

**The McGraw-Hill Companies  
Annual Shareholders Meeting**

Prepared Remarks  
April 30, 2008

**Harold McGraw III**

Chairman, President and CEO  
The McGraw-Hill Companies

I'd like to welcome you once again to The McGraw-Hill Companies' 2008 Annual Shareholders Meeting. Thank you all for being here today, and thank you for your continued support of our company.

I'd also like to take a moment to recognize the newest members of our Management Development Program, now in its 15th year. The program has strengthened our network of global talent by attracting top business school graduates who join our management ranks following three half-year work assignments in the company.

This year's class has three members. I kindly ask them to stand as I call their names:

- from the Harvard Business School, Bindu Shah;
- also from the Harvard Business School, Sheila Berry;
- and, from the Kellogg School of Management, Boaz Shedletsky.

Please join me in welcoming Bindu, Sheila and Boaz to The McGraw-Hill Companies.

Today, I want to talk to you about four things:

- First, I will review what 2007 meant for our company, in terms of both our accomplishments and the challenges we faced.
- Second, I will explain how every part of our company is working together and leveraging our collective resources to improve efficiency, better serve our customers, invest in our future, and find new opportunities to increase shareholder value.
- Third, I will put the current credit situation in context, and explain the significant actions Standard & Poor's is taking to help return stability and confidence to the capital markets.
- And finally, I will review the enduring trends that make us optimistic about the long-term growth prospects of each of our businesses.

Let me begin.

**2007's Accomplishments and Challenges**

Thanks to the diversity of our portfolio of businesses, The McGraw-Hill Companies delivered record results and significant growth in 2007. We performed well across the board.

- Our Education segment did exceptionally well, increasing revenues and expanding market share across a range of businesses.

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- Our Information & Media segment outperformed expectations.
- And our Financial Services segment produced solid growth, despite the turmoil in the credit markets.

That's the good news. But as you well know, not all of the news was good.

The bursting of the housing bubble and the collapse of the mortgage-backed securities market caused serious disruptions in the capital markets and negatively impacted our results in the fourth quarter of last year, as well as the first quarter of 2008.

So, in spite of our strong performance in 2007 – and indeed, in spite of our strong performance over the past 10 years – our share price has declined. No one is happy about that – least of all me. But while I can't tell you when the price will go back up, I can tell you:

- that our senior leadership team is actively managing this company through the current challenges;
- that our near-term prospects as a knowledge-driven company offering leading products and services across three critical markets are positive;
- and that the long-term prospects for each of our markets remain strong.

So if our markets are strong, if innovation and creativity are alive and well, and if management is executing, results will follow.

To talk more about that, at this point I would like to ask our Chief Financial Officer, Bob Bahash, to spend a few minutes discussing our results for 2007 and the first quarter of 2008. Needless to say, Bob and the financial team are a source of tremendous pride in our organization due to the contributions they have made.

### **Robert J. Bahash**

Executive Vice President and Chief Financial Officer  
The McGraw-Hill Companies

Thank you, Terry.

As Terry mentioned we achieved another very good year in 2007. Our diverse portfolio of businesses—from Education to Financial Services to Information & Media—has been designed to reduce earnings volatility and produce long-term growth through a variety of economic cycles and market conditions.

In 2007, the numbers certainly spoke to the strength of this strategy:

- Diluted earnings per share increased 22.5 percent to \$2.94 for the year.
- Revenue grew by 8.3 percent to \$6.8 billion.
- Net income rose by 14.9 percent to \$1 billion.
- And we continued to generate robust free cash flow and maintain a strong balance sheet, which gives us the financial flexibility to continue investing in those parts of our business that have the best opportunities for growth.

Underscoring our commitment to you, we also continued returning cash to shareholders in 2007.

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Through share repurchases and annual increases in our cash dividend, we have now returned about \$8.6 billion since 1996 – including about \$2.5 billion last year. January's dividend increase of 7.3 percent was our 35th in a row. The new, annualized rate of 88 cents per share represents an average compound annual dividend growth rate of 10.3% since 1974. The McGraw-Hill Companies has paid a dividend every year since 1937, and is one of fewer than 30 companies in the S&P 500 that has increased its dividend annually for the last 35 years.

