The McGraw·Hill Companies

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Prepared Remarks
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Thank you, Michael [Meltz].

Before we get started today, I need to provide certain cautionary remarks about forward-looking statements. Except for historical information, matters discussed in this presentation may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including projections, estimates, and descriptions of future events. Any such statements are based on current expectations and current economic conditions and are subject to risks and uncertainties that may cause actual results to differ materially from results anticipated in these forward-looking statements. In this regard we direct listeners to the cautionary statements contained in our Form 10-K's, 10-Q's, and other periodic reports filed with the U.S. Securities and Exchange Commission.

Let's start this afternoon with four things to expect from The McGraw-Hill Companies in 2007:

1. Double-digit earnings growth.
2. Growth from all three operating segments.
3. Margin expansion in all three segments.
4. Continued management commitment to creating total shareholder value.

Our opportunities are increasingly global and digital. The convergence of technology and content is enabling us to transform the enterprise. We are connecting content and managing digital assets globally across the entire organization. This is an essential part of our effort to grow revenue while reducing costs.

Our operations are all benefiting from a very strong tailwind. In Education, there is a strong state new adoption calendar for 2007 and beyond and growing global opportunities. In Financial Services, we have solid prospects in global markets. In Information & Media, we expect another year of progress in delivering higher valued-added products and services.

As part of the commitment to create total shareholder value, the Board of Directors increased the cash dividend for 2007 by 12.9%. The dividend has been growing at a compound annualized rate of 10.4% since 1974. The company expects to repurchase up to 15 million shares in 2007 depending on market conditions. We have 20 million shares remaining from our 2006 program and the Board provided additional flexibility in January by authorizing a new buyback program of 45 million shares. Since 1996, the corporation has returned $5.9 billion to shareholders through dividend payments and share repurchases.

The market has rewarded our performance. We have outperformed the S&P 500 total return for a decade. In 2006, The McGraw-Hill Companies produced a total return of 33.5% versus 15.8% for the S&P 500. By the way the S&P 500 is 50 years old today.

The economic conditions for The McGraw-Hill Companies are favorable:

- The gross domestic product is expected to grow at 2.5%, a slower rate than last year, but still very solid, according to David Wyss, S&P's chief economist.
- Corporations are in good shape with record cash balances.
- We expect increased capital spending.
- Housing is slumping, but there is a continued recovery in office building, which is good for our construction business.
- State budgets are in good shape, which will benefit educational funding.
- Stronger productivity growth will keep inflation and interest rates down.
- We now expect an interest rate cut by the Federal Reserve sometime this summer and we could be down to about a 4.5% rate by the end of the year.

With that background, let's take a more granular look at operations.

Financial Services

Given recent developments in financial markets, I'm going to start today with the outlook for Financial Services.

I welcome this opportunity to reaffirm our forecast for 2007. We still expect double-digit top- and bottom-line growth in our Financial Services segment in 2007 and margin expansion despite an estimated decline of 10-to-15% in the issuance of U.S. residential mortgage-backed securities. No change to what we stated in January.

Issuance in the U.S. residential mortgage-backed securities market was off 9.3% in January, the only month for which we have statistics and that's relatively slow. That is the first sign of the decline S&P is expecting this year. The fall-off is mostly due to a decline in home equity loan issuance.

We realize there has been concern about the sub-prime mortgage market, so I appreciate the opportunity to share our perspective on:

- the credit quality of residential mortgage-backed securities and collateralized debt obligations rated by Standard & Poor's, and
- the prospects for our structured finance business.

Let's start with the sub-prime market, which represented 40% of rated U.S. residential mortgage-backed securities issuance in 2006. It is true that delinquencies in this segment of the market have increased, but the impact on overall credit ratings has not been significant. In 2006, we lowered about 1.5% of the 9,997 outstanding sub-prime ratings. To date in 2007, there were no downgrades and only 10 *CreditWatch* actions relating to almost 5,000 vintage 2006 sub-prime ratings. That is only 0.2% of the outstanding ratings, so you can see these actions represent only a small percentage of the total ratings.

