2Q 2006 Earnings Call
July 25, 2006

Presenters:
Harold McGraw III
Chairman, President and CEO
Robert J. Bahash
Executive Vice President and CFO
Donald S. Rubin
Senior Vice President, Investor Relations

“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 new product development; the success of Standard & Poor’s technology investments; the strength of Higher Education, Professional and International publishing revenue and the impact of technology on them; the level of capital and the strength of the economic recovery; profit levels and the capital markets in the U.S. and abroad; the level of interest rates and the strength of the economy; 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 market; the contract value of public works, manufacturing and single family unit construction; the level of political advertising and the pace of recovery in advertising; the demand and market for debt ratings; the impact on capital markets; the strength of the domestic and international advertising markets; the volatility of the energy market; the contract value of public works, manufacturing and single family unit construction; the level of political advertising and the pace of recovery in advertising; the demand and market for debt ratings; the impact on capital markets for new products, and the effect of competitive products and pricing.

Donald S. Rubin
Senior Vice President,
Investor Relations
The McGraw-Hill Companies

17.6% increase in EPS for 2Q 2006

$0.60 diluted EPS includes:
$0.03 charge for incremental stock-based compensation

Net income increased 13.3% to $221.0 million
Revenue increased 4.9% to $1.5 billion

Raising guidance for 2006 EPS

Previous EPS guidance: $2.36 to $2.41, excluding incremental impact of all stock-based compensation

New EPS guidance: $2.44 to $2.49, excluding the incremental impact of all stock-based compensation
Excludes $0.13 for incremental stock-based compensation in 2006 and $0.04 for one-time charge for elimination of restoration stock option program

We expect to return to double-digit earnings growth in 2007
Abating concern over rising interest rates

Start of pause after 17 hikes?
- Federal Reserve signals it may be done raising interest rates

David Wyss, S&P’s chief economist:
- Expects GDP to grow at 2.5% annual rate over next 18 months
- Fed may cut interest rates by middle of 2007

McGraw-Hill Education

2Q 2006 segment results
Revenue - 2.7% to $611.6 million
Operating profit - 5.3% to $67.8 million
Includes $2.5 million for incremental stock-based compensation
Operating margin 11.1%, down 31 basis points

2Q 2006 MHE revenue results mixed
School Education Group
2Q 2006 Revenue down 5.8% to $390.4 million
First half 2006 Revenue down 4.5%
HPI Group
2Q 2006 Revenue up 3.3% to $221.3 million
First half 2006 Revenue up 4.1%

School Education Group faces tougher comparisons in 2006
El-hi industry sales down 1.2% after five months according to Association of American Publishers (AAP)
2006 el-hi school market could be flat to down as much as 4% because of a 30% reduction in state new adoption calendar that limits 2006 potential

Estimate for 2006 state new adoption market
May be at lower end of $650-700 million range because California and Florida delayed purchasing this year
- 35% of California social studies business will slip into 2007 and beyond
- Florida K-12 science: Some large districts delaying purchasing until 2007
Tougher 2Q comparisons given our 17% gain in sales last year
### Emphasizing open territory sales in 2006

*Treasures*: New basal K-6 reading program

- Strong start with wins in two largest open territory districts (Wichita and Pittsburgh)
- Expect to capture second place in Kentucky reading adoption
  - State permits schools to purchase *Treasures* “off-list”

### Growing opportunities in reading and math intervention

Accountability measures begin to take effect under *No Child Left Behind* (NCLB)

- Sanctions if schools fail to achieve improvement in test scores
  
Reading intervention beginning earlier

- Children, particularly in urban districts, don’t have English vocabulary or number-sense needed to deal with instruction

### Growing opportunities in reading and math intervention

Our early intervention programs are selling well in open territory and adoption states

- *Early Interventions in Reading*
- *Kaleidoscope*
- *Number Worlds*

Secondary reading intervention market growing rapidly

- *Jamestown Reading Navigator* is our new online, subscription-based program for middle schools

### Achieving strong results in this year’s key secondary adoptions

Science in Florida

- Expect to lead the list in secondary market, which offers higher dollar volume
- Fulfilling middle school orders in 3Q

