

**The McGraw-Hill Companies
1st Quarter 2008 Earnings Conference Call**

Prepared Remarks
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The McGraw-Hill Companies

Thanks and good morning.

We are pleased that you could join us this morning for The McGraw-Hill Companies' first quarter 2008 earnings conference call. I am Donald Rubin, Senior Vice President of Investor Relations at The McGraw-Hill Companies.

With me today are Harold McGraw III, Chairman, President and CEO, and Robert Bahash, Executive Vice President and Chief Financial Officer; and Deven Sharma, President of McGraw-Hill Financial Services.

This morning we issued a news release with our first quarter 2008 results. We hope you have all had a chance to review the release. If you need a copy of it and the financial schedules, they can be downloaded at www.mcgraw-hill.com/investor_relations.

Before we begin this morning, I need to provide certain cautionary remarks about forward-looking statements. Except for historical information, the matters discussed in the teleconference 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-Ks, 10-Qs, and other periodic reports filed with the U.S. Securities and Exchange Commission.

We're aware that we do have some media representatives with us on the call; however this call is for investors and we would ask that questions from the media be directed to Mr. Steve Weiss in our New York office at (212) 512-2247 subsequent to this call. Today's update will last approximately an hour. After our presentation, we will open the meeting to questions and answers.

It is now my pleasure to introduce the Chairman, President and CEO of The McGraw-Hill Companies, Terry McGraw.

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Harold McGraw III

Chairman, President and CEO
The McGraw-Hill Companies

Thank you very much Don, and good morning everyone.

Again, thank you for taking the time to be with us today for our review of The McGraw-Hill Companies first quarter earnings and our outlook for 2008. As Don was saying, joining me on the conference call is Bob Bahash, our executive vice president and chief financial officer; and Deven Sharma, head of our Financial Services segment and president of Standard & Poor's.

I will begin the call by reviewing first our first quarter results and some prospects for 2008. Bob will then review our financial performance. And obviously after that, we will go in any direction you would like and take any comments or questions that you have.

Earlier this morning, we released our first quarter results:

- Earnings per share were \$0.25 compared to \$0.40 last year, and remember now that the \$0.40 included a \$0.03 gain on the divestiture of a mutual fund data business,
- Revenue for the first quarter declined 6.1% to \$1.2 billion.

The slumping housing market remains the major negative factor for both the economy and the financial markets. And clearly, the credit crunch in the financial markets had an impact on our first quarter results.

Continued financial sector problems are expected to convince the Federal Reserve to cut interest rates tomorrow by probably 25 basis points. The Fed funds rate is currently at 2.25%. David Wyss, the chief economist at Standard & Poor's, says the first half of 2008 will be the toughest period for the economy and expects the second half of the year to show some strength. He expects the tax rebate to help produce GDP growth of about 2.5% in the third quarter, maybe more. The business tax credits will provide a boost in the fourth quarter.

With that background, let's look at our first quarter performance and review our prospects for the balance of the year.

McGraw-Hill Education

Let's begin with McGraw-Hill Education.

- Revenue declined 0.5%,
- We reduced the operating loss by 0.5%,
- The operating margin was unchanged from a year ago,
- Revenue for the McGraw-Hill School Education Group declined 4.8% to \$138.8 million, and
- Revenue for the McGraw-Hill Higher Education, Professional and International Group grew 2.9% to \$191.4 million.

First quarter results don't indicate much about what's ahead for our education business this year. Obviously, we run losses in first quarter and you make your money in the third quarter.

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In the elementary and high school market, first quarter revenue depends more on purchases of fill-in copies and supplemental materials than on new business.

In higher education, first quarter revenue is primarily driven by ordering for the start of the new term—an echo of the ordering pattern established during the previous year's fourth quarter. But at the same time, we begin to get reports from the field on how our new products are being received in the marketplace. It is still early, but we are encouraged by the preliminary reports and our confidence in our forecast for the year is growing.

Although North Carolina was the only adoption state to place substantial orders for newly-adopted basal materials in the first quarter, we think the state new adoption market will meet our expectations by growing 10% to 15% this year.

