The McGraw-Hill Companies

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Thank you, Brandon [Dobell].

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 by reaffirming our guidance for 2007. We expect double-digit earnings growth. We also expect growth and margin expansion from all three operating segments. That includes another double-digit top- and bottom-line increase from Financial Services.

Our operations are all benefiting from a strong tailwind. In Education, there is a strong state new adoption calendar 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.

In line with our 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 annual rate of 10.4% since 1974.

We also expect 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 in January provided additional flexibility by authorizing a new buyback program of 45 million shares. Since 1996, the corporation has returned $5.9 billion dollars to shareholders through dividend payments and share buybacks.

Our performance has been recognized in the market. 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.

The economic outlook is favorable:

- Corporations are in good shape with record cash balances.
- Capital spending is expected to increase.
- There is continued recovery in office building, which is good for our construction business.
- State budgets are in good shape, which benefits education.

- Our chief economist, David Wyss of Standard & Poor's, expects 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.
- And Wyss expects the gross domestic product will grow about 2.4% this year, a slower rate than 2006, but still very solid.

With that background, let's look at our operations.

McGraw-Hill Education

Let's start with McGraw-Hill Education.

The industry is clearly in flux. Old competitors are exiting, new competitors are entering, and some competitors are reorganizing. It is our belief that the future favors steady hands — experienced professionals who understand the industry dynamics and have the plans in place to realize the new opportunities.

We have never felt better about our prospects in education. There are easily a dozen reasons why I am optimistic about our opportunities today.

1. Education today is a necessity. We live in a knowledge economy which requires knowledge workers. Their trained minds are the product of education and education is our product.

2. The pre-K–12 market will be expanding throughout the rest of the decade. The state new adoption market is projected to grow in 2007, 2008, and 2009 with major purchasing scheduled in the core curriculum areas by the big three adoptions states—Florida, California, and Texas—as well as smaller states.

3. Pre-K–12 enrollments will continue to grow through the end of the decade and well beyond. According to the National Center for Educational Statistics, public elementary and secondary enrollments will reach 51 million in 2015, an increase of 2.5 million, or 5.2%, over the 2005 number.

4. Efforts at reform over the last five years, and particularly the expanded testing mandated by the *No Child Left Behind Act*, have focused the nation's attention on the achievement gaps that limit opportunities for far too many children.

   Whether or not the No Child Left Behind Act is reauthorized under its present name, we believe there is strong commitment to the *Act's* basic principles among the public as well as both parties in Congress. Education is also high on the agendas of elected officials across the 50 states. As a result, we should continue to see a favorable funding environment for the companies who can provide effective solutions.

5. In both government and the business community, there is broad recognition that we must do a better job of developing the talents of all our citizens in order to build and maintain the skilled workforce that is imperative if the U.S. is to compete successfully in the global knowledge economy.

   To underscore that point, Terry McGraw still hopes to testify tomorrow before the House Committee on Science and Technology. He will emphasize not only the importance of math and science education but more broadly the need for innovation and the importance of education and lifelong learning to retain our society's competitiveness.

Competitiveness also was the theme of a four-day conference held in February by the National Governors Association, which concluded with a call for a national commitment to change. This consensus has favorable implications for every level of education that The McGraw-Hill Companies serves.

6. We are increasing our participation in a growing market. We took part in 80% of the state new adoption market in 2006, but we will participate in virtually all segments of the state new adoption markets in 2007, 2008, and 2009.

7. We will be competing with many new and revised products that reflect our successful K–12 publishing strategy. We produce a broad spectrum of products for each core curriculum area because we know that one size does not fit all children in our diverse society. By offering several well-researched approaches to instruction in each major discipline, we allow educators to choose the programs best suited to individual districts, schools, or classrooms.

8. Last year, in plenty of time to prepare for the current selling season, we strengthened our organization by combining our elementary and basal publishing operations. Instead of separate editorial and production centers, we created unified K–12 centers of excellence for each curriculum area. We also unified our K–12 sales and marketing teams under the same management. These changes are helping us improve our top and bottom lines.

9. So far, we've talked most about the pre-K–12 market, but it is important to remember that we also have a major presence in the higher education market where enrollments are rising at a great rate. The National Center for Education Statistics projects that undergraduate and graduate enrollments in the U.S. will increase by 15% to nearly 20 million between 2006 and 2015.

10. The rapidly expanding international markets for educational materials provide still another reason for optimism. Our global operations, which have been solidly in place for many years, are seeing increased demand for U.S. products, especially in the English-language training, higher education, and professional categories. For example, our online reference, *AccessMedicine*, is used in more than 42 countries, as well as virtually all U.S. medical schools.

11. The convergence of content and technology is creating opportunities for new products that generate incremental revenue. This is a very positive development and unlike some others, we are not impatient with the pace of digital transformation in education. We know that success depends on creating and delivering superior content in whatever format the customer uses best. We work closely with all our customers to understand their differing product needs, their timetables, and their cost restraints—and we plan our investments accordingly.

