

NAA's Mid-Year Media Review

Prepared Remarks
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Harold McGraw III

Chairman, President and CEO
The McGraw-Hill Companies

Good afternoon.

I am Terry McGraw, the Chairman and Chief Executive Officer of The McGraw-Hill Companies. I'm delighted to be here.

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.

We are pleased to be here to discuss our prospects with you. With me today are Bill Oldsey, Executive Vice President for McGraw-Hill Education's School Education Group. He runs all of our elementary, middle, and secondary school operations — the elementary/high school operations. And Vickie Tillman, Executive Vice President, Standard & Poor's. She's the head of Credit Market Services, which is our credit rating business.

We know there is a lot of interest in developments in the very important adoptions associated with the elementary-high school market, so I have asked Bill Oldsey to review the current outlook for McGraw-Hill's School Education Group. He has been in charge of this operation since 2003. Bill brings 28 years of industry experience to his position.

No presentation would be complete without a report on the progress at Standard & Poor's credit market services, so I've asked Vickie to bring you up-to-date on the ratings market. She joined Standard & Poor's in 1977 and has been in charge of credit market services since 1999.

I will begin this afternoon's presentation with a brief overview of corporate prospects. We will then hear from Bill and Vickie and I will wrap it up. Once the presentations are completed, we will be pleased to answer any questions you may have about The McGraw-Hill Companies.

Let's start by reaffirming our guidance for 2007. We expect double-digit earnings growth for The McGraw-Hill Companies in 2007. We expect margin expansion in all three segments.

Our year got off to a great start following a very promising start in McGraw-Hill Education and a very strong first quarter in Financial Services. We said there will be more double-digit growth and margin

expansion through the balance of the year in the Financial Services segment, although probably not at the exceptional rate of growth produced in the first quarter. I am pleased today to reaffirm that guidance, as well.

There are many reasons for our optimism. First, economic conditions remain quite favorable. The new Fiscal Survey of States, which was released earlier this month, reports that state economies are in fine shape. Booming local economies and higher than expected tax collections are producing budget surpluses in 27 states and on-target performances in 14 states. It's been a long time since we've seen that kind of condition. According to the Survey, most states expect reasonable revenue growth and a steady fiscal 2008, which starts in July for 46 states. That certainly bodes well for education which is basically a state responsibility.

David Wyss, our chief economist at Standard & Poor's, expects real U.S. Gross Domestic Product to grow at 2.2% this year. Consensus is about 2.3% and the range goes up to about 2.9%. He recently concluded that GDP growth of 2.2%, an unemployment rate of 4.5%, and core consumer price inflation at 2.2% is not a bad combination. And even though we've seen some spikes in interest rates, we are still operating in a low interest rate environment with little likelihood of a rate cut this year by the Federal Reserve. David does not expect the Fed to cut rates until early 2008, but his direction is that the next movement will be down.

Our second reason for optimism is the favorable trends that will contribute to future growth. The McGraw-Hill Companies is focused on education, finance and information, which have all increased significantly as a share of the U.S. economy over the last 15 years. The growth in these sectors — essential to U.S. and global competitiveness — are creating new opportunities for us now and will continue in the future.

Consider:

- The worldwide demand for capital...
- The need for education in a knowledge economy...
- The new opportunities to connect professionals with essential information for better decision making — all reasons why we believe the world is going our way.

The third reason for optimism is the convergence of content and technology, which is transforming the world of information. We are finding new ways to monetize content and improve operating efficiency.

Digital asset management is a key to improving operating leverage. You will hear more about that later in the presentation. We are also using technology to create new products and services. We will have more to say about those developments as well.

Management's goal is to continue to advance total shareholder value. Outperforming the S&P 500 has been a hallmark of our 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 through 2006 has averaged 21.5% annually. Since 1996, the Corporation has returned \$6.8 billion to shareholders through cash dividends and share buybacks including more than \$915 million in the first quarter of 2007. 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%.

The McGraw-Hill Companies

In the first quarter of this year, we bought back 13.2 million shares at an average price of \$63.81. In April, the Board of Directors approved plans to purchase another 15 million shares this year, so our target for 2007 is now to buy up to 30 million shares, depending upon market conditions. In 2006, we bought back 28.4 million shares at an average price of \$54.23.

With that background, let's now take a closer look at our opportunities.

McGraw-Hill Education

We will begin with McGraw-Hill Education. About 53% of this segment's revenue last year was produced by the McGraw-Hill School Education Group.