In 2007, the state new adoption market was approximately \$820 million. Our estimate for this market in 2008 is \$900 to \$950 million. We still expect year over year industry revenue growth of about 1% to 2% in the open territory, and again that is a wildcard for us. We think that after the last two years of it being fairly slow, that we might see some pickup there. We also look for 4% to 5% growth across the elementary-high school market as a whole.

In 2008, the McGraw-Hill School Education Group is focused on major opportunities in elementary reading and math, and on three big adoption states—Florida, Texas and California.

In the Florida K-5 reading adoption, we are getting very encouraging reports on the performance of:

- *Treasures*, which is our balanced basal reading program,
- Our alternative basal, which is called *Imagine It*, which is a revision of *Open Court Reading*, and
- A direct instruction program called *Reading Mastery*.

In the Texas K-5 math adoption, our new state-specific program is off to a very solid start.

In California, we have sales opportunities in first-year math and second-year science:

- Our state-specific programs are competitive in both subjects at both the elementary and secondary levels, and
- Our alternative basal, which is called *Everyday Mathematics*, also looks very strong in California.

We also like our opportunities in:

- K-5 reading in Oklahoma and Louisiana,
- Our 6-12 literature in Alabama, Louisiana, and Oklahoma,
- Our 6-12 science program in Georgia and Kentucky, and
- Our 6-12 social studies in Arkansas and Tennessee.

Prospects also look very good for our fine arts, health, business and vocational lines in states adopting those subjects this year.

Decision-making in the open territory typically continues through the end of the second quarter and sometimes beyond, but we are encouraged by the opportunities our field staff has been tracking for this year, and we'll have more to give you on that in the next couple of months.

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We expect to benefit from the introduction of:

- *Math Connects*, which is our new national program for K–5 market, and
- *TimeLinks*, a new K–5 social studies program.

We also anticipate continued gains in open territory market share for *Treasures*, the elementary reading program that we launched with great success last year.

In the supplemental market, there is a diminishing demand for traditional, stand-alone products. Typically, these products are not clearly correlated to state standards or supported by research studies, criteria that are increasingly important in this age of accountability. And many supplements that used to be purchased separately are now unnecessary because similar materials are provided in the ancillary packages that accompany today's more comprehensive basal programs. But sales are growing for our new print and digital intervention products, which have been constructed around state standards and validated through research.

In testing, we anticipate the strengthening of a new revenue stream as formative assessment becomes more and more important in the instructional process. The introduction of *Acuity*, our new formative testing system, has enabled us to establish leadership in this market in a very short time frame. In 2007, *Acuity* was selected for New York City's Periodic Assessment Program, which is the largest formative contract ever awarded at \$80 million over five years. *Acuity* has been expanding its customer base at the school district level elsewhere in New York and in many other states. The system has also been adopted on a statewide basis in Indiana and in West Virginia.

Clearly, activity is brisk despite concerns about the impact of a weakening economy on state and local budgets. Budgets are now under construction in 46 states that start their new fiscal year on July 1.

In March, Standard & Poor's issued a report on how "A weak economy will tax U.S. states' 2009 budgets." S&P pointed out that the budget proposals are showing substantial and broad-based reductions in spending for most expense categories....except for education.

In fact, the record of state support for education in this decade is remarkably consistent. According to statistics from the National Association of State Budget Officers report, funding for education aggregated across all 50 states has increased every year since 2001. Clearly, education remains a priority for all state governments. We will continue to monitor this situation obviously very carefully, but for now it appears that concern over state funding for education may be exaggerated.

The weakening economy could also benefit the college and university market. As this chart shows, there is a countercyclical aspect of the U.S. higher education market. In this decade, annual enrollments continued to grow as economic growth declined. In difficult times, more students stay in school longer while others return for more education to enhance their employability in a changing market. Even without the stimulus of a slowing economy, college enrollments are expected to climb over the next decade based on demographic trends. The fastest growth will occur among women and members of minority groups, according to a recent report from the U.S. Department of Education's National Center for Educational Statistics.

We expect the U.S. college and university market to grow in the range of 3% to 4% this year and we still expect to outperform the market.

