The McGraw·Hill Companies

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Thank you Catriona [Fallon].

We are pleased to be here this afternoon to review prospects for The McGraw-Hill Companies.

Before I begin, I must draw your attention to the following cautionary remarks. Except for historical information, matters discussed in this presentation may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including projections, estimates, and descriptions of future events. Any such statements are based on current expectations and current economic conditions and are subject to risks and uncertainties that may cause actual results to differ materially from results anticipated in these forward-looking statements. In this regard we direct listeners to the cautionary statements contained in our Form 10-K's, 10-Q's, and other periodic reports filed with the U.S. Securities and Exchange Commission.

Now, let's get started.

For many years, our management team has been committed to producing consistent, sustainable earnings growth and advancing total shareholder value. In 2007, that meant we stepped up the share buyback program while working to deliver a double-digit increase in earnings per share.

Through a combination of share buybacks and cash dividends, The McGraw-Hill Companies returned approximately $2.5 billion to shareholders in 2007. That process started last January when the Board of Directors increased the cash dividend by 12.9%. By the end of September, we also had bought back 30.0 million shares at a cost of $1.9 billion.

In October, the Board of Directors authorized the repurchase of up to 35.0 million shares remaining in the 2007 plan. In the fourth quarter, we returned to the market, buying back another 7.0 million shares at a cost of $322.7 million. That increased the total share buyback for 2007 to 37.0 million shares. As a result of this activity, we expect to end the year with approximately 322.5 million shares outstanding, a 31.5 million reduction from year-end 2006.

January is the month the Board of Directors traditionally considers changes in the cash dividend. This year, the Board meets on January 30th. I will point out that the Board has raised the cash dividend every year since 1974. Over the last 34 years, the dividend has grown at an average compound annual rate of 10.4%.

Since 1996, The McGraw-Hill Companies has returned approximately $8.4 billion to shareholders through a combination of dividends and stock repurchases. That record underscores management's steadfast commitment to advancing shareholder value as we head into a new year.

Consistent with that commitment, we have been increasing our diversity and resiliency by:

- Expanding in international markets,
- Making prudent acquisitions that enhance our capabilities and growth opportunities,
- Using technology to monetize content and improve operating leverage,
- Reducing our dependence on advertising, which is now less than 6% of total revenue, and on the U.S. bond market. In 2007, about 39% of revenue from Standard & Poor's Ratings came from off-shore, up from 21% in 1994.

The successful expansion of S&P's global network is a major reason why The McGraw-Hill Companies' foreign source revenue grew by 14.4% in 2006. After nine months of 2007, total foreign source revenue was up nearly 20%. Foreign source revenue represented 24.5% of our total revenue in 2006. We expect that proportion to increase in 2007 and in the years ahead with all three segments contributing to growth overseas.

The worldwide need for capital, the global demand for knowledge, and the need for transparent business information are important trends that will keep us moving ahead for many years.

Recent acquisitions like J.D. Power and Associates, Capital IQ, and CRISIL, where we now have majority ownership, are all performing very well and will contribute to our international growth. In 2007, we acquired two small but strategically important software companies, ClariFI and IMAKE, to enhance our capabilities in Financial Services. I will come back to this point in a moment.

Technology is transforming the world of information. In the digital marketplace, we are finding new ways to monetize content, add incremental revenue, and improve operating efficiency. We have increased our digital workflow capabilities, which are key to improving efficiency here at home and with vendors overseas for composition, design, pre-press work, and printing.

The diversity and resiliency of our portfolio were important factors in 2007 and will be again in 2008 as the economy slows down.

David Wyss, S&P's chief economist, expects U.S. Gross Domestic Product growth of 1.9% this year after a 2.2% increase in 2007. He bases his forecast on slow growth in the fourth quarter of 2007 and the first two quarters of 2008 with a pick up coming in the second half. World GDP is expected to grow 4.5% this year.

The U.S. housing recession will be a factor for most of 2008. New housing starts will begin to bottom out this spring with sales bottoming out a little later than that. Prices will continue to fall in 2008. David is forecasting a 6.5% drop in housing prices this year and a 13% peak-to-trough decline between December 2006 and December 2008.

In this environment, he expects more rate cuts by the Federal Reserve. The next rate cut could come at the end of this month followed by additional rate cuts in March and April – three rate cuts in all taking us down to 3.5% by April.

Financial Services

Interest rate cuts, diversity, and resiliency will all be factors in Standard & Poor's performance in 2008.

Start with the fact that approximately 25% of Financial Services revenue is generated by data, information, index services and research that are not tied to S&P ratings.