Despite probable near-term increases in losses and downgrades, S&P expects the residential mortgage-backed securities market to perform well over the long-term and it certainly has. Most of those residential mortgage-backed securities transactions now on *CreditWatch* were issued during the first half of 2006 before S&P raised loss coverage levels for certain sub-prime mortgages. It is also worth noting that the residential mortgage-backed securities instruments placed on *CreditWatch* have had no current impact on any outstanding collateralized debt obligations rating.

S&P saw early signs of poor performance of the collateral backing these residential mortgage-backed securities transactions now on *CreditWatch*. By placing these instruments on *CreditWatch* when the transactions had not yet experienced a loss, S&P was signaling the market that it was adopting a new, more stringent standard for the surveillance of these types of transactions. It notified the market in April that it was going to be strengthening loss coverage and implemented it three months later.

S&P was able to take this early action because it regularly monitors credit markets and the credit performance of its rated transactions and systematically reports on both. S&P regularly communicates its opinion on not only what is happening, but what may happen through *CreditWatch* and its rating actions. That's why professionals closely follow our *CreditWatch* actions.

I think S&P has been very on top of the situation in the sub-prime market. When lending standards started to deteriorate last year in the sub-prime market, S&P raised the level of credit support for riskier sub-prime deals and tightened surveillance standards for residential mortgage-backed securities.

Moreover, S&P has a fully-integrated surveillance process for residential mortgage-backed securities and collateralized debt obligations. That means S&P will determine what effect, if any, the increase in delinquencies on certain sub-prime mortgages has on both its rated residential mortgage-backed securities transactions and those collateralized debt obligations transactions which hold residential mortgage-backed securities.

We do not expect the problems in the sub-prime market to impact the growth prospects we anticipated in 2007 for structured finance. Generally, residential mortgage-backed securities transactions issued during the second half of 2006 are supported by higher loss coverage and are still performing as expected, but as a cautionary note I would point out that it is very early in the life of these transactions. And I've already pointed out that last July S&P increased loss coverage for sub-prime deals.

So, what is the current outlook? S&P believes that the 2006 vintage residential mortgage-backed securities transactions will under perform relative to the 2005 transactions. But based on our current economic scenarios, S&P does not believe the 2006 transactions will perform as badly as some have suggested. S&P is anticipating losses in the 5.25% to 7.75% range, which is slightly above vintage year 2000, the previous worst-performing year with average cumulative losses of about 5%.

Overall, we expect the residential mortgage-backed securities to maintain strong credit quality and returns that continue to attract investors at a time when high-grade corporate issuance is in short supply. Today, the credit quality of a U.S. corporate bond is averaging BBB-. Between 1978 and 2006, S&P has issued 46,912 residential mortgage-backed securities ratings. 85% were initially investment grade: AAA to BBB. Last year, for 2006 vintage residential mortgage-backed securities, 88% were rated investment grade.

Of the $3.6 trillion in par value of S&P ratings outstanding as of January 1, 2007, 88.1% are rated AAA. In general, then, the vast majority of residential mortgage-backed securities ratings have been investment grade and are very stable. S&P believes its models have captured the deterioration in the credit quality of the 2006 sub-prime mortgages.

The sub-prime mortgage originations may decline this year, but the sub-prime market will not evaporate. The mortgages are profitable for lenders and represent an opportunity to own a home for many people who would never qualify for a prime mortgage. In a detailed report at the end of January, the Mortgage Bankers

Association pointed out that "even with the expansion of credit availability with the growth of the sub-prime market, foreclosures are well below their historic highs and will not have a macroeconomic impact."

