1Q 2008 Earnings Call
April 29, 2008

Presenters:
Harold McGraw III  
Chairman, President and CEO

Robert J. Bahash  
Executive Vice President and CFO

Deven Sharma  
President, McGraw-Hill Financial Services

Donald S. Rubin  
Senior Vice President, Investor Relations

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 2008 adoptions and in open territories and enrollment and demographic trends; the level of educational funding; the strength of School Education including the testing market, Higher Education, Professional and International publishing markets and the impact of technology on them; the level of interest rates and the strength of the economy, 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, 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 debt and equity markets, including interest rates, credit quality and spreads; the level of liquidity, future debt issuances including residential mortgage backed securities and CDOs backed by 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.
MHP 1Q 2008 results

EPS
• 1Q 2008: $0.25
  – Compares to $0.40 in 1Q 2007 (included $0.03 gain on divestiture of a mutual fund business in March)

Revenue
• 1Q 2008: Declined 6.1% to $1.2 billion

Outlook for U.S. economy

Continued financial sector problems
• Expect Federal Reserve to cut interest rates by 25 to 50 basis points
• Fed funds rate currently 2.25%

David Wyss, S&P’s chief economist, thinks first half of 2008 will be toughest period for economy
• Expects tax rebate to produce 2.5% GDP growth in 3Q 2008
• Business tax credits will provide boost in 4Q
### 1Q results at McGraw-Hill Education

<table>
<thead>
<tr>
<th>1Q 2008 segment results</th>
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</thead>
<tbody>
<tr>
<td>Revenue</td>
</tr>
<tr>
<td>Operating loss</td>
</tr>
</tbody>
</table>

Operating margin unchanged from year ago
## 1Q results at McGraw-Hill Education

<table>
<thead>
<tr>
<th>Education Group</th>
<th>Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>School Education Group</td>
<td>- 4.8% to $138.8 million</td>
</tr>
<tr>
<td>Higher Education, Professional and International Group</td>
<td>+ 2.9% to $191.4 million</td>
</tr>
</tbody>
</table>

### How to assess 1Q results for McGraw-Hill Education

- **El-hi:** 1Q revenue depends more on fill-in copies and supplemental materials.
- **Higher education:** 1Q revenue driven by ordering for start of new term, an echo of previous term.
### Positive indicators for 2008 at School Education Group

Expect new state adoption market to grow 10% to 15%

- North Carolina only adoption state to place substantial basal materials order in 1Q

Strength in state new adoption market starting to materialize

### Outlook for education: Market growth in 2008

State new adoption market estimated at $900 to $950 million vs. $820 million in 2007

Open territory: Expecting 1% to 2% year-over-year revenue growth

El-hi: 4% to 5% anticipated growth for whole market
Good start for School Education Group in key adoption states

Major opportunities in 2008:
• Elementary reading and math
• Three adoption states: Florida, Texas, California

Florida: K-5 reading adoption
• Positive reports on Treasures, Imagine It and Reading Mastery

Texas: K-5 math adoption
• New state-specific program off to solid start

California: Opportunities in first-year math and second-year science
• Competitive at both elementary and secondary levels
• Everyday Mathematics looks strong

Positive early feedback

Good opportunities in:
• K-5 reading in Oklahoma and Louisiana
• 6-12 literature in Alabama, Louisiana, Oklahoma
• 6-12 science in Georgia and Kentucky
• 6-12 social studies in Arkansas and Tennessee

Prospects good in fine arts, health, business and vocational lines
Encouraging signs in open territory

Open territory decisions typically made through end of second quarter

Expect to benefit from:
• *Math Connects*, a new K-5 national program
• *TimeLinks*, a new K-5 social studies program

Anticipate gains in market share for *Treasures*, our elementary reading program

New intervention opportunities in supplemental market

Diminishing demand for traditional, stand-alone products
• No longer purchased separately since similar materials provided in ancillary packages accompanying today’s basal programs

