The McGraw-Hill Companies

Bear Stearns 21st Annual Media Conference

Prepared Remarks
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Thank you very much, Michael [Meltz].

Before we get started, please note the "Safe Harbor" Statement on the screen and the caution about forward-looking comments. We refer all inquiries to the publicly-filed statements contained in our Form 10-Ks, 10-Qs filed with the U.S. Securities and Exchange Commission.

Good morning. It's good to be here. We are here to talk about the prospects for The McGraw-Hill Companies. And we start this year by reaffirming our commitment to creating total shareholder value.

The first step was the Board of Directors' decision in January to increase the cash dividend by 7.3% for 2008. Our dividend has now been increased for 35 consecutive years and has grown at a compound annual rate of 10.3% since 1974.

The next step the Board took was to extend the share buyback program into 2008. The Board approved the initial repurchase target of 20.0 million shares for the year, subject, of course, to market conditions. We have a total of 28.0 million shares authorized so more could be done depending upon how the year unfolds.

Since 1996, the Corporation has returned approximately $8.4 billion to shareholders through dividends and share buybacks. That includes $2.5 billion in 2007. With that record of commitment, The McGraw-Hill Companies continues to substantially outperform the S&P 500 on a rolling 10-year period despite the challenges of 2007.

With the economy probably in, or at least heading into, a recession in the first half, 2008 will not get off to a good start. A recession could slow core inflation, but housing remains a problem area for the economy. The pattern of declining sales of new homes and existing homes is continuing. Prices are still falling and the high inventory of new and existing homes for sale will exert downward pressure on prices even after sales have leveled off. That's according to David Wyss, the chief economist at Standard & Poor's. He expects housing sales to bottom out around mid-year with prices leveling off toward the end of the year, maybe early into 2009.

State budgets are under some pressure, although the problem is not as severe as it was in 2001 and 2002.

More rate cuts by the Federal Reserve seem virtually certain now. Another 50 basis point cut is expected when the Fed meets on March 18. There could be a further reduction at the April meeting.

There's a lag before monetary policy kicks in, so David Wyss doesn't expect it to provide a boost to the economy before the beginning of 2009. In the meantime, he says the new fiscal stimulus package could boost consumer spending by the middle of this year and help produce U.S. Gross Domestic Product growth of 3.2% in the third quarter and 2.4% in the fourth quarter. It's usually a two quarter sugar hype, and then hopefully the monetary policy kicks in.

The world economy remains strong and is expected to grow at 4.1% this year, with Asia leading the way. That's important to The McGraw-Hill Companies since our international revenue grew by more than 15% last year and accounted for 26% of our total. We expect another solid performance this year in international markets from all three of our operating segments.

With that as background, let's take a look at the individual operating segments.

Financial Services

Let's start with the outlook for Financial Services.

Our guidance for this segment in 2008 has been that we were going to expect revenue growth of 2% to 4% and the operating margin to decline between only 125 to 225 basis points this year. However, given the results of January and February and the new issue volume, and the continued uncertainty, it is probably unlikely that we will achieve this performance. It is also very difficult to update guidance with any precision at this time, so we are going to hold off on making any forecasts until we have better clarity.

We face difficult comparisons and a greater pressure on margins in the first half, followed by some improvement in the second half when comparisons are less challenging. We're on record with a forecast of a down first half for S&P.

In 2007, Standard & Poor's had the best first quarter in its history as revenue grew by 21.5%. The operating margin of 47.7% included a gain on the sale of a mutual fund data business. But as the latest new issue statistics show, the turbulence that hit the credit markets last fall has carried into the first quarter of 2008. That's especially true for the U.S. structured finance market in particular.

As the graph shows, year-over-year new issuance declined sharply in January and February in every category in the U.S. market except asset-backed securities, which were up in January. U.S. structured finance was off 69.4% in January and 84.8% in February. Total U.S. issuance was off 35.9% in January and 62.9% in February. For the same periods, European issuance was off 54.4% and 50.7%, respectively. If these trends continue, they will have a significant impact on our full year forecast.

Our new issue figures are based on:

- The domicile of the issuer,
- When deals are issued, not when they are priced, and
- Only the ratable part of the market because that is the actual measure of the total opportunity.

Transaction volume accounted for 46% of S&P's ratings revenue in 2007 and 49% in the first quarter, so softness in the new issue market will clearly have an impact on our results in the first quarter. We are watching these trends carefully, and our obviously our costs very carefully.

As you may recall, we put a hiring freeze in place in the second half of last year. That was followed by a pre-tax restructuring charge of $18.8 million in the fourth quarter. All that was in recognition of the business environment and the consolidation of several support functions across Standard & Poor's. As a result, 172 positions were eliminated, and we should see the full impact of these savings in the second quarter.

