Thank you, Peter.

Before I begin, I must draw your attention to the following cautionary remarks. 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.

We’re pleased to be here this morning to discuss the outlook for The McGraw-Hill Companies.

Before we start answering your questions, I would like to spend some time reviewing our current situation, including the credit crunch, the pace of recovery in the U.S. housing market, and economic conditions, which all have had a bearing on our outlook.

In the short term, the federal takeover of Fannie and Freddie should have a positive impact by helping to stabilize mortgage markets and restoring some investor confidence, which was shaken again this week by the collapse of Lehman Brothers, the sale of Merrill Lynch, and the bailout of AIG.

Clearly, recovery in the housing market is going to take more time. Bargain hunters are starting to shop seriously, according to David Wyss, S&P’s chief economist, and he points out that housing sales and starts are starting to show early signs of bottoming out. But he expects housing prices to drop by another 10% before bottoming out by mid-year or late next year, and that’s primarily with existing home sales.

As we know, housing starts with yesterday’s number at 895,000, a 17-year low, essentially has or is near a bottoming out, and what we need to see is the equilibrium in terms of supply and demand in terms of existing home sales. This fall will represent the third year of the housing recession, which obviously was a lot deeper, broader, and wider than we had expected, and has a little bit left to go.

The outlook for the broader economy doesn’t start to improve until the second quarter of 2009. David Wyss currently forecasts modest gross domestic product growth of 1.3% in the third quarter of 2008 followed by two quarters of decline. The economy starts to recover next year in the second quarter and will be growing by 3% in the fourth quarter of 2009.
In this current environment, state and local governments also face more challenging conditions. And even though we have seen increases in state education budgets for the new fiscal year that began on July 1 for 46 states, it now appears that falling tax receipts and increased costs will be a factor in the performance of this year’s education market. I will have more to say about that situation in just a moment.

Under the circumstances, our priorities are clear:
- Cost containment,
- Maintenance of a strong balance sheet, and
- Continued share repurchases.

We still plan to buy a total of 15.0 million shares this year. In the first half, we repurchased 7.4 million shares at an average price of $41.19 per share.

With that as background, let’s take a closer look at prospects for each of our segments.

**Financial Services**
Let’s start with Financial Services.

Earlier this year, we pointed out that there were four key questions about the outlook for Financial Services. The questions were:
1. How severe will the downturn be in the bond market?
2. How long will the downturn last?
3. What are our legal risks?
4. What are the regulatory risks?

A lot has happened since we first addressed the four questions earlier in the year, but they are still key to assessing our situation. So let’s answer them with current information.

We now have eight months of new issue statistics for the U.S. bond market in 2008. As these charts illustrate, there are still no signs of recovery in the structured finance market as measured by new issue dollar volume.

U.S. residential mortgage-backed issuance is down 97% for July and August and 96.2% after eight months this year compared to the very robust activity in 2007. Poor housing fundamentals continue to take a toll. We are primarily seeing repackaging deals — the so-called ReREMICS.

U.S. commercial mortgage-backed securities issuance has dried up. Issuance is off 100% for July and August and 91.8% for the year. Commercial real estate fundamentals have weakened as prices decelerated and spreads remain wide.

U.S. collateralized debt obligations have been weak. Issuance is off 86.5% for July and August and 88.9% for the year. As expected, investors have shifted to less complex forms of securitization. It is also a sign that the market continues to regard the benefits of CDOs, but we probably won’t see a pick up in CDO issuance until the tail end of the recovery. And just to put it into some perspective, this year in the eight months so far, S&P has rated about 85 CDO transactions compared to 811 transactions in the eight months of last year.
U.S. asset-backed securities have been holding their own, primarily due to strong credit card activity. New issuance is up 1.8% for July and August and 0.5% for the year. But there is some uncertainty about market prospects over the next few months as financial institutions reign in consumer credit and consumers spend less in response to a weakening economy.

