

CREATING TOTAL SHAREHOLDER VALUE

The 2005 *Investor Fact Book* provides fundamental data on what The McGraw-Hill Companies has achieved and new information on key trends that will help shape performance in the future.

Achievement can be measured by a record of growth in operating earnings, cash returned to shareholders, strong free cash flow and a solid return on invested capital. Over the last 10 years, MHP has outperformed the S&P 500, producing an annualized return of 20.9% versus 12.1% for the S&P 500.

Committed to producing total shareholder value, MHP has returned nearly \$3.2 billion in cash to shareholders since 1996 through payment of dividends and share repurchases (see table below). That represents a compound annual growth rate of 16.0%.

Transformational trends will be a catalyst for future growth.

Financial Services successfully operates in the world's leading markets and will keep growing as financial innovation, securitization, privatization, and disintermediation create new opportunities.

McGraw-Hill Education is a global business with steadily improving prospects because an educated workforce is the key to success in a knowledge-based economy. That recognition also underpins the reform movement in U.S. education. Only recently has the United States started to come to grips with the fact that human capital can no longer be wasted if the nation hopes to remain competitive.

Information and Media Services, whose market-leading brands include *BusinessWeek* and J.D. Power and Associates, provides business intelligence and solutions that executives and professionals must have to remain competitive in the global economy.

The convergence of content and technology will create more opportunities for The McGraw-Hill Companies. In the evolving digital marketplace, MHP is developing a growing array of higher value-added products for embedding in a customer's workflow; new solutions in education for teachers, students, and parents; and mass customization that can create a competitive advantage.

MHP RATINGS HISTORY

Long-Term Notes

	2004	2003	2002	2001	2000
Moody's	A1	A1	A1	A1	A1
Fitch	A+	A+	A+	A+	A+
S&P	NA*	NA*	NA*	NA*	NA*

* Standard & Poor's does not rate The McGraw-Hill Companies' Long-Term Notes

Commercial Paper Ratings

	2004	2003	2002	2001	2000
Moody's	P1	P1	P1	P1	P1
Fitch	F1	F1	F1	F1	F1
S&P	A1	A1	A1	A1	A1

FREE CASH FLOW

Years ended December 31
(dollars in thousands)

	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Cash provided by operating activities	\$1,063,472	\$1,382,345	\$1,142,391	\$1,099,581	\$720,754	\$746,368	\$796,484	\$390,498	\$473,336	\$440,719	\$424,707
Investment in pre-publication costs	(237,760)	(218,049)	(249,317)	(294,538)	(250,005)	(246,341)	(194,978)	(166,784)	(182,978)	(134,118)	(118,377)
Purchase of property and equipment	(139,003)	(114,984)	(70,019)	(116,895)	(97,721)	(154,324)	(178,889)	(78,724)	(63,313)	(58,776)	(77,068)
Additions to technology projects	(10,623)	(28,145)	(55,477)	(28,840)	(15,194)	(38,315)	(41,414)	(17,422)	(13,184)	(7,483)	(10,788)
Other adjustments, principally foreign exchange	10,019	14,115	13,817	(2,221)	(3,089)	(1,679)	(1,715)	(1,500)	(341)	(2,213)	(4,883)
Dividends paid to shareholders	(228,166)	(206,543)	(197,016)	(189,834)	(182,462)	(169,049)	(154,386)	(142,705)	(131,375)	(119,653)	(114,317)
Tax payment/(dividend) from divestitures (a, b, c)	172,000	(103,500)	—	—	—	—	—	150,000	—	—	—
Free cash flow	\$629,939	\$725,239	\$584,379	\$467,253	\$172,283	\$136,660	\$225,102	\$133,363	\$82,145	\$118,476	\$99,274

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

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

(c) 1997, \$150.0 million tax payment related to the sale of Shepard's/McGraw-Hill in 1996

CASH RETURNED TO SHAREHOLDERS

(dollars in millions, except S&P 500 dividend)

	2004	2003	2002	2001	2000	1999	1998	1997	1996	Total '96-'04	8-year CAGR
MHP dividends paid	\$228.2	\$206.5	\$197.0	\$189.8	\$182.5	\$169.0	\$154.4	\$142.7	\$131.4	\$1,601.5	7.1%
MHP shares repurchased	409.4	216.4	183.1	176.5	167.6	173.8	105.6	79.9	63.3	1,575.6	26.3%
Total	\$637.6	\$422.9	\$380.1	\$366.3	\$350.1	\$342.8	\$260.0	\$222.6	\$194.7	\$3,177.1	16.0%
<i>MHP growth</i>	50.8%	11.3%	3.8%	4.6%	2.1%	31.8%	16.8%	14.3%	n/a		
S&P 500 dividend	\$19.44	\$17.38	\$16.07	\$15.74	\$16.27	\$16.69	\$16.20	\$15.49	\$14.90		3.4%
<i>S&P 500 growth</i>	11.9%	8.2%	2.1%	(3.3%)	(2.5%)	3.0%	4.6%	4.0%	n/a		