We continue to take a measured approach to managing costs. The hiring freeze remains in place. We are scrutinizing discretionary costs very carefully. However, we continue to invest in key initiatives in ratings that will help to further strengthen the franchise. I can promise you that we will take more steps to reduce costs if the environment does not improve at the pace we now expect.

Although the timing of the recovery from the credit crunch can't be predicted with any certainty, the conditions favoring a recovery are reasonably well understood and are being carefully monitored.

We believe the sequence going forward will go something like this:

- First, we must see greater transparency and an end to forced liquidations.
- As banks and other financial institutions identify and reserve for all of the losses related to structured finance, exposures will become transparent to the market and write-downs will end.
- Efforts to inject liquidity into the market and other actions by the Federal Reserve on lowering interest rates will begin to take hold. With tighter credit standards and improving liquidity, banks will be able to attract more funds, allowing them to increase lending. As investors start to reach some consensus on fair values, credit spreads will realign. Deals now hung in the pipeline will get priced and the current backlog will get cleared.
- Importantly, as pricing is reset in the marketplace, investor demand will start to return as the market recognizes that price and yields are not the true arbiters of credit quality.
- As market mechanisms are reaffirmed, new debt issuance will increase, reflecting a more conservative approach to financing and a reduced appetite for complexity. With improved internal risk management procedures in place at banks and other financial institutions, we will also see renewed confidence in fundamental credit analysis and the value of the new actions that S&P has taken to better service global capital markets.

Just about one month ago, Standard & Poor's announced 27 steps to strengthen its independence, quality and transparency. These enhancements are focused on four key areas: Governance, Analytics, Information, and Investor Education.

1. Governance to ensure the integrity of the ratings process,
2. Analytics to enhance the quality of ratings analysis and opinions,
3. Information to provide greater transparency and insight to market participants, and
4. Investor education to more effectively inform the marketplace about credit ratings and rated securities.

Now, the 27 steps in S&P's comprehensive program include:

- Creating an office of the ombudsman to address concerns over potential conflicts of interest,
- The engagement of an outside firm to periodically conduct independent reviews of S&P's compliance and governance, and
- The addition of new surveillance capabilities.

Details on all of this are included in the kit we are distributing here today. You can also get the details on S&P's website: www.standardandpoors.com.

Standard &Poor's senior management met with regulators, legislators and other government officials here and abroad to explain the plan and answer questions about it. The response from policymakers has been positive. Both privately and publicly, we are beginning to see through these assessments of the current market situation.

In addressing the Institute of International Bankers last week, SEC Commissioner Paul Atkins pointed out that the SEC is examining the ratings agencies for conflicts of interest and whether or not we diverged from our stated methodologies and procedures. We welcome that examination and report.

Commissioner Atkins went on to say, "A rating is an expression of an opinion—one that barring self-dealing or lack of integrity enjoys the protection of the First Amendment." He also said, "More importantly, we must remember that even the highest rating by a credit agency is not an insurance policy. We should not create a regulatory regime that appears to provide insurance when there is no such certainty in the capital markets."

We will continue to work closely with the Securities and Exchange Commission and other regulators, legislators and state attorneys general to ensure that Standard & Poor's is contributing to the building of greater confidence in credit ratings and supporting the efficient operation of global credit markets. S&P wants to be a part of the solution and we believe we're making progress on both the regulatory and legislative fronts.

On the legal front, there are two lawsuits, but at this time nothing material has occurred. We don't believe any pending legal, governmental or self-regulatory proceeding will result in a material adverse effect on our financial condition or on our operations.

In looking ahead, the diversity of S&P remains a key to our progress. By diversifying over many years, S&P has reduced its dependence on any single market, asset class, or business.

Financial Services starts the year with $793 million in deferred revenue, most of which will be recognized this year. This is a durable stream of revenue and even under current market conditions, we expect it to continue growing this year—and next.

In 2007, 26% of Financial Services revenue came from S&P Investment Services—this is a non-ratings business—which grew by 16.3% last year. In 2008, we expect another year of double-digit growth. In our data and information business, Capital IQ continues to grow and expand.

The demand for new investable products and investment strategies will help keep our index services business growing. In January, we launched 11 new indices. We already have clients for many of these indices. Credit Suisse signed up as a market maker for the S&P SmallCap 600 futures on the Chicago Mercantile Exchange, bringing to 10 the number of market makers for that contract.