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

- Growing confidence in forecasts for industry growth in el-hi and higher education markets,
- Segment revenue growth of 6% to 8%, and
- Operating margin will probably decline 50 to 100 basis points due to stepped-up investments in technology due to improvements in digital transformation.

Financial Services

With that, let's go the Financial Services segment. Here, product and geographic diversity and cost containment helped cushion a steep decline in structured finance area at Financial Services.

In the first quarter:

- Revenue declined 11.6%,
- Operating profit was down 25.3%, and
- The operating margin was 40.4%, down from 47.7% for the same period last year, but better than the 35.8% in the fourth quarter of 2007 when restructuring charges cost 2.5 percentage points on the margin.

In this environment, cost containment is clearly the top priority:

- We had the benefit of the restructuring from the fourth quarter last year and we will see the full impact of that action starting in the second quarter of this year,
- We strictly limited hiring,
- We cut back on discretionary expenses, and
- We reduced 2008 incentive compensation.

We actually reduced year over year costs in the first quarter at Financial Services, and in just a moment, Bob Bahash will review those details for you.

In the face of challenging market conditions, we are currently considering more staff reductions. We have taken a measured approach as we carefully assess the operating environment. At this point, it is clear to me that we need to do more to lower costs and improve efficiency. We will have more to say about further reductions in the next several weeks both at Financial Services and at McGraw-Hill Education.

We also continue to focus on how best to grow our Financial Services business so we are in a good position to resume growth once the market regains its stride, as for sure it will. Creating a diversified portfolio has long been a key strategic thrust at Financial Services.

The growth of Standard & Poor's Investment Services is a key element in our effort to diversify within Financial Services. S&P Investment Services grew by 18% to \$217 million in the first quarter and represented 34% of this segment's revenue. We expect double-digit revenue growth from this non-ratings business for the balance of the year.

Our efforts to diversify are not limited to S&P Investment Services. For S&P Credit Market Services, there is an ongoing effort to diversify by:

- Asset class,
- Geography,
- Product mix, and
- Through the growth of annual fee and subscription revenue.

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For the Financial Services segment, unearned revenue increased in the first quarter by 13.6% to \$812 million, or about 74% of the corporation's total deferred revenue for this period. And we expect deferred revenue at Financial Services to continue growing this year.

It contributed to the 11.2% growth of non-transaction revenue at S&P Credit Market Services which produced increases in:

- Subscriptions like RatingsDirect and RatingsExpress,
- Annual fees, and
- Surveillance revenue.

Revenue from non-transaction sources was \$309.1 million in the first quarter.

International revenue for Credit Market Services, and that was driven by favorable foreign exchange, grew by 5.8% in the first quarter to \$204.5 million, or about 48% of the top line. That's very encouraging and telling.

CRISIL in India is an increasingly important contributor to our growth overseas, and we continue to seek new opportunities to grow in international markets. In the first quarter, we added a new rating agency in Israel, S&P Maalot, and opened new branch operations in Dubai and Johannesburg, South Africa.

Our strategy clearly buffered the segment and S&P Credit Market Services from the severity of the decline in the structured finance market in the first quarter.

As this table shows, revenue for Financial Services declined 11.6% and S&P Credit Market Services was off 21.6% while global new issue dollar volume fell 49.3% in the first quarter. S&P Credit Market Services' international revenue increased 5.8% in the first quarter while international new issue dollar volume declined by 42.9%. Domestic revenue for Credit Market Services declined by 36.6%, while total U.S. dollar volume fell by 55.5%.

We have been charting the decline in the U.S. new issue volume since the structured finance market started falling in 2007. As the orange bars in this slide show, the decline in the fourth quarter of 2007 accelerated in the first quarter of 2008, led by the plunge in U.S. structured finance new issue dollar volume, which was down:

- 69.4% in January,
- 84.7% in February, and
- 74.8% in March.

We saw a similar pattern in the first quarter in the European structured finance market. The downturn hit residential mortgage-backed securities, the commercial mortgage-backed securities, and the collateralized debt obligations.