The situation in international structured finance markets is about the same as it is here in the U.S. Deteriorating housing fundamentals — especially in the UK, Spain, Ireland — and widening credit spreads are a problem in Europe too.

We have seen some growth in U.S. public finance issuance. It is up 14.0% for July and August and 3.9% after eight months. Lower tax revenues and a slowing economy contribute to increased municipal borrowing. Refinancing has also been a positive factor in this market — little stronger than we had expected coming into this year.

The muni market should also benefit from the passage of new housing legislation. The bill has three important features for munis:

- 2008 state housing caps are raised by $11 billion,
- New housing bonds are exempt from the alternative minimum tax, and
- Federal Home Loan Banks can guarantee munis.

U.S. corporate issuance has been an important contributor this year, but there are signs of softness. Corporate issuance is off 53.8% in July and August and down by 26.4% after eight months.

It will take renewed market confidence to spark a recovery in the high-yield instruments. Investment-grade issuance among industrials, strong in the first half, may moderate in the second half as concern over the economy and pressure on earnings leads to widening of spreads.

Until we can get some more clarity on market activity, we are not going to forecast at this time when and how fast the recovery takes place. With real money investors on the sideline holding lots of cash, recovery is only a matter of time.

S&P will emerge from the current turmoil stronger and with an enhanced capacity to serve its customers. S&P has an important part to play in improving relevant information in capital markets and is taking a series of actions to increase the transparency of ratings analytics and the way it operates. We also firmly believe that the same powerful trends that contributed to our growth in the past will benefit us in the future. Access to capital is still the keystone to economic growth for both developed and emerging countries.

To participate in the growing globalization of financial markets, S&P continues to build its worldwide capabilities. We added a new affiliation agreement with a rating agency in China. That’s the latest step in adding to S&P’s international network. We’ve talked about Johannesburg, Tel Aviv, Dubai, and Istanbul — all new operations.

Securitization is here to stay. And we will benefit from the disintermediation of banks and the growth of public markets. In some markets, privatization will also be a very positive factor.

Now, let’s take a look at regulatory issues.
We have a strong commitment to transparency, openness, the strengthening of our governance process and helping to restore confidence in capital markets. We are committed to working with regulators and policymakers here and abroad. We believe S&P has made progress in recent months and will continue to do so. You can learn more about our communications with regulators by examining recent S&P correspondence. These documents are available at www.standardandpoors.com in the “Press Room”.

On July 24, S&P responded to an SEC request for commentary on proposed rules for NRSROs. We reviewed the highlights of S&P’s 33-page letter on our July 29th conference call, so I will not go into great detail today. I will make two key points though about S&P’s response to the SEC:
1. We share the SEC’s desire to enhance investor understanding and address potential conflicts of interest in the credit ratings industry, and
2. We also believe that any new SEC rules must be narrowly tailored as required by law and not regulate the substance of credit ratings or impair the value of independent opinions.

Earlier this month, S&P formally responded to requests for comment from the SEC and the European Commission.

On September 5, S&P sent a letter to the SEC commenting on the commission’s proposals to remove references to NRSRO ratings from a series of rules and forms used primarily by market participants, including broker-dealers, investment advisors, and large corporate issuers of debt.

These are SEC rules. Not necessarily ask for, however we believe that S&P can continue to operate successfully if the SEC changes these rules. We already do so outside the United States and did so in the U.S. prior to the introduction of the NRSRO concept, which obviously came out of the ERISA legislation in 1974. But we would be concerned if the proposed changes led to unintended disruptions in financial markets. We have already seen signs that the market is very concerned. In recent days, Fidelity, Vanguard and other mutual fund companies have sharply criticized the SEC proposals to remove ratings from some of the rules governing investments.

We look forward to more discussions with the SEC on these important topics for investors and the capital markets. Discussions are also going on with policymakers, regulators and others in Europe as part of S&P’s response to the European Commission’s proposed regulatory framework. You can find S&P’s complete response at www.standardandpoors.com in the “Press Room”.