After repurchasing 37 million shares in 2007, we began 2008 with 28 million shares remaining under the current repurchase authorization. Our current plan is to repurchase another 15 million shares this year, subject to market conditions, and in the first quarter, we repurchased 3.4 million shares.

Looking at 2008, we expect our diverse portfolio to continue to contribute to the company's financial performance in spite of the very challenging global credit markets.

As you know, yesterday we announced our first quarter results, which reflect the impact of these challenges.

- Revenue declined 6.1% to \$1.2 billion.
- Net income declined 43.6% to \$81.1 million.
- And diluted earnings per share declined 37.5% to \$0.25.

While our first quarter results were clearly impacted by current issues in the global credit markets, they also demonstrated the benefits of our diversification strategy and our tight cost controls, both of which helped mitigate the impact of a steep decline in structured finance during the first quarter.

Looking at the balance of the year, uncertainty in financial markets and a weakened economy will continue to present challenges. If current trends in financial markets continue, we would expect earnings per share in the range of \$2.65 to \$2.75 for 2008 and our Financial Services revenue to decline by 7% to 9% for the full year.

That said, we expect revenue growth of 6% to 8% at McGraw-Hill Education and Information & Media. We also expect double-digit revenue growth at S&P Investment Services, which will partially offset some of the decline at S&P Credit Market Services.

### **Leveraging Resources across the Enterprise**

Equally important as our diverse portfolio is our ability to leverage our global resources across the entire organization to:

- Create and enhance products and services,
- Better serve our customers, and
- Create greater efficiencies.

For example, digital asset management is critical to improving our operating leverage, which is why we are accelerating our investment in technology.

Earlier this month, we opened our new global data center that will provide a high-tech foundation for future business growth by increasing efficiency and enabling us to deliver more of our products digitally – faster, more securely, and more reliably.

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Our Business Process Management program is strengthening our core business processes – aligning them with customers' needs while improving operational effectiveness and efficiency. This has helped unlock significant value in the form of:

- Increased sales,
- Faster cycle times,
- Higher quality products and services, and
- Greater customer satisfaction.

We are also using our size and scale to strengthen our global partnerships with key strategic suppliers, which will reduce costs and improve profitability. Over the past year, we have negotiated long-term contract extensions with our major printing and paper suppliers that will generate substantial savings over the terms of these agreements.

In addition, we have been aggressively expanding our alliances with service providers overseas. This includes establishing relationships with preferred suppliers in India and China who provide pre-publication and printing services for our education business. These efforts are generating additional cost savings.

All of these initiatives are helping free up capital we can use to reinvest in our business as we pursue growth opportunities. Going forward, our commitment to our diversification strategy, to efficiently leveraging our global resources, and to enhancing our investments in our products and services will help us continue to find new ways to create shareholder value.

With that, let me turn it back over to Terry.

### **Harold McGraw III**

Chairman, President and CEO  
The McGraw-Hill Companies

Thank you, Bob.

In a few minutes, I will speak about our business portfolio and the plans we have in place to drive long-term growth. But before I do, let me spend a few minutes discussing what led to the current challenges in the capital markets – and, importantly, what we're doing to address them.

### **Current Credit Market Situation**

The credit crunch that is now roiling the financial markets is the most severe in recent memory. Some have called it the worst since 1945.

Many factors contributed, including:

- An unexpectedly steep drop in home prices,
- Lax mortgage underwriting practices and unregulated lending,
- Potential abuses in the mortgage origination process where lending institutions have the responsibility to make sure that the people who are applying for credit are credit-worthy,
- A dramatic increase in housing speculation and the number of non-owner-occupied homes, and
- Consumer credit behavior that significantly departed from historical data and trends.

We all know the results:

- The sub prime residential mortgage-backed securities market deteriorated sharply.
- This led to an exceptional amount of re-pricing of risk and dislocation in the global credit markets, as well as the current recessionary economic conditions.
- And, as phrases like “subprime mortgage” and “credit crunch” made headlines daily, many began to question the role, performance and even the integrity of credit ratings firms such as our own Standard & Poor’s.