Let's hear from Bill Oldsey about the School Education's Group's prospects for 2007 and for the years ahead.

William Oldsey

Executive Vice President, School Education Group
The McGraw-Hill Companies

Thank you Terry. I'm very pleased to be here with all of you today to speak briefly about our K-12 businesses. 2007, as Terry said, is off to a very promising start. We're encouraged by our performance over the first five months and we're very optimistic as well about the K-12 market moving into the future over the next several years.

As you can see from this first chart the major state adoption market picture is really a very healthy one. We're entering a major cycle for reading, mathematics, and science adoptions in some of the largest enrollment states that we deal with. And we have a very broad portfolio of products and services in those areas so we're very well positioned to take advantage of these opportunities in the big state adoptions.

By the way, we're only showing a three-year snapshot in this slide. We could have easily added a fourth year, and 2010 is shaping up as a very, very large state adoption year as well. So this is really a very rosy picture. 2010 actually includes a Florida mathematics adoption, a Texas reading adoption, and I believe a North Carolina social studies adoption, just to name a few. It's really a very good picture in the state adoptions as we move forward.

We formed our new pre-K through 12 core instructional group last September. We call it School Solutions Group. It's essentially a combination of what was Macmillan and Glencoe and we're very, very pleased with this new organization for the first ten months of its existence. Our K-12 market really has begun to focus very holistically on pre-K through 12 instruction. The bulls-eye, or the sweet spot, for our public schools is to produce a high school graduate who is ready for the workplace, has the academic skills to be competitive, and is ready for the workplace or college experience. We find many more school districts are thinking about mathematics education leading to algebraic confidence, or reading and literacy education leading to academic literacy. And we did our reorganization of School Solutions Group very much to parallel the changes that we saw in the market.

We've established four Centers of Excellence where all of our product development takes place. These are discipline-specific product development centers, pre-K through 12, in the core areas — science, mathematics, reading, social studies. And we've gotten already the first effects of that much more comprehensive pre-K through 12 thinking about products that are much more vertically integrated.

We've also realigned our sales and marketing functions as we formed School Solutions Group. We've already measured enhanced customer service as a result of that and we've gotten improved penetration in some of the key adoption states as a result of it as well.

In addition to those changes, when we put together School Solutions Group, we also combined all our finance, administration, and back-office operations. We pulled costs out of this business and we've improved the efficiencies of the business, so we're very pleased with that.

Like many other markets, there's an undeniable movement toward a digital transformation in K-12 education; we're no exception. And we're responding to that transformation in some very exciting and very effective ways, both at School Solutions Group and also at McGraw-Hill Learning Group, which is the other major business unit within our K-12 group of companies.

We're addressing this digital transformation not just with new products and services, but also the kinds of technology tools that our product development people are using to produce our programs is changing. One of the key metrics that we're looking at right now in the digital transformation is the ratio of desktop computers or laptop computers to students within the public schools in the United States. As you can see from this chart, the metric has dropped pretty precipitously over the six or seven year period here. We're down to under four students for every computer now in the public schools in the United States, and we believe that over time we're going to move to a 1:1 ratio or something very close to it.

There are some other key factors that we certainly take into account as our schools modernize. Bandwidth capacity is a big issue for our schools right now, and it's not unlike the issue that we all face with home use and the Internet, sort of the "last mile" concept. Many schools still face a lot of challenges in terms of how they handle streaming video into the school buildings. Any rich media content, any large digital files that are moving on a school system, because of the limited bandwidth a lot of our schools are still dealing with, those kinds of things can cripple a school system's information and technology system fairly quickly, so we're watching that bandwidth metric very carefully. A lot of school districts are making improvements in terms of their bandwidth and their capacity but they still have a way to go.

The other issue for a lot of school districts is the total cost of ownership of hardware and software. You may have read some articles fairly recently about school districts that are now very close to a 1:1 computer to student ratio who have backed off some on that position for a couple of reasons, not the least of which is total cost of ownership of all that hardware and software. School districts have to come to grips with how expensive that can get. They've also measured very carefully how technology in the hands of students is driving student performance and increasing test scores; and there's been some mixed results as far as that goes.

Last, but not least, is IT support. We're showing here some data from Henrico County, Virginia, which is a very technologically advanced school district. Right now, they have an IT support ratio of one IT specialist for every 800 students in the school district. Most corporations in the United States aim for a ratio of about 1:100, one tech support for every 100 employees. So again, even a county school system like Henrico, which has done some great things with technology, has some issues in terms of that ratio as well.

