

**NAA's 2006 Mid-Year Media Review Conference**

Prepared Remarks  
June 21, 2006

**Harold McGraw III**

Chairman, President and CEO  
The McGraw-Hill Companies

Good afternoon. I am Terry McGraw, Chairman, President and Chief Executive Officer of The McGraw-Hill Companies.

Before we get started today, I need to provide certain cautionary remarks about forward-looking statements. Except for historical information, matters discussed in this conference may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including projections, estimates, and descriptions of future events. Any such statements are based on current expectations and current economic conditions and are subject to risks and uncertainties that may cause actual results to differ materially from results anticipated in these forward-looking statements. In this regard we direct listeners to the cautionary statements contained in our Form 10-K's, 10-Q's, and other periodic reports filed with the U.S. Securities and Exchange Commission.

It is good to be here this afternoon to review the outlook for The McGraw-Hill Companies.

A year ago from this same platform, we made three points about our prospects:

- First we said we would continue building on our record of producing total shareholder value through increased dividends and share repurchases. Clearly, we have delivered on that promise.
- Second, we said the long-term trends in our markets were favorable and would continue to benefit us. That observation is just as valid today.
- Third, we pointed out that recent acquisitions like J.D. Power and Capital IQ would add new capabilities and expand our potential. That is certainly the case.

Today, we will update you on these trends and their positive impact on our future. Specifically, we will review:

- How strengthening our education business will enable us to take advantage of growth opportunities being created in the global knowledge economy.
- How the importance of more timely and insightful information is creating new opportunities in Information & Media.
- How the trends in global financial markets that benefited Standard & Poor's show no signs of abating and how we are taking advantage of new opportunities.

To help give you a more in-depth look at some of our important opportunities, I invited two senior executives to join me here today. There has been considerable interest in J.D. Power and Associates since we acquired the company a little over a year ago. Steve Goodall, President of J.D. Power and Associates, is here today to give you some insight into why its prospects are so promising.

Because structured finance will continue to be a key driver in financial markets, I have asked Joanne Rose to tell you how Standard & Poor's assesses the outlook for this asset class. Joanne has played a key

role in this market for Standard & Poor's since 1999 when she was named Executive Managing Director of Global Structured Finance Ratings.

A moment ago, I highlighted our commitment to producing total shareholder value. As the chart shows, we have been allocating increasing amounts of cash for dividend and share buybacks. The dividend has grown at a compound annual rate of 10.3% since 1974. From 1996 through the first quarter of this year, we have returned more than \$5 billion in cash to shareholders through increased dividends and share buybacks.

In 2006, we expect to buy back nearly 8.0% of the outstanding shares. That's based on 372.7 million shares outstanding at the end of 2005. We acquired 18.4 million shares in the first quarter and in April set our sights on another 10.0 million shares when the Board of Directors increased this year's authorization.

In previous share repurchase programs, about 40% of the buyback was used to reduce the numbers of shares outstanding. Going forward, we expect that percentage to grow significantly because of the increase in the level of our stock repurchases and a reduction in the issuance of stock options over time, because of the new stock-based compensation plan introduced this year and the elimination of the restoration stock option program.

Our focus on creating long-term shareholder value through a strategy of producing consistent, sustainable earnings growth and improving total returns has been recognized in the market. Our total return to shareholders has significantly outpaced the S&P 500 for the last 10 years, the last five years, and the last three years.

As the need for knowledge grows, so does the opportunity to extend our long-term record of superior performance. Clearly, the trends that benefit us today will have even greater impact tomorrow.

Any assessment of our prospects must account for the convergence of content and technology. Simply put, convergence is enabling us to transform our enterprise. That means taking a very different approach. In the past, our business model was based on creating products in print. No longer. Today, the ability to connect content and manage digital assets globally across the entire organization is an essential part of our effort to grow revenue while reducing costs.