S&P believes the European Commission can meet its objectives through a globally consistent solution based on IOSCO’s recently revised code for rating agencies. We believe the commission should:
- Preserve the analytic independence of the ratings process to ensure objectivity,
- Use a principles-based approach to developing new regulations, and
- Designate a single point of registration.

Market participants and member states have been critical of various aspects of Commissioner McCreevy’s recent proposals. We will continue to work with the commission and others to arrive at a system of oversight that will address concerns of regulators as well as market participants.

There is not much new to report on the legal front.

In July, we won our first court decision related to subprime litigation when the Court dismissed the Blomquist action — a suit alleging various state and federal claims against financial institutions,
government agencies, McGraw-Hill and individuals. The court’s ruling dismissing the action is now on appeal.

At the end of July, the State of Connecticut sued S&P and two other rating agencies alleging that artificially low municipal credit ratings by them created the need for additional bond insurance and led to higher interest payments. Here’s a case in which a state is clearly trying to use litigation to dictate what bond rating it receives. The novel claims by Connecticut clearly violate First Amendment rights. Court rulings around the country have repeatedly ruled that the First Amendment applies to rating agencies and their creditworthiness opinions.

But basically, not a lot has changed on the legal front. We continue to defend ourselves against lawsuits which challenge the validity of S&P’s rating opinions. We continue to believe all of them are without factual or legal merit.

In our view the legal risk remains low. We continue to believe that any new or currently proposed legislation, regulations or judicial determination would not have a material adverse effect on our financial condition or results of operations.

But there is more to S&P than the headlines on legal and regulatory issues and new issue volume.

S&P is also about successful diversification. Diversification has been a key strategic initiative and contributes to our results in credit market services. Our non-transaction revenue buffers S&P against the decline in new issue volume. It was responsible for 53.8% of ratings revenue last year.

Non-transaction revenue grew by 12.5% in the first half and will continue growing in the second half. It comes from annual fees for frequent issuer programs, surveillance, subscriptions and the sale of products and services such as models, benchmarking data, tools, counterparty credit ratings, and Financial Strength Ratings. This is proving to be a very durable revenue stream.

Diversification also encompasses the substantial and growing non-ratings group we call S&P Investment Services. We are the world’s leading index provider and we continue to expand with Capital IQ, Compustat, and CUSIP Global Services, a securities classification system.

S&P Investment Services’ revenue grew by 20.4% in the first half and despite the events this week on Wall Street, we expect double-digit growth for the year.

We continue to expand our index services business. Part of that commitment means creating alpha generating strategy indices across the globe for a growing number of sophisticated investors.

Thirty-one new exchange-traded funds based on S&P indices were launched in the first half and more are on the way.

Earlier this month, in a joint venture with CITIC Securities, we launched the S&P/CITIC China A-Share Dividend Opportunities, a new benchmark for income-seeking investors active in China. S&P/CITIC today is the leader in creating benchmarks for both equity and fixed income markets in China.

At the end of August, assets under management in exchange-traded funds based on S&P indices was $212.7 billion, a year-over-year increase of 10.6%.
The McGraw-Hill Companies

Capital IQ continues to deliver new value-added data sets and to grow internationally. Capital IQ now offers global coverage of fixed income securities and has added financials for more than 100,000 U.S. and European private companies and credit default swap pricing data for up to 10 years. There’s a brochure from Capital IQ in our kit. I urge you to take a look at it.

Summing up then for Financial Services:

- Cost containment is a priority in areas of weakness and we continue to invest in promising areas that will drive growth. Since the end of last year we have eliminated 418 positions. We will continue to look for opportunities to further streamline the organization,
- Legal and regulatory risk remain low. The SEC recently concluded a ten-month exam of three ratings agencies, including S&P. The report noted that rating agencies have enhanced their procedures, but further improvements can be made. We will do that. It is in our interest to do that. The SEC also said there was no evidence that decisions on ratings methodology or models were based on attracting or losing market share,
- Diversification at S&P is alive and well. We continue to expect double-digit growth for the balance of the year from S&P Investment Services. That’s about 27% of total revenues, and
- Recovery in the new issue market remains hard to predict.

