



### "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 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 in open territories and enrollment and demographic trends; the level of educational technology investments; the strength of School Education, Higher Education, Professional and International publishing markets and the impact of technology on them; the level of interest rates and the strength of the economic recovery, profit levels and the capital markets in the U.S. and abroad; the level of success of new product development and global expansion and strength of domestic and international markets; the demand and market for debt ratings, including 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, product-related manufacturing expenses, pension expense, distribution expenses, postal rates, prepublication, amortization and depreciation expenses, income tax rates, capital, technology, restructuring charges and other expenditures and prepublication cost investment.

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### Updating guidance for 2007

- Still expect to achieve a goal of double-digit earnings growth for year even though rate of growth is expected to slow during second half of year as compared to very strong first-half performance
- Still expect improved operating margins in McGraw-Hill Education and Financial Services for full year. Margin improvement at Information & Media more problematic due to a softer advertising market.

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### 2007 full-year guidance

- **Guidance excludes:**
  - \$0.04 charge for elimination of restoration stock option program in first quarter of 2006
  - \$0.06 charge for restructuring in second half of 2006
  - \$0.03 gain from divestiture of a mutual fund data business at Financial Services in first quarter of 2007

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### Fine-tuning guidance for 3Q

- **McGraw-Hill Education:** Expect a double-digit revenue increase in 3Q
- **Financial Services:** Anticipate year-over-year 9-to-12% top-line and double-digit bottom-line growth in 3Q
- **Information & Media:** Will continue to battle impact of soft advertising market in 3Q

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## Fine-tuning guidance for 4Q

- **Uncertainty about 4Q, particularly in Financial Services**
  - Financial Services faces toughest comparisons of the year
    - 4Q 2006 revenue grew by 22.1%
  - Market is showing greater deceleration than originally expected
    - If it continues, we anticipate flat to declining revenue in 4Q and a reduction in operating profit versus last year

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## Fine-tuning guidance for 4Q

- **McGraw-Hill Education: 4Q is seasonally less robust**
  - Operating margin will be influenced by increased amortization and investments in important digital initiatives for Higher Education, Professional and International Group
- **Segment's operating margins mixed in 4Q**
  - McGraw-Hill Education and Financial Services: We expect lower year-over-year operating margins
  - Information & Media: Could be an up tick in operating margin; too close to call at this time

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## Financial Services

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## Outlook for U.S. economy and housing market

- **Housing recession has another year to run**
- **Downturn has reduced U.S. GDP by nearly one percentage point over last four quarters**
- **Decline in housing prices and sales may bottom out late next spring or summer**
  - Recovery in new starts will take longer

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## Outlook for U.S. economy and housing market

- **S&P's chief economist David Wyss expects U.S. GDP to grow**
  - 2% in 2007
  - 2% in 2008
- **Wyss expects Fed to cut interest rates**
  - At meeting today
  - Again in October
  - Maybe for third time in December or January 2008

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## Impact of current housing recession

- **Market is seeing classic end-of-cycle problems**
  - Looser lending practices in mortgage market
  - Deterioration of subprime credit performance
- **Standard & Poor's has not escaped impact of these events**

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## Outlook for Standard & Poor's business

- **Original forecast: Double-digit top- and bottom-line growth for Financial Services even though new dollar volume issuance for U.S. RMBS market would be off 10% to 15% in 2007**
- **U.S. RMBS market continues to deteriorate**
  - Now anticipate 30% to 35% decline for year and more than 60% decline in fourth quarter
- **3Q 2007: Still expect Financial Services to produce 9% to 12% revenue growth and a double-digit increase in operating profit growth**
- **2007: We expect double-digit top- and bottom-line growth for the year**

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## Outlook for Standard & Poor's business

- **Fourth quarter will not end strongly: Credit quality concerns adversely impact market**
  - Investors re-evaluating and re-pricing risk
  - Some issuers are finding it more difficult to sell new issues

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## U.S. structured finance new issuance dollar volume

- **July: Some strength in new issue dollar volume for U.S. structured finance**
- **August: Growth slowed in some instruments; rate of decline accelerated in others**

### New issuance dollar volume for U.S. structured finance

(% change)	July	August
ABS	+ 111%	- 22%
RMBS	- 31%	- 60%
CMBS	+ 263%	+ 75%
CDOs	+ 40%	+ 35%
Corporates	- 31%	+ 16%

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## Outlook for U.S. structured finance new issuance dollar volume

- **We expect decline in U.S. structured finance to continue into September and 4Q**
  - Corporates: Some strength, particularly in investment-grade, but a decline in speculative issuance
  - U.S. structured finance: Continued weakness, challenging comparisons
  - International: Activity marginally better than U.S.
  - Non-traditional ratings: Continued growth
  - Data & Information and Index Services: Continued growth