It's all about Global Resource Management because convergence creates significant opportunities to:

- Extract greater value from our businesses by optimizing our processes.
- Create new products and services across the enterprise for incremental revenue by moving from print to online.
- Improve the value proposition for our customers by providing not only data and reporting but analysis and solutions.
- Take advantage of our scale to improve the operating margins.

We see new opportunities developing as knowledge becomes the main driver of economic growth. It is already evident in education, finance, and information – the focus of The McGraw-Hill Companies. Education, finance, and information have each been growing as a share of the gross domestic product over the past 15 years. Education spending at all levels has risen to 7.9% of GDP. The financial sector has grown to 5.6% of GDP. Information is now 4.6% of GDP.

This growth reflects a broader trend in the U.S. economy's shift toward intangible investments—new product development in financial and non-financial information, the building of brand equity, and human capital. We have already benefited from these trends and we expect to do so in the future as growth in these sectors continues.

In knowledge-based economies, education is essential to create a skilled workforce. For that fundamental reason we believe there will be no let up in the effort to reform education in the United States. Work has already started on the renewal of the No Child Left Behind Act, which must be reauthorized by Congress in 2007. We think the priorities established in No Child Left Behind will be retained in any new version that emerges from the Congress.

No Child Left Behind is not going to go away because parents still want assurance that learning is going on in the classroom, people want to know their tax dollars are being spent effectively, and the nation requires a well-trained and educated workforce. That means continued emphasis on measurement and accountability; the teaching of reading, math, and science; focus on early childhood learning; and professional development for teachers.

In the flat world of the 21st century, there are global opportunities in education. In higher education alone there are nearly 100 million students enrolled around the world. That figure will grow substantially over the next 20 years. In China, India, and Latin America, enrollments could more than double over the next two decades.

Technology is playing an increasingly important role in the education markets. We are employing new tools to improve our own workflow and productivity. By transmitting digital files instead of shipping manuscripts and film we can now collaborate effectively with vendors in India and China.

But the opportunities are not limited to savings in infrastructure and production, significant as they are. We also are using technology to enhance the learning experience for students and improve productivity for instructors. That means new opportunities in self-paced learning and assessment, course management, online instruction, and testing and measurement. In short, we are working very hard to leverage our content, global brands, and technology to take advantage of emerging opportunities in this market.

This is a transition year for McGraw-Hill Education. As we invest for the future, we must cope with this year's softer elementary-high school market. As predicted, industry sales are off. According to AAP figures, sales in the el-hi market are off 3.2% after four months. We still expect the market to finish flat to down 4% this year.

A key factor is the limited potential in this year's state new adoption market. It will be down about 30% versus 2005, finishing the year between \$650 million and \$700 million. The good news is that starting in 2007, the state new adoption calendar begins improving. We estimate the market will hit \$750-\$800 million next year, \$850 to \$900 million in 2008, and \$950 to \$1 billion in 2009.

There has been some slippage this year in the two major state new adoptions — K-8 science in Florida and K-5 social studies in California. Neither state requires districts to make their purchases in the first year of the adoption. We had expected California to realize about 75% of the adoption in the first year, but it now appears that 65% is more likely and the rest coming in next year. In Florida, some of the major counties, including Miami-Dade, have delayed their K-5 purchases until next year.

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Our strength in these big state adoptions this year will be in the middle and high school market where more of the dollars are stake. Our performance in the K–5 market in Florida has been lackluster. We are doing somewhat better with K–5 social studies in California.

Sales in the open territories are still developing. We introduced a major new K–6 reading program called *Treasures* this year and the market's reception has been very encouraging. The early reception of our new intervention program, *Jamestown Reading Navigator*, has also been positive.

The trend in the testing market is unchanged. We see continued growth in the sales of custom contracts and a decline in higher-margin off-the-shelf tests. To improve this situation, we are investing in technology to increase productivity and foster innovation.

We're encouraged by the success of our new innovative reporting system in Florida. To get test results in the hands of parents and students, we launched a parent website. That gave approximately 1.8 million Florida students online access to their 2006 test scores in reading and math. Since the parent website went live in May, there have been more than 2.2 million visits and over 63 million hits to the site.

