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Streamlining operations and lowering costs

- **Reduced global workforce by 395 positions, or approximately 2%, in May**
 - Reductions in Financial Services and McGraw-Hill Education
- **\$14.8 million after-tax restructuring charge, or \$0.05 per diluted share of 2Q '08 earnings**

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Committed to advancing total shareholder value

- **Share buyback program**
 - Bought back 3.4 million shares in 1Q 2008
 - Target for 2008: 15.0 million shares
- **Dividend has increased for 35 consecutive years**
 - Cash returned to shareholders through dividends and share repurchases has grown at compound annual rate of 27.3% between 1997 and 2007
 - Produced a total shareholder return of 10.8% versus 5.9% for the S&P 500 between 1997 and 2007

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Outlook for U.S. economy

- **Current economic outlook somewhat better than many expected**
- **According to S&P's chief economist David Wyss:**
 - Real GDP grew at 0.9% in first quarter; would seem to indicate positive GDP in second quarter
 - Stimulus package: Effect being felt in second quarter and should result in more spending in third quarter; decline in GDP growth in fourth quarter
 - Strong economic data reduces likelihood of more rate cuts; doesn't expect Federal Reserve to raise rates until middle of next year
 - Recovery in housing is going to take time
 - Concerns in oil prices and in unemployment
 - 5.5% jobless rate in May; highest so far this year

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McGraw-Hill Education

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Most important part of the year is just ahead of us

- **3Q: Produces more than 40% of segment's annual revenue and most of operating profit**
 - July-August period is the “60-day month”
- **2Q: June is key month**
 - Order flow in last few days of June is very difficult to predict; can profoundly influence 2Q results
- **2008: Segment still on course to increase revenue by 6% to 8% this year**

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Operating margin decline masks improvements in MHE's performance

- **We still expect 50 to 100 basis point decline this year in operating margin**
 - Stepped-up investments in technology to accelerate digital transformation of MHE
 - \$18 million in costs for transition to new data center and an increase of about \$45 million in prepublication amortization this year for new products launching in 2008
 - These increases alone would have negative impact of 200 basis points on MHE's operating margin in 2008
- **Offsetting factors**
 - Benefits of 4Q 2007 restructuring actions
 - Economies of scale
 - Continued cost containment

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Expect good results at our el-hi School Education Group

- **Reorganized basal operations paying off**
 - Captured 32% of 2007 state new adoption market
 - Revenue grew by more than 2.5x market rate
- **2008: We expect industry to grow 4% to 5%; believe we can do better**

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State new adoption market expected to grow 10% to 15% in 2008

- **Key markets in 2008: Florida, Texas and California**
 - Florida: Good year taking shape for K–5 reading adoption
 - Texas: We're competing well in K–5 math adoption
 - California: Good signs for first-year math and second-year adoptions

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Open territory market expected to grow 1% to 2% in 2008

- **We are encouraged by opportunities our staff has been tracking for this year**

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State education budgets

- **In tracking 2009 fiscal year budgets, we've seen bigger increases in education budget than overall state budget**

History of Elementary and Secondary Education Funding for U.S. States: Fiscal 2001-2007

Year	Elementary and Secondary Education Funding (% increase)
2001	7.90%
2002	3.10%
2003	6.40%
2004	2.70%
2005	6.40%
2006	5.90%
2007	6.70%

Source: NASBO State Expenditures Report (2001-2006)

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Testing: A growing lineup of products to serve needs of all learners

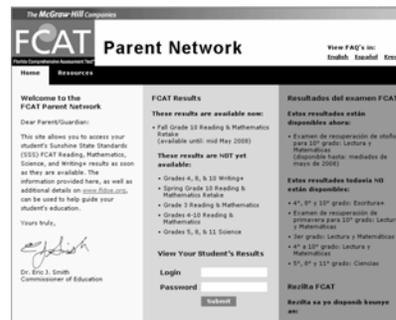
- **Acuity, new formative assessment system, continues to show promise with new state-level contracts in Indiana and West Virginia**
 - Implemented in New York City
 - Has won many other large district-level adoptions
- **TABE, diagnostic assessments and instruction support for adults, won five-year contract with federal Jobs Corp.'s youth training program**

