

**Harold McGraw III**  
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The McGraw-Hill Companies

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and Telecommunications Conference  
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OUTLOOK 2007

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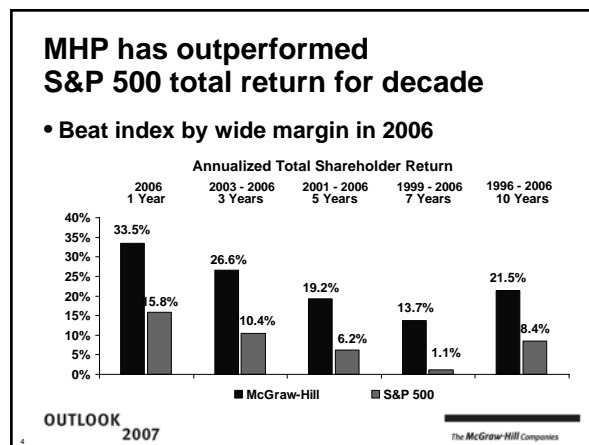
**“Safe Harbor” Statement Under the Private Securities Litigation Reform Act of 1995**

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 2007 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, restructuring charges and other expenditures and prepublication cost investment.

Actual results may differ materially from those in any forward-looking statements because any such statements involve risks and uncertainties and are subject to change based upon various important factors, including, but not limited to, worldwide economic, financial, political and regulatory conditions; currency and foreign exchange volatility; the health of capital and equity markets, including future interest rate changes; the implementation of an expanded regulatory scheme affecting Standard & Poor's ratings and services; the level of funding in the education market (both domestically and internationally); the pace of recovery in advertising; continued investment by the construction, computer and aviation industries; the successful marketing of new products, and the effect of competitive products and pricing.

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**Achieved stock buyback goal in 4Q**

- Acquired approximately 2.4 million shares in 4Q 2006
- Total repurchases in 2006
  - 28.4 million shares at an average cost of \$54.23 per share

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**A commitment to advancing total shareholder value**

- Returned \$1.8 billion in cash to shareholders in 2006 through buybacks, dividends
  - \$5.9 billion returned to shareholders since 1996

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## A commitment to advancing total shareholder value

- **Board of Directors will revisit dividend and buyback program at regular meeting in January 2007**
  - Dividends have grown at 10.3% CAGR since 1974
  - 20 million shares still authorized in buyback program at start of 2007

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## The outlook for The McGraw-Hill Companies

- **Expect double-digit earnings growth in 2007**
  - All three segments will contribute to performance with improved operating margins
- **Global growth, digital expansion and productivity connect all our operations**

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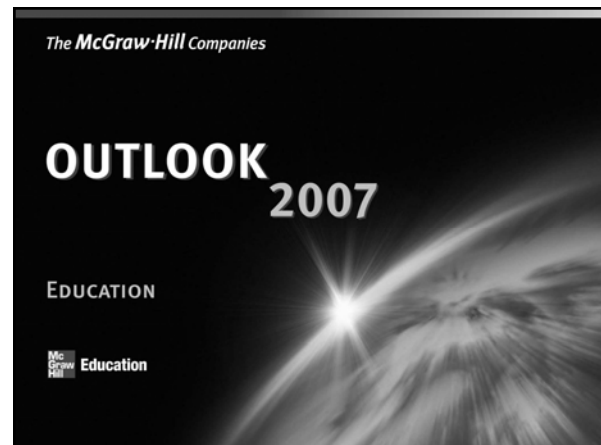
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## Growing benefits from convergence of content and technology

- **Creates new opportunities**
  - New, renewable revenue streams
  - Improvements in operating leverage
  - Margin expansion

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## McGraw-Hill Education poised for steady improvement for rest of decade

- **Enrollments are growing here and abroad**
  - 100 million higher ed students enrolled in 20,000 colleges and universities overseas
    - Could more than double by 2025, stimulated by growth in world population and rise of emerging economies
  - In U.S., 17 million students enrolled in more than 4,000 colleges and universities
    - By 2014, enrollments could hit record 19.5 million

