

*The McGraw-Hill Companies*

## 3Q 2007 Earnings Call

October 18, 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

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**Donald S. Rubin**  
Senior Vice President,  
Investor Relations  
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, tax rates, cash flows, prepublication investments 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 in open territories and enrollment and demographic trends; the level of educational funding; the strength of School Education, 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 collateralized debt obligations (CDO), residential mortgage and asset-backed securities and related asset classes; 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, distribution expenses, 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 and concerns regarding the credit quality of subprime mortgages adversely impacting future debt issuances of U.S. residential mortgage backed securities and CDOs backed by subprime residential mortgages and related asset classes; 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

### On course to produce double-digit EPS growth in 2007

#### EPS

- 3Q 2007: Increased 26.4% to \$1.34 vs. \$1.06 last year
- 3Q 2006 diluted EPS included a \$0.03 restructuring charge

#### Net income

- 3Q 2007: Grew by 18.2% to \$452.0 million

#### Revenue

- 3Q 2007: Increased 9.8% to \$2.2 billion

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**McGraw-Hill Education**

**Financial Services**

**Information & Media**

## More progress at McGraw-Hill Education

### 3Q 2007 segment results

Revenue	+ 9.9% to \$1.2 billion
Operating profit	Increased by 16.1% to \$411.1 million
	- Includes pre-tax gain of \$4.1 million on divestiture of product line for parochial schools
	- 3Q 2006 had \$5.6 million pre-tax restructuring charge
Operating margin	35.0%, up from 33.1% in 3Q 2006

### Key takeaways in most important quarter of the year for Education

- Double-digit growth in elementary-high school market
- Margin expansion

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## More progress at McGraw-Hill Education in 3Q

### School Education Group

Revenue + 11.2% to \$670.8 million

### Higher Education, Professional and International Group

Revenue + 8.1% to \$505.1 million

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## How we strengthened the School Education Group

### Reorganized basal operations in 2006 to improve competitive position

- Strengthened sales, marketing and product development
- Stepped up new product introductions to take advantage of opportunities in expanding market

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## Reorganization is paying off in increased market share

### 2006: Competed for about 80% of available dollars in state new adoption market

- Took a 20% share of a \$685 million market

### 2007: Competed in virtually the entire state new adoption market which is growing 14% to 20% (\$780 to \$820 million)

- Taking industry-leading market share of 32%

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## Solid results in K–5 and 6–12 for School Education Group

Led all competitors in California and South Carolina for K–8 science and 6–8 math in Texas

Placed first in all six states adopting elementary music

*Treasures*, K–5 reading program, led market in Indiana and competed well in Oregon and Tennessee

30%+ capture rates in both K–5 and 6–12 state new adoption markets

- Result of a reorganized and better-led team

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## Breadth of product offering: A key to success

### Added market share with spectrum of products

- Reform-based *Everyday Mathematics*
  - New Mexico: Took leading share in K–5 math adoption
  - Open territory: Sold well in urban and suburban markets
- Non-academic programs capture significant business in small but profitable markets:
  - Health
  - Business education
  - Technical and vocational education
  - Family and consumer science

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## Open territory: Growing more slowly than expected

Anecdotal evidence of non-discretionary costs rising more rapidly than funding

- Substantial increases in transportation, heating and cooling costs for districts
- We are examining trends in more depth to gain greater insight into changes taking place

Market down 1.4% after eight months

4Q orders could produce uptick in 2007

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## Supplemental market: Soft all year

Products not clearly correlated with state standards are losing ground to new core curriculum programs

What's growing:

- New standards-based programs with extensive ancillary materials supplanting supplemental titles
- New demand for intervention programs
  - Success with *Kaleidoscope* literacy and *Number Worlds* math programs

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## Outpacing the competition

Strength in state new adoption market will offset some softness in non-adoption states

