

4Q 2006 Earnings Call

January 25, 2007

Presenters:

Harold McGraw III
Chairman, President and CEO

Robert J. Bahash
Executive Vice President and CFO

Donald S. Rubin
Senior Vice President, Investor Relations

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

“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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Harold McGraw III
Chairman, President and CEO
The McGraw-Hill Companies

Exceeded our guidance for full year and 4Q 2006

EPS

- 2006: Increased 8.6% to \$2.40
- 4Q 2006: Increased 12% to \$0.56

Revenue

- 2006: Increased 4.2% to \$6.3 billion
- 4Q 2006: Increased 3.4% to \$1.6 billion

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Poised for double-digit earnings growth in 2007

Continued strength in Financial Services

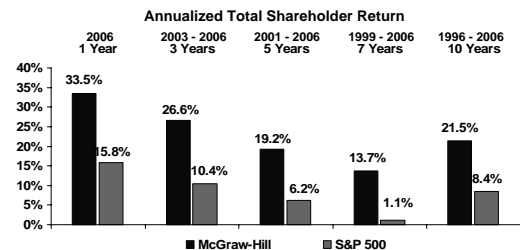
Rebounding education market

Improving margins at all segments

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MHP has outperformed S&P 500 total return for a decade

Beat index by wide margin in 2006



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A commitment to advancing total shareholder value

Steadily returning more cash to shareholders through stock buybacks and increased dividends

Board of Directors will revisit dividend and buyback program at regular meeting in January 2007

- Bought back 28.4 million shares in 2006
- Dividends have grown at 10.3% CAGR since 1974

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Outlook for economy

Federal Reserve may lower interest rates mid-year

- Fed has maintained federal funds rate at 5.25%
- Could ease to 4.5% by end of 2007

Corporate cash flow, capital spending expected to remain strong

State finances in good shape; a plus for education market

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The McGraw-Hill Companies

McGraw-Hill Education

Financial Services

Information & Media

Key takeaways for McGraw-Hill Education in 2006

Growth in Higher Education, Professional and International markets

- Produced 47% of Education's revenue in 2006

Decline in School Education Group

- Largely attributable to:
 - Weaker elementary-high school market
 - Tough comparisons after very successful 2005

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McGraw-Hill Education

2006 segment results

Revenue - 5.5% to \$2.5 billion

Operating profit - 19.8% to \$329.1 million

Includes \$19.6 million for incremental stock-based compensation and a charge for elimination of restoration stock option program

\$16.0 million in restructuring charges for employee severance for approximately 450 positions and vacating of some facilities

Operating margin 13.0%

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Managed costs in weaker state new adoption market in 2006

Reduced segment's costs and expenses nearly 3.0%

Softer market conditions and challenging comparisons most pronounced in fourth quarter

- School Education Group's revenue fell 30.2% in fourth quarter and 12.4% for year
- Late orders from Texas in 2005 helped boost 4Q 2005 revenue by 23.6%
- No major order from Texas in 2006 and more weakness in testing business

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Our performance in important 2006 state new adoptions

Successes in larger markets

- Florida science: 39% share of secondary market
- California social studies: 32% share of middle school and 40% share of high school markets

And some disappointments

- Florida science: 5% share of elementary market
- California social studies: 15% share of elementary market

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Our performance in important 2006 state new adoptions

Our successes couldn't offset tough 2005 comparisons and soft market in 2006

- 30% decline in state new adoption opportunities in 2006

AAP reports 2006 el-hi market finished lower than 4% decline we expected

- El-hi market declined by 5.8%
- Open territory sales off 0.3%

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Up in open territories; down in state new adoptions

Strong open territory showing from *Treasures*, new elementary reading basal

Underperformed in state new adoption market although secondary science and social studies programs very successful

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Challenges in testing

Sales continuing to decline for norm-referenced shelf tests

- Displaced by state-specific, standards-based assessments required under NCLB

Fourth quarter volume from custom contracts declined as states reduce scope of work on continuing contracts

We have discontinued some low-margin custom contracts

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Expect School Education Group to improve in 2007

Market to grow 4-6% in 2007

- State new adoption market enters first of three consecutive growth years
 - 2007 could increase by as much as 15%
- Open territory sales expected to grow in low to mid single-digit range

We expect to outperform market

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Participating in more of the addressable market in 2007