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## Investment in human capital a necessity in a knowledge economy

- **Governments spending more on education as percentage of gross domestic product**
- **U.S. will not remain competitive with an under-educated workforce**

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## Global opportunities in education

- **McGraw-Hill Education is globally recognized brand**
- **Technology**
  - Removes geographic barriers
  - Expands access to quality education
- **New opportunities to leverage McGraw-Hill Education's content to travel globally**
  - Overseas network for product development, production, distribution, sales and marketing

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## New opportunities to leverage McGraw-Hill Education's content globally

- **New Dubuque-Delhi connection for product development**
  - New Delhi responsible for largest single book adoption: More than 750,000 units of "Computing Essentials" by O'Leary
- **Embarked on plan to develop new programs and create a base for global computer science and engineering centered in India**

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## Growth in higher education: A key to progress in 2007, beyond

- **HPI Group produces about 45% of education segment's revenue**
  - More than half of international revenue in education comes from higher education markets
- **U.S. college and university market expected to grow about 4% in 2007**
- **We expect to do better**
  - Higher education growing faster abroad than in U.S.
  - Will start to benefit from reform movements in Spain and Mexico for junior and senior high schools

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## Professional publishing benefiting from digitally delivered information

- **Growing global sales for Web-based products**
  - AccessMedicine
  - AccessScience
  - Digital Engineering Library

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## New opportunities in European higher education

- **Movement toward more standardized European curriculum is fueling adoption of new digital products in higher education**
- **Aligning university systems through Bologna Process**
  - Allow more student mobility
  - Should raise importance of English-language publications

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## New opportunities for higher education in emerging markets

- **Demand for education exceeds capacity of traditional bricks-and-mortar classroom**
- **Will lead to development of more digital product opportunities, including online courses**

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## Growing demand for digital services in higher education

- Introduced 40 new online courses in 2006 with more planned for 2007
- Each course represents standard 15-week semester and about 45 hours of class time
  - Delivered over major learning management systems, i.e. Blackboard
  - Courses combine visual, auditory and interactive elements to engage all types of learners
- Online courses do not disintermediate the textbook, instructor or final exam

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## Growing demand for digital services in higher education

- Online courses gaining traction in U.S. with older students, particularly for-profit post-secondary schools
  - 7–8% of total U.S. enrollment from fully online distance learning students
  - Projected to increase to 10% by 2008
- Represent new generation of products and services that produce incremental and renewable revenue

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- [Video]  
McGraw-Hill Higher Education's  
Online Homework Services

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## Intervention programs: Expanding the addressable market

- Growing demand for intervention materials to jump-start students performing two or more years below grade-level
  - Our reading and math intervention programs start in early grades
- Individualized instruction difficult to achieve without right resources
  - *Jamestown Reading Navigator* is Web-based reading intervention for grades 6-12

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- [Video]  
*Jamestown Reading Navigator*

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## Intervention programs: Expanding the addressable market

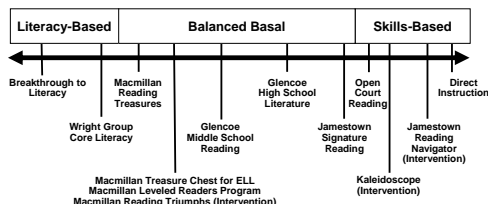
- Responding to greater emphasis on Adequate Yearly Progress goals as part of NCLB
- Intervention programs represent incremental revenue
  - Schools purchase them with federal and other special funding

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## Publishing for the opportunity: Competing with a spectrum of products

### Reading (Programs in yellow are new or major revisions for 2006-2008)

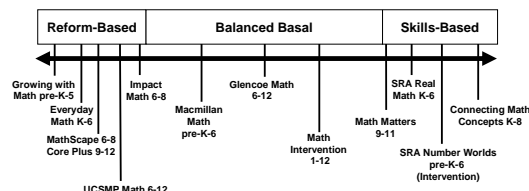


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## Publishing for the opportunity: Competing with a spectrum of products