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## Why S&P benefits from diversification

- **Diversified revenue stream**
  - Products and services
  - Geography
  - Fee structures
    - Large number of debt rating clients are on annual fee programs

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## Building a bank of business

- **Diversification evident in strong growth of Corporation's unearned revenue**
  - Grew to more than \$1 billion at end of 2Q, an increase of approximately 15% compared to same period last year
- **Largely driven by Financial Services**
  - Recognized on straight-line basis, mostly over 12-month period
- **Underscores our long-term strategic emphasis on diversification and resilience**

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### Building a diverse, resilient revenue stream for Financial Services

- **Strategy has made S&P more global**

- International revenue accounts for 38% of ratings' total in 1H 2007 vs. 21% in 1994

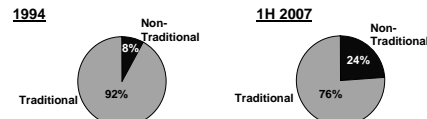


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### Building a diverse, resilient revenue stream for Financial Services

- **Strategy has made S&P more global**

- S&P rates a growing array of instruments not tied to new issuance
- Non-traditional products and services in 1H 2007 were 24% of ratings revenue vs. only 8% in 1994

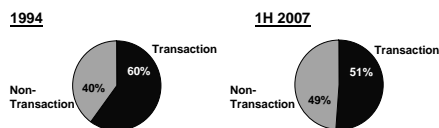


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### Building a diverse, resilient revenue stream for Financial Services

- **Strategy has reduced S&P's dependency on transaction volume**

- Transaction revenue now 51% of 1H 2007 revenue vs. 60% in 1994



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### Reviewing the cost structure in current environment

- **Reduced revenue will have impact on incentive compensation**

- **Will examine:**

- Discretionary expenses
- Staffing and hiring
- Leveraging of S&P's global network

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### Leveraging technology to improve productivity

- **Development of new workflow portals that aggregate critical information in one place for rating analysts**

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### S&P is built on transparency

- **S&P's ratings and analyses available free to global financial community in real-time**

- S&P publicly issues between 500 and 1,000 ratings opinions across the globe
- Today, S&P has more than 1.2 million public and private opinions on debt outstanding
  - Most are available free at [www.standardandpoors.com](http://www.standardandpoors.com)
- Investors can access up to 9 million current and historical ratings on RatingsDirect

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## S&P is built on transparency

- **S&P communicates with the market so ratings are understood**
  - Hosts conferences, seminars and teleconferences
  - Publishes articles explaining assumptions, methodologies, criteria guidelines, transition studies, and performance data on our rating opinions
- **Institutional safeguards ensure independence and integrity of those opinions**

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## Setting the record straight on what a credit rating represents

- **A rating is an impartial, independent opinion on credit quality of bonds and likelihood that investors will be paid interest and principal in a timely fashion**
- **Ratings are decided by committees at S&P—not by individual analysts**

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## Setting the record straight on what a credit rating represents

- **Rating the ultimate credit risk is not the same as pricing the bond**
- **Credit ratings do not fluctuate like bond prices**
  - Bond prices are anticipatory
  - Bond ratings are based upon current and expected credit performance
- **Ratings are designed to be stable**
  - We are not operating a buy/sell/hold business

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## Setting the record straight

- **We do not structure transactions or determine which deals can or cannot proceed**
- **We are not investment advisors or consultants**
- **Standard & Poor's applies its own pre-determined and publicly-available criteria and assumptions to the facts presented**
- **Dialogue with bond issuers is necessary**
  - Helps issuers understand our ratings criteria
  - Helps S&P understand the structured security so it can arrive at better informed opinions

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## Setting the record straight

- **Problems in subprime market didn't develop overnight**
  - By early 2006 S&P was informing the market about growing risk
  - April 2006 S&P raised level of credit support required for riskier subprime deals
  - S&P continues to comment on those risks today

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## Setting the record straight

- **S&P does not rate every deal that reaches our door**
  - Does not rate instruments that fail to meet its criteria
- **Claims of potential conflicts of interest with issuer pay model fail the test of our own self-interest**
  - Excellent long-term track record of assessing risk has 90-year history
  - It is not in our economic interest to compromise the integrity of a rating
  - Reviews by regulators in past five years conclude that rating agencies appear "relatively responsive to reputation concerns and so protect the interest of investors"

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### Setting the record straight