Bear Stearns has been licensed to trade over-the-counter contracts based on the S&P/Case-Shiller Home Price Indices—this is the industry's most widely followed measure of U.S. residential home prices. The licensing agreement is part of an S&P initiative to facilitate an over-the-counter market for derivatives based on these indices.

In ratings, we continue to expand our global network. We recently completed the acquisition of a rating agency in Israel—S&P Maalot—and opened new offices in Dubai and Johannesburg.

We expect more growth overseas this year. In 2007, international revenue represented 40% of ratings and will be a bigger contributor in 2008. Asia will probably be the fastest growing overseas region this year with CRISIL leading the way. CRISIL is a smaller but more rapidly growing Indian version of S&P. It offers ratings and equity research products. CRISIL's top line has grown by nearly 400% since 2004 and had revenue of about $100 million in 2007. We acquired majority interest in CRISIL in May of 2005.

Ratings' non-transaction revenue—54% of the mix in 2007—will make a bigger contribution in 2008. Strong demand for S&P's research products, *RatingsDirect* and *RatingsXpress*, rising annual fees and expanding surveillance services will be important contributors.

S&P provides tools and models to its customers and provides ratings and services that are not directly linked to new public debt issuance. These non-traditional services account for about 26%—or just a little under that—of ratings revenue in 2007 and should continue to contribute in 2008.

We also expect growth in corporates and public finance this year.

And that brings me to structured finance, where adverse market conditions continue to impact growth in the collateralized debt obligation market, in U.S. residential mortgage-backed securities as well as U.S. commercial mortgage-backed securities. As I pointed out at the start of these remarks, the impact in the structured market will be most pronounced in the first half of this year.

So let's sum up for Financial Services:

- January and February new issue volume softer than anticipated,
- Uncertainty remains high,
- Diversity is more important than ever in Financial Services, and
- More cost-cutting is likely if the market recovers more slowly than expected.

McGraw-Hill Education

Now, let's review the McGraw-Hill Education segment.

The value of education continues to grow, fueled by increased enrollments both here and abroad and the recognition that an educated population is essential for U.S. and global competitiveness.

Now, that may seem somewhat removed from this year's strong state new adoption market, concerns about school funding and the outlook for higher education. I will come back to those developments shortly, but first I want to point out that the education business is continuing to change:

- The market has consolidated across the K–16 spectrum,
- We have three major competitors instead of four,
- Two of the new competitors are heavily encumbered by debt, and
- The convergence of technology and content and a robust elementary-high school adoption schedule for the remainder of the decade require new investments.

To retain a competitive edge, we are increasing our investment in technology this year to:

- Help us manage costs better in the future,
- Develop both print and digital products more efficiently,
- Create new incremental revenue by delivering our content in a variety of digital formats,
- Support current and new digital products with a robust customer-facing technology infrastructure, and

- Improve our marketing with targeted e-mail campaigns and microsites.

For some, this strategy calls for a 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. Publishing for the digital future can be transformational even for a product old enough to have achieved classic status in print. Consider *Harrison's Principles of Internal Medicine,* the world's best-selling medical textbook. Nearly half a century after introducing *Harrison's*, we are leveraging technology to make the new edition more valuable than ever. Let me show you how:

[Video Clip: Harrison's 17th Edition]

Millions of physicians, clinicians, and students worldwide rely on the trusted content of Harrison's Principles of Internal Medicine for state-of-the art patient management. The most thoroughly revised edition ever, Harrison's 17th Edition features the latest advances, including regenerative medicine and stem cell therapeutics, and an expanded focus on global health to aid physicians worldwide in the diagnosis and management of specific diseases.

The first-ever companion DVD provides rich multimedia content that expands on the classic textbook. 39 new "eChapters" cover topics such as health disparities and patient safety, as well as clinical procedures such as the technique of lumbar puncture.

800 new images and illustrations are further enhanced by video footage that clearly demonstrates diagnostic and interventional procedures. Animations illustrate processes such as the formation and complication of atherosclerotic plaque.

Harrison's is also available online through McGraw-Hill's AccessMedicine. This service provides further support at the point-of-care with patients through weekly updates covering important medical developments, a database of drug information including interactions, and downloadable content for PDAs.

Trusted for half a century to filter and clarify the exploding medical knowledge base, highlight breakthroughs, and deliver the most current information, Harrison's is the must-have resource for physicians, clinicians, and students.

Today's World. Today's Medicine. Today's Harrison's.

Now, the subscription-based website, *AccessMedicine*, which started with an online version of *Harrison's*, is our flagship online service for health professionals. It now provides enhanced content from more than 50 major medical references in an easy-to-navigate digital format—and it's growing all the time.