We benefit from the creation, maintenance, and marketing of a growing family of liquid and investable indices that also have become the source for some of the world's most valuable and actively-traded derivatives. This family has grown from once what was only the S&P 500. In 2007 alone, we introduced 52 new indices and that does not include new custom indices. We also reached a new milestone for exchange-traded funds based on Standard & Poor's indices. In this decade, S&P has grown its program from 23 ETFs in the U.S. in 2000 to 100 by the end of 2007 with 143 ETFs worldwide. Assets under management in exchange-traded funds based on S&P indices at the end of 2007 totaled $235.4 billion, an increase of 46% compared to year-end 2006.

Our goal is to provide an index for every type of investment in a borderless market. That has led to the introduction of new indices, including:

- Thematic indices like S&P Global Water and S&P Global Clean Energy,
- Shariah indices including the S&P Pan Arab Shariah, the S&P Pan Asia Shariah Index, and the S&P World Property Shariah,
- Emerging market indices, including the S&P Emerging Market Infrastructure index,
- Our first bond index, the S&P National Municipal Bond index,
- Real estate indices: the S&P Case-Shiller U.S. National Real Estate Index,
- Commodity indices from the acquisition of the Goldman Sachs Commodity indices, and
- Volatility indices. The CBOE Volatility Index which is based on the S&P 500, was the second most actively-traded index options contract on the exchange last year.

S&P indices generate revenue from:

- The trading of derivative contracts,
- Basis points from assets under management in exchange-traded funds,
- Licensing agreements, and
- Data and custom indices.

The growing roster of clients for S&P's custom indexes and benchmarks include some of the world's largest pension funds: the Japan Postal System, the Canadian Pension Plan Investment Board, and the French Reserve Fund, which manages retirement plans.

The expansion of cross-border investing, the growing demand for new investable products, and investment strategies will continue to open up new opportunities for us to create products and services. We will also continue to move ahead in the data and information business.

Since we acquired Capital IQ in 2004, the client base has grown from 700 to 2,200. Clients include all the major investment banks, as well a majority of the world's top private equity and hedge funds. Capital IQ's steady effort to ramp up its offerings paid off in 2007 with:

- More fixed income and real-time information,
- More information on companies, and
- More global content amid greater functionality.

Database coverage now includes nearly all of the world's public companies by market capitalization. In 2007, Capital IQ integrated S&P credit research and ratings on its platform and successfully launched the Company Insight Center with *BusinessWeek.com*.

To enhance Capital IQ and Compustat's ability to deliver solutions to portfolio managers and quantitative analysts, we acquired ClariFI in 2007. Let's take a closer look:

[Video Clip: ClariFI]

ClariFI® adds portfolio analytics to Standard & Poor's Capital IQ. Significantly decreasing the time it takes to research, test, and implement investment strategies, ClariFI's ModelStation® integrates all the vital processes for quantitative portfolio management and research onto one platform.

ModelStation's open system saves valuable time by allowing clients to integrate their existing code, databases, and models into a single workflow that connects to any combination of data sources, risk models, and optimization technologies.

ClariFI's intuitive user interface enables clients to create complex investment theories without writing code. Here, users drag and drop to easily define graphical representations of complex cross sectional and time series datasets. This graphical method makes obvious what is being built into an investment theory and enables portfolio managers to make changes quickly.

ModelStation® provides robust backtesting by running single- or multi-period return analyses to understand the predictive power of the factors or "signals" involved, as well as model construction, which is supported by a range of regression-based modeling techniques.

Users can simulate how portfolio-level strategies will trade in the "real world," including optimal times to buy and sell, and can use tools to optimize their portfolio. ModelStation's unified environment allows research to move seamlessly into production, enabling rapid time-to-market for new quantitative strategies.

ClariFI. Pure Quant

Among its clients, ClariFI counts four of the top five investment managers in the world, hedge funds, and trading desks at leading brokerage houses and banks.

The strategic pursuit of diversity and resilience at Financial Services is not limited to our non-ratings business. As I pointed out earlier, about 39% of S&P ratings revenue now comes from off-shore. It will contribute even more in the years ahead as we continue to expand overseas. New offices in 2008 in Dubai and Johannesburg and the planned acquisition of a rating agency in Israel will contribute to our growth overseas. Dubai, Johannesburg, Tel Aviv and Moscow will serve as platforms for sub-regional growth. We will also leverage our South Asian hub for expansion in that region.

We also expect more growth from non-traditional products and services, which represent about 25% of Ratings revenue. Non-traditional products and services include Bank Loan Ratings, Financial Strength Ratings, Rating Evaluation Services, counterparty ratings, and advanced analytics for the insurance sector.