California

- Expect to capture leading position in secondary market
- Some anticipated sales will move into 3Q because of delay in state’s approval of middle school texts

Our performance in elementary science and social studies fell short of expectations

### Face tough second half comparisons in soft el-hi adoption market

Our revenue in 2005

- 18.9% increase in sales in 3Q 2005
- 23.6% increase in sales in 4Q 2005

Texas not buying this year after outstanding 2005

Unclear if open territories will make up shortfall in this year’s state new adoption market

### Facing margin pressure in testing

Market continues to shift away from norm-referenced tests to state-specific custom assessments

- Driven by new requirements created by NCLB

Increased custom contract work in 2Q 2006 did not offset decline in off-the-shelf testing products
Growth in study guide and state reporting markets

Mitigates shift away from norm-referenced tests
• Grow Network’s effort in Florida
• 1.8 million student reports a major logistical achievement. Comprised of:
  – 46 different reports, 3 languages, nine grades, and 4 subjects
  – New family reports offer dynamic translations in Spanish and Haitian Creole
  – 2.0 million student response images allowed each family to view student’s own work
  – Parent website to view individual student data

Technology key to improving margins in testing

Continuing to invest in technology and paperless publishing systems to improve development, delivery, and scoring capabilities

Good year taking shape in U.S. college and university market

Strong close in June a good signal for critical July and August period

Our three major imprints all produced gains in 2Q 2006
• Science, Engineering and Math
• Humanities, Social Science and Languages
• Business and Economics

Expect market to grow 5% this year
• We expect to outperform market

Outlook for McGraw-Hill Education

Summary
• Diligent in managing cost structure
• Costs and expenses declined in 2Q
  – We don’t expect same level of savings in second half

• Excluding impact of incremental stock-based compensation, we expect:
  – Modest revenue growth
  – Decline in operating profit by as much as 10%
  – Decline in operating margin, which in part is attributable to investments we are making now for robust el-hi market in 2007 and beyond

McGraw-Hill Education

Financial Services

Information & Media
Financial Services

2Q 2006 segment results
Revenue +13.4% to $677.3 million
+18.9% on a non-GAAP basis
Excludes revenue last year of $34.8 million from Corporate Value Consulting, which was divested at the end of September, and $8.1 million from CRISIL, Limited, where majority interest was acquired on June 1, 2005
Operating profit + 21.5% to $313.9 million
Includes $6.3 million for incremental stock-based compensation. Corporate Value Consulting contributed approximately $7.5 million to operating results in 2Q 2005
Operating margin 46.3%, up from 43.2%

The hallmark of a diversified portfolio

Many contributors to an outstanding record:
• Growth in global structured finance
• Growth in corporates
• Growth in ratings products and services not dependent on new issue bond market
• Growth in data and information products
• Growth in products and services related to our indexes

The hallmark of a diversified portfolio

International ratings
• 37.4% of 2Q ratings revenue, up from 36.7% for same period last year
Ratings and services not tied to new issue market
• 24.2% of 2Q ratings revenue, up from 21.5% for same period last year

Mixed residential mortgage-backed securities market

2Q: First signs that new issue volume is softening in U.S. market
• Dollar volume slipped by 1.2% in 2Q 2006
• Benefited from 8.6% increase in number of issues
  – Rating smaller deals a plus for S&P
2Q Europe dollar volume issuance
• Benefited from 20% increase in RMBS

2Q: CDO's major factor

U.S. new issue dollar volume grew 162%
Strong growth driven by:
• Robust debt origination
• Strong investor demand for higher yields and diversification
• Attractive arbitrage opportunities

