Policy at York University
Member of the Order of Canada
Past Chairman of the Board of Governors of The Commonwealth of Learning
Chairman of the Finance Committee
Member of the Executive Committee, Corporate Governance and Nominating Committee, and the Compensation Committee

8. Manon R. Vennat

Chairman, SpencerStuart in Montreal
Joined SpencerStuart in 1986 where she served as Vice President and later as Managing Director
Became a Director in 1988
Previous positions include:
Vice President, Administration, General Counsel and Secretary to the Board of Directors at AES Data
Member of the Bar of Quebec
Member of the Order of Canada
Chairman of the Audit Committee
Member of the Corporate Governance and Nominating Committee, and the Compensation Committee

Officers

H. Ian Macdonald, O.C. LL.D.

Chairman of the Board
Appointment in 1996
Became a member of the Board in 1985
See Biography in Directors

John D. Dill

President and Chief Executive Officer
Became an Officer in 1993
See Biography in Directors

Gordon K. Dyer

Executive Vice President, Chief Financial Officer and Secretary-Treasurer
Became an Officer in 2003
Prior Employment – Vice President Finance at Teletech Canada Inc.

Petra M. Cooper

President,
Higher Education Division
Became an Officer in 1997
Prior Employment – John Wiley and Sons U.S. as Vice President and National Sales Manager

Nancy L. Gerrish

President,
School Division
Became an Officer in 1999
Prior Employment – Director of Sales and Marketing for the School Division at McGraw-Hill Ryerson Limited

Marshall I. Morris

Executive Vice President,
Customer Satisfaction
Became an Officer in 1996
Prior Employment – Canadian Tire Corporation – held various management positions

Carl Posluns

Executive Vice President,
Human Resources
Became an Officer in 1994
Prior Employment – Vice President, Human Resources, Smithbooks (FICG Inc.)

Clive Powell

Executive Vice President
Editorial, Design and Production
Became an Officer in 1997
Prior Employment – Director of Production at McGraw-Hill Ryerson Limited

Julia O. Woods

President,
Trade, Professional, and Medical Division
Became an Officer in 1994
Prior Employment – Vice President, Professional Reference and Trade at John Wiley and Sons Canada Limited

Shareholder and Corporate Information

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Whitby, Ontario L1N 9B6
Telephone: (905) 430-5000
Facsimile: (905) 430-5020
http://www.mcgrawhill.ca

Corporate and Shareholder Information

Gordon Dyer
Secretary-Treasurer
Telephone: (905) 430-5032

Annual Meeting of Shareholders

Windows West
Four Seasons Hotel
Toronto, Ontario
Tuesday, June 15, 2004
at 11:00 a.m.

Exchange Listings

The Toronto Stock Exchange
Stock Symbol: MHR

Outside Legal Counsel

Osler, Hoskin & Harcourt LLP
Barristers & Solicitors
Toronto

Auditors

Ernst & Young LLP
Chartered Accountants
Toronto

Bankers

Citibank Canada

Registrar and Transfer Agent

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CIBC Mellon Trust Company

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