Only the dollar volume issuance of asset-backed securities showed an increase in the first quarter in the U.S. and Europe. Without one private placement of \$29 billion, new issue dollar volume of asset-backed securities in the U.S. would have been down slightly.

As a result of the steep decline in the new issue markets, the transaction revenue for S&P Credit Market Services declined by 55.8% in the first quarter.

The outlook for Financial Services depends, in part, on the depth and duration of the downturn in the structured finance market. There's no question that eventually there will be a pick-up in structured finance. It's a question of timing that hinges on when investors believe most risks are transparent and out in the open.

- The slowdown in the U.S. economy and the tightening of residential mortgage-lending standards will impact the level of lending in residential markets.
- In the commercial mortgage-backed market, cash bond spreads will have to tighten considerably.
- Forecasting CDO issuance remains difficult.
- In the asset-backed securities market, the non-mortgage ABS pipeline remains very healthy.
- Credit card issuance got off to a strong start in the first quarter. Credit card asset-backed securities have been an attractive form of funding for the banks and we expect that trend to continue as banks try to preserve liquidity. The student loan sector is currently under some pressure.
- In the corporate market, both here and in Europe, investment-grade issuance continues to attract investors. As a result, we've seen corporate treasurers increase sales of long-term investment-grade bonds for the first time in a decade. A shrinking commercial paper market and Federal Reserve rate cuts have helped the growth of investment-grade bonds.
- A recovery in the high-yield market rests on the renewal of investor confidence.
- In public finance, new money issuance comprised the bulk of that activity. Slower economic growth and the weakening housing sector will affect state and local governments and could increase the demand for debt financing. In the past economic slowdowns, we have seen a shift to bonds instead of pay-as-you-go sources.

At S&P Investment Services, we will benefit from the growth of our data and information businesses.

Capital IQ continues to add new customers. There are now more than 2,300, which is a 24% increase compared to the first quarter last year. Capital IQ continues to upgrade its product line. Earlier this month, its latest release included content from more than 3,500 non-traditional media sources and improved download capabilities and improved charting functionality.

Our index service business is still growing and expanding. We saw more volume in exchange-traded derivatives and a 23.1% year over year increase in assets under management in exchange-traded funds based on S&P indices.

Our data and custom index business also grew. In the first quarter, S&P indices were the basis of 13 new exchange-traded funds. There are now 157 exchange-traded funds based on S&P indices, and you can count on the fact that there is going to be more. We have a variety of new indices in the pipeline for introduction shortly. Index services is among the fastest growing and most profitable businesses at McGraw-Hill Financial Services.

To wrap up our review of Financial Services, I will comment briefly on the regulatory and legal outlook.

A lot has been written and even more has been said about the current problems in financial markets. From the outset, S&P has been working to be part of that solution. That's why in February of this year, S&P announced 27 Leadership Actions designed to strengthen the ratings process, increase transparency, and enhance its independence.

S&P is focused on four key areas. The categories are Analytics, Governance, Information, and Education.

- With Analytics, it's to ensure that ratings models, processes and analytical talent continue to be of the highest quality,
- In Governance, to ensure transparency and maintain investor confidence,
- With Information, to provide more insight into the ratings process and greater clarity about the risks that could cause rating assumptions to change, and
- With Investor Education, to help market participants understand what a credit rating is — and what it is not.

On April 10th, S&P updated the market on the progress it is making in these key areas. These range from adding requirements for additional loan level data from issuers for new RMBS deals to the formation of a Risk Oversight committee and instituting an analyst rotation program.

For a complete update, the best thing to do is go to a website that we have put together at www.spnewactions.com for a complete understanding of the 27 actions that we have taken.

The senior management team has been active both here and abroad reviewing these initiatives with regulators, legislators and other policy makers. The response to the S&P initiatives has been very positive. In fact, many of our leadership actions are reflected in some of the recommendations that are beginning to emerge on how credit rating agencies should manage their processes.

This summer we expect the SEC to report on its ongoing examination of the rating agencies. We also expect the SEC to propose some new oversight rules at that time as well. We are committed to helping bring stability and transparency to capital markets and look forward to continuing our dialog with regulators and policy makers both here and importantly, abroad as well.