- Competed for about 80% of available dollars in 2006 in state new adoption market
- 25% share of market in which we competed
 - 20% share of total available state new adoption market; well below our usual capture rate of 30%

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2007: Timed new products to pursue bigger growth opportunities

Science

- New elementary and secondary programs have been customized for major adoption states

Real Math

- Skills-oriented elementary program well positioned for more growth in 2007 in open territories and adoption states

Everyday Mathematics

- Extending this best-selling K-6 program into secondary grades with new program in 2007

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2007: Timed new products to pursue bigger growth opportunities

Reading with Purpose, The Reader's Choice

- Early success in 2006 open territory market; expected to be competitive in 2007 state new adoption market

Treasures

- New basal reading program will build on good start in open territory during 2006

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2007: Timed new products to pursue bigger growth opportunities

Enhancing, expanding reading and math products for fast-growing intervention market

- Adding middle school components to successful *Number Worlds, Kaleidoscope*
- Piloted *Jamestown Reading Navigator*, for grades 6-12, to more than 100,000 students in 2006

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Stronger organization to compete in core basal market

Combined our elementary and secondary basal publishing groups last year

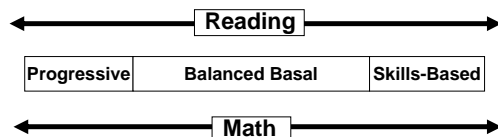
- Reorganization is complete

Streamline improves:

- Sharing of resources
- Delivery of competitive pre-K-12 solutions
- Cost efficiencies from product development through sales and marketing
- Growth of our top line

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Publishing for the opportunity: Competing with a spectrum of products



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Technology investments to improve testing

Investments will lead to increased efficiency

New investments to improve penetration of rapidly growing formative market

- Educators looking for ways to monitor and diagnose classroom progress
- Our online formative program is customized to meet state standards
- Encouraged by initial response

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Expect more improvement in 2007 from HPI Group

Higher Education and Professional products grew both here and abroad

- Strong finish in international, professional markets

4Q performance in U.S. college market softened

- Only Business and Economics showed gain
- Science, Engineering and Math had solid growth for the year

2006 U.S. college, university market grew about 3%

2007: Expect market to grow about 4%

- International higher ed market expected to grow faster

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New growth from digital products

Homework Manager gaining traction in college, university market

Introduced 40 new online courses in 2006

- Should have positive impact in 2007
- Online courses are CODIE Award finalists
 - “Best Education Solution”
 - “Best Postsecondary Course and Content Management Solution”

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New growth from digital products

Adding to lineup of digital products for medical professionals

- *Access Medicine*: Now in more than 42 countries and virtually all U.S. medical schools
- *Access Surgery*: Launched in July 2006; combines leading McGraw-Hill reference texts with digital video
- *Access Emergency Medicine*: Launching in January
- *Access Pharmacy*: Mid-year start up
- More specialties to follow

All are subscription products that sell on a global scale

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Outlook for McGraw-Hill Education

Summary

- Improved prospects in a growing elementary-high school market in 2007
- Robust state new adoption market starting in 2007
- A growing spectrum of products to serve diverse el-hi market
- Growing global growth prospects in higher education and professional markets
- More growth in digital products as convergence of technology and content increases addressable market
- Margin expansion in 2007

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The McGraw-Hill Companies

McGraw-Hill Education

Financial Services

Information & Media

Financial Services finished 2006 on an upswing

4Q revenue improved 22.1%

- Impressive since hot U.S. residential mortgage-backed securities market started cooling off in 2006

Good pipeline to start 2007

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Financial Services

2006 segment results

Revenue	+14.4% to \$2.7 billion +19.4% on a non-GAAP basis Reflecting sale of Corporate Value Consulting in September 2005
Operating profit	+18.0% to \$1.2 billion Reflects \$30.0 million for incremental stock-based compensation and a one-time charge for elimination of restoration stock option program
Operating margin	43.8%, up from 42.5% in 2005

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Why Financial Services set new records in 2006

Solid growth in equity and fixed income information products and services produced new records for revenue, operating profit and operating margins

Solid contributions from:

- Rating services
- Data and information products
- Index services

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How a diversified and resilient portfolio delivers results