Some of the questions have been fair – but some have not.

It bears remembering that S&P has always gone to great lengths to ensure the quality of its opinions on creditworthiness – and our efforts in the subprime space were no different.

S&P’s assessments of securities always involve “stress tests” that evaluate how much loss a security can withstand before it is in danger of defaulting. Our stress tests are based on historical data stretching back over 30 years with the worst-case scenario approximating that of the Great Depression. However, the deterioration of the housing market has been both more severe and more precipitous than even these scenarios anticipated.

S&P identified and began to warn investors about looming issues in the housing market as far back as 2006. Going forward, we recognize the need to speak more loudly and voice our concerns to a broader audience.

We also realized that many people lost sight of what credit ratings are – measures of the likelihood of repayment of principal and interest – and instead were using our ratings for things they never were intended to address, such as pricing and liquidity. As a result, we are stepping up our efforts to educate the market about what credit ratings are and how they should be used in evaluating risk.

Standard & Poor’s takes criticism seriously. We know that we have an important role to play in helping to restore confidence and transparency in the credit markets, and we are determined to play a leadership role in this regard. S&P’s senior management team has engaged in ongoing discussions with policymakers, industry experts and other market participants from around the world as we work to build greater confidence in credit ratings and support the efficient operation of the global credit markets.

### **S&P Leadership Actions**

Our dialogue with market participants helped to guide us as we conducted a comprehensive assessment of S&P’s analytical policies, practices and governance. Based on the findings of that assessment, in early February we launched 27 new Leadership Actions, all designed to enhance the ratings process in four key areas:

- Governance,
- Analytics,
- Information transparency, and
- Investor education.

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S&P already has made significant progress in implementing these actions, which include:

- Adding requirements for additional loan level data from issuers,
- Formation of a Risk Oversight Committee,
- Instituting an analyst rotation program, and
- Identifying candidates for the newly created ombudsman role.

We continue to refine our new initiatives, and we look forward to continuing to engage with market participants and policymakers as we implement our enhancements and consider additional measures.

On the regulatory front, we are pleased that the recommendations of both the President's Working Group on Financial Markets and IOSCO – the International Organization of Securities Commissions, the umbrella organization for the world's securities bodies – are largely consistent with our actions.

Ongoing innovation and explosive growth in the world's financial markets have led to a rising need for capital and a steady flow of increasingly complex financial products.

To sustain this innovation, and to spur the benefits of economic growth, investors and markets must have a strong, reliable and independent system for evaluating risk. Through its leadership actions, S&P is demonstrating its commitment to promoting the effective operation of healthy, transparent and informed capital markets.

### **Future Trends**

In a moment I will talk more about the strong market positions and future prospects of our businesses, but first I would like to offer a few words about why I'm confident The McGraw-Hill Companies will emerge from the current situation stronger than ever.

Most important, the world is growing up at an ever-increasing rate, and the emergence of new overseas markets offers huge opportunities for growth.

Globalization and technological innovation are defining themes of our time. The ease with which people, products, services, money, and ideas now move around the world is having an impact on virtually every aspect of our individual and collective lives.

What a wonderful environment for The McGraw-Hill Companies!

Our businesses are built around powerful and enduring trends that continue to reshape the global economy, and the world. The demands of the knowledge economy – on workers, on management, on educators, on everyone really – are only going to accelerate, ensuring that the needs for capital, knowledge and transparent business information will continue to grow.

We have a wealth of leading global brands ... and our focus is on precisely the knowledge-based products and services in greatest demand around the world.

Consider our Financial Services segment.

## **Financial Services**

No one can predict when the current market dislocation will end. But it will end.

What will *not* end are securitization and innovation in the financial markets. In fact, both financial innovation and the need to access to the world's capital markets, especially among developing countries, will increase. And as they do, the need for Standard & Poor's products and services will continue to grow.