To reduce volatility at S&P ratings, we have developed fee structures in recent years that lessen dependency on the new issue market. In the first nine months of 2007, 48% of ratings revenue was tied to transactions. The recurring revenue stream reflects the growth of frequent issuer programs and surveillance fees, which contributed to the Corporation's more than $1 billion in deferred revenue at the end of the third quarter. About 75% of that unearned revenue comes from S&P, and again, the surveillance and fee structures.

We are also making investments to improve our surveillance capabilities. That's why we recently acquired IMAKE Consulting, a leading provider of software and services to the structured finance market and ABSXchange, an end-to-end solution provider of structured finance data, analytics, cash flow metrics, and modeling. IMAKE's premier product, *Analytics on Demand*, helps clients analyze and value structured finance transactions.

Visibility in the structured finance market remains limited at this time. The decline in new issue volume in the U.S. market that we anticipated in September has continued into October and November. New issuance statistics illustrate the trajectory of that business.

As these charts show, only new issue dollar volume in the U.S. asset-backed market was up in November. U.S. commercial mortgage-backed market was down about 6.7% in November. The decline in new issuance was much more pronounced for U.S. residential mortgage-backed securities and collateralized debt obligations. We also saw a drop in U.S. corporate and public finance issuance in November.

Our guidance for the Financial Services segment in the fourth quarter remains unchanged:
- High single-digit decline in revenue, and
- Some margin contraction.

As we look ahead, we remain confident about prospects in the U.S. corporate and public finance markets, in opportunities for growth overseas, and in our non-ratings business. We expect a more conservative approach to financing in structured markets and reduced investor appetite for complex products, or certainly those that are more speculative.

S&P is working very hard to be a part of the solution to current issues in the credit markets. As part of that effort, S&P is planning new actions it will take to enhance the ratings process in four key areas:
1. *Governance*: Independence is the cornerstone of our business and S&P has stringent policies in place to manage conflicts of interest and ensure the integrity of the ratings process. We will shortly announce more steps to strengthen these critical policies.
2. *Analytics*: We will also take steps to enhance the quality of our ratings analysis and opinions.
3. *Information*: More will be done to improve transparency and insight for market participants.
4. *Education*: We need to — and will — do more to educate the marketplace about credit ratings and rated securities.

Before the end of the month, S&P will announce a series of important actions it will take in all four areas.

We also will continue to work closely with regulators here and abroad. It is in our best interests to do so and we welcome the opportunity to answer their questions about our policies and procedures.

So, let's sum up for Financial Services:
- 4Q 2007: High single-digit decline in revenue and some margin contraction.
- 2008 outlook:
  - Visibility remains limited for the structured market,
  - Growth prospects in corporate and public finance,
  - Increased contribution from international markets,
  - Growth in non-traditional ratings products,
  - Solid contribution from non-ratings.

McGraw-Hill Education

Now, let's review prospects for McGraw-Hill Education.

There can be no doubt today about the increasing value of education.

- It unlocks an individual's economic potential.
- It is the key to the future because no nation can compete in the knowledge economy without an educated workforce.

We are operating in an environment marked by:

- Growing enrollments both here and abroad,
- Industry consolidation, which favors stable companies like ours which are not encumbered by significant debt,
- A digital transformation that is linking content and instruction and creating new opportunities to improve productivity and develop products for incremental revenue,
- Robust state new adoption markets for the rest of this decade.

McGraw-Hill Education's investments in digital products and services are increasingly a source of competitive advantage at all levels of education.

In a discipline as fundamental as reading, educators recognize that connecting traditional textbook-based instruction with digital resources results in more individualized standards-based classroom instruction and better ways to measure student performance. That linkage has been a key to the success of *Treasures*, our K-6 reading program. Let's take a look at how that combination works for teachers:

[Video Clip: *Treasures*]

Treasures is a comprehensive, research-based program from Macmillan/McGraw-Hill that provides differentiated reading and language arts instruction for kindergarten through grade six.

For teachers who have a mix of struggling readers, on-level readers, and students who are reading above grade level, Treasures solves the problem: "How do I manage my class?" Through assessment tools, the Teacher's Edition, and motivating student resources, teachers are provided with clear lesson plans so they can provide direct instruction to small groups and individual students, while the rest of the class is engaged in independent exercises appropriate for its level. Activities focus on the key skills necessary to learn how to read — phonemic awareness, phonics, fluency, vocabulary, and comprehension.

Treasures engages students by offering a rich selection of classic and contemporary award-winning literature and engaging non-fiction. Multimedia resources reinforce the week's lesson and include an interactive phonics game, and puzzles to practice vocabulary and spelling words. A rich audio library supports students as they listen to stories and practice reading them aloud fluently.

Teachers can track performance via student and class reports. District administrators monitor the same information to ensure students and schools are making adequate yearly progress.

Macmillan/McGraw-Hill's Treasures helps teachers address the full spectrum of individual and whole-class needs while helping children become lifelong readers.