In higher education, the market is up 6.3% after five months. We think 2006 will be a good year for higher education, but still expect the market to grow about 5% this year and we will outperform.

When it comes to brand recognition, there is probably no better-known name at McGraw-Hill today than J.D. Power and Associates. It is a company that embraces technology, innovation, and global growth. Today, it is the leading provider of marketing services for the global automotive industry with a strong and growing presence in many other important industries.

Let's look at how J.D. Power and Associates is leveraging content and technology to provide deeper customer insights.

### **[Video Clip]**

*J.D. Power and Associates' quality and customer satisfaction ratings provide the voice of more than 20 million customers to companies around the world, across many industries, ranging from finance, insurance, healthcare, and homebuilding to automotive, telecommunications, and energy.*

*As part of its digital transformation, J.D. Power is designing interactive Web-based survey tools to obtain timely insights from customers and quickly deliver them back to companies. For instance, in place of the usual request for feedback, hotel guests are e-mailed a visual tour of the hotel room to help them rate their recent experience. Visuals prompt responses ranging from the comfort of the bed, to the cleanliness of the bed linens. Photographs of hotel restaurants remind guests where they dined and guests provide open-ended responses on their dining experience.*

*For the auto industry, car buyers rate the quality and performance of new vehicles in an in-depth survey. Key items trigger a follow-up online survey. Starting with the dashboard, customers can provide even deeper insight and evaluations. Summaries are updated in real-time and critical feedback is sent to the factory floor where engineers and design teams can begin to address concerns or influence design concepts.*

*J.D. Power and Associates is helping companies listen to the "voice of the customer" and turning that information into action.*

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Now that we have heard about the voice of the customer, let's hear from the voice of J.D. Power and Associates, Steve Goodall.

Steve has been President of J.D. Power and Associates since 1996. He joined the firm in 1978. During his career, he has developed expertise in measuring customer satisfaction, new product acceptance, brand image, and buyer motivations.

### **Stephen C. Goodall**

President, J.D. Power and Associates  
The McGraw-Hill Companies

Thank you very much, Terry. It's certainly a pleasure for me to be here and it's certainly a pleasure for J.D. Power and Associates to be part of The McGraw-Hill Companies. It is my opportunity and pleasure to present to you, very briefly, the J.D. Power and Associates story.

It's been, as Terry indicated, just over a year since J.D. Power joined The McGraw-Hill Companies. So far our first year integration has gone very smoothly and we have achieved our first year financial objectives.

I'm often asked why J.D. Power decided to leave the world of being a privately-held company and become part of McGraw-Hill. For us it boiled down to essentially three reasons—continued growth, cultural fit, and brand independence. And we are very proud to join the ranks of McGraw-Hill's other distinguished companies.

We certainly don't have problems with brand recognition. I'll bet that most of you have seen or heard of us through the coverage we receive in the press and the sizable amount of advertising that is done that uses our name and cites one or more of our awards. As a result, we have brand recognition that many companies would die for or at least pay dearly in trying to develop.

As you can see from this slide, we have somehow managed to get around the paying aspect of building our brand awareness. We simply have let our top-performing clients deliver the message. We can do this because we have a business model that is unlike any other. Central to everything that we do is the voice of the customer. It is where our business model begins. Using a host of customer information gathering methods, we have established ourselves as the source that businesses turn to when they want to understand what their customers are experiencing and how they are behaving as a result.

In the case of our syndicated studies, we design and distribute the surveys ourselves. As a result, we own the information we collect and the rights on how it is used. This allows us to promote the results to our clients and to the press. Our public release of study highlights to the media and our own website is an essential ingredient to our business model. The fact that the press has been very willing to cover our findings over the past set of years has fostered a level of consumer and industry attention that would have otherwise not been present.

This level of attention places pressure on companies to address the critical issues that are identified in our research. At some point, this attention accelerates the need for companies to improve. This benefits consumers in obvious ways and it benefits J.D. Power from a revenue-generation perspective. Since most of our syndicated studies are repeated on an annual or semi-annual basis, this represents a large source of repeatable revenue for the company.

