

Friedman Billings Ramsey Growth Conference

Prepared Remarks
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Chairman, President and CEO
The McGraw-Hill Companies

Thank you, Neil [Godsey].

Before we get started today, I need to provide certain cautionary remarks about forward-looking statements. Except for historical information, matters discussed in this presentation 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.

Our year got off to a very good start in the first quarter:

- Revenue grew by 13.7%,
- Earnings per share climbed to 40 cents, including a 3-cent gain on the sale of a mutual fund data business,
- Margins improved in all three segments.

Just about five months into the year, we are pleased to reaffirm our guidance. We expect double-digit earnings growth in 2007 and margin expansion in all three segments.

Our management team is committed to advancing total shareholder value. Outperforming the S&P 500 has been a hallmark of corporate performance. The McGraw-Hill Companies has outperformed the S&P 500 over the last one, three, five, seven and 10-year periods.

Our total return to shareholders over the last 10 years has averaged 21.5% annually. Since 1996, the Corporation has returned \$6.8 billion to shareholders through cash dividends and share buybacks. Between 1996 and 2006, cash returned to shareholders through dividends and share repurchases has grown at a compound annual rate of nearly 25%. In January, the Board of Directors approved a 12.9% increase in the regular quarterly dividend. Since 1974, the average compound annual growth rate is 10.4%.

In the first quarter this year, we bought back 13.2 million shares and more is planned. Incidentally, the average price on that 13.2 million is \$63.70. More is planned. In April, the Board of Directors approved plans to purchase another 15 million shares this year, so our target for 2007 is now up to 30 million shares. In 2006, we bought back 28.4 million shares at an average price of \$54.23.

We're sanguine about the economic environment this year for The McGraw-Hill Companies. Inflation is under control, about a 2.1% core rate, and according to David Wyss, the chief economist at Standard & Poor's, he expects the U.S. Gross Domestic Product to grow at 2.2% this year. The growth rate has been

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dampened by problems in the housing market, but David Wyss says he is not seeing much spillover from housing in the rest of the economy.

New home sales beat expectations in April, growing by 16%. That's a good sign because April marks the start of the new home buying season. But the good news was offset by a decline in the sale of previously owned homes. Prices in the housing sector are still under pressure and will probably decline somewhat more over the course of the year. But again, inflation is under control and any rate cut by the Federal Reserve will probably not occur before the end of the year.

State budgets are in good shape and the revenue picture is solid. We're looking forward to a reacceleration of the economy as we approach going into next year.

With that background, let's take a closer look at prospects for The McGraw-Hill Companies.

McGraw-Hill Education

Let's start with McGraw-Hill Education.

When we announced our first quarter results just over a month ago, we said:

- The year was off to a good start.
- The early feedback from the market was good.
- There were solid indications that the robust growth we expected in the state new adoption market this year was going to materialize, and
- We were encouraged by the early order flow.

As a result, we increased our expectations for elementary-high school market growth this year to 5% – 7%, up from the previous forecast of 4% – 6%. We also said we still expected to outperform the el-hi market this year. Our confidence in an improved performance this year is based on:

- Greater participation in a growing market,
- A strong array of new products, and
- The effectiveness of our newly-integrated school team for the basal market. This was the reorganization.

Last year, our School Education Group competed in only 80% of a smaller state new adoption market. This year, we are going after virtually every opportunity in a state new adoption market that will grow by 10% – 15%. Our bigger book bag includes new editions of *Everyday Mathematics* and *Open Court Reading*, the two leading alternative basals in the market, as well as major new programs for K–5 math and 6–12 literature.

As we predicted last summer, the reorganization of our basal operations is enabling us to improve our:

- Delivery of K–12 solutions,
- Sharing of resources,
- Growth of the top line, and
- Opportunities to lower costs.

Now at the end of May, there is more visibility and our confidence is growing in both the outlook for the market and the strength of our performance for this year.