As the next step, we are going to offer a pay-per-view feature for students and other potential users who do not need the full subscription service. Over the next few months, the pay-per-view feature also will be introduced for our specialty medical sites, including *AccessEmergencyMedicine*, *AccessPharmacy* and *AccessSurgery*.

The transformation of the textbook is also underway in higher education. We just launched an introductory-level general text in chemistry. It is supported by downloadable MP3 and podcast files as well as integrated online homework and study programs.

For a new introduction course in American government, we created *AMGOV*, which looks nothing like the traditional college textbook. Designed more like a magazine and printed on magazine paper, *AMGOV* is the product of in-depth research on undergraduates. We looked at their study habits and how they prepare for classes and tests. We studied what students read when they are not doing academic work and what they watch online. We concluded that students are fast becoming the true digital "natives." They read smaller chunks of text, search for information online, expect up-to-date information, and respond best to the modern design.

AMGOV—available in print and as a media-rich eBook—will be published annually so that it will include the most up-to-date information, research, and statistics. That means the 2009 edition will be available shortly after the 2008 election—just in time for second semester classes.

Through *CourseSmart*, a new online consortium of college and university publishers, we offer 300 eBooks, which can be purchased at about half the cost of the new print titles. Enabling instructors to review new texts through *CourseSmart* also has the potential to cut sampling costs substantially. It's our goal to have the entire front list available on *CourseSmart* by August for sampling by instructors.

The successful application of technology is one of the keys of our growth in testing. The Parent Network we created in 2006 for Florida has set the standard for online assessment reporting by helping parents easily review results and stay involved with their student's learning and progress. The Parent Network for the first time provided families in Florida with quick, secure online access at any time to their child's FCAT test results. Our solution meant that parents no longer had to wait for the distribution of printed reports on each of the nearly 2.0 million students taking the FCAT. To date, the site has had more than 5.7 million visits and 154 million hits.

What started in Florida is gaining traction in other states. Indiana and Nevada will also be launching Parent Networks in 2008.

We also continue to make progress with *Acuity*. That's our web-based formative assessment program. *Acuity's* biggest victory last year was the $80 million, five-year contract with New York City. The program's first state-level contracts last year in Indiana and West Virginia will produce revenue in 2008 and beyond.

In the elementary-high school market, the integration of digital materials into classroom instruction is occurring more gradually. This isn't just a matter of hardware and infrastructure, or even teacher training. Much more importantly, it's a matter of finding out which teaching and learning tools work best for particular educational purposes. And that can be very different depending upon the age of the students, the subject they're studying, and their individual learning needs.

As a result, we're seeing a steady evolution of hybrid instructional programs that combine traditional paper-based components with digital components in a variety of formats. These include state-of-the-art test-making and record-keeping software for teachers, games, virtual fieldtrips on CDs and DVDs for classroom use, and a whole range of student materials for daily study, practice, intervention, or enrichment that may be offered online or as eBooks, or in MP3 downloads.

A concrete example is our new California math program, whose many components include interactive editions and time-saving technology tools for teachers as well as online tutors and math games for students.

Our success in the market and the schools' growing use of online resources is reflected in the increased traffic at our web sites. In 2003, the web traffic on our math website for Glencoe, which is our brand for the secondary school market, produced more than 30.0 million page views and 2.7 million visits. Two years later, page views increased to 38.0 million with more than 3.2 million visits. And last year, page views climbed to 64.9 million with just over 5.0 million visits.

In the changing world of education, integrating content, technology and distribution clearly offers significant growth opportunities. The examples I have shared today illustrate how McGraw-Hill Education is moving aggressively on a broad front to take advantage of these new opportunities.

A few moments ago, I promised comments on the current outlook. It's early days in the education market. We're encouraged by the early tone of business in both the adoption states and the open territory. But it is much too soon to make a call on this year's performance. There are state funding issues, but we believe they will have relatively little impact on this year's important state new adoption market. Forty-six states end their fiscal year in June, so most of the speculation about cutbacks really applies to the budgets under consideration for 2008 and 2009.

Some open territory ordering in the third quarter may depend on the new state budgets for the upcoming fiscal year. It's another reason why we believe the open territory is the wild card in this year's marketplace.

We still expect the state new adoption market to grow 10% to 15% this year. We expect growth of 1% to 2% in the open territory. And we still think the el-hi market will grow 4% to 5% in 2008. We're looking for another good year in higher education both here and abroad. And again, the wildcard will be the open territory sales, which has been soft for the last three years. And it would be very unusual not to see it. So that's our hope on that.

We expect the U.S. college and university market will grow 3% to 4%. We will get a boost from the growth of our digital products and services and expect to outperform the market.