Sales growth in new print and digital intervention products
• Constructed around state standards and validated through research
## Establishing a leadership position in formative testing

Strengthening new revenue stream as formative assessment gains importance

Measuring the success of *Acuity*, our new formative program since 2007 introduction:
- Selected for New York City Periodic Assessment Program
- Largest formative contract ever awarded at $80 million over 5 years
- Expanding customer base in New York and other states
- Adopted state-wide in Indiana and West Virginia

## Support for education funding remains strong

Activity brisk despite weakening economy on state and local budgets
- Budgets under construction in 46 states’ new fiscal year beginning July 1

Support for education funding remains strong

State support for education consistent this decade

- Funding has increased in 50 states every year since 2001
- We continue to monitor situation carefully, but concern over state funding seems exaggerated


<table>
<thead>
<tr>
<th>Year</th>
<th>Elementary and Secondary Education Funding (% increase)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>7.90%</td>
</tr>
<tr>
<td>2002</td>
<td>3.10%</td>
</tr>
<tr>
<td>2003</td>
<td>6.40%</td>
</tr>
<tr>
<td>2004</td>
<td>2.70%</td>
</tr>
<tr>
<td>2005</td>
<td>6.40%</td>
</tr>
<tr>
<td>2006</td>
<td>5.90%</td>
</tr>
<tr>
<td>2007</td>
<td>6.70%</td>
</tr>
</tbody>
</table>


Weakening economy could benefit college and university market

### U.S. GDP and Higher Education Enrollments Annual Percentage Changes

- Annual Change in US GDP (Current $)
- Average Change in US Higher Education Enrollment

Source: U.S. Department of Education, National Center for Education Statistics; U.S. Department of Labor
## Outlook for growing enrollments in Higher Education

Annual enrollments grew over last 10 years despite weakening economy

Students staying in school longer
- Some returning to enhance employability

Enrollment expected to climb over next decade
- Fastest growth among women and minorities, according to U.S. Department of Education’s Center for Educational Statistics

College and university market to grow 3% to 4% in 2008
- We expect to outperform

## Outlook for McGraw-Hill Education

Gaining confidence in forecasts for growth in el-hi and higher education

Segment revenue growth of 6% to 8% in 2008

Expect operating margin decline of 50 to 100 basis points due to stepped-up investments in technology to accelerate digital transformation
### Financial Services

1Q 2008 segment results

<table>
<thead>
<tr>
<th>Metric</th>
<th>Result</th>
</tr>
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<tbody>
<tr>
<td>Revenue</td>
<td>-11.6% decline to $644.3 million</td>
</tr>
<tr>
<td>Operating profit</td>
<td>-25.3% to $260.0 million</td>
</tr>
<tr>
<td>Operating margin</td>
<td>40.4%, down from 47.7% in 1Q 2007</td>
</tr>
<tr>
<td></td>
<td>Improved compared to 4Q 2007 (35.8% plus 2.5% 4Q restructuring charge)</td>
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</tbody>
</table>
Cost containment a top priority

Starting to benefit from the restructuring in 4Q 2007
   • Will see full impact starting in 2Q 2008

Strictly limited hiring

Cut back on discretionary expenses

Reduced 2008 incentive compensation

Costs declined year-over-year

Cost containment a top priority

Considering additional staff reductions
   • Need to do more to lower costs and improve efficiency
   • Will say more in next several weeks about further reductions at:
      – Financial Services
      – McGraw-Hill Education
The benefits of a diversified and resilient portfolio

Growth of Investment Services is a key in efforts to diversify

Investment Services grew by 18% to $217 million in 1Q 2008
• Represented 34% of segment’s revenue
• Expect double-digit revenue growth for balance of year

Diversifying at S&P Credit Market Services

Ongoing efforts to diversify by:
• Asset class
• Geography
• Product Mix
• Growth of annual fee and subscription revenue
## Growth in unearned revenue at Financial Services

Unearned revenue increased 13.6% to $812 million
- Represents 74% of corporation’s total unearned revenue for 1Q 2008