### Math (Programs in yellow are new or major revisions for 2006-2008)



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## A better way to meet market's need for solutions

- **Established pre-K-12 Centers of Excellence for every curriculum area**
  - Ensures consistency in way basal programs build concepts and skills
  - Our instructional design helps students transition seamlessly between grade levels
    - Very important in grades 4-8 where achievement gap tends to widen
- **Integrated sales and marketing**
  - Simplify, strengthen communications with customers

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## A better way to meet market's need for solutions

- **The spectrum is our strategy**
  - A wide range of options in a diverse marketplace

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## Changing landscape of education

- **Digital media is a change agent and a plus factor for McGraw-Hill Education**
- **We are creating new products and services to anticipate market trends**
- **We have strengthened our organization and product development in the key core basal segment of market**

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## McGraw-Hill Education poised for steady improvement for rest of decade

	2007	2008	2009
Est. Mkt. Size	\$750M-\$800M	\$850M-\$900M	\$900M-\$950M
Major State Calls	California K-12 Science Florida K-12 Health, World Languages, Applied Subjects Georgia K-8 Math Indiana 1-8 Reading/Literature Tennessee K-5 Reading Texas 6-12 Math	California K-12 Math Florida K-12 Reading/Reading Intervention Georgia K-12 Science, 9-12 Math North Carolina K-12 Social Studies Tennessee K-12 Social Studies Texas K-5 Math	California K-12 Reading/Literature Florida 6-12 Literature Georgia K-8 Reading/Literature North Carolina K-12 Math Tennessee K-12 Science/Health

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## Outlook for elementary-high school market

- In 2007 we expect el-hi market to grow 4-6%
- We expect to do better

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## Convergence of content and technology create new opportunities

- Streamline our operations
- Improve productivity
- Global Resource Management key to:
  - Improving productivity by streamlining workflow
  - Creating digital connection with off-shore vendors for faster turnaround at lower costs
  - Printing more off-shore
- Currently realizing all-in savings of 20-30% by printing in China

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## Outlook for McGraw-Hill Education

- Summary
  - Poised for steady improvement for rest of decade
  - Growing global growth prospects, particularly in higher education and professional markets
  - Growing state new adoption calendar for 2007-2009
  - Strengthened el-hi organization
  - Convergence of technology and content is increasing addressable market
  - Margin expansion in 2007

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## OUTLOOK 2007

FINANCIAL SERVICES

STANDARD  
& POOR'S

## Financial Services

- Diversified, resilient global growth business with excellent prospects in 2007 and for many years beyond
- Confidence based on unique blend of fixed income and equity products and services
  - Will produce double-digit top- and bottom-line increases for Standard & Poor's in 2007
    - Ratings services
    - Data and information products
    - Index services

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## Solid and growing lineup at S&P

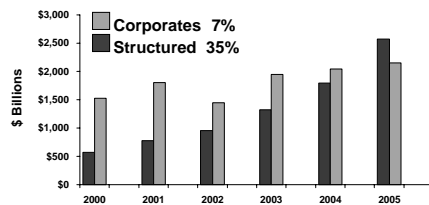
- Contributes to sustainability of our performance while reducing dependence on any single product or asset class
- Excellent outlook for ratings
  - Market is robust and innovative
  - Growing demand for fixed income securities as global investors seek bonds for yield and risk diversification

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## The rise of global debt issuance

Compound Annual Growth Rates, 2000-2005



Source: Thomson Financial, Harrison Scott Publications, S&P estimates

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## Global structured finance new issuance growing at CAGR of 35%

- Structured finance proven to be a reliable, highly flexible financing and effective risk transfer tool
- Growth drivers of structured finance
  - Globalization
  - Securitization
  - Increased complexity and sophistication of financial instruments

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## Why structured finance will continue growing