Moving on, as we consider this digital transformation, not all of our K-12 students have open access to technology. What we do know, though, is that almost 100% of our teachers and administrators do have access to technology and they do use it during the school day. We're producing a number of really very exciting new tools for teachers that focus on two things: increasing their classroom productivity and

helping them drive student performance. And one of the rules that we have about producing technology-based products is that if it doesn't do one of those two things, we probably ought not to spend a lot of time or money developing it.

We produce online professional development content for pre-K through 12 that allows teachers to do professional development work 24/7 anywhere, any location. All of our teacher's editions for our core programs now have electronic versions so the teacher can do lesson planning preparation anywhere, any time. *Teacher Works* is our comprehensive electronic course management system. It has a vast array of teacher productivity tools that a teacher can use, again, anywhere, any time.

One of the things we're most excited about right now is our new interactive teacher's editions which we're producing for some of our new core programs. One of the things that is incorporated into these new interactive teacher's editions is streaming video that focuses on professional development. For instance, a teacher in a fourth grade classroom is teaching fractions and is dealing with a very tough topic for kids, like lowest common denominator. The teacher has taught the concept once or twice and realizes that she's only reaching about half her students. Using our interactive teacher's edition's drop down menu, "Would you like to see other methods for teaching lowest common denominator?" The teacher clicks "yes." Six more methods in addition to the one the teacher has already used appear. "Would you like to see one of these?" "Which one?" The teacher chooses one and plays twenty-five seconds of a master teacher also teaching lowest common denominator but teaching it using another methodology. So this is a teachable moment. The teacher is using this tool right in front of her class. Now she has another approach to take with lowest common denominator, takes a shot at teaching the concept that way, and one would hope gathers more kids into understanding the concept so she can move on. These are the kinds of things that we're working very hard on. And in focused testing and in other areas, we're getting very good results and very good reactions from our customers. Again, it's about teacher productivity and it's about driving that all important student performance.

We're currently producing a lot of online student editions for every basal program that we do as well. Middle school and high school, pretty much every pupil edition that we have is now electronic, and many of our elementary programs, the books, are also available in electronic format.

We have an array of products called *Student Works* which is an interactive student ancillary that has practice quizzes, activities, active learning exercises, and homework help both online and in CD-ROM format. These are aimed at student performance as well, but it's also a big convenience factor for a lot of our students, especially our middle school and high school students who are taking home lots of books — that whole backpack weight issue that we've all read about. A lot of these tools are either online or on CD-ROM or some sort of intermediate format so students don't have to carry quite as much home.

The other thing we've been doing with a lot of the student content is making it available for MP3 players, iPods, whatever format the students are using. We find that students — especially high school and middle school students — are reacting very, very well to having this kind of information on those devices.

Intervention is a big part of our market right now. When we talk about intervention in K-12 we're really talking about students who are two grade levels or more behind where they should be, usually in reading and mathematics. And what we've found out about technology products is that to level the playing field for those at-risk students, technology-based products are a great way to do that because often you're dealing with different kinds of learning styles with these students. We've produced a number of different intervention programs: *Jamestown Reading Navigator*, *Reading Triumphs*, *Number Worlds*. We just came

out with a new mathematics intervention program called *Pinpoint Math* which is a combination of our CTB *Acuity* formative assessment and content from our *Everyday Mathematics* K–5 math product line. We're very excited about that collaboration.

I mentioned new technology tools that we're using internally as well. We have invested in all of our K–12 businesses in new cutting edge products that give us greater speed-to-market with our major programs. We're using them to bring these programs to market at a lower cost as well. If you're a program editor, designer, or production editor working in any of our education facilities now, you're using the Adobe suite of creative tools to produce all McGraw-Hill content. We've also implemented a brand new state-of-the-art workflow management system called K4 which allows us to move very, very large digitized files in any of the content that we're building very quickly in house. It eliminates versioning problems and problems that can lead to errors in programs. It also allows us to move these big digital files of content out of house to off-shore vendors and off-shore partners as we produce the programs. We're very excited about that.

The really important thing about these tools in my mind is that when I talk to all of our folks in our publishing centers, what they say is, "I'm more productive. These tools are making me better at what I do. I'm more engaged. I feel better about the process because we've invested in these tools." So it's been a terrific move for us.