Clients, in turn use the results from our studies to benchmark their performance and to improve their products and processes. Most of our clients have now embedded our information as key performance indicators within their organizations, using our information to drive quality improvement, new product design, service improvement, management compensation, and strategic planning.

Clients that are best-in-class in terms of their performance are typically recognized by J.D. Power as an award recipient. Most clients who receive an award agree to license the rights to use the J.D. Power and Associates trophy in their marketing communications. In fact, many decide to trumpet it.

Finally, J.D. Power client-sponsored branding creates additional consumer awareness for the company that, coupled with our deep and growing client relationships, drive new business opportunities. This often leads to additional studies, proprietary work, and performance improvement engagements. It is this self-feeding cycle that has been the driver of our growth.

We are firmly established within the automotive industry and that gives us a stable, lucrative base that we use to provide the funding to evolve and expand our business. Today and over the past 10 years every single automobile manufacturer subscribes to one or more of our services. In addition, we have over 100 automotive suppliers and automotive retailers who are active and growing clients for our information and services.

A further way we are growing within the automotive industry, following the basic theory that you first work to leverage your strengths within your existing core business, is our development of the Power Information Network. Also known as PIN, we are collecting real-time transaction information on new and used vehicles from over 10,000 franchise locations in the United States and Canada. These franchise points account for approximately 70% of all new vehicle sales in today's market.

PIN is the automotive equivalent to the retail scanning information that is now the cornerstone of what drives the marketing decisions within the consumer packaged goods industry. We have built a fully-automated technology platform that collects essential retail information on a daily basis from a growing body of dealers.

Our dealer database represents every single make of automobile sold in the United States and Canada and in every major market in both of those regions. Information analysis from PIN is increasingly being used by our OEM, financial institution, and dealer clients to accelerate inventory turns, to optimize new and used vehicle pricing, to optimize incentive spending, and to better target vehicle ordering.

We are hardly content to focus on what originally put us on the map. For the past 10 years we have strategically expanded J.D. Power on both growing our global automotive business and second, to create significant presence in other industries with similar needs for voice of the customer analysis and understanding.

When viewed by industries we serve, our revenue mix is 70% automotive and 30% additional industries. This mix will continue to evolve as we deepen our products and services in new industries. Looking at our global footprint, 80% of our revenue is generated in the United States. 20% is generated from work we do in other countries. We expect that our share of business performed outside of the United States will also continue to grow.

Our growth globally will be fueled by the pace of automotive sales outside of North America, most notably fueled by growth within Asia-Pacific and China and India, in particular. We've been conducting



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studies in both China and India since the year 2000. While we have made tremendous progress in these regions and are generating profits, we still are just scratching the surface.

Today J.D. Power serves many industries other than automotive where we think the voice of the customer can have a critical impact on where there is a meaningful degree of customer angst or concern. When we select a new industry to enter, we are in the fortunate position in that we do not need to first ask permission from that industry. Our brand reputation provides us with important credibility, which we, in turn, build upon by conducting industry-specific research. In relatively short order, we have become a vital provider of customer satisfaction information within the telecommunications, residential construction, energy, hotel, and financial services industries, to name our largest non-automotive client areas.

Our industry diversification is also accelerated by us joining The McGraw-Hill Companies. Most notably, we have initiated several joint development programs with McGraw-Hill Construction, *BusinessWeek*, Standard & Poor's, and McGraw-Hill Aerospace and Defense.

While the questions we ask will differ by the industries that we're looking at, the survey methods and systems we have developed are very leverageable across the various industries. Today we have developed a list of highly-respected clients across an increasingly widening set of industries that have come to rely on J.D. Power for customer benchmarks and direction.