- Expect el-hi market to grow 3% to 5% in 2007 vs. 5% to 7% originally forecasted
- Expect slower growth in open territory, which had been expected to grow 4% in 2007

School Education Group

- Expects to outperform market for the year
- Outpacing competition in state new adoption market and open territory

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## Better results in testing

Performance in custom and off-the-shelf products has improved

- Won new summative contract in Indiana and 5-year renewal in West Virginia

Gains in formative market for *Acuity*, our new testing product

- Won 5-year, \$80 million contract with New York City

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## State new adoption market looks robust for rest of decade

Est. Mkt. Size	2007 \$780M-\$820M	2008 \$900M-\$950M	2009 \$850M-\$900M	2010 \$900M-\$950M
Major State Calls	California K-8 Science	California K-8 Math	California K-8 Reading/Literature	Florida K-12 Math
	Florida K-12 Health, World Languages, Applied Subjects	Florida K-12 Reading/Reading Intervention	Florida 6-12 Literature	Georgia 9-12 English/Language Arts, K-12 World Languages
	Georgia K-8 Math	Georgia K-12 Science, 9-12 Math	Georgia K-8 Reading/Language Arts, K-12 Health	North Carolina K-12 Science
	Indiana 1-8 Reading/Literature	North Carolina K-12 Social Studies	North Carolina K-12 Math	Tennessee K-12 English/Language Arts
	Tennessee K-6 Reading	Tennessee K-12 Social Studies	Tennessee K-12 Science/Health	Texas K-5 Reading
	Texas 6-12 Math	Texas K-5 Math		

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## HPI Group continues to make progress

International markets

- Strong school sales in Canada and Spain
- Solid higher education sales in Europe, Asia and India

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## More progress in U.S. college and university market

Business and Economics imprint set the pace in 3Q with solid gains in four key disciplines

Now expect market to grow 5% – 6% in 2007

- We expect to keep pace with industry
- Originally expected market to grow about 4% in 2007

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## Digital products contributing to growth

*CourseSmart* debuts this fall

A new college publisher cooperative e-book and e-commerce website

- Enables instructors to evaluate textbooks and related material in one location
- Students offered a lower cost alternative plus functionality of the Web

McGraw-Hill's Higher Education group is starting with 148 e-books

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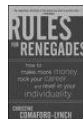
## Online offerings for professionals growing here and abroad

Increasing institutional sales with two new verticals introduced this year

- *Access Emergency Medicine*
- *Access Pharmacy*

Our professional books are making best-seller lists

- *Rules for Renegades* on four best-seller lists



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## Outlook for McGraw-Hill Education

Solid third quarter performance and market share gains in elementary-high school market

Good growth in higher education in U.S. and abroad

Digital products continue to gain traction in higher education and professional markets

Now expect:

- El-hi market to grow 3% to 5%
- U.S. college and university to grow 5% to 6%

Operating margin for the segment will improve for the year

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**McGraw-Hill Education**

**Financial Services**

**Information & Media**

## Financial Services

3Q 2007 segment results

Revenue +12.5% to \$759.6 million

Operating profit +17.3% to \$346.7 million

Operating margin 45.6%, up from 43.8% last year

Accomplished despite decline in U.S. structured finance in 3Q

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## Resilient portfolio kept S&P growing in 3Q

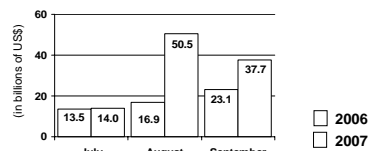
Strong performers included:

- International credit ratings
  - Double-digit growth
  - Now 41.6% of ratings revenue
- Non-traditional ratings and services
  - Double-digit growth
  - Now 25.7% of ratings revenue
- Corporate and government ratings
- Financial information products and services

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## 3Q issuance illustrates trajectory of business

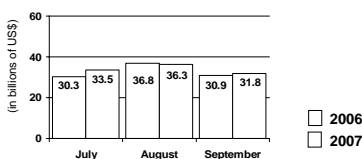
U.S. Industrials  
(investment-grade)