Let's shift gears a bit now and take a quick look at the way the overall K–12 market at large shapes up for the year. So far, pretty much as we expected. Strong adoption states calendar, between \$750 and \$800 million in size and we're participating in 97% of those adoptions. We think the state adoption market will grow 10% to 15% year over year. We expect to outpace the market.

We still expect the open territory market to grow to around 4% year over year. There are some AAP numbers that have come out that show some slowness in the first quarter in the open territory, but April was a very strong month for us and we have some momentum going in the open territories now. We still think the industry growth will probably be around 4% in open territory year over year and we think we'll do better. Overall, combining open territory and state adoptions, supplemental sales and core basal sales, we expect the overall K–12 market to grow in the 5% to 7% range, and we think our growth will be even higher.

Now on to some specifics on exactly how we're doing. Almost all of our early signs are really quite positive. As I said earlier, our newly-combined core instruction unit, School Solutions Group, is driving some very promising results in the state adoption campaigns in 2007.

California and South Carolina have K–8 science adoptions going on; we're currently leading in both of those states. Our K–5 results in California are very strong and that's the single largest elementary adoption of the year this year. We're very proud of the early results there.

Indiana and Tennessee are the two big reading states this year. We're leading in Indiana and we're battling it out for the number one spot in Tennessee. In both of those states we expect market share in excess of 35%.

Texas is the key mathematics state this year. We're doing very, very well in the largest part of that market, which is the middle school market, 6–8. There we think our take of the market share will approach 40%. And that's a very important market for us this year, middle school math, because next year as some of you

know is the K–5 math call in Texas, and the relationship between what happens in 6-8 and what happens in K–5 in Texas is always a very strong one. So we're pleased with that result.

And there are six states calling music. Music is a very important market to us and has been for a long, long time. Six states are calling music, we are leading every single state adoption in music; all six. And in North Carolina, which is the largest spend on music, we're right now showing market share between 70% and 80%.

So in summary, based on the results thus far, we expect to finish first and lead the overall K–12 state adoption market for 2007. It's always a little tougher to call open territory, especially at this time of year because a lot happens in June, July, and August in open territory before we really know how it pans out. We've had a real strong publishing plan this year for open territory. We have a good number of large district wins already in the open territory states. We've listed just a few open territory wins here that are sort of multi-million dollar wins, very important to us. We also have the advantage of our two leading alternative basal programs coming out in new editions this year — both *Open Court Reading* and *Everyday Mathematics* are out in new editions and those products are very popular in the open territory. It's still too early to call but we believe the open territory market growth for the industry will be about 4% year over year; that still looks reasonable to us and we will do better than the market.

In summary, our pre-K–12 core instruction integration, School Solutions Group, has gone exceedingly well; we're very, very pleased with the results so far. The preliminary forecast for 2007 state adoption campaigns is really quite positive; we have many market leading performances there. Open territory, a little more difficult as I just said, but we have strong new open territory products and we've closed some very large wins in New York City, Washington D.C., and Seattle.

Our reform programs, *Everyday Mathematics* and *Open Court Reading*, are getting terrific results. You may have read the newspaper articles in the last couple weeks about New York City's math scores and how well they've done. *Everyday Mathematics* is the elementary program and *Impact Math* is the middle school program that New York City uses. Those are both our programs and we couldn't be more pleased for the city, but that bodes well for us when we take those programs into other major urban markets.

The adoption states market is growing right through the end of the decade. 2009 is that big \$950 million year and we're really eager to be successful there, so steady growth each year in the adoption states market right through 2009.

We're very confident in our technology strategy as I outlined it for you a little bit ago, and our K–12 markets continue to gradually move toward a digitized classroom environment. We think we're doing all the right things to get prepared for that.

And at this point we feel great confidence for the 2007 results and the future years look very bright as well.

So I think now it's time for me to turn it back over to Terry.

Harold McGraw III

Chairman, President and CEO
The McGraw-Hill Companies

Thank you, Bill.

I think the good thing here and one of the takeaways is that it's been five years since No Child Left Behind has really gotten baked into the system at both the state and federal levels and they are both dealing quite well with No Child Left Behind. Most of No Child Left Behind originally focused on urban and early childhood. We now know that the problems in the middle school and at the high school level in terms of drop out rates and so forth is where the intervention and remedial programs are coming in.

Bill was talking about *Teacher Works* and *Student Works* and the use of technology to be able to automate and get a lot of content to these people. There are some 3.2 million K–12 teachers in this country, of which about 2 million are going to turn over in the next five to seven years. Everything that can be done in terms of making the teacher's work easier, while at the same time training and developing them, is what we're doing.

