The McGraw·Hill Companies

3Q 2006 Earnings Call

October 19, 2006

Presenters:
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The McGraw·Hill Companies

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"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, 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 2006 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, amortization and depreciation expense, income tax rates, capital, technology, restructuring charges and other expenditures and prepublication cost investment.

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Harold McGraw III

Chairman, President and CEO
The McGraw-Hill Companies

6% increase in EPS for 3Q 2006

$1.06 diluted EPS includes:

- $0.03 charge for incremental stock-based compensation
- $0.03 for restructuring business operations

Net income: $382.3 million

Revenue: $2.0 billion

Raising guidance for 2006 EPS

Previous EPS guidance: $2.44 to $2.49, excluding incremental impact of all stock-based compensation

- Excludes $0.13 for incremental stock-based compensation in 2006 and $0.04 for one-time charge for elimination of restoration stock option program

New EPS guidance: $2.53 to $2.55, excluding the incremental impact of all stock-based compensation and restructuring charges

- Incremental impact of stock-based compensation revised to $0.11, down from earlier estimate of $0.13

We fully expect to achieve double-digit earnings growth in 2007

The McGraw-Hill Companies

McGraw-Hill Education

Financial Services

Information & Media

McGraw-Hill Education

3Q 2006 segment results

Revenue	- 6.3% to $1.1 billion
Operating profit	- 7.0% to $354.0 million
	Includes $3.4 million for incremental stock-based compensation
	$5.6 million pre-tax restructuring charge, primarily for integration of basal publishing business
Operating margin	33.1%, virtually unchanged from last year's 33.3%

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Managing costs in weaker state new adoption market this year

Costs declined 6% in 3Q compared to same period last year
- Reflect $5.6 million pre-tax restructuring charge and $3.4 million for incremental stock-based compensation expenses

Key actions to manage costs
- Sharply curtailed hiring in anticipation of restructuring in basal publishing business
- Cut marketing and sampling costs
- Higher level of operational efficiency from Global Transformation Platform

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Reduced market opportunities for McGraw-Hill School Education

3Q revenue grew 18.9% in 2005 and declined 12% in 2006
- Texas key factor
  - Texas adoption resulted in $46 million in 3Q 2005 revenue
  - No Texas adoption in 2006

Off-year in 2006 state new adoption cycle
- Potential limited by market decline of 30%, or approximately $250 million

Our elementary products fell short in Florida and California
- Took 4% of Florida K-5 science
- Took 15% of California K-5 social studies

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Solid results with secondary school programs in key adoption states

Secondary science programs took 39% of Florida market
- Very successful in Alabama, New Mexico, Oklahoma, and West Virginia

Strong results in California social studies:
- Captured 32% of middle school market
- Captured 43% of high school market

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Solid results with other programs

Successfully introduced *Treasures*, new elementary reading program in open territory

Spotlight on Music, an elementary program, was market leader in Indiana and Oregon

Everyday Mathematics, our alternative basal, demonstrated year-over-year growth with particular strength in open territory

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Taking the measure of a soft market

El-hi industry sales down 6/10ths of 1% after eight months, according to the Association of American Publishers

2006 el-hi school market could be flat to down as much as 4%

- Texas an important factor in comparisons to 2005
  - State placed substantial orders in 3Q and 4Q 2005
  - No Texas adoption in 2006

Comparisons easier in 2007 with about a 15% increase in state new adoption market

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Gearing up for new opportunities

Integrated our two basal publishing businesses in August

- Macmillan/McGraw-Hill for grades pre-K to 6
- Glencoe/McGraw-Hill for grades 6 to 12

New combination:

- Improves our efficiency
- Leverages our talent
- Enhances new product development

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Improving new product development for a changing market

In better position to respond to demand for greater continuity in pedagogical design of instructional materials across all grade levels

- Newly-integrated publishing centers will create more comprehensive approach and greater continuity in product development efforts