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Our goal was to get off to a good start in 2007 since we expect the pre-K–12 market to expand annually through the rest of the decade. A robust state new adoption calendar is a key factor in this growth story and we plan to participate fully in this upswing.

It is still too early in the 2007 sales cycle to declare victory, but I can share some specific information on the trends we are seeing in the market so far.

2007 will be a big state new adoption year for science and math. We like our prospects in both disciplines. The new edition of *Everyday Math* is showing real promise in some major urban markets. The Texas 6–12 math adoption is going very well for us, particularly in the large middle school market. The outlook for science is encouraging. A good capture rate is shaping up in the key California market and we also are winning orders in the state's second-year social studies adoption.

The new edition of *Open Court Reading* — which is a revised program and is now called *Imagine It!* — has captured a multi-million dollar order in North Carolina from the Charlotte-Mecklenburg district. The district's students and teachers have been very successful with the earlier edition. The updated program uses the same solid, research-based, prove-to-work methodology. *Treasures*, our balanced basal program for K–5 reading, is competing well in the Indiana, Oregon, and Tennessee adoptions.

We should have a very good year in music, which is being adopted in Alabama, California, New Mexico, North Carolina, Oklahoma, as well as in Oregon.

The outlook for the open territories is less clear at this time. That's to be expected because purchasing decisions in the open territories typically trail state new adoption results. However, there are promising opportunities for our School Education Group emerging in some of the large urban markets, although nothing can be announced at this point.

There are some signs that the testing market will improve later this year. We hope to announce some large-scale adoptions of *Acuity*, our new formative assessment system and we're very excited about this program. *Acuity* can be administered online or with paper-and-pencil depending on the technology available in the classroom.

There are two keys to *Acuity's* success. First, it is diagnostic. It helps the classroom teacher identify learning gaps at the beginning of the year and at intervals throughout the year so corrective steps can be taken when they are most needed. Second, *Acuity* is predictive — it indicates how well students will perform on the state summative tests. Those are the high-stakes tests at the end of period or end of year. This is a powerful combination that should help us competitively in the expanding formative testing market.

In looking ahead, we want to underscore the importance of timing in our second quarter education business. Our customers don't share the Street's concern about quarterly results. June is a key month because the results are heavily influenced by the flow of orders in the last few days of the month. That volume is hard to predict and timing can skew results. Still, we like the overall trends and our confidence that we will have a very good year in education continues to grow.

That's why we are reaffirming today our forecasts that:

- The el-hi market will grow 5% – 7% in 2007,
- The state new adoption market will grow 10% – 15%,
- Open territory sales will grow about 3% – 4%, and
- The McGraw-Hill School Education Group will outperform the market.

Moving over to the other half of our Education segment is our Higher Educational, Professional, and International operations — our confidence in this group extends here as well. We're seeing good growth in the U.S. college and university market so far this year, although these results are not an indicator of performance in the critical third quarter. Still, we are off to a good start and the outlook is positive. We expect to outperform the U.S. college and university market, which should grow by about 4% this year.

The convergence of technology and content is clearly transforming the world of education. The transition is farthest along in the higher education and professional markets, where a new digital model is emerging. These new digital products are based on subscriptions and produce renewable revenue streams.

Homework Manager is a good example of a software product that is gaining traction in the college and university market while producing incremental revenue. With *Homework Manager*, instructors assign homework online using either the textbook's end-of-chapter quizzes or an algorithmic option which generates an unlimited number of unique questions for each student. Assignments are graded automatically and the results are stored in the instructor's electronic grade book. There also are online practice quizzes with instant feedback and access to qualified tutors.

If you have been on a college campus recently, you probably noticed the popularity of iPods. According to a recent survey, more than 75% of U.S. college students own the device. Now, they can use the iPod to connect with a growing number of our college texts.

Take the media-enhanced edition of *Fundamental Accounting Principles*. iPod icons appear throughout the text, pointing students to audio and video presentations, quizzes, and narrated demonstration problems that correlate to the text. iPod content can be quickly downloaded from a DVD that is packaged with the book or by going online. This marriage of content and technology enhances the students' ability to study when and where it is most convenient for them.