Clearly we're off to a very good start in el-hi and we're very pleased. We'll be getting harder numbers in terms of some of the capture rates over the next month.

We also expect to outperform the industry in the U.S. college and university market, which will grow by about 4% this year. And again, we plan to outperform that. We are off to a good start in this market, but the third quarter remains the crucial period. That's why we call July and August the "60-day month" in this business.

We expect to benefit this year from the success of our traditional front-list titles and from new digital products and media-enhanced editions. Access to high-speed Internet is now virtually universal in U.S. higher education, providing opportunities for a new generation of products that can improve course management for instructors as well as enhance the learning experience for students.

Our initiatives include:

- Online courses with streaming video, animation, and personalized assessment.
- Mobile resources which deliver student study materials to iPods and compatible MP3 devices.
- eBooks online for students and instructors.
- Digital homework services, which enable students to complete and submit homework online. These programs automatically grade homework and enter results into the instructor's digital grade book.
- Instructor source materials, which at considerable savings, are now delivered as digital products instead of print.

The effective application of technology can improve sales for older titles in traditional disciplines. The 18th edition of Wild's *Fundamental Accounting Principles* is winning new adoptions this year because of media enhancements. 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. By marrying content and technology, we are giving students new flexibility in studying when and where it is most convenient for them.

In professional markets, we are continuing to expand our lineup of real-time, subscription-based digital medical solutions. We recently introduced our third specialty vertical *Access Pharmacy*. We already offer *Access Surgery* and *Access Emergency Medicine*. There is also *Harrison's Practice*, a point-of-care desktop and mobile clinical resource for physicians.

We started leveraging the global aspect of this a few years ago with *Access Medicine*. It now has subscribers in more than 42 countries and virtually all U.S. medical schools.

Our growing digital family also includes the *Digital Engineering Library*, which provides access to more than 200 of our engineering titles, and *Access Science*, which is winning adoptions globally, including the Council of Australian University Libraries, the Hong Kong Public Library, and The Danish National Library Authority.

In the new *Investor Fact Book*, which we are distributing at today's meeting, we have diagramed how technology is changing our marketplace and creating a new business model. The emerging model is dynamic, interactive, and global. And that's the model for the new products I have just described. Our new approach is very different than it has been in the past. Today, it is about connecting content, digital assets, and talent across the organization on a global scale to create new revenue streams.

Digital asset management is also a key to improving our operating leverage. With digital workflow systems, we are replacing the traditional step-by-step linear processes. Today, real-time access to the editorial, design, and production cycle saves time and streamlines management of content.

Transmitting digits instead of shipping manuscripts is also a key to optimizing low-cost solutions with vendors around the world. Clearly, the emerging model is key to our future.

So summing up for the McGraw-Hill Education segment:

- We expect to outperform the el-hi market, which will grow 5% to 7%.
- 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 improving operating leverage and developing new products for incremental revenue.

Financial Services

Now, let's turn to Financial Services.

Growing capital markets around the world continue to stimulate demand for Standard & Poor's ratings, data, information, indices, as well as other products and services. As we said earlier, the year got off to an exceptional start in Financial Services.

Let's hear now from Vickie Tillman about the prospects and current outlook for S&P and the rest of the year.

Vickie Tillman

Executive Vice President, Standard & Poor's
The McGraw-Hill Companies

Thank you, Terry.

As Terry said, we got out of the box pretty fast in the first quarter. We feel pretty positive about the growth for the remainder of the year as well, although we do believe that there won't be the comparisons year on year and the latter half of the year may be more difficult because of the strong growth we saw in 2006.

The global credit markets continue to grow, and the environment remains positive. We are more global than ever before, and our strong growth prospects continue in the international markets. Foreign source revenue at Financial Services has produced a 10-year CAGR of 18.9%. Our diversified offerings have expanded significantly over the last few years, and they contribute to the sustainability of our performance while reducing dependency on any single product or asset class. I'll address the regulatory environment toward the end of my remarks, but we generally feel pretty positive about the outcome of the SEC, especially since their stance does not intrude on the credit ratings process, and it does accommodate the law by not diminishing our rights in any way.

There are a number of factors that support our view that the growth in ratings will continue through 2007. Let me talk specifically about structured finance, which continues to experience strong growth in all major markets and in all major asset classes. Very importantly, our diversification efforts aimed at growing revenues from products and services that are not tied to interest rate sensitive transactions are making great headway, and are making positive contributions to the 2007 performance.