In conclusion, the secret to our success isn't really that complicated. For us, there are a few core tenets. First, we focus our efforts on collecting and providing must-have information. Second, we package and prioritize this information wherever possible to gain leverage and scale. Third, we use our information, insight, and brand presence to influence and shape the industries we serve. Fourth, we are not only a trusted advisor to our clients, but we are becoming an increasingly trusted advisor among consumers.

As you might gather, we are very excited about our growth prospects and we are equally excited to be making a contribution to the future success of The McGraw-Hill Companies. Thank you very much.

### **Harold McGraw III**

Chairman, President and CEO  
The McGraw-Hill Companies

Thank you, Steve. And, like Steve, the J.D. Power organization comes to us with wonderful, wonderful talent and it's very exciting to see. I believe Steve has given you some idea of why J.D. Power and Associates adds to our potential.

Of course, many of our brands already have a global footprint with worldwide opportunities to expand through the application of technology and creation of higher value-added products and services. That's why we are moving from the traditional publishing model serving readers and advertisers to one that provides news and information in text, audio and video forms, data and analytics, and workflow tools.

The McGraw-Hill Construction Network is a good example of how we embed our information into the customer's workflow. The latest step is the transformation of Sweets from a print product into a Network for Products. By merging Sweets' technical building products database with the McGraw-Hill Construction Network, we are providing a powerful new search function. Architects, engineers, and contractors can now find and select products on the Network. It is a new industry standard for doing business on the desktop.

Proprietary content also sets the stage for more growth in energy. It is why Platts is attracting new customers. Platts' ability to provide benchmark pricing each day for billions of dollars of oil recently gained an important new client in Russia. In May, Platts licensed its oil price data to the Russian Trading System Stock Exchange for the settlement of futures contracts on its commodity derivatives exchange. Platts was also selected last month by the London Metals Exchange as its partner for steel market price assessments. More than half of Platts' revenue comes from overseas and we believe the rise of trading, increased price volatility, and interconnected markets will continue driving growth.

*BusinessWeek* continues to evolve into a multi-media brand, delivering its expertise on BusinessWeek.com and on blogs, podcasts, video, and television. *BusinessWeek* has consolidated its print and online editorial staffs and is making its expertise available daily across a growing lineup of distribution channels. The multi-channel approach brings a new dimension to *BusinessWeek*. Traffic on BusinessWeek.com continues to climb and in the first quarter, 12% of BW's ad revenue came from there.

For the moment, progress at Information & Media is being masked by the expensing of stock-based compensation, the changes associated with Sweets' transformation, and amortization of intangibles for the acquisition of J.D. Power and Associates. But this is temporary.

There is nothing temporary about the growth in Financial Services. In the last 10 years, the segment's revenue grew at compound annual rate of 13%. Operating profit grew at a compound rate of 16.9%. In 2006, we expect another double-digit growth year in revenue and operating profit, excluding the impact of the divestiture and stock-based compensation.

Growth will continue in 2006 because of our geographic and product diversification and continued strong growth in international markets.

In ratings alone, we have significantly diversified the revenue stream in the last decade.

- In 1994, international revenue represented 21% of ratings. At the end of 2005, it was 37% of the mix.
- In 1994, non-traditional products and services such as bank loan ratings accounted for only 8% of revenue. By 2005, non-traditional products and services were 22%.
- In 1994, 60% of ratings revenue was dependent upon debt transactions and that number has been ranging between 45%-50% due to increasing levels of fee diversification and the introduction of products and services that aren't dependent upon issuance.

As we move through the second quarter, the pipeline for the U.S. Residential Mortgage-Backed Securities Market looks very good. But we anticipate a decline in the second half when year-over-year comparisons are much tougher. We will continue to see strength in issuance in both U.S. CMBS and CDOs.

We also expect continued weakness in municipal issuance due to rising rates which diminishes refunding opportunities. Rate increases and improved tax revenues for most state and local governments also reduces the need for new money issuance.

But we are also seeing a pick up in corporates in the U.S. and in Europe. M&A activity and refinancing are driving this market in addition to some favorable timing of issuance due to anticipated future interest rate increases.