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Testing: A growing lineup of products to serve needs of all learners

- **Grow Network continues leadership with parent engagement**

- Parent Network provides parents with online access to their children's assessment results
- Provides personal action plans, educational resources and home activities



- **Adopted statewide by Florida, Nevada and Indiana**
- **Recently won \$600,000 contract from New York City**

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Assessment business continues to shift

- **Realignment of testing organization is reflected in restructuring actions we took at MHE in second quarter**

- Majority of actions were in assessment business
- Provide solutions more cost effectively

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Outlook for higher education market

- **Wrapping up spring selling season on positive note; too early to make prediction on summer's activity**
- **2008 U.S. college and university market expected to grow 3% to 4%**
 - We hope to at least match those expectations

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Growth accelerating in digital and custom products for college and university market

- **Homework Manager: Adding more disciplines**
- **Online Courses: 40 offered so far**
- **eBooks: Offering downloadable and media rich eBook options through CourseSmart.com, an industry-sponsored website**
 - Also distributing samples online to instructors to reduce costs



www.CourseSmart.com

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Summing up for McGraw-Hill Education

- Revenue projected to grow 6% to 8% in 2008
- Operating margin will probably decline 50 to 100 basis points due to stepped up investments in technology
- Growing confidence in our forecast for the year based on sales results to date

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Financial Services

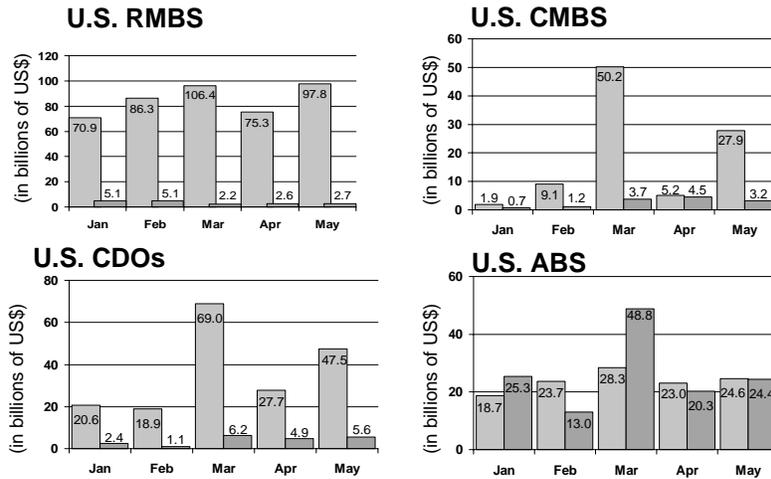
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Four key questions about prospects for Financial Services

1. What is the severity of the downturn in the market?
2. What is the duration of the downturn?
3. What are the regulatory risks?
4. What are the legal risks?

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Measuring new issue volume in U.S. credit markets in 2008

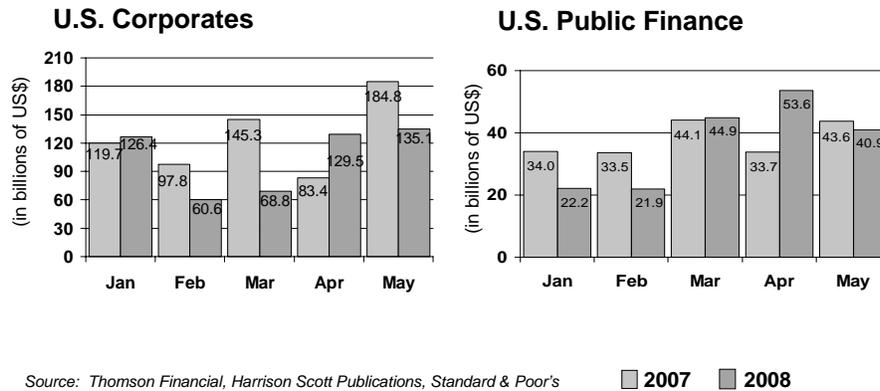


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Source: Thomson Financial, Harrison Scott Publications, Standard & Poor's

2007 2008

Measuring new issue volume in U.S. credit markets in 2008



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Measuring new issue volume in U.S. credit markets in 2008