    In each market, we have leading-edge digital products available for customers who are ready for them. Demand is growing most rapidly in the professional market where we now deliver online medical content in many formats, including podcasts for patient point-of-care. For higher education, we offer complete online courses, customizable by institution. In the K–12 market, we are seeing strong interest in *Jamestown Reading Navigator*, our new online program for reading intervention in the secondary grades. Online delivery is also the wave of the future in testing, where it offers cost savings for both customer and provider. In short, we have the technology, infrastructure, and market intelligence required to scale up efficiently as the demand for digital products continues to grow.

12. My twelfth reason for optimism: We have identified new opportunities to improve our cost structure. We demonstrated an ability to manage costs last year in a declining market. With an eye on the future, we have launched important initiatives—Global Transformation Project and Global Resource Management—to enhance efficiency and reduce expense in the future.

Finally, let me underscore again that The McGraw-Hill Companies has the talent and experience to achieve our goals. As you may know, our company has published educational materials since its founding in 1888 by a teacher named James H. McGraw. Of course, the key to survival is anticipating the future, not celebrating the past. But we believe that our long-term perspective, together with the outstanding abilities of our educational publishing professionals, will enable us to thrive as our markets continue to evolve and expand.

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

- In the U.S., we expect the el-hi market to grow 4-to-6% this year. Higher education will grow by about 4%. We expect to outperform in both markets.
- We will benefit from growing global prospects for higher education and professional markets.
- We expect more growth in digital products as the convergence of technology and content increases the addressable market.
- We expect margin expansion in 2007.

Financial Services

Let's turn now to Financial Services.

We continue to forecast double-digit top- and bottom-line growth for this segment despite a decline in the dollar volume issuance of U.S. residential mortgage-backed securities, or RMBS, of 10-to-15%. That is a continuation of the slow down experienced in 2006 when the U.S. residential mortgage-backed securities rose by only 1%. It was also a year in which Financial Services had double-digit top- and bottom-line growth and margin expansion.

Except for U.S. residential mortgage-backed securities issuance, we continue to expect increases in all other asset classes. By the way, issuance for U.S. residential mortgage-backed securities was off 9.3% in January, the only month for which we have statistics. That fall off is mostly due to a decline in home equity loan issuance.

We recognize there has been concern about the sub-prime market so I want to review the situation there. It is true that delinquencies in the sub-prime market have increased, but the impact on overall credit ratings has not yet been significant. In 2006, we lowered about 1.5% of the almost 10,000 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.

S&P has been 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 notified the industry in April 2006 that it would be raising in July 2006 the level of credit support for riskier sub-prime deals and tightened surveillance standards for residential mortgage-backed securities.

S&P has a fully-integrated surveillance process for residential mortgage-backed securities and collateralized debt obligations, or CDOs. 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.

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 about 47,000 residential mortgage-backed securities ratings. 85% were initially investment grade: AAA to BBB.

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 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 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.

So, let’s 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. European prospects look 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 we’ve said, will decline in the U.S., although we expect solid growth again in international markets.
- 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. International business accounts for 39% of ratings' revenue and that percentage will increase.

The rating of instruments that are not directly tied to new issuance—bank loans, for example—and sales of tools and models accounts for 24% of revenue and we confidently expect more growth.

S&P has reduced its dependency on transactions through the growth of frequent issuer and surveillance programs. In any single year, transactions will account for 45-to-50% of revenue. Another measure of our success is the growth of unearned revenue. The corporation's unearned revenue grew by more than 15% last year to $983.2 million. The increase is primarily attributable to Financial Services' ratings products.

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.

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.

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 indices. At the close of 2006, there was $161 billion in assets under management in exchange-traded funds tied to S&P indices.

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. We moved into real estate with the S&P/Case-Shiller Home Price indices for trading futures and options on futures.

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.

Information & Media

Now, let's take a look at the Information & Media segment.

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

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

We expect solid growth this year from J.D. Power and Associates and Platts, our energy service.

The transformation of Sweets from a print catalog business into a bundled print and online service meant a change in revenue recognition and a reduction in fourth quarter revenue last year of $23.8 million. We expect to recognize that revenue as earned during 2007.

BusinessWeek is continuing its evolution into a multi-media brand. *BusinessWeek.com* grew by 46% last year off a small base and we expect more growth in 2007. After ten issues this year, print ad pages are off 3.2% versus 2006.

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 segments.

Thank you.

"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 2007 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 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 mortgage and asset-backed securities; the regulatory environment affecting Standard & Poor's; the strength of the U.S. 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 income/(expense), distribution expenses, postal rates, amortization and depreciation expense, income tax rates, capital, technology, and other expenditures and prepublication cost investment.

Actual results may differ materially from those in any forward-looking statements because any such statements involve risks and uncertainties and are subject to change based upon various important factors, including, but not limited to, worldwide economic, financial, political and regulatory conditions; currency and foreign exchange volatility; the health of capital and equity markets, including future interest rate changes; the implementation of an expanded regulatory scheme affecting Standard & Poor's ratings and services; the level of funding in the education market (both U.S. and internationally); the pace of the economy and 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.