McGraw-Hill Education

Now, let’s review the current outlook for McGraw-Hill Education.

The elementary-high school market performed as we expected in July, the start of the peak ordering season each year. Based on the latest AAP statistics, industry sales of K–12 basals were up from 2007 by 5.8% for the month of July and 6.6% after seven months. The supplemental market was soft, but total basal and supplemental sales were up by 5.0% in July and ahead by 3.9% for the year.

As we moved through August, it became clear that the state new adoption market will produce revenue in the $900 million to $950 million range that we had forecasted for 2008. And depending on how the year-end numbers fall, our School Education Group is still on track to capture about one-third of this important market.

We have performed especially well in Florida with our reading and reading intervention programs. Other successes include:

- K–5 math in Texas,
- K–5 reading in Louisiana and Oklahoma,
- K–5 music in South Carolina and West Virginia,
- 6–12 social studies in Arkansas,
- 6–12 science in Georgia,
- 6–12 literature in Alabama, and
- In California — a critical state where some 2008 decision-making is still going on — we are doing well in both the first-year math adoption and the second-year science adoption.

But as the sales year has developed, we have observed some signs of softness. In the first quarter, for example, two of Florida’s largest districts, Broward and Hillsborough, decided to implement K–5 reading over two years instead of buying all materials in 2008. This is allowable under state guidelines, but it hasn’t been the norm in Florida.
In the second quarter, California’s largest district, Los Angeles Unified, announced that it would delay math purchasing until 2009 due to funding concerns. Then the third quarter brought news from both the open territory and the adoption states that a number of previously announced adoptions — including some in the $500,000 to $1 million range — were being postponed, again because of funding concerns.

The third quarter has also brought unexpected signs of softness, particularly in residual sales — that is, in purchases of previously adopted texts to replace damaged copies or accommodate increased enrollments as well as sales of workbooks and other consumable items that are bought each year. Residual sales are an important part of revenue for educational publishers.

The drop-off in residual orders is occurring in both adoption states and the open territory. Some of the softness appears to be timing-related. Delays in allocations from the state to the local level or other temporary funding issues may have caused school districts to postpone some of these purchases.

We believe some of these sales will be made up in the fourth quarter, but some of the sales probably won’t be recouped this year. To a degree that we can’t pinpoint yet, some cutbacks in residual ordering may reflect funding problems that schools are experiencing.

An important factor in the residual story is the sharp reduction in federal funding for Reading First, which dropped from $1 billion in the last fiscal year to less than $400 million this year. The cutback has had an impact on many large urban and suburban districts where state and local support for education is also being affected by deteriorating economic conditions.

Lower tax revenues have forced states to budget very tightly even for high priority programs like education. Our analysis of 49 recently-enacted state budgets shows an average increase of 2.9% in education appropriations from the previous fiscal year. Our analysis excludes California, which is still finalizing a budget, and Indiana, which transferred funds across line items in a way that would distort the picture.

With personnel and other costs frequently indexed to the rate of inflation and with cost increases in fuel, food, and other commodities, many school districts don’t have much left to spend on items that might be considered discretionary. Unfortunately, in tight times, that may include new or replacement instructional materials.

Supplemental sales have trended downward all year and are off for the industry by 7.9% after seven months.

Based on the current situation, we no longer project 4% to 5% growth this year for the el-hi market. It will certainly be less, but we need more time and information before we can confidently project a new growth rate. The pattern we’re seeing this year is unprecedented. During the last downturn in 2002, we saw a falloff in the state new adoption market, but no dramatic drop in residual sales. This year state new adoption sales are holding up and replacement ordering has been negatively affected.

The third quarter is typically a slow period in testing. But here too, we are seeing some evidence of state budget problems. Several major customers have asked for reductions in the scope of their contracts in order to cut costs. As a result, there will be some impact on our custom contract revenue in the third quarter.
There is some good news in testing. *Acuity*, our formative assessment testing product, has been steadily adding new customers this year and we are seeing increased orders for other shelf products such as our assessments for English-language learners.