Looking ahead, structured finance and corporate issuance will offset the expected declining rates and challenging year on year comparisons for the U.S. residential mortgage-backed securities market and some CDO (collateralized debt obligation) softness in the second half of the year.

The trends of globalization, securitization, and disintermediation continue to be solid drivers of growth, and even where there is not disintermediation in the banking industry — and we do believe that in Europe and in Asia the banks still will play a major role in both of those markets — we are now producing products and services to service that market specifically.

We have an expanding array of products and services to meet all the financial needs of the marketplaces, and we've come a long way from the days where they were plain vanilla corporate bonds and municipal bonds.

Our first quarter results underscored how Standard & Poor's growing geographic and product diversification has served us well. Now, I'd like to give you some perspective on that diversification in order to reduce our dependency on transaction-based ratings which remains a key objective for credit market services.

In the last ten years, we have been introducing models and tools that bring more transparency to the capital markets, and help financial decision makers analyze risk. These innovations have also helped build revenue that is not linked to transactions or market swings, and is an important step in creating a diversified portfolio of products and services.

Our non-traditional products and services, as this slide shows, have seen solid growth and generally accounts for more than 20% of the ratings and ratings-related revenue versus 1994 when it was only 6%. Some of these include bank loan, counterparty, and financial strength ratings as well as rating evaluation services, which are benefiting from the up-tick in the mergers and acquisitions market. These products leverage our analytical intelligence and our competitive intelligence.

Non-transaction based products, as well as reoccurring fee structures, account for approximately half of our revenues. Some of these include annual relationship fees, which serve to smooth out the revenue stream through the quarters; products such as risk management, which are billed on renewable subscription fees; and finally, the demand across global markets for our offerings, which has been robust. International ratings produced nearly 40% of the revenues, up from 21% 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 and makes us feel very confident for the outlook of our markets.

As you can see from this slide, growth has been driven by us helping clients identify, measure, and manage credit risk across the value chain in a transaction. As clients seek to identify, measure, and manage this risk, they are looking for tools beyond a pure rating. Today, Standard & Poor's has an extensive lineup of products for both the pre-issuance and post-issuance aspects of the marketplace. Before issuance, clients can access real-time, Web-based services for insight into how Standard & Poor's analysts rate, what our methodologies are, practices and benchmarks, and they can use our models and tools to evaluate the risk of their own portfolios.

Following issuance, S&P also offers products and services for monitoring the risk that they've taken on, for getting regulatory updates on the leveraged loan market, and using our recently expanded recovery ratings, which you may have seen released late last week. Some of the products in this area are *Ratings Direct*, ratings evaluation services, and the CDO suite of products — which are CDO data, models, and analytical tools which associate the risk associated with collateral debt obligation, which you may have read a lot about over the past couple months.

But as the capital markets have increasingly become global, so has Standard & Poor's. S&P ratings opened its first office in London in 1984. We started with three people in London. A year later, we opened our office in Japan, and just look at the map. International expansion picked up in the '90s and S&P built a global network. Today, it 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 our global footprint to that area as well. Recently, for example, Standard & Poor's announced that it would be opening offices in South Africa as well as Dubai. I'd like to reiterate that beyond global expansion, we are also introducing models and tools that bring transparency to the capital markets; so it's just not the penetration of the ratings business, it's penetration of the models and tools that allow our users, allow the market participants, to truly identify the risk that they put on their books.

In short, there are many contributions to our performance. That diversity will continue to be a source of our strength and inform our view of the outlook for this segment. And I would suggest that diversification will continue as the market becomes more sophisticated and more complex.

Looking forward, the pipeline still looks pretty 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, which is spurred by investors eager to put their funds to work. There's also a healthy amount of debt about to mature, so refinancings will take place.

With the Federal Reserve maintaining rates, finance companies remain pretty active in the marketplace. Attractive financing conditions, mergers and acquisitions activity, and balance sheet restructuring are all contributing to the activity within the financial markets.

Public finance is off to a good start, as well as doing well in the second quarter. Momentum for new money issuance and refinancing show no signs of letting up. However, in the event that rates do creep up any further, that will affect refinancing but right now we feel very confident about it in our public finance area.

So again, we expect strong growth in global structured finance markets across all asset classes. We also expect strong growth in our corporate market, as well as a good rebound in our public finance arena.

