

**COMMITTED TO CREATING SHAREHOLDER VALUE**

In the last 10 years, the market capitalization of The McGraw-Hill Companies (NYSE: MHP) has grown from \$4.6 billion to \$24.1 billion. The 2007-2008 *Investor Fact Book* highlights MHP's financial and strategic progress during this period and how the company expects to benefit in the future from powerful global trends, growing markets, and leveraging technology to improve operational efficiency and produce incremental revenue.

The record reflects MHP's commitment to advancing total shareholder value. Outperforming the S&P 500 has been a hallmark of corporate performance. MHP has beaten the S&P 500 over the last one-, three-, five-, seven-, and ten-year periods. Through 2006, The McGraw-Hill Companies' total return to shareholders over the last 10 years has averaged 21.5% annually – more than double the annual total return of the market benchmark, the S&P 500.

Since 1996, the Corporation has returned \$6.8 billion to shareholders through dividends and share buybacks including more than \$915 million in the first quarter of

2007. As shown in the table below, cash returned to shareholders through dividends and share repurchases has grown at a compound annual rate of nearly 25% between 1996 and 2006. Robust free cash flow (see table below), growth in operating earnings, and return on invested capital underscores MHP's consistent performance under a variety of market conditions.

To build on its record of achievement, MHP will continue focusing on growth that is being created by the worldwide demand for capital, the need for education in a knowledge economy, and new opportunities to connect professionals with essential information for better decision making.

As the Internet and the digitization of content grow, so will MHP. With the scale to create more operating leverage, MHP is reshaping its businesses by connecting content, digital assets, and talent as never before. Digital business models (see page 20) are taking hold as content and technology converge to create new ways to monetize MHP's core assets and create new capabilities for driving future growth.

**FREE CASH FLOW**

Years ended December 31  
(dollars in thousands)

|  | 2006             | 2005             | 2004             | 2003             | 2002             | 2001             | 2000             | 1999             | 1998             | 1997             | 1996            |
|--|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|-----------------|
| <b>Cash provided by operating activities</b>       | \$1,509,304      | \$1,559,890      | \$1,063,472      | \$1,382,345      | \$1,142,391      | \$1,099,581      | \$720,754        | \$746,368        | \$796,484        | \$390,498        | \$473,336       |
| Investment in prepublication costs                 | (276,810)        | (257,795)        | (237,760)        | (218,049)        | (249,317)        | (294,538)        | (250,005)        | (246,341)        | (194,978)        | (166,784)        | (182,978)       |
| Purchase of property and equipment                 | (126,593)        | (120,232)        | (139,003)        | (114,984)        | (70,019)         | (116,895)        | (97,721)         | (154,324)        | (178,889)        | (78,724)         | (63,313)        |
| Additions to technology projects                   | (22,978)         | (16,456)         | (10,623)         | (28,145)         | (55,477)         | (28,840)         | (15,194)         | (38,315)         | (41,414)         | (17,422)         | (13,184)        |
| Other adjustments, principally foreign exchange    | 2,831            | (22,947)         | 10,019           | 14,115           | 13,817           | (2,221)          | (3,089)          | (1,679)          | (1,715)          | (1,500)          | (341)           |
| Dividends paid to shareholders                     | (260,323)        | (246,048)        | (228,166)        | (206,543)        | (197,016)        | (189,834)        | (182,462)        | (169,049)        | (154,386)        | (142,705)        | (131,375)       |
| Tax payment/(dividend) from divestitures (a, b, c) | –                | –                | 172,000          | (103,500)        | –                | –                | –                | –                | –                | 150,000          | –               |
| <b>Free cash flow</b>                              | <b>\$825,431</b> | <b>\$896,412</b> | <b>\$629,939</b> | <b>\$725,239</b> | <b>\$584,379</b> | <b>\$467,253</b> | <b>\$172,283</b> | <b>\$136,660</b> | <b>\$225,102</b> | <b>\$133,363</b> | <b>\$82,145</b> |

(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)

|                           | 2006             | 2005           | 2004           | 2003           | 2002           | 2001           | 2000           | 1999           | 1998           | 1997           | 1996           | 10-year CAGR |
|---------------------------|------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|--------------|
| MHP dividends paid        | \$260.3          | \$246.0        | \$228.2        | \$206.5        | \$197.0        | \$189.8        | \$182.5        | \$169.0        | \$154.4        | \$142.7        | \$131.4        | 7.1%         |
| MHP shares repurchased    | 1,540.1          | 677.7          | 409.4          | 216.4          | 183.1          | 176.5          | 167.6          | 173.8          | 105.6          | 79.9           | 63.3           | 37.6%        |
| <b>Total</b>              | <b>\$1,800.4</b> | <b>\$923.7</b> | <b>\$637.6</b> | <b>\$422.9</b> | <b>\$380.1</b> | <b>\$366.3</b> | <b>\$350.1</b> | <b>\$342.8</b> | <b>\$260.0</b> | <b>\$222.6</b> | <b>\$194.7</b> | <b>24.9%</b> |
| <i>MHP growth</i>         | <i>94.9%</i>     | <i>44.9%</i>   | <i>50.8%</i>   | <i>11.3%</i>   | <i>3.8%</i>    | <i>4.6%</i>    | <i>2.1%</i>    | <i>31.8%</i>   | <i>16.8%</i>   | <i>14.3%</i>   | <i>n/a</i>     |              |
| S&P 500 dividend          | \$24.88          | \$22.22        | \$19.44        | \$17.38        | \$16.07        | \$15.74        | \$16.27        | \$16.69        | \$16.20        | \$15.49        | \$14.90        | 5.3%         |
| <i>S&amp;P 500 growth</i> | <i>12.0%</i>     | <i>14.3%</i>   | <i>11.9%</i>   | <i>8.2%</i>    | <i>2.1%</i>    | <i>(3.3%)</i>  | <i>(2.5%)</i>  | <i>3.0%</i>    | <i>4.6%</i>    | <i>4.0%</i>    | <i>n/a</i>     |              |