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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

- 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

Financial Services

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

- 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

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
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

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

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

<table>
<thead>
<tr>
<th>New issuance dollar volume for U.S. structured finance (% change)</th>
<th>July</th>
<th>August</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABS</td>
<td>+ 111%</td>
<td>- 22%</td>
</tr>
<tr>
<td>RMBS</td>
<td>- 31%</td>
<td>- 60%</td>
</tr>
<tr>
<td>CMBS</td>
<td>+ 263%</td>
<td>+ 75%</td>
</tr>
<tr>
<td>CDOs</td>
<td>+ 40%</td>
<td>+ 35%</td>
</tr>
<tr>
<td>Corporates</td>
<td>- 31%</td>
<td>+ 16%</td>
</tr>
</tbody>
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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

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

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
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

<table>
<thead>
<tr>
<th>Year</th>
<th>U.S.</th>
<th>Int'l</th>
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<tbody>
<tr>
<td>1994</td>
<td>79%</td>
<td>21%</td>
</tr>
<tr>
<td>1H 2007</td>
<td>80%</td>
<td>20%</td>
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</tbody>
</table>

- **Non-traditional products and services in 1H 2007 were 24% of ratings revenue vs. only 8% in 1994**

<table>
<thead>
<tr>
<th>Year</th>
<th>Non-Traditional</th>
<th>Traditional</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994</td>
<td>92%</td>
<td>8%</td>
</tr>
<tr>
<td>1H 2007</td>
<td>76%</td>
<td>24%</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Transaction</th>
<th>Non-Transaction</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994</td>
<td>60%</td>
<td>40%</td>
</tr>
<tr>
<td>1H 2007</td>
<td>51%</td>
<td>49%</td>
</tr>
</tbody>
</table>

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

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

Leveraging technology to improve productivity

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

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
**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

**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

**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

**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”

**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
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

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

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”

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

Favorable long-term trends will drive Financial Services

• Globalization of financial markets
• Securitization
• Disintermediation of banks in favor of public markets
• Privatization

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
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

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

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

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

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
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

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

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

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

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