Let me talk a little bit about the residential mortgage-backed market which has been getting a lot of attention of late. We started this year by forecasting that we were going to be down about 10% to 15% in terms of dollar volume increases in the U.S. residential mortgage-backed market. Issuance thus far has been off primarily due to a slowdown in the subprime area, again which has been a headliner for a while. But the interesting statistic is that it's up 15% so far in the second quarter.

As you are aware, the subprime residential mortgage market is attracting considerable attention amid mounting delinquencies and defaults. Standard & Poor's took decisive action in 2006 by increasing the loss expectation and required additional support in the transactions to address issues that we saw in the marketplace. Subprime that originated in 2006 — this is a class of transactions that were sold in the year 2006 with mortgages that were originated there — are having the most difficulty. Subprime issuance has been a significant and increasing component of the mortgage lending market over the last two years. Numerous subprime lenders are facing financial difficulties, while larger, more diversified firms have also been experiencing some of the pinch. Subprime downgrades will continue increasing, especially in the 2006 vintage. And again, when we talk about the 2006 vintage, these are the mortgages that were originated in 2006.

Our global commercial-backed mortgages group and the issuance is doing very well thus far. Issuance for the second quarter is up 51%. The pipeline remains firm by par amount for the remainder of the quarter, but the number of deals is projected to be lower because the size of the average deal is getting larger. We are also seeing CDOs of commercial real estate. Issuers are anticipated to stay on the sidelines, however, in the hopes that the spreads start tightening. CDOs are very much dependent, in terms of their economics, on the spreads in the marketplace — that's why they're sitting on the sidelines right now.

Investor demand, however, remains strong, as do commercial origination trends. Improved real estate fundamentals, along with a stable U.S. economy, have sustained strong CMBS performance vis-a-vis other fixed income asset classes, and I would suggest that that's not just within the U.S. but in the European markets as well.

Growth forecasts for 2007 are positive and driven by historically low interest rates, the refinancing of mature deals in the commercial mortgage sector, and recent real estate M&A activity that's taking place.



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Indicators for CMBS continue to remain positive as there is a strong investor demand for this paper. And again, part of the reason is that the yield on the 10-year Treasury note was flat for the month of May. Although that gives it a much more stabilized view in terms of the issuance, we expect that that will eventually come back.

Private non-residential construction was \$335 billion in April; 2% higher than a downwardly revised March figure and 16% higher than the prior year. Commercial and multi-family mortgage bankers and loan originators in Q1 2007 were 37% higher than the first quarter of 2006.

Let me move over to the asset-backed area. The primary drivers and businesses remain strong — primarily the credit card and student loan sectors. Quarter to date, global asset-backed securities are up 14%. Credit cards accounted for about 25% of that issuance. Student loans were about 33%, and credit cards are being driven by borrowers transitioning from home equity loans to student loans on the higher enrollment rates and rising tuition costs.

I talked a little bit about the CDO area, but let me move forward to the regulatory outlook, which I know has been very important to everybody who's been looking around the rating agencies.

Right now, the word I would put around the regulatory outlook is "stable." Since September 2006, we've seen the Credit Rating Agency Reform Act signed into law and the Securities and Exchange commissioner adopt rules to implement the provisions; a document that runs almost 300 pages. The new rules will be effective as of June 26, 2007 and require a rating agency that wants to be a Nationally Recognized Statistical Rating Organization, or an NRSRO, to register with the SEC.

It has been quite a long journey in terms of the SEC and Congress, and there have been some important reasons to feel positive about what has happened. First, the SEC has not been injected into the analytical process or methodologies that credit agencies use in arriving at their opinions — the independence remains. Second, the new law does not diminish our rights, including our First Amendment protection that S&P already possesses under the applicable laws. Third, new firms who register to become NRSROs must provide evidence that the capital market regards their participation as quality opinions. And fourth, the law pre-empts regulation by individual states; thus it will be a homogenous state-by-state approach.

I want to thank you very much for the opportunity to give you an overview of Financial Services. Again, we feel very positive about the outlook for the year. Thank you.

Harold McGraw III

Chairman, President and CEO
The McGraw-Hill Companies

Thank you, Vickie.

In terms of the overall economy, it's doing quite well and we're reflecting that in a lot of different ways. The housing market is going through a recession. The big issue there is that everybody has been watching for the spillover effect. There has been no spillover effect, and it was nice to see Chairman Bernanke making the same kind of comments and conditions. We're looking at starts bottoming out, probably some time this summer; prices bottoming out, probably towards the end of the year; and losses, you'll see into

2008 and toward the end of the year. So we're getting toward the end of this, and without the spillover effect, it has been a well-managed — especially by the Fed.