Expect deferred revenue to continue growing

Produced increases at S&P Credit Market Services in:
- Subscription services
- Annual fees
- Surveillance revenue

## Non-transaction and international revenue

Revenue from non-transaction sources was $309.1 million in 1Q 2008

International revenue grew 5.8% in 1Q 2008 to $204.5 million, or 48% of top line
- Driven by favorable foreign exchange

Continue to expand in international markets
- CRISIL in India is important contributor
- New rating agency in Israel—S&P Maalot
- New operations in Dubai and Johannesburg
Diversification strategy cushioned segment in first quarter

Diversification buffered S&P Credit Market Services in 1Q 2008 from decline in structured finance market

<table>
<thead>
<tr>
<th>Revenue vs. new issuance in 1Q 2008</th>
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<tbody>
<tr>
<td><strong>Revenue</strong></td>
</tr>
<tr>
<td>Financial Services</td>
</tr>
<tr>
<td>Credit Market Services</td>
</tr>
<tr>
<td>International</td>
</tr>
<tr>
<td>Domestic</td>
</tr>
</tbody>
</table>
Turbulence in credit markets has carried into first quarter of 2008

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

Prior  Most Recent
European credit markets

Similar pattern in 1Q 2008 European structured finance
  • Downturn hit:
    – Residential mortgage-backed securities
    – Commercial mortgage-backed securities
    – Collateralized debt obligations

Only dollar volume of asset-backed securities showed increase in U.S and Europe
  • Without one private placement of $29 billion in U.S., volume would have been down

Outlook for Financial Services

Outlook depends, in part, on depth and duration of downturn in structured finance market
  • Pick-up in structured finance depends on when investors believe most risks are transparent and out in the open

Important factors:
  • Slowdown in U.S. economy and tightening of residential mortgage-lending standards will impact level of residential lending
  • Cash bond spreads have to tighten in commercial mortgage-backed market
  • Forecasting CDO issuance remains difficult
Outlook for Financial Services

Asset-backed securities market
• Non-mortgage ABS pipeline remains healthy
• Credit card issuance off to a good start in 1Q
• Student loan sector under pressure

U.S. and European corporate market
• Investment-grade issuance continues to attract investors
• Increased sales of long-term investment-grade bonds
  – Shrinking commercial paper market and Fed rate cuts helped growth

High-yield market
• Recovery tied to renewal of investor confidence

Public finance
• New money issuance comprised bulk of activity
• Slower economic growth may spur demand for debt financing
• May see shift to bonds instead of pay-as-you-go as in past slowdowns
### Data and information benefiting Investment Services

Capital IQ continues to add customers  
- Now serving more than 2,300 clients  
- 24% increase vs. 1Q 2007

Continues to upgrade product line  
- Latest release includes 3,500 non-traditional media sources, improved download capabilities, and improved charting functionality

### Continuing to expand index products and services

$209.7 billion in assets under management in ETFs based on S&P indices at end of 1Q 2008  
- 23.1% increase compared to 1Q 2007

Data and custom index businesses grew in 1Q  
- 13 new ETFs in 1Q based on S&P indices  
- Now 157 ETFs based on S&P indices

More indices in the pipeline  
- One of fastest growing and most profitable businesses in segment
Regulatory and legal outlook

Working to be part of the solution

Announced 27 Leadership Actions in February
- Focused on four key areas:
  - Analytics
  - Governance
  - Information
  - Education

Updated market on these actions on April 10, 2008

Response has been positive from regulators, legislators and other policy makers

SEC’s ongoing examination of rating agencies

SEC report expected this summer
- May propose some new oversight rules

We’re committed to bringing stability and transparency to capital markets

We do not believe any pending legal, governmental, or self-regulatory proceedings will have adverse effect on our financial conditions or operations
### Outlook for Financial Services

**Summary**

- Expect double-digit growth for S&P Investment Services
- Credit ratings markets face continued uncertainty
- If steep drop experienced in 1Q in structured finance continues for rest of year, segment revenue would decline 7% to 9%
  - Would also expect a 500 to 600 basis point drop in operating margin
Information & Media