Not dependent on any single product or asset class

Ratings grew solidly domestically and abroad

- Share of revenue from international ratings topped 40% mark for first time in S&P's history
 - 41.8% for 4Q 2006 vs. 38.4% for 4Q 2005
 - 38.6% for 2006 vs. 37.0% for 2005

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How a diversified and resilient portfolio delivers results

Structured finance continues to be strong driver

Performance in 4Q primarily attributable to growth in collateralized debt obligations and commercial mortgage-backed securities

- CDO market:
 - Strong investor demand in cash flow and synthetic sectors
 - Increases in collateralized loan obligations

2006 ninth straight year that S&P rated more asset- and mortgage-backed securities than any other agency according to *Asset-Backed Alert* newsletter

- Measured by ratings of dollar volume issuance and number of deals

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How a diversified and resilient portfolio delivers results

Corporate market: S&P benefited from substantial pick up in fourth quarter

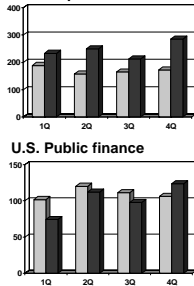
Public finance: Finished the year strongly

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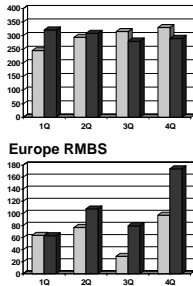
New issuance: 2006 vs. 2005

(in billions of US\$)

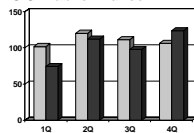
U.S. Corporates



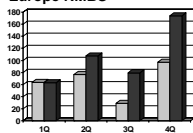
U.S. RMBS



U.S. Public finance



Europe RMBS



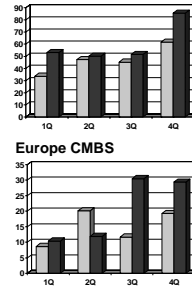
36 Source: Thomson Financial, Harrison Scott Publications

■ 2005 ■ 2006

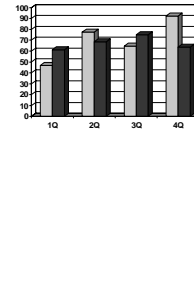
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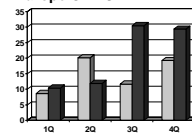
U.S. CMBS



U.S. Asset-backed securities



Europe CMBS



37 Source: Thomson Financial, Harrison Scott Publications

■ 2005 ■ 2006

How a diversified and resilient portfolio delivers results

Market strong for ratings and services not directly tied to new issuance

- 24.5% of ratings in fourth quarter and 23.9% for 2006

2007: We expect revenue to increase again for this area

- Bank loan ratings, counterparty credit ratings, financial strength ratings and credit estimates will lead the growth

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Expectations for new issuance dollar volume in 2007

Expect growth in all asset classes except U.S. residential mortgage-backed securities

- U.S. RMBS issuance will probably decline around 10-15%

International growth strong again in 2007

- All regions expected to produce increases for year

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Reduced dependence on transaction revenue

Frequent issuer and surveillance programs have grown

Measure of success is unearned revenue

- Corporation's unearned revenue grew by more than 15% in 2006 to \$983.2 million
- Growth primarily attributable to Financial Services' ratings products

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Continuing to leverage index products and services

\$161.2 billion in assets under management in ETFs based on S&P indices in 2006

- 19.3% increase compared to 2005

4Q: 10 new ETFs based on S&P indices were introduced

- Brings 2006's total to 35 new ETFs

87 ETFs worldwide now using S&P indices

- Anticipate 13 more to be launched in 1Q 2007

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Continuing global demand for equity and fixed income information

Capital IQ has more than doubled client base to over 1,700 since acquisition

Continues to enhance its offerings

Pleased with progress at Capital IQ

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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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The **McGraw-Hill** Companies

McGraw-Hill Education

Financial Services

Information & Media

Information & Media

2006 segment results

Revenue	+ 5.7% to \$984.5 million
Operating profit	- 17.6% to \$49.9 million
	\$14.1 million for incremental stock-based compensation and a one-time charge for the elimination of the restoration stock option program
	\$8.7 million in restructuring charges for employee severance costs for approximately 150 positions
	A change in revenue recognition for transformation of Sweets
	\$8.3 million benefit following favorable resolution of disputed billings
	Impact of eliminating <i>BusinessWeek's</i> European and Asia editions
Operating margin	5.1%