The lesson for us is that the imaginative use of technology can improve the sales curve even for our most venerable texts. Incidentally *Fundamentals Accounting Principles* is now in its 18th edition.

In the digital market for professionals, we recently introduced our third specialty vertical in the medical field. Joining *Access Surgery* and *Access Emergency Medicine* last month was *Access Pharmacy*.

And for our iSpeak language series, we launched four iPod titles in French, German, Italian, and Spanish. Titles in Chinese, Japanese, and Portuguese will be out next month.

Clearly, the digital transformation can take many forms and comes in many languages.

So summing up for McGraw-Hill Education:

- We expect to outperform the el-hi market, which will grow about 5% – 7% overall.
- We expect to outperform the U.S. college and university market, which will grow about 4%.
- Our future will be increasingly digital, creating new opportunities for producing incremental revenue.

Financial Services

Now, let's review the outlook for the Financial Services segment.

Following a very strong first quarter, we said there will be more double-digit growth and margin expansion throughout the balance of the year in Financial Services, although probably not at the exceptional rate of growth produced in Q1. I am pleased to reaffirm that guidance today.

There are many reasons for our confidence:

- Financial Services provides a unique blend of fixed income and equity products and services.
- This diversified portfolio contributes to the sustainability of our performance while reducing dependency on any single product or asset class.
- We are more global than ever before with strong growth prospects in international markets. Foreign source revenue at Financial Services has produced a 10-year compound annual growth rate of 18.9%.
- We have an expanding array of products and services to meet the needs of these financial markets.

We've come a long way from the plain vanilla days of rating corporate and municipal bonds. Standard & Poor's today has outstanding credit ratings on approximately \$34 trillion of debt in more than 100 countries.

S&P has obviously expanded well beyond its traditional ratings on specific financial obligations or programs. As clients seek to identify, measure, and manage credit risk in an expanding financial market, S&P's services have moved beyond issuance. Today, S&P has a lineup of growing products for both the pre-issuance and post-issuance aspects of the market. Before issuance, clients can now access real-time Web-based services for insight into S&P's rating methodologies, practices, and benchmarks, or they can use our models and tools to evaluate risks.

Following issuance, S&P offers products and services for monitoring risk on an ongoing basis, get regularly updated on the leveraged loan market, or use our recovery ratings to learn about the nominal expected loss and recovery of principle in the event of default.

Let me underscore my point on growth and diversity by looking at some of the key changes in Standard & Poor's ratings over time. In this timeline, you can visualize the acceleration in growth of our products and services in recent years as capital markets became increasingly global. Across the bottom of the timeline, you see that S&P ratings opened its first office overseas in Europe in London in 1984. We started with three people. A year later we opened a small office in Tokyo. International expansion picked up steadily in the 1990's as S&P built a global network. Today, S&P operates in 24 countries and our European operations are headquartered in the new McGraw-Hill building in Canary Wharf in London. When we identify emerging markets with high potential, we will add them to our global network. Recently, for example, S&P announced it will open its first office in South Africa, and you'll be hearing of further openings in the months ahead.

The top of the timeline shows the proliferation of products and services developed to meet the needs of increasingly complex financial markets. In the last 10 years, we have been introducing models and tools that bring more transparency to capital markets and help financial decision makers analyze risk.

These innovations have also helped build revenue that is not linked to transactions — an important step in creating a diversified portfolio of products. In 2006 international revenue accounted for 39% of ratings

revenue, up from 21% in 1994. We will probably by 2010, 2011 be somewhere around 50% mark. Tools, models, and non-bond ratings for bank loans, counterparties, and other instruments accounted for 24% of ratings revenue last year, up from only 8% in 1994.

In short, there are many contributors to our performance. That diversity will continue to be a source of strength and inform our view on the outlook for this segment.

As we entered the second quarter, we said the pipeline looked very good to us. Obviously it still does and it is strengthening, so let's spend a moment reviewing the current situation in some detail. The pipeline, again, still looks very good to us and we expect very good growth in both U.S. and international markets.