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Creating pipeline of products for state new adoptions

Treasures, new elementary reading program

- Will build on success in open territory

Real Math, new skills-oriented math program

- Won number of small- and medium-sized adoptions

New literature products

- *Reading with Purpose* for middle school
- *The Reader's Choice* for high school
  - Programs have captured business in open territory

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Growing opportunities in intervention

Jamestown Reading Navigator, new online intervention program for secondary students

- Many students enter middle and high school without achieving proficiency

Intervention market has broadened as educators seek to meet yearly progress goals created by *No Child Left Behind Act*

- Many children, especially from urban districts, start school without vocabulary or number skills needed to deal with primary-grade instruction

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The outlook for new adoptions

Approval of state adoption lists comes next month

- We believe our new products key to next year's sales will be approved without difficulty
  - Most adoption lists for next year will receive state board of education approval in November
  - Many state evaluation committees have already announced their recommendations

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Facing margin pressure in testing even as we invest to improve efficiency

Decrease in 3Q for off-the-shelf sales of norm-referenced tests and reduced custom contract work

Innovative personalized study guides partially offset this softness

- Adopted by Texas and Arizona

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Higher Education, Professional and International Group

Higher Education, Professional and International Group grew 2.2% in 3Q

- Up 3% after nine months

3Q results in U.S. college and university market

- Revenue up for one major imprint ─ Science, Engineering and Math, our largest list of the year
- Business and Economics:
  Expect modest growth due to off-cycle revision year
- Humanities, Social Science and Languages:
  Off modestly for 3Q

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Higher Education, Professional and International Group

Market now expected to grow about 3% this year instead of 5% originally anticipated

- We still expect to outperform market
- Key factor will be fall release of new products

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Growing global opportunities for digital products

Digital Engineering Library

- India's largest technical university association will make this online service available to 88 engineering schools

AccessMedicine

- Australian consortium of university libraries added this online service for 17 universities

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Outlook for McGraw-Hill Education

Summary

- Stringent cost controls protected bottom line in soft education market
- Secondary school products captured significant share in key adoption states this year
- We've strengthened el-hi organization by restructuring basal business
- Challenging comparisons in 4Q for school group
  - 4Q 2005 grew 23.6% with $44 million of Texas revenue

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Outlook for McGraw-Hill Education

Summary (cont'd)

- Margins in testing business remain under pressure
- U.S. college and university market to grow about 3% this year
  - We still expect to outperform

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McGraw-Hill Education

Financial Services

Information & Media

Financial Services

3Q 2006 segment results

Revenue	+11.4% to $675.1 million +17.9% on a non-GAAP basis Excludes revenue last year of $33.0 million from Corporate Value Consulting, which was divested at the end of September 2005
Operating profit	+17.3% to $295.7 million Includes $8.0 million for incremental stock-based compensation
Operating margin	43.8%, up from 41.6% for the same quarter last year After nine months, 44.1%, up from 41.9% last year

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Why operating margin expanded at Financial Services in 3Q

Higher drop-through from increased revenue in ratings

Improvement in our data and information products and services

Expansion of our index products and services

Cost controls and the timing of expenditures

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How a diversified and resilient portfolio delivers results

Not dependent on any one asset class or market
- Our strategic goal for many years

Progress apparent in our results despite:
- Declining dollar volume issuance in U.S. RMBS and public finance markets
- Only a modest increase in U.S. asset-backed securities

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How a diversified and resilient portfolio delivers results

Many global growth drivers in 3Q:
- Structured finance and corporates
- Ratings products and services not tied to new issuance
- Data and information products and services
- Index services and products

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Global growth drivers in 3Q

International credit ratings and services accounted for 39% of ratings revenue in 3Q
- Up from 36.7% for same period last year
- Structured finance was global pacesetter

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Strong investor demand for cash flow and synthetic CDOs