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Advertising was mixed in 2006

Broadcasting

- Political advertising very strong in 4Q and for 2006
 - Produced more than \$16.8 million in political advertising in 2006
- Gains in political advertising offset by loss of *Monday Night Football* at ABC affiliates and decision not to renew *Oprah Winfrey* show in San Diego and Denver markets
- 2006 revenue increased 7.5% to \$120.6 million and 4Q revenue increased 3.5% to \$33.6 million

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Advertising was mixed in 2006

BusinessWeek.com grew 45.7% off a small base in 2006

- Looking for more growth in 2007

BusinessWeek ad pages virtually flat in 2006; up 1.6% in 4Q

- We expect some improvement this year

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Advertising was mixed in 2006

Advertising contributed slightly less to corporation's total revenue in 2006 vs. 2005

- 2006: 5.3%
- 2005: 5.6%

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The transformation of Information & Media

Expect information products and services to drive improvement in segment

Delivering higher value-added 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

Construction will benefit from pick up in Sweets revenue for bundled print and online service

- Revenue will be recognized as earned in 2007

A significant transformation of a 100-year-old service

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J.D. Power poised for global expansion

Solid gain in 4Q 2006

- Poised for another good year in 2007

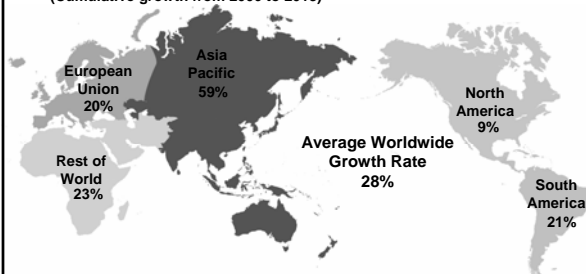
Seeing strength in non-auto segment

- Financial services and insurance
- Real Estate
- Construction

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J.D. Power and Associates: Expanding global automotive business

Regional light vehicle sales growth
(Cumulative growth from 2006 to 2013)



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Source: J.D. Power Automotive Forecasting Division

Outlook for energy market

News about oil and pricing will continue to drive demand for Platts' products and services in a volatile market

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Outlook for Information & Media

Summary

- Expanding services in a digital world
- Growth in higher value-added information products
- Margin expansion in 2007

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The McGraw-Hill Companies

Summing up for The McGraw-Hill Companies

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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The McGraw-Hill Companies

Robert J. Bahash
Executive Vice President and
Chief Financial Officer
The McGraw-Hill Companies

A commitment to advancing total shareholder value

Returned \$1.8 billion to shareholders in 2006

Since 1996, returned \$5.9 billion to MHP shareholders through dividends and share repurchases

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Strong cash flow

Company is debt-free

Cash position at end of 2006 was \$353.5 million

- \$395.3 million lower than year-end 2005
- Consists primarily of foreign holdings

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Bought 28.4 million shares in 2006

4Q 2006: 2.4 million shares repurchased

2006: Average price of \$54.23, totaling approximately \$1.5 billion, for 28.4 million shares

- 20 million shares remain from the 45 million share repurchase program approved in 2006

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Reduced fully-diluted weighted average shares outstanding (WASO)

2006: 366.9 million shares

- 15.7 million share decrease compared to full-year 2005
- Decrease primarily driven by weighted impact of 28.4 million shares repurchased in 2006
- Partially offset by stock option activity and 31.7% increase in stock price in 2006

4Q WASO increased 3.2 million vs. 3Q 2006

- Increase influenced by:
 - 17% increase in stock price
 - Increased option exercise activity
 - No share repurchases in 3Q 2006

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Outlook for interest expense

2006: \$13.6 million net interest expense

- 4Q 2006: Declined to \$70,000 as interest income on investments from excess cash balances offset fixed components

2007: Expected to increase to \$16-18 million

- Increase due to beginning 2007 with \$395.3 million less in cash
- Includes same fixed items as 2006; largest item is approximately \$9 million for accounting for Rock-McGraw sale-leaseback transaction

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Analyzing 2006-05 earnings

\$2.40 per share for 2006 includes:

- \$0.04 one-time charge for elimination of restoration stock option program
- \$0.11 for incremental stock-based compensation
- \$0.06 for restructuring for elimination of approximately 700 positions
 - Total restructuring: \$31.5 million