In U.S. corporates, fundamentals remain sound and more debt issuance is on the way spurred by investors eager to put funds to work. There is also a healthy amount of debt about to mature. With the Federal Reserve maintaining rates, finance companies remain active. Attractive financing conditions, merger and acquisition activity, balance sheet restructuring are all contributors to activity in this market.

The public finance market is off to a good start in the second quarter. Momentum in new money issuance shows no sign of let up and refundings continue to look strong as well.

We expect continued strength in the global structured finance market, although not in all asset classes. We started this year by forecasting a 10% – 15% decline in the dollar volume issuance of U.S. residential mortgage-backed securities. Issuance was off 11% in the first quarter and will be off again in the second quarter, primarily due to a slowdown in the sub-prime market.

The pipeline for commercial mortgage-backed securities looks very good in both the U.S. and Europe. As you know that started in 2005 and it has continued at a very rapid rate.

The asset backed securities market looks very good in Europe, but somewhat softer in the U.S. where comparisons are a little bit more difficult because of a strong second quarter last year.

The market for collateralized debt obligations, CDOs, looks robust, although not at first quarter levels when new issuance dollar volume in the U.S. soared 154%. The U.S. and Europe will both contribute to the growth in the second quarter.

We continue to strengthen our data and information lineup. Earlier this month, we acquired ClariFI, a leading provider of software and services focused on the quantitative portfolio management and research function. We have been very successful in providing fundamental research solutions through Capital IQ products. Now with ClariFI, we can begin targeting quantitatively-oriented investment managers with portfolio analytics and risk management solutions.

In the meantime, our Capital IQ products continue to grow rapidly. The client base now approaches 2,000 — nearly triple since the acquisition in 2004 — and that has been the strategy to continue that customer ramp up. We continue to strengthen the product line, adding major new content sets and functionality, including real-time quotes and news and S&P ratings and research. In the last two years, Capital IQ has increased global coverage of public companies. Coverage today represents more than 97% of the world's market capitalization and will shortly approach 100%. These globalized content sets are helping to produce increased international sales.

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In the growing digital marketplace, we are finding new ways to leverage our products and services. We recently combined Capital IQ data with *BusinessWeek.com* to launch a new Company Insight Center. I will talk more about that successful collaboration in just a moment.

Later this year, we plan to introduce Capital IQ information on mobile devices.

We are continuing to expand our index services and products. Our goal is to provide an index for every type of investment.

The recent acquisition of Goldman Sachs commodity indices is the equivalent of owning the S&P 500 in an important new market. We've branded this index the S&P GSCI. We've got an excellent response to the acquisition. This will be another winner for us.

We are also seeing increases in assets under management in exchange-traded funds and more trading volume in derivatives all based on S&P indices.

Finally, a word about the regulatory environment. Since September 2006, we've seen the President sign into law the Credit Rating Agency Reform Act and the Securities and Exchange Commission adopt rules to implement provisions. The new rules will be implemented on June 26th and require a rating agency to apply to the SEC for registration as a Nationally Recognized Statistical Rating Organization, NRSRO.

It has been quite a journey, but we feel positive about the outcome. There are some important reasons for making that assertion:

- First, the SEC has not been injected into the analytical process or methodology that credit agencies use to arrive at their opinions.
- Second, the new law does not diminish our rights, including First Amendment protection that S&P already possesses under applicable laws.
- Third, new firms who register to become NRSROs must provide evidence that capital market participants regard them as issuers of quality credit opinions.
- Fourth, the law pre-empts regulation by individual states — very important.

I will comment briefly on the new regulations.

S&P will be reviewing the new rules when they are published. Based upon comments at the SEC's public hearing last week and discussions with the SEC staff, S&P already believes that, in general, the final rules are narrowly tailored to achieve Congress' and the SEC's intentions not to get involved in the ratings process and methodology. The new rules also meet other S&P concerns:

- Limiting the scope of record keeping by employees,
- About not mandating standardized performance statistics, and
- Maintaining the privacy of personal data on individual analysts.