Some other key points from the Mortgage Bankers' report:

- The residential finance market is fundamentally sound and working efficiently.
- Mortgage originations will fall in 2007 relative to 2006 given the decline in home sales and diminished refinancing activity.
- Barring any unexpected downturn in the economy, the recent increase in mortgage delinquency rates will likely peak by the end of 2007, but at levels well below those of past peaks. This lower peak will come despite the change in the composition of outstanding loans — namely the larger proportion of sub-prime loans in recent years.

All of which brings me back to my starting point.

We began by predicting a 10-to-15% year-over-year decline in the U.S. residential mortgage-backed securities market in 2007. That is a continuation of the slow down experienced in 2006 when U.S. residential mortgage-backed securities issuance rose by only 1%. It was also a year in which our Financial Services segment had double-digit top- and bottom-line growth and margin expansion.

We started 2007 expecting another year of double-digit increases even though loan originations and issuance would decline. Except for U.S. residential mortgage-backed securities issuance, we continue to expect increases in all other asset classes. That includes collateralized debt obligations where the financial community's innovation is clearly evident in its ability to meet investor demand for return.

There is also a paradox to consider. The reduction in home equity withdrawals brought on by slower housing price appreciation implies better issuance in the asset-backed sector where credit card issuance was up 102.9% in January. Credit cards should be strong and the outlook for commercial mortgage-backed securities remains very strong due to a robust commercial property outlook.

So, let's quickly review our outlook for new issue dollar volume in 2007 by asset class:

- Corporate issuance will grow. There will be continued debt-financed merger and acquisition activity and healthy spending. European prospects look particularly strong.
- Public finance may increase modestly. There could be opportunistic refinancing depending on interest rates.
- Commercial mortgage-backed securities will grow, with strength both in the U.S. and abroad.
- Residential mortgage-backed securities, as I've said, will decline in the U.S., although we expect solid growth again in international markets, especially in Europe and Japan.
- Asset-backed securities will show moderate growth in the U.S. and bigger increases in international markets.
- Collateralized debt obligations will show continued strength in the U.S. and abroad, driven by new structures and an increasing investor base. U.S. collateralized debt obligations grew by 143.7% in January and even faster globally.

This is a very high quality market. For currently outstanding collateralized debt obligations, the overwhelming majority are investment grade. Of the $828 billion of outstanding U.S. collateralized transactions, 98% are investment grade. 82% are rated AAA.

Over many years, we have increased the diversity and resiliency of our portfolio at Standard & Poor's. That crucial point sometimes gets lost amid all the headlines about problems in the sub-prime market. Today, S&P is more global, more diverse, and more resilient than at any time in its history.

Three charts will help illustrate how this business has changed in recent years.

Today, S&P operates in more than 20 countries. In 1994, international revenue accounted for 21% of ratings' total. In 2006, international revenue accounts for 39% of ratings' revenue. We expect that percentage to continue increasing as international business grows faster than our domestic operations.

Today, S&P rates a growing array of instruments that are not directly tied to new issuance and provides new tools and models to our customers. In 1994, these products and services accounted for 8% of ratings' revenue. In 2006, that figure had climbed to 24% and we fully expect it to keep growing. We call that non-traditional ratings.

S&P's fee structure reduces dependency on transactions through the growth of frequent issuer and surveillance programs. In 1994, transactions accounted for 60% of ratings' revenue. In 2006, the transaction revenue had been reduced to approximately 45 to 50%.

This shifting mix contributes to the sustainability of our performance while reducing our dependence on any single product or asset class.

In recent years we have also continued to make strategic changes in the portfolio, selling off low-growth, low-margin businesses and acquiring companies like Capital IQ, which enable us to take advantage of growth opportunities for Web-based financial information services.

The sale last month of our mutual fund data business is another example of this strategy of focusing resources on core analytical services. S&P has a market-leading qualitative mutual fund ratings business. S&P currently rates more than 2,200 funds globally. The distinction here is that our rating is a forward-looking opinion of the quality of the fund's management based on in-depth analysis of its managers, investment process, and consistency of approach. We will continue to build this part of the business.