Dollar volume issuance up 118.7% in U.S. and 122.9% in Europe

- U.S. saw growth in cash flow sector
  - Driven by high-yield Collateralized Loan Obligations and Collateralized Debt Obligations (CDOs) of asset-backed securities transactions
  - Hybrid transactions drove synthetic issuance
- Europe: Strong investor appetite for cash CDOs
  - Increasing number of deals in Europe coming from U.S.-based managers targeting more attractive spreads

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Strength in U.S. Commercial Mortgage-Backed Securities market

Issuance strong due to historically-low interest rate environment

- Low interest rate environment is driving commercial originations and refinancing of maturing deals
- Demand coming from life insurance companies and foreign investors

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Slowing U.S. Residential Mortgage-Backed Securities market

Dollar volume issuance declined 11.2% in 3Q

- Up 6.6% through nine months of this year

Number of deals coming to market increased 1.7% in 3Q

- Up 18.8% through nine months of this year

Activity in U.S. driven primarily by Alt-A sector and refinancing of adjustable rate mortgages

- S&P continues to benefit from increased number and mix of deals in non-agency market

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Strength in European Residential Mortgage-Backed Securities

Dominates European securitization market

Dollar volume issuance grew by 190.5% in 3Q versus same period last year

- Buoyant European housing market is a key to continued strong deal flow

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Auto companies reduce activity in Asset-Backed Securities market

Auto manufacturers have curtailed securitization as they reorganize

- Will continue to be a factor in U.S. market

European ABS market less mature than U.S.

- New issuers still entering market

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Corporate market strong in U.S. and overseas

International markets up solidly in 3Q

- Booming M&A activity and strong financing activity hallmarks of the market

In U.S., insurance companies and pension funds buying new issues as five- and 10-year bonds mature

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How a diversified and resilient portfolio delivers results

Speculative-grade market weak in 3Q

Investors turning to leveraged loans as replacement for high-yield bonds

Growth of bank loan market a key to growth of ratings and services not tied to new issue market

- 23.4% of ratings revenue in 3Q, up from 21.6% last year

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Global growth for S&P data and information

New worldwide demand for data and information products in fixed income and equity markets

Attracting new customers, selling more to existing customers

- Growth in subscriptions adds stability to revenue stream

Capital IQ adds information and functionality:

- Real-time data
- Credit research and global corporate issuer ratings from S&P
- Macroeconomic time series

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Continuing to leverage index products and services

$147.1 billion in assets under management in ETFs based on S&P indexes at end of September

- 23.5% increase compared to same period last year

25 new exchange-traded funds based on S&P indexes launched in U.S. market so far this year

- More are coming

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Outlook for Financial Services for full-year 2006

We expect double-digit top- and bottom-line growth to continue

– Excludes Corporate Value Consulting (CVC) and impact of incremental stock-based compensation

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4Q outlook for new issuance

Structured finance pipeline still healthy

Strength expected in the CDO and CMBS markets

U.S. Residential Mortgage-Backed Securities issuance expected to decline in 4Q

Corporates look solid

Leveraged loan market will continue to be strong

International issuance looks very good

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Update on regulatory outlook for credit rating agencies

President Bush signed into law the Credit Rating Agency Reform Act

Next step: U.S. Securities and Exchange Commission to engage in rule making and implement the legislation

- S&P will continue to work with the SEC

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Update on regulatory outlook for credit rating agencies

Four major improvements over original measure passed by House

1. SEC has not been injected into analytical process, criteria or methodology credit agencies use to arrive at their opinions
2. Legislation does not diminish rights, including First Amendment protection, that S&P already possesses under applicable laws
3. New firms registering to become Nationally Recognized Statistical Ratings Organizations must provide evidence that capital market participants regard them as issuers of quality credit opinions
4. Law pre-empts regulation by individual states

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Outlook for Financial Services