25

## 3Q issuance illustrates trajectory of business

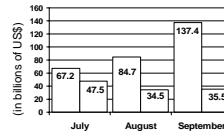
U.S. Public Finance



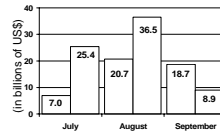
26

## 3Q issuance illustrates trajectory of business

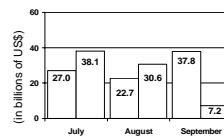
U.S. RMBS



U.S. CMBS



U.S. CDOs



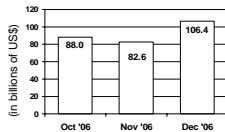
• Activity seen so far in October is tracking the level of issuance seen in September

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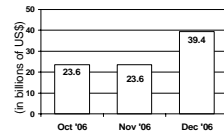
Source: Thomson Financial, Harrison Scott Publications, Standard & Poor's

## Challenging 4Q comparisons for structured finance

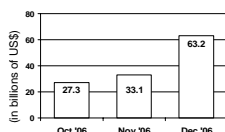
U.S. RMBS



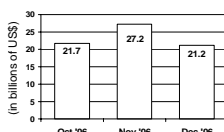
U.S. CMBS



U.S. CDOs



U.S. ABS



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Source: Thomson Financial, Harrison Scott Publications, Standard & Poor's

## Encouraged by prospects in asset-backed market

Credit card issuance continues to show some strength

Reasons for optimism:

- Scheduled refinancing
- Increased credit card utilization by consumers
- Solid issuance of auto loans as banks redeploy capital to fixed-rate, short-term auto loans instead of mortgage products

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### **Pick up in commercial mortgage-backed securities more problematic**

Commercial real estate fundamentals remain strong...

- But activity has been chilled by subprime problems in residential market

Widening spreads have kept investors on sidelines

- Reduced demand for new issuance

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### **How a diversified and resilient portfolio delivers results**

Weaker U.S. structured finance will be at least partially offset by continuing strength in:

- Investment-grade corporates
- International markets
- Non-traditional ratings and services
- Annual contracts and surveillance fees
- Financial information products and services
- Vigorous expense management

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### **Reasons for optimism in corporate market**

Investment-grade corporate issuance setting new records

Industrial issuance will be driven by:

- Favorable financing environment
- M&A activity
- Investments in capital expenditures

Financial services issuance will be driven by many of same factors, as well as balance sheet restructurings

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### **Reasons for optimism in corporate market**

Spreads remain historically tight

Rates remain low

Expect a 10% to 11% increase in 2008 in potential refundings

- 4Q 2007: \$47.9 billion of U.S. corporate debt to mature or be called
- 2008: Another \$250.7 billion is potentially refundable
- New issuance calendar looks strong in coming months

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### **Expanding financial information and index services**

Trading started in 3Q 2007 of six new ETFs based on S&P indices

- Including S&P's first in fixed income space — S&P National Municipal Bond Index, sponsored by Barclays Global Investors

133 ETFs now based on S&P indices

- More are in the pipeline

Making good progress licensing clients for S&P GSCI index, our new commodities index

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### **Expanding financial information and index services**

Capital IQ product continues to grow rapidly

- Adding new clients
- Expanding its base with existing customers

New modules increasing demand for Capital IQ

- Portfolio management tools

Expect more innovation and more expansion in international markets

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## The outlook for credit markets

Too soon to start making projections for 2008

- A calm is returning to global credit markets
- Fragile stability is setting in

More focus on credit quality going forward

Benefits of securitization will remain strong after current turbulence has dissipated

- Liquidity
- Economic capital reduction
- Tradeability

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## The outlook for credit markets

Timing of Fed rate cut

- S&P's economist David Wyss thinks Fed rate cut will be in December, more likely January 2008
  - Chances of rate cut later this month have faded with 3Q growth appearing stronger than expected