2Q: Asset-backed securities softened

Sharp decline in auto loan issuance
Strong pick up in activity in credit card and student loan sectors
<table>
<thead>
<tr>
<th>2Q: Surge in U.S. corporate market</th>
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<tbody>
<tr>
<td>51.3% increase in investment-grade dollar volume issuance</td>
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<td>77.7% increase in high-yield dollar volume issuance</td>
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<th>2Q: Public finance market</th>
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<td>Softness in 2Q as refunding volume declined again</td>
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<tr>
<th>Another strong quarter for S&amp;P data and information</th>
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<tr>
<td>Increased customer demand for fixed income data benefits RatingsDirect and RatingsXpress</td>
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<td>Now more than 1,500 clients at Capital IQ</td>
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<tr>
<td>• April release included additional fixed income data, auditable international data, and enhanced functionality</td>
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<table>
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<tr>
<th>Continuing to leverage index products and services</th>
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<tr>
<td>$143.4 billion in assets under management in ETFs based on S&amp;P indexes at end of the second quarter</td>
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<tr>
<td>• 21.3% increase in over same period last year</td>
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<tr>
<td>Increased trading of derivatives based on S&amp;P’s indexes</td>
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<table>
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<tr>
<th>Continuing to leverage index products and services</th>
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<tr>
<td>New ETFs introduced in June</td>
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<td>• ProFunds launched four S&amp;P-indexed funds</td>
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<tr>
<td>--First ETFs to use derivatives to implement short and leveraged strategies; model opens door to others</td>
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<td>• State Street Global adds five more SPDR industry ETFs</td>
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<tr>
<td>--Three ETFs launched in February</td>
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<tr>
<td>• S&amp;P BRIC index provides exposure to leading companies from Brazil, Russia, India and China</td>
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<tr>
<td>--Lehman and UBS have licenses to create products based on the index</td>
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<tr>
<th>Outlook for Financial Services in second half of 2006</th>
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<tbody>
<tr>
<td>We expect double-digit top- and bottom-line growth to continue, probably not at same pace achieved in first half</td>
</tr>
<tr>
<td>--Excludes Corporate Value Consulting (CVC) and impact of incremental stock-based compensation</td>
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<tr>
<td>May have some effect on operating margin which was 44.3% in first half</td>
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### Outlook for Financial Services in second half of 2006

**Reasons for optimism**
- Continued strength in international ratings and products and services not tied to new issuance

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**Outlook for Financial Services in second half of 2006**

- Good pipeline but tougher comparisons for U.S. RMBS issuance
  - U.S. RMBS enjoyed spectacular growth in second half of 2005 and dollar volume issuance up 13.5% for first half 2006
  - Expect U.S. issuance to decline 5-10% in 2006
- European RMBS market to show year-over-year growth in second half

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**Outlook for Financial Services in second half of 2006**

- **U.S. issuance**
  - Prospects for CMBS, ABS, and Public Finance look a little soft
  - Pipeline for U.S. CDO issuance remains very strong
  - Expect strength in corporates in second half
    - Healthy pipeline of bonds maturing for refinancing
    - Debt-financed M&A activity still promising
    - Continued solid spending on capital equipment
    - Balance sheet restructuring will be positive factor

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**Outlook for Financial Services in second half of 2006**

- Demand for data and information remains strong on global basis
  - Expect more growth from trading of derivatives based on S&P indexes

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**Update on regulatory issues and the rating agencies**

- We have consistently supported demands for greater transparency and more competition
  - Transparency critical for operation of sound and efficient capital markets
- Investors seek S&P opinions because of its credibility
- Any change to system should be carefully evaluated
  - Hope Congress allows SEC to complete its work for making process transparent for Nationally Recognized Statistical Rating Organizations (NRSROs)
- We hope SEC will soon finish discussions to implement Voluntary Oversight Framework similar to system adoption by European Commission and IOSCO

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**Update on regulatory issues and the rating agencies**

- HR 2990 sets quality bar very low
  - Will work with Congress, the administration and SEC to:
    - Ensure quality
    - Improve transparency
    - Increase competition
    - Ensure global regulatory consistency of capital markets
- Standard & Poor’s has been ratings bonds since 1916
- Integrity, reliability, and credibility enable S&P to compete successfully in an increasingly global, complex market
Outlook for Financial Services

Summary
• We expect double-digit top- and bottom-line growth, excluding impact of CVC and incremental stock-based compensation
• Continued strength in global ratings
• A solid performance in corporates
• Growth in structured finance
• Operating margin that at least matches our 2005 performance