Summary

- Another double-digit growth year is taking shape
- Solid growth overseas
- Strong performances in the structured and corporate markets
- Excellent growth in data and information and indexes
- Expansion of operating margin

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McGraw-Hill Education

Financial Services

Information & Media

Information & Media

3Q 2006 segment results

Revenue	+ 8% to $247.3 million
Operating profit	+ 10.3% $13.7 million
	Includes $2.7 million for incremental stock-based compensation
	$8 million benefit following resolution of a dispute
	$5.7 million pre-tax restructuring charge in 3Q, primarily for employee severance costs
Operating margin	5.5%, up from 5.4%

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Business-to-Business Group revenue increased 9.9% in 3Q

J.D. Power and Associates produced top-line growth in domestic and international products

- Strong performance from automotive and financial services

Platts is adding new customers focused on financial aspects of energy market

Four major energy exchanges use Platts' price assessments to clear trades

- Platts' prices are used to settle $15 billion in global petroleum transactions every day

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Broadcasting Group: Improvement on the horizon

3Q 2006 revenue decreased 5.9% to $26.0 million

- Decline in national and local-time sales

Fourth quarter pacing

- Affected by loss of *Monday Night Football* in all our markets and *Oprah* in San Diego and Denver
- As of October 13, 4Q pacing up just about 1%
- Expect improvement as political advertising is booked

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BusinessWeek advertising up in 3Q

Global ad pages up 7.6% in 3Q as measured by Publishers Information Bureau

- After nine months, ad pages off 1.7%

BusinessWeek.com continues to build traffic

- Contributed 13.1% of *BusinessWeek's* total ad revenue in 3Q
- Named "Top 10 Performer" in 2006 by *AdWeek*'s hot list of Websites

Mobile edition of *BusinessWeek* recently launched

- BusinessWeek.mobi

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Outlook for Information & Media

Summary

- Growth in higher value-added information products
- A pick-up in business-to-business advertising

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Summing up for The McGraw-Hill Companies

Raising guidance for 2006 EPS

New EPS guidance: $2.53 to $2.55

- Guidance excludes:
  - Incremental impact of all stock-based compensation
    - A revised $0.11 estimate for incremental stock-based compensation in 2006, $0.02 less than original estimate
    - $0.04 for one-time charge for elimination of restoration stock options
  - A $0.03 restructuring charge in 3Q
  - A $0.03 restructuring charge in 4Q

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Factors influencing our expectations for EPS of $0.53 to $0.55 in 4Q

We expect double-digit top- and bottom-line growth from Financial Services in 4Q

One-time $0.04 impact for transforming Sweets

- Originally estimated $0.02 to $0.03

Challenging comparisons again in McGraw-Hill Education

- School Education Group grew 23.6% in 4Q 2005; $44 million in late orders from Texas

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Factors influencing 4Q expectations

Expect pressure on operating margins in testing business to continue

Investments in education will have impact on expenses as we prepare for bigger year in 2007

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Robert J. Bahash

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

Stronger than expected cash flow in 3Q

Returned to net surplus cash position in 3Q, ahead of projection

Net cash position of $74.3 million in 3Q consists of:

- $235.4 million in debt, primarily in U.S. commercial paper
- Offset by $309.7 million in foreign cash holdings

Expect to pay down commercial paper borrowings by end of year

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Outlook for interest expense

3Q 2006: $7.5 million, a $4.7 million increase compared to 2005

- Increased commercial paper borrowings for stepped up share repurchases
- Higher interest rates

2006: Expect interest expense of $17-19 million for full year

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Continued commitment to share repurchases

First half 2006: Acquired 26.1 million shares at cost of $1.4 billion

3Q 2006: No share repurchase activity

4Q 2006: Expect to buy back 2.3 million shares to reach target of 28.4 million in 2006

- 20 million shares will remain in share repurchase program when 2006 buyback is completed

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Returning more cash to shareholders