The outlook for international business is positive in both the corporate and structured markets.

Ratings products and services that are not tied to new issuance also are showing growth. The bank loan and ratings evaluation services demand is robust.

S&P's data, information, and index services also continue to show progress. Demand for value-added information and platforms tied to customer workflow is increasing. We are seeing continued growth from new indices and investable products, exchange-traded funds, and derivatives.

In short, there will be many contributors from S&P's diversified portfolio.

Securitization has been one of the most important growth drivers in recent years. Our ability to provide a rating to the proliferation of structured instruments adds another dimension to our growth and diversification.

Joanne Rose has had worldwide responsibility for S&P structured finance operations during the period of its greatest growth. Let's hear from Joanne about the outlook for this key global market.

**Joanne W. Rose**

Executive Managing Director, Structured Finance Ratings  
Standard & Poor's

Thank you, Terry. Structured finance has become the finance tool of choice for an ever-broadening array of global issuers. Whether in the form of securitization, complex derivatives or other forms of financial engineering, structured finance's ability to isolate complex credit risks is its key value to both investors and issuers.

While the need to be efficient in the use of capital is the driving long-term need behind structured finance, there are three key trends that have pushed the market in the recent past and continue in 2006—first, globalization; second, the growing sophistication of the market, which has led to many new types of transactions, customization and even greater financial efficiency; and third, historically low interest rates. Since any structured finance transaction involves complex structures and the transfer of complex credit risks, the key to a successful transaction is an independent and objective analysis of both the structure and the credit risk and it is in this function that Standard & Poor's structured finance ratings have excelled.

I'd like to use a slide to illustrate the first trend, the globalization of the structured finance market. This slide illustrates the growth in what is considered the traditional term asset-backed market. The most common type of transaction in this market is securitization.

Now many of you may think that you have never been touched by securitization or that it really isn't very important, but if you have a mortgage, a credit card, an auto loan, an auto lease or a student loan, you have been a beneficiary of securitization. Securitization allows an originator of illiquid assets to transfer the risk of these assets based on the independent credit quality of the assets, regardless of the financial strength of the originator. This market includes securities backed by credit cards, auto loans, student loans, but we've excluded from the slide the asset-backed commercial paper market and private transactions.

As you can see, the U.S. asset-backed securities (ABS) market is, by far, the largest ABS market. The growth in 2005 was primarily driven by auto securitizations, but Europe has also become a developed market. Although the data for Asia is less robust because many transactions are not publicly rated, growth rates look good in Asia, particularly in Japan and Australia.

But there is more to this global trend than just issuance numbers. The markets outside the United States are not just copycats of the U.S. market. Indeed, investors and issuers are making their own statements. For example, issuers in these regions are often accessing investors outside their own domestic markets. For example, Australian issuers have been accessing both the U.S. and the European investor communities.

Standard & Poor's, with our network of global offices, is well positioned to help these market participants operate cross-border. In addition, we see a full range of complex transactions in both Europe and Asia. In fact, Europe has been the driving force in some of the most complex and sophisticated derivative transactions this year.

And this brings me to our second trend—growing sophistication of the market leading to new types of transactions, customization, and even greater financial efficiency.

I'd like to use the next slide to demonstrate the growth in these new types of instruments. The slide shows the issuance volumes in the global collateralized debt obligation market. As you can see from the slide, the market had a stable period from 2000 to 2001 and then began to grow dramatically.

In 2000 to 2001 the underlying assets in these transactions were corporate loans and corporate bonds, either purchased in the open market or taken off the balance sheet of financial institutions. As default rates on corporate bonds and loans reached high levels in 2000 to 2002, the performance of these structured deals reflected the poor performance of the underlying bonds and loans and the popularity of the structured finance vehicle decreased.

Since that time, several factors have led to a rising investor acceptance of a new crop of CDOs and other similar structures. First, beginning in 2003, corporate credits stabilized and actually began to improve, but more importantly, tight spreads in corporate bonds and a lack of diverse-enough supply of corporate bonds caused both the arrangers and the investors for the first time to look to asset-backed, mortgage-backed, and even other CDOs as assets for these vehicles.