We see continued growth in S&P index services. At the end of May, there was \$180.2 billion in assets under management in exchange-traded funds based on S&P indexes. That's a 24.8% year-over-year increase in assets under management.

Our goal is to provide an index for every type of investment.

We moved into residential real estate last year with the S&P/Case Shiller index. We moved into the commodities market with the acquisition of indices from Goldman Sachs, which has been branded the S&P GSCI index. This is the S&P 500 of the commodities market.

We are continuing to add to our family of indices. For example, three new exchange-traded funds based on our thematic indexes were launched in May. We recently introduced the S&P Global Challenger index, an investable, geographically diversified basket of 40 mid-size companies that demonstrate the highest growth characteristics as measured by intrinsic and extrinsic growth factors. And S&P launched the S&P BRIC Shariah index, which reflects the largest and most liquid stocks in Brazil, Russia, India and China that meet the criteria of Shariah law. So just endless capabilities and endless permutations — they define high-margin businesses.

We also continue to make excellent progress with our data and information products. The client base for Capital IQ products has nearly tripled since the acquisition in 2004. There are now 2,000 customers. We just acquired ClariFi. ClariFi is a leading provider of software and services focused on the quantitative portfolio manager, and offers a lot of tools sets. We're very excited about what that's going to do with Capital IQ. It was very nice of *Barron's* to single out ClariFi's model station recently in one of their latest issues on our "cutting-edge quant software." It's another reason why we expect more success in providing fundamental research solutions.

Let's sum 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

Now, let's review the outlook for Information & Media segment.

We are in transition in this segment. We are very much focused on the transformation from print-based legacy products to electronic platforms. We call it our incubator. We want to serve readers and advertisers by providing all sorts of capabilities — news and information in text, audio, video and digital formats; data and analytics; and workflow and tools.

We are making progress in the new digital world. The first fully electronic paperless syndicated research studies have been produced by J.D. Power and Associates for the U.S banking industry. That sets a new standard of performance for J.D. Power research and establishes a new benchmark for U.S. banks. It is also a sign of our progress in expanding outside the automobile industry. Until last year, the U.S. banking industry did not have a reliable or credible third-party benchmark of customer satisfaction. It does now.

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The combination of the powerful J.D. Power brand and the availability of a diagnostic independent study of customer satisfaction has changed all that. You'll be seeing more activity — again outside the automotive area. Enlarging the brand's footprint is important, so we are pleased with this kind of product.

Building communities is an important aspect of the new digital world. The leading website for the global aviation, aerospace and defense industries is AviationWeek.com. We've just enhanced it with a new suite of business networking tools. Recently ArchitecturalRecord.com made it possible for architects to post their work on its website. The site includes blogs and a rating system that encourages readers to participate by evaluating projects that appear online and in the publication.

We reached across segment lines to create a powerful new digital service, the Company Insight Center. By combining the resources of Capital IQ and *BusinessWeek*, we believe the new Company Insight Center will build traffic on BusinessWeek.com. The offering is rich and deep with up to 33 pages of data, charts, profiles and news stories on 42,000 active public companies. There's also information on 320,000 private companies and more than 1 million executives.

We continue to add value to the Sweets' network as part of the transition from primarily a print catalog to a bundled print and online service for the construction industry. Sweets is now offering clients access to three dimensional models of computer aided design drawings through a partnership that we have with Google SketchUp.

In the energy market, our online news and pricing continue to attract new customers who want to stay current with volatile conditions. We are also finding new ways to expand in the energy market by licensing our intellectual property through numerous exchanges we work with. We produce some 8,500 pricing benchmarks on commodities every day.

The outlook for advertising however does remain soft at *BusinessWeek* and at Broadcasting. It's a non-political year for Broadcasting, at least so far, and after 24 issues, *BusinessWeek's* ad pages in its global edition are off 12.6%.

So, let's sum up for Information & Media:

- More progress in the digital transformation of this segment.
- A little softer year so far in advertising.
- Growth in online services.
- Continued margin expansion.

And therefore, for the overall company:

- A very good year in McGraw-Hill Education has taken shape. We're very, very pleased, coming off a low market last year. 2007 is very important to us.
- More growth in Financial Services and double-digit and margin expansion there.
- Progress in Information & Media.
- Margin expansion in all three of the operating segments.
- Double-digit earnings growth for The McGraw-Hill Companies in 2007.

Thank you.

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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.

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