Information & Media

2Q 2006 segment results
Revenue + 3.6% to $238.6 million
Operating profit Declined $652,000
Includes $3.7 million for incremental stock-based compensation
Operating margin 5.4%, down from 5.9%

Broadcasting Group: Off to a fine start

2Q 2006 revenue
• Increased 14.3% to $31.9 million

Positive factors
• Local advertising up solidly, driven by auto, services and retailing
• Political advertising, mainly in California

2006 results for the Business-to-Business Group

2Q 2006 revenue increased 2.1%
• J.D. Power and Associates
  – New products and services drove revenue increases
  – Investments for new syndicated and consultative studies offset revenue increase, but are expected to create opportunities in second half and next year
• Platts
  – News and pricing services attracted new customers
• McGraw-Hill Construction Network
  – A gain in Q2; advertising-based products also improved

Print and online advertising at BusinessWeek

Global ad pages
• Down 11.7% in 2Q as measured by Publishers Information Bureau
• Elimination of European and Asian editions impacted revenue but benefited bottom line
  – International editions had $4.6 million in revenue a year ago

Online advertising growing domestically and internationally
• Represents 14.1% of total BusinessWeek ad revenue in 2Q
BusinessWeek.com new homepage

BusinessWeek
Ad pages up 29.33% after four issues in July
Ad pages off 2.2% year-to-date through July 24 issue

Outlook for Information & Media
Summary
• Excluding impact of incremental stock-based compensation we anticipate:
  – Mid-to-high single-digit growth in revenue
  – Slight increase in operating profit after absorbing impact of $15 million revenue reduction in Sweets

Raising guidance for 2006 EPS
Previous EPS guidance: $2.36 to $2.41, excluding incremental impact of all stock-based compensation
New EPS guidance: $2.44 to $2.49, excluding the incremental impact of all stock-based compensation
• Excludes $0.13 for incremental stock-based compensation in 2006 and $0.04 for one-time charge for elimination of restoration stock option program
We expect to return to double-digit earnings growth in 2007

Summing up for The McGraw-Hill Companies

Robert J. Bahash
Executive Vice President and Chief Financial Officer
The McGraw-Hill Companies
### Stepped up share repurchases in 2Q

- Repurchased 18.4 million shares in 1Q
  - Completed original program approved by Board
  - Board increased this year’s authorization by another 10 million in April
- 2Q: Acquired 7.7 million shares from additional authorization at cost of $392.2 million
- First half 2006: Acquired 26.1 million shares at cost of $1.4 billion
- More than $2 billion returned to shareholders through combination of 2005 and first half 2006 share repurchases

### More share repurchases anticipated in second half

- Expect to buyback 2.3 million shares during second half 2006
- When we complete full program, 20 million shares will remain from 45 million share repurchase program
  - Represented 12.1% of MHP’s outstanding shares of 372.7 million at end of 2005

### Key assumption for 2006 guidance

- Assumes benefit of approximately $0.03 from the 2006 share repurchase program
- Reduction in diluted weighted average shares outstanding
  - 2Q 2006: 365.5 million shares
    - 14.5 million share decrease compared to the second quarter of 2005
    - 11.8 million share decrease compared to first quarter of 2006

### Outlook for debt/cash

- Ramped up borrowings in commercial paper market as result of increased share repurchases
- Expect to return to a net surplus cash position by year end
- Traditionally strong cash flows in second half of year
- Net debt position of $470.5 million
  - Debt outstanding is $681.6 million as of June 30
  - Offset by cash holdings of $211.1 million, primarily foreign holdings

### Outlook for interest expense

- 2Q 2006: $8.6 million, a $5.1 million increase compared to last year
  - Increased commercial paper borrowings for share repurchases
  - Rising interest rates
- Interest expense will increase in 3rd quarter and decline in 4th quarter
- Expect to return to net surplus cash position by year end
  - 2006: Project interest expense of $22-24 million