Share repurchases will benefit earnings per share by approximately $0.03 in 2006

Share buyback and dividend programs have delivered increasing amounts of cash to shareholders

- 2004: Returned over $630 million
- 2005: Returned over $920 million
- 2006 to date: Returned nearly $1.6 billion

Reduction in diluted weighted average shares outstanding

- 3Q 2006: 360.9 million shares
  - 20.2 million share decrease compared to third quarter 2005
  - 4.6 million share decrease compared to second quarter 2006

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Impact of restructuring

3Q restructuring charge of $15.4 million, or $0.03 per share, for employee severance

- 600 positions eliminated
  - McGraw-Hill Education: 400
  - Information & Media: 100
  - Corporate: 100

Restructuring will be completed in 4Q

- Anticipate additional $0.03 restructuring charge
  - $16.0 million pre-tax charge in 4Q relates to vacating facilities and eliminating 100 positions

Total charge for 2006 will be $31.4 million, or $0.06 per share, primarily for elimination of approximately 700 positions

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Revenue recognition and transformation of Sweets

Print catalog business transformed into Internet-based sales and marketing solution

Impact now will be in the range of $24 million, or approximately $0.04 per share

- Last year we expected a $15 million impact, or approximately $0.02 to $0.03 per share
- Increasing estimate because almost all Sweets customers are purchasing a bundled print/online product
  - Swift migration to bundled contracts not anticipated in earlier estimate

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Revenue recognition and transformation of Sweets

Impact on revenue recognition

- Historically, most of print revenue was recognized in fourth quarter when catalogs shipped
- Online revenue is recognized over the subscription contract period
- We will cycle through this change in 2007

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Impact of incremental stock-based compensation

Now expect $0.11 per share for expensing of incremental stock-based compensation in 2006

- Charge is $0.02 lower than original estimate of $0.13 per share for 2006

3Q 2006: $14.6 million, or $0.03 per share, for incremental stock-based compensation expense

Year to date: $54.1 million, or $0.09 per share, for incremental stock-based compensation expense

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Outlook for corporate expenses

3Q 2006: Increased $11.9 million

- Includes $4.1 million of restructuring charges
- Balance of increase primarily due to higher compensation-related expenses

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Dilution from 2004 and 2005 acquisitions

2006: Expect dilution of approximately $0.04

- Will be approximately cash neutral

2007: Expect acquisitions to be cash positive

No material acquisitions or dispositions in first nine months of 2006

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Outlook for tax rate

3Q 2006: Effective tax rate 37.2%

- Continue to project this rate through end of year

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Outlook for pre-publication investments

3Q 2006: $64.3 million, compared to $66.6 million in same period last year

2006: Expect $300 million

- Investment driven mainly for products we are currently developing to realize significant opportunities in el-hi market in 2007, 2008, and 2009
- Reduction from $315 million estimate is driven by continued efficiencies, technology, and global sourcing

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Outlook for CapEx for property and equipment

3Q 2006: $24.6 million, compared to $28.9 million for same period last year

2006: Decreased to $150 million from $200 million

– Delays in timing of expenditures:
  – Construction of new data center
  – Implementation of some digital technology initiatives

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Outlook for non-cash charges

Amortization of pre-publication costs

- 3Q 2006: $103.3 million, compared to $99.3 million in same period last year
- 2006: Now expect $240 million

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Outlook for non-cash charges

Depreciation

- 3Q 2006: $26.9 million, compared to $26.3 million in same period last year
- 2006: Continue to expect $130 million, reflecting higher level of capital expenditures in 2006 and full year of depreciation from 2005 capital expenditures

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Outlook for non-cash charges

Amortization of intangibles

- 3Q 2006: $12.1 million, compared to $12.4 million in same period last year
- 2006: Still expect about $50 million
  – Year-over-year increase driven by acquisitions in 2005

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NOTE: The presenters' slides will be available for downloading from 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 26, 2006

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Replay Options (Available from October 19-26)

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