So summing up for McGraw-Hill Education:

- Revenue will grow 6% to 8% in 2008,
- Operating profit will grow in the low single-digit range because of substantial increases in prepublication costs and investments in technology, and
- Operating margin may decline 50 to 100 basis points.

Information & Media

Finally, let's take a look at our Information & Media segment.

We expect another year of improvement in 2008 with revenue growing 6% to 8% and operating margin improvement.

The Internet is reshaping the Business-to-Business market and driving the need for information and analytics. At Information & Media, we will continue to place greater emphasis on web-based delivery and digital asset management to create these new opportunities to deliver premium services.

We're making progress. Last year, our Business-to-Business group's revenue increased 6.2% despite softness in print advertising at *BusinessWeek*. Clearly, delivering higher value-added information will continue to be a key to the performance of our leading brands—Platts, J.D. Power and Associates, and McGraw-Hill Construction.

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

The ongoing volatility in oil and natural gas markets is increasing demand for Platts' news and pricing products. Platts is also working very hard to develop new benchmarks in emerging commodities.

In construction, the transformation of digital and web-based products will continue to better serve customers in the commercial construction markets.

Print advertising at *BusinessWeek* is off to a slow start in a seasonally small quarter. But *BusinessWeek's* ability to attract readers, subscribers and viewers continues to grow. Newsstand sales are a sensitive barometer of editorial vitality. *BusinessWeek's* newsstand sales grew by 9.3% in the second half of 2007. Average circulation rose by 1.3% to 933,000. According to the latest MRI findings, *BusinessWeek's* print audience is 4.9 million, the largest it has been since 1998. We will take advantage of a growing audience at BusinessWeek.com to keep building up user engagement.

This is an election year, so we are also anticipating a solid rebound in the Broadcasting Group. Political advertising will be an important contributor to our progress this year for Broadcasting.

Summing up then for Information & Media:
- Top-line growth of 6% to 8%,
- Improved operating margin,
- More growth from information products, and
- Increase in political advertising at Broadcasting.

That completes a quick review of the various operations of the three operating segments. We had originally forecasted earnings per share to increase 3% to 5%, but given the uncertainty it is unlikely we will achieve this forecast. But it is equally difficult to forecast the year with any precision until we get better clarity.

For sure, a good start in 2007 will make comparisons very difficult for us in the first half of 2008. Currently, the first quarter looks weaker than anticipated. We are projecting a significant decline in net income and earnings per share for the first quarter, in what has been historically a very small quarter. But we are still looking forward to easier comparisons and a better performance in the second half of 2008. But finishing the year on an upswing hinges obviously on the pace of recovery in financial markets. And the level of uncertainty is obviously high.

Thank you.

To access the accompanying slides online, go to:
http://investor.mcgraw-hill.com/phoenix.zhtml?c=96562&p=irol-EventDetails&EventId=1780945

"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, tax rates, cash flows, prepublication investments and operating and capital requirements. Such forward-looking statements include, but are not limited to: the strength and sustainability of the U.S. and global economy; Educational Publishing's level of success in 2008 adoptions and in open territories and enrollment and demographic trends; the level of educational funding; the strength of School Education including the testing market, Higher Education, Professional and International publishing markets and the impact of technology on them; the level of interest rates and the strength of the economy, profit levels and the capital markets in the U.S. and abroad; the level of success of new product development and global expansion and strength of domestic and international markets; the demand and market for debt ratings, including collateralized debt obligations ("CDO"), residential mortgage and asset-backed securities and related asset classes; the regulatory environment affecting Standard & Poor's; the level of merger and acquisition activity in the U.S. and abroad; the strength of the domestic and international advertising markets; the volatility of the energy marketplace; the contract value of public works, manufacturing and single-family unit construction; the level of political advertising; and the level of future cash flow, debt levels, manufacturing expenses, distribution expenses, prepublication, amortization and depreciation expense, income tax rates, capital, technology, restructuring charges and other expenditures and prepublication cost investment.

Actual results may differ materially from those in any forward-looking statements because any such statements involve risks and uncertainties and are subject to change based upon various important factors, including, but not limited to, worldwide economic, financial, political and regulatory conditions; currency and foreign exchange volatility; the health of debt and equity markets, including interest rates, credit quality and spreads, the level of liquidity, future debt issuances including residential mortgage backed securities and CDOs backed by residential mortgages and related asset classes; the implementation of an expanded regulatory scheme affecting Standard & Poor's ratings and services; the level of funding in the education market (both domestically and internationally); the pace of recovery in advertising; continued investment by the construction, computer and aviation industries; the successful marketing of new products, and the effect of competitive products and pricing.