- **Structured finance new issue volume declines every month**
 - 70.1% in January
 - 85.2% in February
 - 75.0% in March
 - 75.4% in April
 - 81.8% in May

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Financial Services faces challenging comparisons with 2007

- **2Q '07 set high water mark last year for revenue and operating profits at Financial Services**
- **Segment operating profits grew by 27.9% in 2Q '07**
- **Revenue for Credit Market Services grew by nearly 24% in 2Q '07**

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Cost containment a priority in this environment

- **Measured steps to streamline operations and lower costs**
 - 4Q 2007: Staff reduction of approximately 170 positions
 - \$18.8 million pre-tax restructuring charge
 - 2Q 2008: Eliminated another 246 positions
 - \$15.2 million pre-tax impact of restructuring will be reflected in 2Q '08 results

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Efforts to diversify are paying off

- **Expanding ratings information services**
 - Investing in ratings models and tools for surveillance for sale to the financial community
 - Adding new data and functionality to products such as Capital IQ and RatingsDirect
- **Growth in surveillance fees, annual contracts and subscriptions help buffer downturn in transaction volume**
 - Financial Services' unearned revenue grew 13.6% to \$812 million in 1Q 2008

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Forecast double-digit revenue growth for Standard & Poor's Investment Services

- **Non-ratings revenue grew 18% in 1Q 2008 and represented 34% of segment's revenue**
- **Untapped potential in this business**
 - Recently created S&P's Fixed Income Risk Management Services (FIRMS) to integrate and rebrand S&P's services for credit and risk analysis
 - Unit provides market intelligence and analytic insight for risk-driven investment analysis, including debt, structured finance, derivative and credit markets

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S&P index services continue to grow

- **Assets under management in exchange-traded funds based on S&P indices increased 19.2% to \$214.9 billion as of May 31, 2008**
- **S&P signed agreement with the Korean Exchange to develop new tradeable indices**
 - Adds to lineup of partnerships S&P has with other exchanges (Australia, Tokyo, Milan, Toronto, Hong Kong and India)

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How S&P is expanding Index Services

- **S&P's growing family of indices has contributed to rise of exchange-traded portfolios**
- **S&P's new real-time currency indices**
 - S&P Chinese Renminbi Index
 - S&P Indian Rupee
- **Morgan Stanley is using S&P's new currency indices as benchmark for exchange-traded notes**

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How S&P is expanding Index Services

- **S&P earns revenue from exchange-traded derivatives, such as S&P 500 futures and options**
- **S&P had 71% share of Chicago Mercantile Exchange's equity and index futures, and options on futures in 2007**
- **S&P had 45% share of Chicago Board Options Exchange Index and ETF options in 2007**
 - Business is growing in 2008

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How S&P is expanding Index Services

- **Many ways S&P is paid for indices:**
 - Real estate: S&P Case/Shiller index for residential market
 - Fixed income: S&P National Municipal Index, the ETF market leader
 - Options-based Indices, such as implied volatility index (VIX) at CBOE
 - Alternative investment indices, such as S&P 130/30 index

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Current outlook for legal risk at Financial Services

- **Still believe legal risk is modest**
- **Total of five lawsuits, including three recently against several defendants including banks and some ratings agencies**
 - Allegations concern RMBS securities purchased by plaintiffs which have lost value and have had ratings downgrades
- **No merit to any of these claims against S&P according to our attorneys**

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Current outlook for regulatory risk at Financial Services

- **Not clear how or if regulatory burden will increase**
- **We continue to believe any pending or likely governmental or self-regulatory proceedings will not result in a material adverse effect on our financial condition or on results of our operations**

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Current outlook for regulatory risk at Financial Services

- **S&P has been in discussions with both CESR and IOSCO and is reviewing recommendations**
 - Many of IOSCO's recommendations are already reflected in 27 initiatives S&P is taking to strengthen and enhance our governance, quality of analytics and data, transparency, and investor education

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Current outlook for regulatory risk at Financial Services

- **S&P reached a settlement with New York Attorney General**
 - Underscores S&P's commitment to transparency, openness and strengthening of governance of ratings process
- **SEC asked S&P to report on methodological or model errors, if any, that led to erroneous ratings in structured finance**
 - Our team is working on response to SEC