Housing recession has a way to go

- Wyss predicts housing prices will fall nationally by 11% peak to trough, with another 6% to 8% still to come
- No rebound expected until end of 2008
- Areas hardest hit could experience price declines of 15% or more

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## Regulatory update

SEC designated Standard & Poor's an NRSRO in September

SEC commenced an examination of rating agencies' policies and procedures under U.S. Credit Rating Agency Reform Act of 2006

- S&P is cooperating with SEC in connection with this examination

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## Regulatory update

We will continue to work with various entities to answer questions about our policies and procedures

- SEC
- Regulators in Europe
- U.S. Congress

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## Regulatory update

We don't believe any pending legal, governmental or self-regulatory proceeding will result in a material adverse effect on our financial conditions or our operations

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## Outlook for Financial Services

Summary

- A solid performance in third quarter despite tough market environment
- Worsening conditions for structured finance in 4Q, but rest of business remains strong
- Double-digit top- and bottom-line performance for the full year
- Margin expansion for the full year

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## McGraw-Hill Education

## Financial Services

## Information & Media

### Information & Media

#### 3Q 2007 segment results

Revenue	+ 2.1% to \$252.4 million
Operating profit	+ 35.8% to \$18.6 million
	- Pre-tax restructuring charge of \$5.8 million in 3Q 2006
Operating margin	7.4%, up from 5.5% in 3Q 2006

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### Information & Media

#### A segment in transition

- We are working to overcome softness in advertising with increased sales of higher-value information products and services delivered online

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### A segment in transition

3Q revenue in Broadcasting Group declined by 7.8% in non-election year

3Q revenue for Business-to-Business Group up 3.2%

- *BusinessWeek's* ad pages off 24.6% in 3Q
- Growth from information products and services
- Key contributors:
  - Pricing and news for oil, natural gas, and power from Platts
  - Expansion of J.D. Power and Associates' international research and proprietary studies
  - Products and services delivered online to construction industry

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### *BusinessWeek's* new look introduced in October

Offering smart perspectives from around the world along side stories developed by *BusinessWeek*



New design



Old design

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### Building on *BusinessWeek's* healthy circulation

Goal: Solidify *BusinessWeek's* leadership as multi-platform global business media organization and build on healthy circulation statistics

Newsstand sales up 25% in first half

- Key indicator of editorial vitality

Average price per subscriber is up 1%

Overall, circulation is steady

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## Outlook for Information & Media

### Summary

- A segment in transition
- Advertising remains soft
- Growth in online information products

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## On course to produce double-digit EPS growth in 2007

2007: Still expect improved operating margins for Financial Services and McGraw-Hill Education

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## On course to produce double-digit EPS growth in 2007

### Guidance excludes:

- \$0.04 charge for elimination of restoration stock option program in 1Q 2006
- \$0.06 charge for restructuring in second half of 2006
- \$0.03 gain from divestiture of mutual fund data business at Financial Services in 1Q 2007

On a GAAP basis, inclusive of these items, the 2007 earnings growth would be even stronger

- Management believes the non-GAAP financial measures provide more useful information to investors due to the unusual nature of the excluded items

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## Updating guidance for 4Q 2007

Financial Services faces toughest comparisons of the year in 4Q

- 4Q 2006: 22.1% revenue growth
- 4Q 2007: Expect a high single-digit decline in revenue and some margin contraction

### McGraw-Hill Education

- 4Q 2007: In a seasonally small quarter, expect decline in operating profit and margin compression

4Q 2007: Corporation's revenues and earnings will not match last year's results

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## Outlook for The McGraw-Hill Companies

### Summary

- 4Q 2007: Reduced revenue and earnings vs. last year
- 2007: Double-digit EPS growth
- 2007: Margin expansion for the year in Financial Services and McGraw-Hill Education