- **S&P has an exceptionally strong record on ultimate measure of ratings effectiveness**
  - Since 1978, average 5-year default rate for investment-grade structured securities is less than 1% and just over 15% for speculative-grade securities
  - Since 1978, average 1-year default rate for investment-grade structured securities is near zero (0.04%) and 2.33% for speculative-grade securities

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### Setting the record straight

- **Understanding S&P's recent downgrades**
  - Downgrades affected approximately 1% of \$565.3 billion in first-lien subprime residential mortgage-backed securities rated between 4Q 2005 and end of 2006
  - S&P will continue to assess ongoing creditworthiness of these securities

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### Setting the record straight

- **Long-standing, strong legal precedent in favor of rating agencies**
  - Has been established over many years in a broad array of cases
- **Ratings are opinions and are protected under the First Amendment**
- **On August 23, 2007, a federal court of appeals ruled a credit rating “is a predictive opinion, dependent on a subjective and discretionary weighing of complex factors”**

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### Setting the record straight

- **Federal statutes make it clear that legal claims against rating agencies are not at all favored**
- **New Credit Rating Agency Reform Act of 2006 unambiguously provides that it does not diminish or affect existing rights and privileges under existing law of any sort**
- **We are working with the SEC as it undertakes new responsibilities Congress has given Commission**

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### Favorable long-term trends will drive Financial Services

- **Globalization of financial markets**
- **Securitization**
- **Disintermediation of banks in favor of public markets**
- **Privatization**

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### Summing up for Financial Services

- **We expect year-over-year 9% to 12% revenue growth and a double-digit increase in operating profit in 3Q**
- **Against tough comparisons, we expect flat to declining revenue and a reduction in operating profit in 4Q**
- **For the year, we expect double-digit top- and bottom-line growth**

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## McGraw-Hill Education

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## The education marketplace: In flux

- Changes in ownership
- Changes in organization within companies
- Consolidation will reduce major elementary-high school competitors from four to three

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## 3Q: Biggest each year in education

- **Measuring 3Q performance**
  - Typically produces more than 40% of Education segment's annual revenue and practically all its operating profit
- **We expect a double-digit revenue increase from our Education segment in third quarter**
  - Both the School Education Group and Higher Education, Professional and International Groups are projecting improvement over 2006

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## Still seeing orders well into September

- **Key revenue months (July, August) are behind us**
- **Adoption states still ordering materials in non-core curriculum in health, music, and art – important markets for us**
- **Open territory orders are also continuing**
  - Volume of business will be important factor in our final results

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## McGraw-Hill Education expects to improve market share in 2007

- **State new adoption market: We expect to capture 30% and possibly more in this market which is growing 10% to 15% this year**
- **Will show solid results in:**
  - Texas 6-12 math adoption
  - K-8 science in California and South Carolina
- **Treasures is winning significant market share in Indiana, Oregon, Tennessee**
- **Spotlight on Music will lead the market**
  - Six adoption states buying our program

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## Sales outlook in open territory more problematic

- **We are benefiting from number of large adoptions announced earlier this year**
  - Science in New York City and Washington, DC
  - K-5 music in St. Louis, MO and Prince George's County, MD
  - New edition of *Everyday Math* performing well across the country
- **Through July, industry's basal sales in open territory down 3.7%, well short of +4% growth forecasted**
- **Late ordering pattern could produce some improvement**
  - We are doing better than industry; expect to continue

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## Outlook for testing

- **3Q less pivotal in testing market**
- **We have seen:**
  - An increase in custom work
  - Promising gains in formative market for our new *Acuity* product

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## Favorable outlook in higher education

- **We expect to gain market share in 2007**
- **Anticipating increases in all three imprints**
  - Business and Economics
  - Science, Engineering and Math
  - Humanities, Social Sciences and Languages
- **Custom products showing solid growth across disciplines**
- **International performance is encouraging**

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## Summing up for McGraw-Hill Education

- **Double-digit revenue increase in 3Q is taking shape**
- **We expect to gain share in both the elementary-high school and higher education markets**

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## Update on share repurchase program

- **Board of Directors authorized the purchase of up to 30 million shares this year**
  - Bought back 19.5 million shares by the end of first half
  - Completed authorized program by buying 10.5 million shares in 3Q
- **2007 share repurchases resulted in return of nearly \$1.9 billion to shareholders**

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## Summing up for The McGraw-Hill Companies

- **We expect to achieve our goal of double-digit earnings for the year even though the rate of growth is expected to slow during second half of year as compared to our very strong first-half performance**
- **We still expect improved operating margins at McGraw-Hill Education and Financial Services for the full year. Margin improvement at Information & Media is more problematic due to a softer advertising market**

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