\$2.21 per share for 2005 includes:

- \$0.04 for restructuring for elimination of approximately 500 positions
- \$0.03 increase in income taxes on repatriation of funds
- \$0.01 gain on sale of Corporate Value Consulting

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Analyzing fourth quarter earnings

\$0.56 per share for 4Q 2006 includes:

- \$0.01 for incremental stock-based compensation
- \$0.03 for restructuring for positions eliminated in 4Q
- \$0.04 impact of change in revenue recognition for transformation of Sweets

\$0.50 per share for 4Q 2005 includes:

- \$0.04 for restructuring
- \$0.03 increase in income taxes on repatriation of funds

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Revenue recognition and transformation of Sweets

Transformed Sweets print catalog business into bundled print and online service

- Subscription revenue recognized over life of contract period rather than in December when standalone print product was delivered

Impact on 4Q 2006

- Reduced revenue by \$23.8 million
- Reduced operating profit by \$21.1 million, or \$0.04 per share

Benefits in 2007

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Impact of incremental stock-based compensation

2006: \$85.1 million incremental stock-based compensation represents:

- \$0.11 per share for incremental expense
- \$0.04 per share one-time charge for elimination of restoration stock option program

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Impact of incremental stock-based compensation

McGraw-Hill Education

- \$19.6 million for stock-based compensation
- Includes \$4.2 million for one-time charge

Financial Services

- \$30.0 million for stock-based compensation
- Includes \$2.1 million for one-time charge

Information & Media

- \$14.1 million for stock-based compensation
- Includes \$2.7 million for one-time charge

Corporate

- \$21.4 million for stock-based compensation
- Includes \$14.7 million for one-time charge

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Corporate expenses

2006: Increased \$38 million to \$162.8 million. Includes:

- \$21.4 million incremental stock-based compensation
- \$6.8 million of restructuring charges in 2006 vs. \$2.8 million in 2005

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2004 and 2005 acquisitions cash positive in 2007

2006: \$0.05 dilution from acquisitions

2007: Expect these acquisitions to be cash positive

No material acquisitions or dispositions in 2006

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Outlook for tax rate

4Q 2006: Effective tax rate 37.2%

2006: Effective tax rate 37.2%

2007: Expect rate to be approximately the same as 2006 on full-year basis

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Increasing pre-publication investments

4Q 2006: \$87.5 million

2006: \$276.8 million, a \$19.0 million increase vs. prior year

- Lower than initial projections due to timing and some efficiencies from our Global Resource Management program

2007: Expect \$330 million to realize significant opportunities in el-hi market in 2007 through 2009

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Growth in capital expenditures for property and equipment

4Q 2006: \$69.8 million

2006: \$126.6 million, \$6.4 million increase vs. prior year

- Shifted timing of expenditures to 2007:
- Construction of new data center
- Implementation of digital technology initiatives

2007: Expect \$250 million, an increase of \$123.4 million vs. prior year

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Outlook for non-cash charges

Depreciation

- 2006: \$113.2 million
- 2007: Expect \$130 million, reflecting higher level of capital expenditures in 2007 and full year of depreciation from 2006 capital expenditures

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Outlook for non-cash charges

Amortization of pre-publication costs

- 2006: \$228.4 million
- 2007: Expect \$260 million as a result of new el-hi programs being developed to take advantage of the strong adoption opportunities

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Outlook for non-cash charges

Amortization of intangibles

- 2006: \$48.4 million
- 2007: Expect \$50 million
- Virtually flat compared to 2006

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Measuring 2006 free cash flow

(\$ in millions)

Cash provided by operating activities (GAAP)	\$1,509.3
Investments in pre-publication costs	(276.8)
Purchase of property and equipment	(126.6)
Additions to technology projects	(23.0)
Dividends paid to shareholders	(260.3)
Other adjustments, primarily foreign exchange	<u>2.8</u>
Free cash flow	\$ 825.4

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Outlook for free cash flow in 2007

2006: \$825.4 million versus \$896.4 million in 2005

- 7.9% decrease due to increased investments
- Return to more normalized level of working capital
- 2007: Expect in the range of \$700-750 million
- Primarily reflecting higher investment spending

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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. A replay of this webcast will be available 2 hours after the end of the call and will remain available until February 1, 2007.

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Replay Options (Available from Jan 25 – Feb 1)

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