For example, thanks to the first-ever sovereign ratings assigned by S&P to such countries as Benin, Botswana and Cameroon, some of Africa's poorest nations are now able to participate in the world's capital markets – bringing hope to their people and growth to their economies.

S&P has responded to this growing and evolving global demand by broadening and diversifying its portfolio of offerings, and today is more diverse than ever. For example,

- Our non-ratings business, including our Capital IQ data and information business and our index business, represented about 34% of Financial Services revenue in the first quarter of 2008 and is expected to produce double-digit growth again this year.
- On the ratings side, our non-transaction revenue represented 54% of our ratings revenue mix in 2007 and grew another 11.2% in the first quarter.
- And approximately 25% of our ratings revenue comes from non-traditional products and services, such as bank loan ratings and advanced analytics for the insurance sector.

S&P's diversification is also geographic, enabling us to capitalize on market opportunities in areas of the world that are growing faster than the U.S. and other developed countries.

- Approximately 48% of our first quarter 2008 ratings revenue came from outside the U.S.
- And S&P is continuing to expand its global footprint as exemplified by our highly successful CRISIL business in India, the recent acquisition of a ratings agency in Israel, and the opening of new offices in Dubai and Johannesburg.

As you can see, S&P's product and geographic diversity will continue to have a positive impact on our results.

Before I move on to discuss McGraw-Hill Education, let me take a moment to acknowledge Deven Sharma and the entire S&P leadership team.

This is an extremely talented and dedicated group of people that is working hard to help restore confidence and bring greater transparency to the capital markets. And as the market comes back, Deven and his team will be ready to seize the opportunities and continue to grow.

## **McGraw-Hill Education**

Now let's look at McGraw-Hill Education, where both the diversification and the digitization of our portfolio are positioning us for continued growth.

The favorable long-term trends in Financial Services are equaled, if not surpassed, by what's happening in the education sector – where we serve virtually every aspect of the market from pre-K through professional learning.

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The demand for education continues to increase throughout the world. As the world grows up, an educated workforce becomes even more important given the wage premiums that have developed in the knowledge economy. And with the spectacular growth in the emerging markets in recent years, citizens of those countries have greater opportunities to pursue formal education and purchase a range of education services.

Technology continues to transform learning, and to expand our competitive edge, we are increasing our investment in technology to help us:

- More efficiently develop both print and digital products,
- Enable more customization, and
- Broaden our distribution channels to reach new global audiences hungry for knowledge,

Some might call this thinking outside the box. At McGraw-Hill Education, we call it “thinking outside the book.”

Our revenue from new digital products is growing fastest in the professional, higher education and testing markets. For example:

- The latest edition of *Harrison’s Principles of Internal Medicine* features a companion DVD with rich multimedia content and also is available online through our subscription-based Web site, AccessMedicine.com.
- Through CourseSmart, we offer 300 eBooks, which can be purchased at about half the cost of new print titles.
- And our Web-based formative assessment program, *Acuity*, has won contracts with New York City, Indiana and West Virginia that will generate revenue for years to come.

As an aside, New York Mayor Mike Bloomberg was with us last night and was talking about all the success New York City is having in terms of math and testing. I couldn’t have been more pleased because they are using our *Everyday Mathematics*, *Impact Mathematics* and our *Acuity* program.

In the elementary-high school market, we are seeing a steady evolution of hybrid instructional programs that combine traditional paper-based components with digital products.

These include:

- State-of-the-art test-making software,
- Virtual fieldtrips on CDs and DVDs, and
- A whole range of student materials offered online, as eBooks, or in MP3 downloads.

As you can see, McGraw-Hill Education is moving aggressively to take advantage of the new opportunities presented by the integration of content and technology.

Let me wrap up the discussion of our education business with our 2008 outlook.

In the School Education Group, we expect the state new adoption market to grow by 10% to 15% in 2008, and early indicators for our business in such key states as Texas, California and Florida are encouraging. In addition, we are seeing some promising opportunities developing for our business in the open territory, which has been flat for the past two years.

Lastly, we are expecting another good year in higher education both here and abroad. We expect the U.S. college and university market will grow 3% to 4%, and we expect to outperform the market.