### Company began expensing stock options in 2006

- Expect to incur incremental $0.13 of expense in 2006 as result of accounting change
- 2Q 2006: Incurred incremental stock-based compensation expense of $14.9 million, or $0.03 per share
### Impact of incremental stock-based compensation

<table>
<thead>
<tr>
<th>Category</th>
<th>Increase</th>
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<tbody>
<tr>
<td>McGraw-Hill Education</td>
<td>$2.5 million</td>
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<tr>
<td>Financial Services</td>
<td>$6.3 million</td>
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<tr>
<td>Information &amp; Media</td>
<td>$3.7 million</td>
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<tr>
<td>Corporate</td>
<td>$2.4 million</td>
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*Covers Corporate and Shared Services personnel*

### Outlook for corporate expense

<table>
<thead>
<tr>
<th>Quarter 2 2006</th>
<th>Description</th>
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<tr>
<td></td>
<td>2Q 2006: Increased $4.7 million</td>
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<td></td>
<td>• Driven by increased stock-based compensation and revaluation charge for certain equity investments</td>
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*2006: Expect to increase in high single-digits, excluding incremental stock-based compensation*

### Dilution from 2004 and 2005 acquisitions

<table>
<thead>
<tr>
<th>Year</th>
<th>Description</th>
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<tbody>
<tr>
<td>2006</td>
<td>Still expect dilution of $0.03 to $0.04</td>
</tr>
<tr>
<td></td>
<td>• Will be approximately cash neutral</td>
</tr>
<tr>
<td>2007</td>
<td>Expect acquisitions to be cash positive</td>
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*Company did not make any acquisitions or material dispositions in first half 2006*

### Outlook for tax rate

<table>
<thead>
<tr>
<th>Quarter 2 2006</th>
<th>Description</th>
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<tr>
<td></td>
<td>2Q 2006: Effective tax rate 37.2%</td>
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<td></td>
<td>• We continue to project this rate for balance of year</td>
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### Outlook for pre-publication investments

<table>
<thead>
<tr>
<th>Year</th>
<th>Description</th>
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<tr>
<td>2Q 2006</td>
<td>$63.5 million, compared to $60.7 million in same period last year</td>
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<tr>
<td>2006</td>
<td>Expect $315 million</td>
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<td></td>
<td>• Investment driven mainly for products we are currently developing to realize significant opportunities in el-hi market in 2007, 2008, and 2009</td>
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### Outlook for CapEx for property and equipment

<table>
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<tr>
<th>Year</th>
<th>Description</th>
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<tr>
<td>2Q 2006</td>
<td>$20.5 million, compared to $26.3 million for same period last year</td>
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<tr>
<td>2006</td>
<td>Expect $200 million</td>
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<tr>
<td></td>
<td>• Driven by investments in:</td>
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<td></td>
<td>-- Construction that will begin later this year on data center and a new facility for McGraw-Hill Education</td>
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<td></td>
<td>-- Technology initiatives at Financial Services</td>
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</table>
Outlook for non-cash charges

Amortization of pre-publication costs
• 2Q 2006: $53.0 million, compared to $55.2 million in same period last year
• 2006: Expect about $250 million

Depreciation
• 2Q 2006: $28.3 million, compared to $26.1 million in same period last year
• 2006: Expect $130 million, reflecting higher level of capital expenditures in 2006 and full year of depreciation from 2005 capital expenditures

Outlook for non-cash charges

Amortization of intangibles
• 2Q 2006: $12.1 million, compared to $12.0 million in same period last year
• 2006: Expect about $50 million
  – Increase driven by acquisitions in 2005

Outlook for non-cash charges

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July 25, 2006

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Harold McGraw III
Chairman, President and CEO
Robert J. Bahash
Executive Vice President and CFO
Donald S. Rubin
Senior Vice President, Investor Relations

NOTE: The presenters’ slides will be available for downloading from www.mcgraw-hill.com/investor_relations approximately two hours after the end of the call at. A replay of this webcast will be available 2 hours after the end of the call and will remain available until August 1, 2006

Replay Options (Available from July 25 to Aug 1)

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