Extracting greater value from S&P content is a strategic imperative and here Capital IQ has been growing rapidly as our data aggregator, data provider and information distributor. Capital IQ now serves more than 1,800 clients, including long-only funds, investment banks, private equity firms, and hedge funds.

Late last month, Capital IQ announced the broadest platform update in its short but very productive history. The winter 2007 release includes:

- New capital structure data on public companies globally,
- Global fixed income securities data and pricing history both from S&P and Moody's,
- Credit and purchase agreement and indentures, and a lot more.

We are also continuing to expand our index services. Since 2000, we have seen a steady growth in assets under management in exchange-traded funds based on S&P indexes. At the close of 2006, there was $161 billion in assets under management in exchange-traded funds tied to S&P indices.

Our index products and services generate revenue in four ways:
1. License fees for use of our intellectual property.
2. Basis points for assets under management in ETFs.
3. Royalties from the trading volume of contracts for listed derivatives based on S&P indices.
4. Data sales.

Our goal here is to provide an index for every type of investment style. That's why we have been adding new asset classes. We acquired the Goldman Sachs Commodity Index in February. It's the market leader. We moved into real estate with the S&P/Case-Shiller Home Price indices for trading futures and options on futures.

35 new exchange-traded funds based on S&P indices were launched in 2006, bringing the total of ETFs based on our indices to 87 at year end. There are currently 43 more S&P index-based ETFs in registration with the SEC.

I have devoted a lot of time this afternoon to Financial Services. I hope it been helpful, especially in terms of our outlook for the sub-prime market. We have a unique blend of fixed income and equity products and services. They represent a diversified and resilient global growth business with excellent prospects in 2007 and for many years beyond.

So, let's sum up the current outlook for Financial Services:
- Continued strength in ratings.
- Solid growth in international markets.
- Excellent growth in data and information and indices.
- Another year of double-digit top- and bottom-line growth in 2007.
- Margin expansion.

McGraw-Hill Education

Let's now turn to the McGraw-Hill Education segment. Nearly half of the revenue in this segment comes from the Higher Education, Professional and International Group. The rest is produced by the McGraw-Hill School Education Group.

McGraw-Hill Education is a globally recognized brand in a world where education is a necessity. The key fact is simply this: You cannot compete successfully in the knowledge economy without knowledge workers.

In the United States, business and government leaders recognize we cannot remain competitive with an under-educated workforce. It's not surprising that around the world, governments are spending more than ever before on education as a percentage of their gross domestic product.

As the demand for education is increasing, worldwide enrollments in higher education are growing. Currently, there are 100 million higher ed students enrolled in 20,000 colleges and universities around the world. Enrollments could more than double by 2025. In the U.S., 17 million students are enrolled in more than 4,000 colleges and universities. By 2014, enrollments could hit a record 19.5 million.

At the same time, technology is removing geographic barriers and expanding access to quality education. A new generation of online products will enhance the learning experience for students and improve productivity for instructors. Technology is transforming the delivery of instruction and producing incremental, renewable revenue streams through:

- Self-paced learning systems,
- Online courses, and
- Course management tools.

We expect the U.S. college and university market to grow about 4% this year. We expect to do better. We have a strong list of new titles. More than half of our international revenue in education is from higher education markets, which are growing faster abroad than in the U.S.

Prospects are also very promising for the McGraw-Hill School Education Group. The state new adoption market enters the first of three consecutive years of growth. 2007 state new adoptions could increase by as much as 15%. The open territory sales could grow in the low to mid single-digit range, perhaps higher—we have to wait and see. Overall, we expect the market to grow 4-to-6%.

We expect to do better than that for several reasons:

1. We are increasing our opportunities in 2007 by competing in virtually 100% of the state new adoption market. Last year, the School Education Group competed for about 80% of the available dollars in the state new adoption market.