## **Information & Media**

Finally, I'd like to turn now to the Information & Media segment – where we expect another year of growth and margin improvement in 2008, and where we are migrating many of our businesses to completely online environments.

This segment includes such leading brands as

- Platts,
- J.D. Power and Associates,
- McGraw-Hill Construction,
- *BusinessWeek*,
- *Aviation Week*,
- Our ABC-affiliated television stations, and
- Our TV Azteca-affiliated stations serving the Spanish-language market.

At a time when more information is easily accessible, to more people, than ever before, these businesses serve a growing need for offerings that turn complex data into insight that business professionals and other consumers can use to make better decisions.

J.D. Power and Associates continues to expand its online syndicated studies, and its global automotive business is rapidly growing in the Asia-Pacific markets. J.D. Power also continues to expand in new markets such as financial services and insurance.

The ongoing volatility in oil and natural gas markets continues to drive demand for Platts' news and pricing products.

We are continuing to strengthen the capabilities of the McGraw-Hill Construction Network by enhancing analytics and providing forecasts to help firms anticipate emerging trends.

BusinessWeek continues to increase its newsstand sales and circulation numbers, and BusinessWeek.com continues to grow – both in terms of audience and advertising dollars.

Finally, in this election year, we are anticipating a solid performance in the Broadcasting Group, with political advertising being an important contributor.

## **Conclusion**

In closing, 2007 was a year that saw both triumphs and challenges for our company.

As we focus on 2008 and beyond, we continue to be excited about our future prospects and our ability to build on our strong long-term record of success.

While this year will also have its challenges, history tells us that the economy and the capital markets will stabilize in time. And when they do, we are confident that the steps we are taking to manage our businesses will help us emerge as a stronger, smarter and more capable company with the resources necessary to capitalize on the opportunities that will arise.

Over the long term, we believe the diversity, quality and resiliency of our portfolio of businesses will help us deliver consistent earnings performance while generating superior shareholder value.

## ***The McGraw-Hill Companies***

This morning we have talked about several key drivers of our business:

- Globalization and the knowledge revolution,
- The continued expansion of the capital markets,
- Our diversification strategy and our ability to leverage our global resources,
- The impact of – and our increased investment in – technology, and
- The growing need for the highest-quality data, analytics, information and solutions.

These powerful and enduring trends will continue to shape our future and contribute to the success of our businesses for years to come. There is one other powerful force at work across our enterprise that bodes well for our future and that is timeless – our value system.

The McGraw-Hill Companies has a global reputation for the highest standards of excellence, quality and reliability in all of our products and services. Since the founding of our company 120 years ago in 1888, integrity has been the cornerstone of everything we do and everything we stand for.

From the industrial revolution of the 19th Century to the digital revolution of today, the men and women of The McGraw-Hill Companies have been dedicated to providing information and analysis that help people, companies and markets develop and prosper.

It's the integrity of our people and our products that have created our impressive record of growth, and that same integrity will drive our future success. This integrity also manifests itself in our relationships with our customers and communities.

We have long been committed to responsible business practices that enhance the economic, social and environmental well-being of the communities where we work and live.

We are deeply proud of our many ongoing volunteer, philanthropic and environmental programs and the ways in which our businesses and employees strive to improve the world around them every day, including:

- Company-sponsored volunteer initiatives, like Global Volunteer Day, which this year will involve 2,000 volunteers working on 120 projects in 42 cities around the world;
- Innovative grant-making in the financial literacy field;
- Developing new products and services to serve the growing “green” construction marketplace;
- Our employee “Green Teams,” which are helping reduce our environmental footprint; and
- The opening of our own LEED-certified, eco-friendly facility in Dubuque, Iowa.

These efforts speak to much more than our bottom line; they speak to who we are, and I am proud of that.

I'd like to close by once again thanking our Board of Directors for its leadership, insight, and dedication. And I would like to thank all of the men and women of The McGraw-Hill Companies for their vast contributions. And most of all, to our shareholders – thank you once again for your support and for your investment in The McGraw-Hill Companies.

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, 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.

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