Based on what we know today, we do not believe any pending legal, governmental or self-regulatory proceedings will result in a material adverse effect on our financial conditions or on the results of our operations.

So, let's sum up for Financial Services:

- We expect double-digit growth for S&P Investment Services,
- Obviously, credit ratings markets face continued uncertainty, although there are signs of encouragement, and I think in the second half we will start to see more progress,
- But if the steep drop we experienced in the first quarter in structured finance should continue for the rest of the year, revenue at the Financial Services segment would decline 7% to 9%. And we would also expect a 500 to 600 point contraction in the operating margin. Now I must add that I don't think that is going to happen, but if that steep drop we are experiencing abroad should continue, then those results would be prudent even though it is a very conservative approach to take.

Information & Media

Now, let's review Information & Media. Growth in our information products and services again were key to the segment's improved results. In the first quarter:

- Revenue increased 3.2%,
- Operating profit increased 18.6%, and
- The operating margin improved to 4.8%, from 4.2% last year.

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At the Business-to-Business Group, revenue increased 3.5% to \$219.7 million. Our valued-added information for global markets is helping to produce the B-to-B growth.

Platts' news and pricing services for oil, natural gas and power are all growing as volatile energy markets increase the demand for information. Platts continues to grow faster overseas than in North America by attracting new customers from emerging markets like the former Soviet Republic and the Middle East.

J.D. Power and Associates has also been growing in international markets. Last week, it was reported that China has passed Japan as the world's second largest car market behind the United States. That's good news for J.D. Power, which began its voice-of-the-customer research in China more than eight years ago.

To take advantage of growing opportunities in China, J.D. Power in 2006 acquired Automotive Resources Asia (ARA), a leading source of market information and analysis for the Chinese market. In 2007, the new capabilities enabled us to win a substantial contract focusing on sales and service process improvement for Chinese auto dealers who want to establish a competitive advantage based on superior customer satisfaction.

Last week, J.D. Power launched Power Circle Ratings on *Sina.com*, the most recognized Internet brand in China. The Power Circle Ratings are designed to help Chinese consumers make more informed decisions when shopping for new vehicles.

To add to J.D. Power's research capabilities, we acquired in early April a company called Umbria, Inc. This company, which has pioneered in deriving market intelligence from online communities, adds an important new dimension to J.D. Power's voice-of-the-customer research.

Advertising is off to a slow start in the first quarter. At *BusinessWeek*, ad pages for the global edition were down 19.4% in the first quarter, and that's according to the Publishers Information Bureau. Broadcasting revenue of \$23.7 million for the first quarter was flat compared to the prior year. Increases in political and local advertising were mostly offset by declines in national time sales.

In our TV markets, the outlook for political advertising this year is very promising. In the next eight months, we will see three primary and national elections. Statewide primaries will be held in Indiana on May 6th, in California on June 3rd and in Colorado on August 12th. State and local elections include a governor and congressional seat in Indiana, the San Diego mayor, and a congressional seat in California and a U.S. Senate and House race in Colorado.

So summing up for Information and Media Services:

- More global growth for our information products,
- A promising outlook for political advertising later in the year,
- Revenue growth of 6% to 8% for the segment, and
- Improvement in operating margins.

Okay, that completes the review of the operations. And, therefore, summing up for the corporation, year over year comparisons get easier in the second half in Financial Services, so we haven't ruled out the possibility of finishing 2008 on an upswing. But again, if current trends in the financial markets that we have seen in the first quarter of this year should continue for the balance of the year, then we would expect earnings per share in the \$2.65 to \$2.75 range in 2008.

Again, I personally don't think that will take place, but given the uncertainty, it will make a more conservative posture in doing that.

Now, let's continue with our review in financial results from our chief financial officer, Bob Bahash.

Robert J. Bahash

Executive Vice President and Chief Financial Officer
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Thank you, Terry.

We have covered a lot of material this morning, so let's take a moment to sum up the key points in our new guidance for 2008.

- For McGraw-Hill Education, guidance is unchanged. We continue to expect revenue growth of 6% to 8% and a 50 to 100 basis point decline in the operating margin due to stepped-up technology investments and increased prepublication costs.