- Large pools of untapped assets remain to be securitized
- Investors seek structured securities to:
  - Diversify risk exposure to portfolios of debt securities versus single-issuer credits
  - Take advantage of cyclical lows in default rates
- Increased global acceptance of synthetic forms of risk transfer

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## Why structured finance will continue growing

- Investors attracted by strong credit quality and returns
  - Short supply of high-grade corporate issuance
- Comparing current credit quality
  - U.S. corporate averages BBB-
  - U.S. structured averages A

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## Why structured finance will continue growing

- Issuers favor structured finance
  - Lower borrowing costs
  - Transfer risks
  - Meet capital requirements

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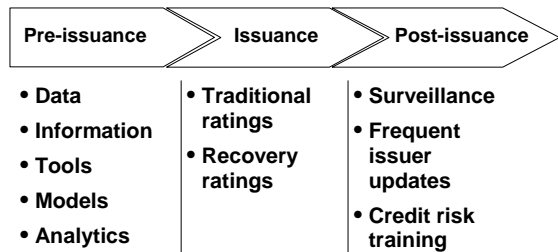
## Why structured finance will continue growing

- Intermediaries create new opportunities because repackaging can:
  - Mitigate and transfer risk
  - Take advantage of market inefficiencies or spread differentials

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## Serving the capital markets value chain



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## Why Collateralized Debt Obligations create more ratings opportunities

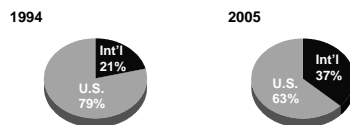
- CDO pool includes instruments that may or may not have been previously rated individually
- Repackaging creates new credit risk and return profile
  - Requires additional rating on the CDO or underlying loans so investors can select a tranche that matches their risk/reward appetite

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## Building a diverse, resilient revenue stream for ratings

- We are more global
- Off-shore revenue accounted for 37% of ratings' total in 2005. In 1994: 21%



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## Building a diverse, resilient revenue stream for ratings

- We are more diversified
- We rate a growing array of instruments and provide new tools, models to our customers
- Non-traditional products and services in 2005 were 22% of ratings revenue. In 1994, only 8%

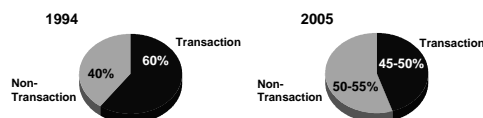


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## Building a diverse, resilient revenue stream for ratings

- We've reduced dependency on transactions
- Transactions produced less than half of ratings revenue in 2005. In 1994, it was 60%



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## We price for value

- More complex instruments produce a better return
- Price range:
  - 4.25 basis points for corporate bonds
  - 10-12 basis points or more for structured instruments
  - Minimums and caps depending on size of issue

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### Expectations for new issuance dollar volume in 2007

- **Corporate issuance will grow**
  - Continued debt-financed M&A activity and healthy spending on capital equipment
  - European prospects look strong

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### Expectations for new issuance dollar volume in 2007

- **Public finance may increase modestly**
  - Opportunistic refinancing depending on interest rates

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### Expectations for new issuance dollar volume in 2007

- **Residential Mortgage-Backed Securities**
  - Expect a decline of 10-15% in U.S. RMBS issuance
  - We expect solid growth again overseas

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### Expectations for new issuance dollar volume in 2007

- **Commercial Mortgage-Backed Securities will grow**
  - Strength here and abroad

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### Expectations for new issuance dollar volume in 2007

- **Asset-Backed Securities**
  - Moderate growth in U.S.
  - Bigger increases overseas

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### Expectations for new issuance dollar volume in 2007

- **Collateralized Debt Obligations**
  - Continued strength in U.S. and abroad, driven by new structures and increasing investor base

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### Improving prospects for S&P's data and information products and index services

- **Leveraging and extracting greater value from S&P content is a strategic imperative**
  - Key reason we acquired Capital IQ in 2004
- **Capital IQ has more than doubled client base to over 1,700 since acquisition**
- **Continues to enhance its offerings**