In the U.S. college and university market, we are seeing solid growth in the sales of digital products across disciplines and also in the sale of vocationally-oriented products from our new career education group. But these gains are being offset by lower retention rates for backlist titles and some shortfalls in the new lists. The situation isn’t helped by the fact this is a down year in our revision cycle — that is we have fewer major titles to drive sales this year. More student ordering of used books over the Internet may also be a factor.

We still expect to grow in the U.S. higher education market, but it now looks like we will not achieve the 4% to 6% increase anticipated for the year, nor will we match the industry’s growth rate.

In the professional market, revenue from digital subscription and digital licensing rights have increased significantly year-to-date and will be key to our full-year growth in 2008.

We are still anticipating a good third quarter in international sales and that is across the board.

Let’s sum up for McGraw-Hill Education:
- A strong performance in the state new adoption market,
- Unexpected softness in August as residual sales have slipped,
- Slower than expected growth in the el-hi market this year, and
- Good growth in digital products in the higher education and professional markets, but slower than expected growth for traditional products.

**Information & Media**

I’ll wrap up with a few comments on our third segment, Information & Media.

Our Business-to-Business Group will show improvement this year despite weakness in print advertising. Revenue for the B2B group was up 5.7% for the first half even though advertising pages at *BusinessWeek* were off 15%. The increase reflects:
- Global growth at Platts to meet the demand for information in volatile energy markets.
- Progress in construction where electronic delivery of information is playing a critical role.

The move to digitize all of the B2B Group is almost complete. We continue to transform these businesses.

*BusinessWeek* took an important step earlier this month by launching the Business Exchange. It’s part of *BusinessWeek*’s expansion into the digital space. *As Wired* magazine pointed out, the Business Exchange is something of a departure for mainstream news organizations because, among other things, it will be driven by user-generated content and embraces links to outside content. Users will be able to create topics around business issues that matter to them and connect with *BusinessWeek*’s community.

We are enhancing the Business Exchange with two important partnerships — LinkedIn whose users can access and leverage their personal information on the Business Exchange, and Federation Media, which taps into the blogosphere. We think the introduction of social media in the business space creates a unique opportunity for advertisers.
Summing up for this segment:
- The digital transformation continues, and
- Progress in the Business-to-Business markets.

That’s a snapshot of operations, so let’s sum up for the corporation. In reviewing our situation this morning, I have assessed some of the challenging conditions we face in the second half:
- A slow down in GDP growth in the U.S., Europe, and Japan,
- The slow pace of recovery in the housing market,
- Continued softness in the structured finance market,
- The possible effect of state and local budget concerns on spending in education, particularly for the elementary-high school market, and
- Slower than anticipated growth in higher education.

Finally, with respect to earnings guidance, obviously the books have not closed on the third quarter, but considering prospects now, it seems more likely that earnings per share in 2008 will come in at the lower end of our $2.65 to $2.75 range, and that would be excluding the second quarter restructuring charges and related benefits.

Thank you.

To access the accompanying slides online, go to: 

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This presentation includes certain forward-looking statements about the Company's businesses, new products, sales, expenses, tax rates, cash flows, prepublication investments and operating and capital requirements. Such forward-looking statements include, but are not limited to: the strength and sustainability of the U.S. and global economy; Educational Publishing's level of success in 2008 adoptions and in open territories and enrollment and demographic trends; the level of educational funding; the strength of School Education including the testing market, Higher Education, Professional and International publishing markets and the impact of technology on them; the level of interest rates and the strength of the economy, profit levels and the capital markets in the U.S. and abroad; the level of success of new product development and global expansion and strength of domestic and international markets; the demand and market for debt ratings, including collateralized debt obligations (“CDO”), residential mortgage and asset-backed securities and related asset classes; the continued difficulties in the credit markets and their impact on Standard & Poor's and the economy in general; 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.