One additional item I'd like to briefly mention is the transfer of our Advanced Placement courses from Higher Education to the School Education Group. These "AP" courses are taken by high school students for college credit and will now be sold by the sales team that directly serves the high school market. We've provided the reclassification of 2007 revenue, by quarter, in Exhibit 3 of the earnings release. Due to the seasonality of the business, this transfer is not material to the two groups' first quarter revenue, but will be later in the year, as well as for the full-year results.

- Guidance for Information & Media also remains unchanged. We continue to expect 6% to 8% revenue growth and improved margins.
- We are also maintaining our earlier forecasts for double-digit growth at S&P Investment Services.
- However, as Terry indicated, if there is little or no improvement in the financial markets this year, particularly in the structured finance area, we would expect the Financial Services segment's revenue to decline by 7% to 9% and the operating margin to be reduced by 500 to 600 basis points.

Now, if that's the case, our earnings per share in 2008 could range between \$2.65 and \$2.75 per share. Neither the benefits nor the associated termination costs of the actions Terry mentioned earlier are reflected in this guidance. Given the scenario of reduced earnings, there is a corresponding impact on our outlook for free cash flow.

First, let's be clear on how we define free cash flow. We start with after-tax cash from operations, of course after working capital, and deduct investments and dividends. What's left is free cash flow—funds we can use to repurchase stock, make acquisitions, or pay down debt.

We started the year by forecasting free cash flow for 2008 in the range of \$850 million to \$900 million. Our new estimate for free cash flow this year is approximately \$600 million, prior to any acquisitions or share repurchases. This new forecast is driven by reduced profits at Financial Services and the

corresponding impact on working capital. These two factors will be partially mitigated by careful review of new investments in our businesses, which I will discuss in a few moments.

Regarding acquisitions, we have spent about \$34 million. Two in the first quarter:

- Maalot, an Israeli securities ratings company, that now becomes S&P Maalot,
- The licensing rights to the S&P Case-Shiller Home Price Indices, and
- Umbria, in the second quarter, a marketing intelligence company specializing in social media and consumer-generated media research to enhance J.D. Power's voice-of-the customer studies.

Our reduced free cash flow, combined with these acquisitions, has implications for our stock buy back target. As you know, we began the year with 28 million shares remaining in the 2007 program authorized by the Board of Directors. We targeted 20 million shares for repurchase in 2008. In the first quarter, we repurchased 3.4 million shares for a total cost of \$134 million at an average price of \$39.42 per share. With the reduction in available free cash flow, as well as our focus on maintaining net debt levels comparable to year-end 2007, our new target this year will be approximately 15 million shares.

Net debt at the end of the first quarter was \$1.2 billion. This reflects a \$400 million increase versus year-end 2007 and is driven primarily by seasonal cash requirements in the first quarter, as well as funding for share repurchases. As of March 31, on a gross basis, the total debt is comprised of \$1.2 billion of unsecured senior notes and \$396.2 million in commercial paper outstanding. This is offset by \$396.7 million in cash, which is primarily in foreign holdings.

As a result of the lower share repurchase target, we now expect net interest expense in the range of \$75 to \$85 million, and that's down from our initial forecast of \$80 to \$100 million for 2008. In the first quarter of 2008, net interest expense was \$18 million compared to only \$1.2 million in the same period last year.

Now let's look at the diluted weighted average shares outstanding, or WASO. For the first quarter, WASO was 323.4 million shares, a 38.1 million share decrease compared to the first quarter of 2007 and a 7.4 million share decrease compared to 4Q 2007.

Corporate expenses decreased \$1.2 million in the first quarter to \$33.9 million versus the same period last year. This is primarily driven by lower incentive compensation accruals as a result of our financial performance. For 2008, we now expect a mid single-digit decrease in corporate expenses versus our previous guidance of a low single-digit increase. This change is driven primarily by reduced incentive compensation as well as stringent expense controls.

I would like to take a few moments to discuss the impact of incentive compensation on McGraw-Hill's first quarter results, as well as a general comment on expenses. The company's results benefited from decreased incentive compensation, including stock-based compensation.