1Q 2008 segment results
Revenue + 3.2% to $243.4 million
Operating profit +18.6% to $11.7 million
Operating margin 4.8%, up from 4.2% in 1Q 2007

Growth at Business-to-Business Group

Revenue grew 3.5% in 1Q to $219.7 million
Key contributors
• Value-added information for global markets
Growth in volatile global energy markets

Increasing demand for Platts’ news and pricing services
- Platts growing faster overseas than in North America
- Attracting new customers in emerging markets like former Soviet Republic and the Middle East

Growth in international markets for J.D. Power and Associates

China now second largest car market behind the U.S.
- J.D. Power began research in China more than eight years ago
- 2006: Acquired Automotive Resources Asia
- 2007: Won contract with Chinese auto dealers
- 2008: Launched Power Circle Ratings on Sina.com, the most recognized Internet brand in China

Recently acquired Umbria, an online market intelligence pioneer, to add new dimension to voice-of-the-customer research
### Advertising mixed in 1Q

*BusinessWeek*
- Ad pages for global edition down 19.4% in 1Q 2008, according to Publishers Information Bureau

Broadcasting revenue of $23.7 million flat vs. 1Q 2007
- Increases in political advertising offset by declines in national time sales

**Outlook for political advertising is promising**
- Upcoming primaries and state and local elections in Indiana, California, Colorado

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### Outlook for Information & Media

**Summary**
- More global growth for information products
- Promising outlook for political advertising later in year
- Segment revenue growth of 6% to 8%
- Improvement in operating margins
Summing up for The McGraw-Hill Companies

Outlook for The McGraw-Hill Companies

Summary
- Year-over-year comparisons easier in second half in Financial Services
- Possibility of finishing 2008 on upswing
- If current trends in financial markets continue, expect EPS in $2.65 to $2.75 range in 2008
Updating guidance for 2008

McGraw-Hill Education unchanged
• Expect revenue growth of 6% to 8% and a 50 to 100 basis point decline in operating margin
• Transfer of our Advanced Placement “AP” courses from Higher Education to School Education Group
  – Not material to Group’s 1Q results but will be later in the year, as well as to their full-year results

Information & Media unchanged
• Expect 6% to 8% revenue growth and improved margins
Updated guidance for 2008

Financial Services’ Investment Services
• Maintaining forecast of double-digit growth

Financial Services segment
• If little or no improvement in financial markets this year, we would expect revenue to decline 7% to 9% and operating margin to be reduced 500 to 600 basis points

If that’s the case, EPS in 2008 could range between $2.65 and $2.75

Revised outlook for free cash flow

New estimate: Approximately $600 million before acquisitions or share repurchases
• Started year with $850-$900 million range

Forecast driven by:
• Reduced profits at Financial Services and impact on working capital

Reduction will be partially mitigated by careful review of new investments
### $34 million for acquisitions in 2008

**1Q 2008**
- S&P Maalot, an Israeli securities rating company
- Licensing rights to S&P Case-Shiller Home Price Indices

**2Q 2008**
- Umbria, a marketing intelligence company specializing in social media and consumer-generated media research

### Revised stock buyback target

**Capacity:**
- Began year with 28 million shares remaining in 2007 buyback program
- Initial 2008 target: 20 million shares

**1Q 2008:** 3.4 million shares repurchased for $134 million; average price of $39.42

**New target:** 15 million shares
- Reflects reduction in free cash flow
- Focus on maintaining debt levels comparable with year-end 2007
Net debt

1Q 2008: $1.2 billion in net debt
• $400 million increase versus year-end 2007
• Commercial paper borrowing in 1Q to fund primarily seasonal cash requirements along with share repurchases

As of March 31:
• Gross debt of $1.2 billion of unsecured senior notes and $396.2 million in commercial paper outstanding
• Offset by $396.7 million in cash, primarily foreign holdings