So summing up for Financial Services:

- The pipeline looks good.
- More double-digit growth and margin expansion for the balance of the year, although probably not at the exceptional rate of growth produced in the first quarter.

Information & Media

Finally, let's review the outlook for the Information & Media. In this segment, we are focused on adding value for our customers as the Internet reshapes the business-to-business market.

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Consider Sweets. We're benefiting this year from transformation of Sweets from a primarily print catalog to a bundled print-and-online service for the construction industry. As a result of the change, Sweets' revenue is earned now throughout the year. Sweets contributed \$6.5 million in revenue and \$5.8 million in operating profit in the first quarter and will do so again in the second quarter.

In the latest move to add value to the Sweets network, we have started offering our clients access to three dimensional models of computer-aided design drawings through a partnership with Google SketchUp. By using 3D models from Sweets, architects will be able to integrate specific building products early in the conceptual design phases, making it easier to convey their vision to clients. The new service also saves the architects valuable time by allowing them to link directly to a product's Web page at Sweets.com for more details and download computer-aided drawings and three-part specifications.

Earlier in this presentation, I mentioned that *BusinessWeek* and Capital IQ reached across segment lines to create a powerful new digital service, the Company Insight Center, which is now available on *BusinessWeek.com*. In the information packets we are distributing at this meeting, we've included a reprint from *BusinessWeek* with a great deal of information about this online innovation. You can get to the site by logging on to www.BusinessWeek.com and clicking on the tab for Companies.

By combining the resources of Capital IQ and *BusinessWeek*, we believe the new Company Insight Center will build traffic and increase advertising. The offering is rich and deep. There is information on 42,000 active public companies in the U.S. and abroad. On each company, you'll find up to 33 pages of data, charts, profiles, and news stories. There is also information on 320,000 private companies, and more.

It's early days, but the Company Insight Center has created a surge in traffic and is pulling in viewers from Europe and Asia so the global momentum we had hoped to achieve is starting to build. We also are seeing at this early stage hundreds of bloggers linked to the site. A very promising start.

And speaking of brand recognition, we continue to be encouraged by the growth of the marketing information services and syndicated research studies by J.D. Power and Associates. J.D. Power and Associates is one of the most widely-recognized brand names in the United States. Based on studies last year, 81% of U.S. consumers are aware of the J.D. Power and Associates brand name.

We get a powerful assist from advertising by companies who win J.D. Power and Associates awards of excellence for quality and customer satisfaction. In 2006, these winning companies funded 10.6 billion print ad impressions — 10.6 billion print ad impressions, unheard of — and more than 354,000 TV commercials in the U.S. to feature their J.D. Power and Associates "Voice of the Customer" award.

In the energy market, our news and pricing products continue to attract new customers who want to track the fluctuations in world oil production and prices — petrochemicals, metals, etc. We are also finding new ways to expand in the energy market by licensing our intellectual property for use in broad financial and futures markets. The most recent example is the selection of one our benchmarks, Platts' Dubai price assessments, as the basis for cash settlements on a new crude oil futures contract that will be traded on the Intercontinental Exchange.

The outlook for advertising at *BusinessWeek* and Broadcasting remains soft. It's a non-political year for Broadcasting and after 21 issues *BusinessWeek's* ad page count is down about 10%.

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So summing up for Information & Media:

- More progress in the digital transformation of businesses in this segment,
- A softer year so far in advertising,
- Growth in online services, and
- Margin expansion.

And summing up for the Corporation overall:

- A good year in Education is starting to take shape,
- More growth in Financial Services,
- Progress in Information & Media as the shift away from advertising continues into the business-to-business digital formats,
- Margin expansion in all three segments, and
- Double-digit earnings growth for The McGraw-Hill Companies in 2007.

Thank you, and now I will be pleased to answer any questions you may have about our prospects.

“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, tax rates, 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, prepublication, 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.