This opened the market to investors who were interested in the stability and extra yield that were provided by the underlying structured assets. In addition, we began to see a lot of customization and that was enabled by the synthetic structures that evolved in those years.

As investors have become more sophisticated in their understanding of financial engineering techniques, the CDO market has continued to grow and we have seen a wave of innovation which includes synthetic structures, credit default swaps, CDOs of commercial real estate, hybrid CDOs, and even CDOs-squared, which are CDOs of CDOs. We expect to see continued development and growth in these new types of assets. Moreover, since these transactions are very high in level of complexity, a Standard & Poor's rating is very desirable to both issuers and investors.

The third key trend that has been continuing is the historically low interest rate environment we have been experiencing. Nowhere has this effect been more felt than the market for securities backed by residential mortgages. Here I'm talking about global issuance, excluding the U.S. government-sponsored

mortgage agencies. Historically low interest rates have led to a massive wave of refinancing of existing mortgages and new home purchases in the United States, United Kingdom and Australia, and many other countries. This, in turn, has generated a high volume in the RMBS market, since a very large percentage of residential mortgages in all of these countries are securitized.

But while low interest rates have been the main story, they are not the only story. We have also observed an increasing securitization rate in the residential arena. This means that a greater percentage of the mortgages originated are actually winding up in securitized transactions and off the balance sheets of financial institutions.

But most importantly, innovation is driving growth of this market. Residential mortgage securities have been used as collateral in CDOs, thereby increasing demand for these securities. There has also been a proliferation of innovative mortgage products in these markets and this has made mortgages available to an even-larger number of people.

The next slide shows the growth in volume of these new mortgage products—hybrids ARMs, 40-year amortization loans, negative amortization loans, silent seconds, interest-only loans, insured products and floating-rate mortgages have increased the volume of new mortgages and the complexity of analyzing the structured finance transactions. This has led to a higher demand for our ratings on all types of RMBS transactions.

Now leadership in the structured finance market is built on two pillars—credibility and service. Credibility comes from the performance of your ratings over time and is built slowly but could be lost quickly. Service is delivering to the markets the most informative ratings and other credit-risk evaluation services at the time and in the manner that the markets need them.

We strive for excellence on both these measures. For example, we have a dedicated surveillance unit to oversee the continuing credibility of all of our ratings. All ratings are regularly reviewed by our surveillance group who back-test our ratings to show their credibility over time. Each year we publish a study that shows defaults and transitions for the entire market to see.

When we talk about service, we are talking about providing a quality experience for each market participant who interacts with us. That means having well-trained, accessible, experienced staff that can handle the complex analysis these transactions require and then communicate the results. This means publishing our criteria so that the market can see and understand how we look at those transactions. That means having the information that the participant is looking for, when they need it, in the form they want it. We believe that we are second to none in the scope and quality of our staff and the information we provide to the structured finance market.

Our leadership in the structured finance market continues to evolve through our new product offerings such as LEVELS, SPIRE, CDS Accelerator, CDS Xpress and CDOi.

LEVELS provides loan-level risk analysis based on our residential mortgage ratings criteria and determines the credit enhancement required for securitizations. It enables issuers to perform best execution analysis, which leads to faster, better informed decisions on origination. It is the market leader.

SPIRE also improves the quality of execution. It is the same cash flow model used by our analysts. It evaluates potential securitization structures with our criteria, as well as alternative scenarios. Since its launch last fall, it has gained steady market acceptance.

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CDS Accelerator and CDS Xpress enable participants in the synthetic or credit derivatives market to reduce execution risk by quickly and accurately analyzing new and existing CDO transactions by linking our CDO analysis, criteria, and ratings data.

Standard & Poor's structured finance ratings strategy is to maintain our leadership position by responding to the trends of globalization and innovation in this rapidly growing market. The strategy is focused on leveraging Standard & Poor's brand; our overwhelming recognition for quality, independence and objectivity; our global network; and, most importantly, our most valuable asset, our employees.