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- [Video]  
Capital IQ

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### Extracting greater value from S&P content

- **Capital IQ is issuing another release this month**
  - More data
  - New screening capabilities
  - Usability enhancements
  - More functionality

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### How S&P index services keep growing

- **35 new exchange-traded funds based on S&P indexes launched in 2006**
- **86 ETFs now based on S&P indexes**
- **\$161.2 billion in assets under management in exchange-traded funds based on S&P indexes as of December 2006, a 19.3% increase over 2005**
- **43 more S&P index-based ETFs in registration at SEC**

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### How S&P index services keep growing

- **Adding new asset classes**
  - Chicago Mercantile Exchange trading futures and options on futures based on S&P/Case-Shiller Home Price Indexes
  - Goldman Sachs in January will start trading forwards, swaps and options linked to the S&P/Case-Shiller index
- **Our goal: Provide an index for every type of investment style**

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### The regulatory outlook for credit rating agencies

- **Credit Rating Agency Reform Act signed by President Bush on Sept 29, 2006**
  - New law more constructive than original measure passed by House of Representatives
- **Next steps:**
  - SEC to issue proposed rule and seek comment
  - Rules have to be finalized by June; we expect to see something from the SEC shortly
  - S&P will continue to work with the SEC

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## Outlook for Financial Services

### • Summary

- Continued strength in ratings
- Solid growth in international markets
- Excellent growth in data and information and indexes
- Another year of double-digit top- and bottom-line growth in 2007
- Margin expansion

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## OUTLOOK 2007

INFORMATION & MEDIA

BusinessWeek J.D. POWER CONSTRUCTION platts AVIATION WEEK McGraw Hill BROADCASTING

## The transformation of Information & Media

- Internet reshaping the B2B market
  - Creating new opportunities to deliver information, analytics to our customers
- Delivering higher value information to readers and advertisers by focusing on:
  - News and information in text, audio, video
  - Data and analytics; workflow tools and services
  - Search advertising and lead generation
  - Online community portals, producing user-generated content

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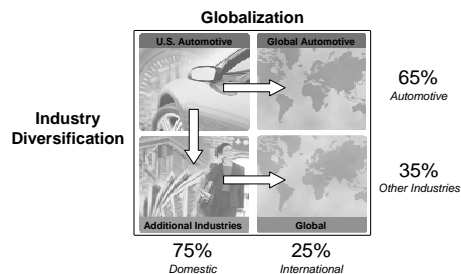
## The transformation of Information & Media

- Some progress in 2006
- Expect more progress in 2007

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## J.D. Power and Associates: Leveraging success



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## Technology transformation at Sweets

- Sweets shifts from print catalogs to integrated, Internet-based sales and marketing solutions for construction industry
  - As a subscription product, Sweets' revenue will be recognized over contract period
  - Shift impacts 4Q '06 by \$24 million, or approximately \$0.04 per share
  - Positive impact in 2007

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## Increased demand for Platts' pricing information

- Platts is a 24/7 global business that generates more than half of its revenue off-shore
- Platts' benchmark pricing used to settle \$15 billion in global petroleum transactions every day
- Four major energy exchanges now use Platts' price assessment to clear trades
- Volatility in oil, gas markets continue to increase demand

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## *BusinessWeek* evolving into multi-media brand

- Delivering content via blogs, podcasts, video, television and mobile edition
- Expect growth at BusinessWeek.com in 2007
- Ad pages up 1.7% in 4Q 2006 and virtually flat for year
- Looking for better performance this year
- In 2007 will maintain global rate base at 900,000
- Increasing one-time ad page rate by 4.8%

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## Outlook for Information & Media

- Summary
  - More progress
  - Expanding services in a digital world
  - Growth in higher value-added information
  - Margin expansion

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## Outlook for The McGraw-Hill Companies

- Summary
  - Double-digit earnings growth in 2007
  - Another year of double-digit increases in Financial Services
  - Solid gains in our elementary-high school business
  - More progress at Information & Media
  - Margin expansion in all segments

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