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

### **30 million shares repurchased in 2007**

3Q 2007: 10.5 million shares repurchased for \$616 million

2007: \$1.9 billion in nine months for 30 million shares. Average of \$63.00 per share

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### **A commitment to advancing total shareholder value**

Since 1996, MHP returned \$8.0 billion to shareholders through dividends and share repurchases

- Includes more than \$2.1 billion returned in first nine months of 2007

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### **More shares remain in repurchase authorization program**

Capacity:

- 35 million shares left in new program authorized by Board in January 2007

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### **Reduced fully-diluted weighted average shares outstanding**

3Q 2007: 337.7 million shares

- 12.6 million share decrease vs. 2Q 2007
- 23.2 million share decrease vs. 3Q 2006

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### **An increase in debt in 3Q**

3Q 2007: \$879 million net debt position, up from \$636 million at end of 2Q

- As of September 30: On a gross basis, debt position is approximately \$1.3 billion offset by \$453 million in cash, primarily foreign holdings
- Debt reflects mix of short-term borrowings, primarily in commercial paper, with balance in extendible commercial notes and money market loans

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### **Outlook for interest expense**

3Q 2007: \$15.4 million net interest expense

- More than double the \$7.5 million in 3Q 2006 due to increased borrowing

2007: Expected in the range of \$39-41 million

- Slightly lower than previous estimate of \$40-42 million

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### **A decrease in corporate expenses**

3Q 2007: Down \$9.5 million or 20.1%, compared to a year ago

- 3Q 2006 included \$4.1 million of restructuring charges
- Excluding the \$4.1 million charge, 3Q 2007 corporate expense decreased \$5.4 million vs. same period last year

Decrease primarily driven by:

- Lower incentive compensation accruals
- A one-time gain from the sale of an equity investment

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### **Items influencing 3Q comparisons**

3Q 2007: Sold a non-strategic product line within K-12 business

- Resulted in pre-tax gain of \$4.1 million

3Q 2006: Pre-tax restructuring charges of \$15.4 million, or \$0.03 per share

- Primarily for employee severance in McGraw-Hill Education, Information & Media and at Corporate

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### **Increase in tax rate for 3Q**

3Q 2007: Effective tax rate 37.5%, vs. 37.2% in same period last year

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### **Outlook for prepublication investments**

3Q 2007: \$76.9 million, vs. \$64.3 million for same period last year

2007: Continue to expect \$310 million

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### **Growth in capital expenditures for property and equipment**

3Q 2007: \$63.0 million, vs. \$24.6 million for same period last year

- New data center is expected to be completed in first half of 2008
- Making technology investments to digitize products and services

2007: Still expect \$250 million

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### **Outlook for non-cash items**

Amortization of prepublication costs

- 3Q 2007: \$110.5 million, vs. \$103.3 million in same period last year

- 2007: Now expect \$250 million, down slightly from previous estimate of \$260 million

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## Outlook for non-cash items

### Depreciation

- 3Q 2007: \$26.2 million, vs. \$26.9 million in same period last year
- 2007: Now expect \$120 million, down from previous estimate of \$130 million due to change in timing of capital expenditures in 2007

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## Outlook for non-cash items

### Amortization of intangibles

- 3Q 2007: \$11.7 million, vs. \$12.1 million in same period last year
- 2007: Continue to expect \$50 million

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## Another increase in unearned revenue

### Unearned revenue

- 3Q 2007: Just over \$1 billion
  - Up from \$883.6 million in prior year, a 13.7% increase
  - Revenue will be largely recognized over next twelve months
  - Softer revenue forecast for 4Q 2007 is likely to impact unearned revenue growth in fourth quarter

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NOTE: The presenters' slides will be available for downloading from [www.mcgraw-hill.com/investor\\_relations](http://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 October 25, 2007.

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Replay Options (Available from October 18-25)

### Telephone

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International: +1-402-998-1761  
No password required

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