I'm very excited about the long-term prospects of Standard & Poor's structured finance ratings. Governments, regulators, financial institutions and corporations all over the world are seeing the benefits of structured finance and why not? Structured finance has proven to be a reliable, highly flexible financing tool.

Thank you very much for your attention.

### **Harold McGraw III**

Chairman, President and CEO  
The McGraw-Hill Companies

Thank you, Joanne, and I hope that gives you a little bit of a feel of some of the structured market. It has, in the last couple of years, been a tremendous driver of growth for us and it will for some time and, Joanne, your leadership of it has been extraordinary. Thank you.

I will comment briefly on the regulatory scene.

The House Committee on Financial Services recently passed an amended version of H.R. 2990. This is a small step in a long process that will be marked by more debate.

We and the other NRSROs are still working with the SEC on a voluntary framework that provides effective oversight, including an internal audit. The SEC's proposed rule to define an NRSRO, which has been public for more than a year, would almost immediately result in additional competition and increase the transparency of the NRSRO designation process.

The House bill is premature since it doesn't allow the SEC to finish its crucial work in this area. It is also inconsistent with the market-based approach developed by IOSCO and other international regulators. Furthermore, the registration and related requirements in the House bill are inconsistent with the First Amendment and unnecessary. You don't need a law to compel S&P to disclose its ratings policies. Just go to our website; it is all there already.

Finally, the proposed House bill sacrifices investor protection because there is no quality control. Under the bill, anyone in business for three years can register and become an NRSRO. Rating agencies that have no demonstrated track record and no broad market acceptance will qualify as NRSROs.

For all the reasons I have just cited, we believe that the House bill is premature and unnecessary. However, we remain convinced that any new legislation would not have a materially adverse effect on Standard & Poor's financial condition or operations.

Let's sum up now for the Corporation. Recognizing that all segment forecasts exclude the impact of all incremental stock-based compensation, our outlook for 2006 at mid-year has not changed.

- In Financial Services, we expect double-digit top- and bottom-line growth, excluding the divestiture of CVC.
- In McGraw-Hill Education, we still expect modest revenue growth, a decline in operating profit by as much as 10%, and a decline in operating margin, which, in part, is attributable to investments we are making now for 2007 and beyond.
- For Information & Media, we anticipate a mid to high single-digit gain in revenue and a slight decline in operating profit after absorbing the impact of a \$15 million revenue reduction for Sweets.
- Our guidance for The McGraw-Hill Companies remains unchanged. We still expect earnings per share of \$2.36 to \$2.41 excluding the impact of all incremental stock-based compensation.

We expect a return to double-digit earnings growth in 2007.

Thank you.

**“Safe Harbor” Statement Under the Private Securities Litigation Reform Act of 1995**

This presentation includes certain forward-looking statements about the Company's businesses, new products, sales, expenses, cash flows and operating and capital requirements. Such forward-looking statements include, but are not limited to: the strength and sustainability of the U.S. and global economy; Educational Publishing's level of success in 2006 adoptions and enrollment and demographic trends; the level of educational funding; the level of education technology investments; the strength of Higher Education, Professional and International publishing markets and the impact of technology on them; the level of interest rates and the strength of the economic recovery, profit levels and the capital markets in the U.S. and abroad; the level of success of new product development and global expansion and strength of domestic and international markets; the demand and market for debt ratings, including mortgage and asset-backed securities; the regulatory environment affecting Standard & Poor's; the level of merger and acquisition activity in the U.S. and abroad; the strength of the domestic and international advertising markets; the volatility of the energy marketplace; the contract value of public works, manufacturing and single-family unit construction; the level of political advertising; and the level of future cash flow, debt levels, product-related manufacturing expenses, pension expense, distribution expenses, postal rates, amortization and depreciation expense, income tax rates, capital, technology and other expenditures and prepublication cost investment.

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