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Current outlook for regulatory risk at Financial Services

- **Upcoming actions from SEC:**
 - June 11: SEC holding a public meeting to discuss proposed new rules for NRSROs
 - Once rules are issued, we expect industry participants will have an opportunity to comment on them
 - Later in June: Expect report from SEC on its examination of the ratings agencies
- **Anticipate more recommendations from Europeans later this month**

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Six keys to settlement with NY State Attorney General

Focus on U.S. RMBS non-prime issuance

1. Fee structure changed for RMBS ratings

- Total rating fee will be broken into components
 - Portion will be charged for each of four stages in the ratings process
- S&P's rating fees not dependent on the closing of the transaction or the issuance of a final rating

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Six keys to settlement with NY State Attorney General

2. Quarterly disclosure of collateral pools S&P is asked to rate

- Designed to discourage shopping for ratings

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Six keys to settlement with NY State Attorney General

Next three parts call for improvement in the quality of data submitted for ratings. S&P will be:

3. Establishing enhanced criteria for reviewing mortgage originators
4. Setting enhanced criteria for representations and warranties on the underlying loans, addressing issues such as fraud, misrepresentations, data quality, adherence to underwriting guidelines and early payment defaults
5. Establishing new criteria for due diligence on the underlying mortgage loans undertaken by those seeking ratings and requiring a statement of due diligence as part of the RMBS ratings process

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Six keys to settlement with NY State Attorney General

- 6. S&P will be required to review annually its RMBS rating processes to assess for and remediate any practices that could compromise its independence**

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Assessing the agreement: A strong message to the market

- Attorney General Cuomo's assessment is that the agreement should provide the market with:**
 - Greater confidence that ratings process not subject to potential conflicts of interest
 - Strengthens quality of data provided to S&P

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Guidance for Financial Services segment

- **We expect double-digit growth for S&P Investment Services**
- **First half remains challenging for Credit Market Services**
- **If little or no improvement in financial markets this year, particularly in structured finance, we would expect the Financial Services segment's revenue to decline 7% to 9% and the operating margin to be reduced by 500 to 600 basis points**
- **Our guidance excludes second quarter restructuring charge and associated benefits**

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Information & Media

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Guidance for Information & Media unchanged

- **We expect a 6% to 8% increase in revenue and improvement in the operating margin**

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Building on a rich legacy at Information & Media

- **Framework for growth: Integrate our products with our customers' workflow and infrastructure**

From	→	To
Transactional, one-way relationship with customer		Value-added relationship
Strong, media-specific brands		Brand leadership supports entry into new adjacencies
Traditional awareness ad revenue models		Marketing intelligence, measurable ad effectiveness
Data pushed to customers		Value-added analytical services integrated with customer applications
Product-focused technology		User-centric technology platforms
Long product shelf life		Continuous improvement

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Expect another year of progress at Information & Media

- **J.D. Power and Associates: Turning industry performance benchmarks into actionable information is key to expansion**
- **Platts' information is increasingly the benchmark for global energy markets**
- **McGraw-Hill Construction Network: Improving value proposition by enhancing analytics and providing customers the analysis and forecasts they can use to reduce risks**

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Expect another year of progress at Information & Media

- **Broadcasting: We expect a solid year in political advertising**
 - Number of local, state and congressional races in our markets
 - Number of propositions on ballot in California
- **Print advertising still lagging; working hard to stabilize the situation**

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Summing up for Information & Media

- **A segment in transition**
- **Growth in benchmarks, analytics and solutions**
- **Solid year shaping up for political advertising**
- **On track to produce a 6% to 8% increase in revenue**
- **Improved operating margin**

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For MHP: 2008 guidance unchanged

- **With the seasonality of our business concentrating earnings in the second half and despite continued uncertainty about the pace of recovery in the capital markets, we are not changing our previous 2008 earnings per share guidance of \$2.65 to \$2.75**
 - Excludes impact of May restructuring charge and associated benefits

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The McGraw-Hill Companies

platts

McGraw Hill
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AVIATIONWEEK



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