2. We have timed the introduction of new products to pursue the bigger growth opportunities available to us starting in 2007. This is not a one-size-fits-all market. It is diverse. That's why we offer a spectrum of products to help educators solve their problems.

   That's a great chart. Once we just had a few offerings in the balanced basal. Now you also have to be in the skills-based and the progressive. You have to be able to fill in completely. What is core to one area could be remedial or intervention to another.

3. We have strengthened our organization to meet the market's need for solutions. By creating a single basal operation last year, we have realigned our product development and integrated sales and marketing efforts. We believe these actions will improve delivery of pre-K–12 solutions, sharing of resources, growth of the top line, and opportunity to lower costs.

4. The addressable market is expanding as educators seek to meet yearly progress goals for reading and math.

   We have new intervention programs which supplement regular classroom work. We start in the early grades for students who need to develop English vocabulary and/or numbers sense to deal with standard primary-grade instruction. We have new online programs for the secondary school intervention market because many students still enter middle and high school without the necessary proficiency.

5. The new level of accountability created by the *No Child Left Behind Act* is increasing the scope of testing and measurement and creating new opportunities in the formative market.

   We have a promising new product for formative testing. It's called Acuity. It's Web-based and linked to state standards. It is both diagnostic and predictive—a powerful combination for the classroom teacher who wants to know how students will perform in the high-stakes test at the end of each year.

6. We are also continuing to streamline our operations to improve productivity.
   - The Global Transformation Project created a common platform for order-to-cash processing based on the Oracle 11i system.
   - The Global Resource Management initiative is the key to streamlining our workflow. It is not only helping us improve productivity in the U.S. operations, it is enabling us to work successfully with off-shore vendors for faster turnaround at lower costs.
   - We are also increasing our printing off-shore. We are currently realizing savings of 20-to-30% on books that are being printed in China.

So, let's sum up the outlook for McGraw-Hill Education:

- Growing global prospects for higher education and professional markets.
- More growth in digital products as convergence of technology and content increases the addressable market.
- Improved prospects in a growing elementary-high school market in 2007.
- Robust state new adoption market starting in 2007.
- A growing spectrum of products to serve the diverse el-hi market.
- Margin expansion in 2007.

Information & Media

And finally, let's take a look at Information & Media. I often refer to this segment as our incubator.

The Internet is reshaping the business-to-business market and driving the need for information and analytics. Our focus is on delivering higher value-added information to readers and advertisers. The transformation means more focus on:

- News and information in whatever format—text, audio, and video.
- Data and analytics, workflow tools and services.
- Search advertising and lead generation.
- User-generated content from online communities.

The transformation of Sweets print catalog business into a bundled print-and-online service had a substantial impact on fourth quarter results last year. Revenue was reduced by $23.8 million. Operating profit was reduced by $21.1 million, or $0.04 per share. Because of the transformation of Sweets from a print catalog to a bundled print-and-online service, we expect to recognize the $23.8 million in revenue as earned during 2007.

We also expect solid growth this year from J.D. Power and Associates, which is doing well, as is Platts, our energy service.

BusinessWeek is continuing its evolution into a multi-media brand. We are now delivering content via blogs, podcasts, video, television and a mobile edition. *BusinessWeek.com* grew by 46% last year albeit off a small base and we expect more growth in 2007.

Print advertising is still sluggish. After nine issues this year—usually this is a very awkward period as budgets are starting to get formulated—ad pages are off 7% versus 2006. *BusinessWeek* has increased its one-time ad page rate by 4.8% while maintaining the global rate base at 900,000.

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

- Expanding services in a digital world.
- Growth in higher value-added information products.
- Margin expansion in 2007.

The outlook for The McGraw-Hill Companies is very promising.

- Double-digit earnings growth in 2007.
- Another year of double-digit top- and bottom line increases in Financial Services.
- Solid gains in our elementary-high school business.
- Growing global opportunities in higher education.
- More progress at Information & Media.
- Margin expansion in all three operating segments.

Thank you.