Outlook for net interest expense

2008: Now expect $75-85 million for year
• Lower than previous estimate due to new share repurchase target

1Q 2008: $17.8 million net interest expense
• Compared to $1.2 million in 1Q 2007
**Reduced fully-diluted weighted average shares outstanding (WASO)**

1Q 2008: 323.4 million shares
- 38.1 million share decrease compared to 1Q 2007
- 7.4 million share decrease compared to 4Q 2007

**Outlook for lower corporate expenses**

1Q 2008: Decreased $1.2 million to $33.9 million, compared to a year ago
- Primarily driven by lower incentive compensation accruals

2008: Now expect mid single-digit decrease
- Compares to previous guidance of low single-digit increase
- Change primarily driven by reduced incentive compensation and stringent expense controls
Measuring impact of incentive compensation in 2008

1Q benefited from decreased incentive compensation, including stock-based compensation
• $40 million decrease year-over-year at S&P

Decline in incentive compensation expense not as pronounced for rest of year
• Accruals less significant in second half of 2007 due to slow down of business

Monitoring costs at Financial Services

We are investing in businesses that are growing while maintaining stringent expenses controls at Credit Market Services

On an adjusted basis, expenses decreased 1Q ’08 vs. 1Q ’07:
• Reported expense: 0.9%, or $3.4 million increase
• Adjusted expense: 4.0%, or $16 million decrease
  – Adjusted for:
    – Net gain in 2007 (1Q 2007 gain from divestiture of mutual fund business, partially offset by operating expenses prior to divestiture)
    – Acquisition operating costs for 2008
### Monitoring costs at Financial Services

1Q ’08 vs. 4Q ’07: Expense decreased $70 million, or 15.4%
- Excludes restructuring charge taken in 4Q ’07

We are benefiting from expense management, hiring delays and curtailments, and 4Q restructuring actions
- Lower incentive compensation a key factor, but not as significant as Q1 ’08 to Q1 ’07 comparison since we reduced incentive compensation in 4Q ’07

### Outlook for unearned revenue

1Q 2008: $1.1 billion
- Reflects 11.5% year over year increase
- Excluding foreign currency gains, increase is 9.7%

2008: Expect growth to moderate given forecast for slower revenue growth
### Outlook for tax rate

2008: Expect effective tax rate of 37.5%
- Approximately same as 2007 on full-year basis

### Reduced projection for prepublication investments

1Q 2008: $66.6 million, compared to $57.4 million in same period last year

2007: Now expect $290 million
- Down from previous $300-$310 million estimate
- Reflects prudent investments and continued off-shoring efficiencies
<table>
<thead>
<tr>
<th>Lower capital expenditures for property and equipment</th>
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<tbody>
<tr>
<td>1Q 2008: $23.6 million, compared to $22.7 million in same period last year</td>
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<tr>
<td>2008: Now expect $160 million</td>
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<tr>
<td>• Normal replacement expenditures</td>
</tr>
<tr>
<td>• Additional purchases of software and technology equipment for new data center in first half of 2008</td>
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<tr>
<td>• Continued investments in technology</td>
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<table>
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<tr>
<th>Outlook for non-cash items</th>
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<tbody>
<tr>
<td>Amortization of pre-publication costs</td>
</tr>
<tr>
<td>• 1Q 2008: $28.2 million, compared to $28.1 million in same period last year</td>
</tr>
<tr>
<td>• 2008: Still expect prepublishation amortization to increase $45 million to $285 million</td>
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</tbody>
</table>
### Outlook for non-cash items

**Depreciation**
- **1Q 2008:** $27.5 million, compared to $28.9 million in same period last year
- **2008:** Still expect approximately $125 million
  - Completion of data center
  - Purchases of new technology equipment for data center
  - Other increases in capital expenditures

**Amortization of intangibles**
- **1Q 2008:** $14.2 million, compared to $11.6 million in same period last year
- **2008:** Expect approximately $52 million
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