That benefit was most pronounced at S&P which saw a \$40 million decrease year over year. If the financial markets don't recover, we would expect the year over year decline in incentive compensation expense to continue throughout the year, although it will not be as significant in the second half of 2008 due to the slowdown of the business that we did experience in the second half of 2007 and the impact of that was the corresponding lower incentive compensation accruals last year.

Regarding expenses, in particular at Financial Services, we are balancing prudent investments while keeping a watchful eye on costs. That means investing in businesses that are growing, such as Index

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Services and Capital IQ, as well as recent acquisitions including IMAKE and ClariFI in 2007, and Maalot in early 2008.

We're making these investments while also maintaining strict expense controls at Credit Market Services, including decisions related to new hires.

As you know, included in the expense category is other income from gains from divestitures. Included in Exhibit 2 of the press release is revenue by operating segment, costs and expense by operating segment, and net profit. So embedded within the expense categories would be any gains from divestitures or gains from sale of assets. The first quarter of 2007, as you know, included a gain from the divestiture of the mutual fund business that Terry mentioned, that was \$17.3 million, partially offset by operating expenses for this business prior to the divestiture.

Also, expenses for 2008 include costs for the acquisitions that I previously mentioned that were not in 2007. The reported change in expense shown in Exhibit 2 is an increase of almost 1%. In order to make the year over year comparisons more meaningful, I've adjusted for the net gain in 2007 for the mutual fund data business and acquisition operating costs for 2008. As a result, expenses actually declined in the first quarter of 2008 compared to 2007 by \$16 million or 4.0%, versus the reported expense increase of 0.9%. In addition we continue to make investments for a number of our growing businesses, such as Index Services, Capital IQ, and CRISIL.

But another important measure is to compare expenses in the first quarter of 2008 to the fourth quarter of 2007. The sequential quarter comparison reflects a \$70 million or 15.4% decline in expenses from the fourth quarter, and that excludes the restructuring charge taken in the fourth quarter. Lower incentive compensation is certainly a key driver, but not as significant as the Q1 2008 to Q1 2007 comparison as we also reduced incentive compensation in the fourth quarter of 2007. So we are benefiting from our focus on expense management, hiring delays and curtailments, as well as the fourth quarter restructuring actions.

I will now review unearned revenue, which was \$1.1 billion at the end of the first quarter and reflects an 11.5% year over year increase. Excluding foreign exchange currency gains, the increase is 9.7%. For 2008, we continue to expect that growth will moderate given the forecast for slower revenue growth.

In terms of our effective tax rate, we expect the rate to be 37.5% in 2008, approximately the same rate as 2007 on a full-year basis.

Let's now look at capital expenditures, which include prepublication investments and purchases of property and equipment.

In the first quarter, our prepublication investments were \$67 million compared to \$57 million in the same period last year. We were projecting \$300 to \$310 million in pre-pub investments for the year. We now expect \$290 million for 2008, which reflects prudent investments and continued off-shoring efficiencies.

Purchases of property and equipment were \$24 million in the first quarter compared to \$23 million in the same period last year. For 2008, we now expect lower CapEx, which is projected to be about \$160 million, for normal replacement expenditures, additional purchases of software and technology equipment for the new data center in the first half of 2008, and continued investments in technology.

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Finally, now for some non-cash items.

Amortization of prepublication costs is \$28 million for both years. For 2008, we continue to expect amortization to increase \$45 million, to \$285 million. This is driven by significant prepublication investments to take advantage of opportunities in the el-hi market, which as Terry mentioned, is expected to grow 10% to 15% this year.

Depreciation was \$27.5 million compared to \$29 million in the same period last year. We still expect it to be approximately \$125 million in 2008, reflecting the completion of the data center, the purchase of new technology equipment for the data center, and then other increases in capital expenditures.

Finally, amortization of intangibles was \$14 million compared to \$12 million in the same period last year. For 2008 we expect approximately \$52 million.

Thank you, and back to Terry.

To access the accompanying slides online, go to:

<http://investor.mcgraw-hill.com/phoenix.zhtml?c=96562&p=irol-EventDetails&EventId=1820171>

“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.