The digital transformation is even more advanced and moving faster in higher education where the student-to-computer ratio is now probably one-to-one. Our digital products and services include online courses, homework management programs, and assessment solutions.

Let's look at how we are finding new ways to connect our trusted content in the college and university market with iPods, MP3 players, and laptops:

[Video Clip: McGraw-Hill Higher Education]

In higher education, McGraw-Hill is leveraging its proven content to provide a powerful new generation of digital and print products and services. These are aggregated to create an integrated offering that improves teaching and learning.

In the media-enhanced edition of Fundamental Accounting Principles, *icons appear throughout the text, pointing students to audio and video presentations, quizzes, and narrated demonstration problems that correlate to the text. This content can be loaded from a DVD packaged with the textbook, or quickly downloaded online.*

Videos connect with McGraw-Hill's The Art of Public Speaking *by Stephen Lucas where students can view a library of famous speeches. A range of student speeches demonstrates particular lesson objectives, such as capturing the audience's interest, and enables students to critique do's and don'ts. Students can also download audio chapter summaries onto their iPod or MP3 player, and video flash cards are available for studying-on-the-go.*

iQuiz content for the iPod® provides an interactive game so students can practice and learn. Here, a student downloads a quiz created by the economics instructor and races against the clock to answer questions and beat the last high score. This useful self-assessment feature is available for hundreds of courses.

McGraw-Hill is leveraging trusted content with innovative technology to provide new services for today's college and university students and instructors.

Earlier, I pointed out that the elementary-high school market will benefit from a robust state new adoption calendar in 2008 that should stimulate industry growth of 15% to 20% over 2007.

The wild card for 2008 will be the performance of the open territory which usually accounts for about 50% of the total market. After 11 months in 2007, the industry's open territory sales were up only 0.8%. State and local funding for education could be an issue in 2008. But it is also a fact that the open territory market will have grown more slowly than usual for two years in a row. That could result in some pent up demand in 2008 for new materials, but it's too soon to make that call. At this point, we estimate industry sales in the open territory will grow 1% to 2% in 2008 — about half the rate established earlier in this decade. We expect total industry sales to increase 4% to 5% after a gain of less than 4% in 2007.

We like our prospects in the el-hi market. We have new programs in math, reading, and science for this year's key new adoption opportunities. The reorganized school team we put in place in September 2006 captured a market-leading 32% market share of the 2007 state new adoption dollars and is primed for another solid year.

We think the U.S. college and university market will grow 4% to 5% in 2008. Rapidly growing enrollments overseas will contribute to growth in higher education market.

At this point, we are not changing our guidance for this segment's performance in the fourth quarter. We expect a decline in operating profit and some margin contraction.

Summing up for McGraw-Hill Education:

- Convergence of content and technology creates new opportunities for growth,
- A strong state new adoption calendar in 2008 with market growth projected at 15% to 20%, and some concern about the open territory,
- 4% to 5% growth for the U.S. college and university market in 2008,
- Opportunities in international markets,
- Increased investments in technology.

Information & Media

Now, let's look at prospects for Information & Media.

We are building on a rich legacy at Information & Media. We have a framework for growth in this segment to integrate our products with the customers' workflow and infrastructure.

As this diagram shows, that means many changes across a broad range as we focus on value-added relationships, marketing intelligence, and user-centric platforms. In short, we will grow by offering more benchmarks, analytics and solutions from some of our most valuable brands.

Turning industry performance benchmarks into actionable information will help J.D. Power and Associates expand not only in the global auto market but also in new industries like financial services. In today's competitive environment, the demand for J.D. Power's customer satisfaction measurements is strong and growing.

Platts' pricing information is increasingly the benchmark for global energy markets. Traditionally associated with oil markets, Platts is building benchmarks in gas, power, and steel.

We continue to improve the value proposition for customers of the McGraw-Hill Construction Network by enhancing analytics and providing analysis and forecasts that help firms identify emerging trends and reduce risks.

And since 2008 is a Presidential election year, our television stations expect a boost from political advertising. Online ad revenue, primarily at *BusinessWeek.com*, will continue to grow rapidly. We expect print advertising to stabilize.

Let's sum up for Information and Media:

- A segment in transition,
- Growth in benchmarks, analytics and solutions,
- A pick up in advertising.

And summing up for the Corporation, for 2007, we still expect double-digit earnings per share growth with improved operating margins in McGraw-Hill Education and Financial Services. That guidance excludes:

- $0.04 charge for the elimination of the restoration stock option program in the first quarter of 2006,
- $0.06 charge for restructuring in the second half of 2006,
- $0.03 gain from the divestiture of a mutual fund data business in the first quarter of 2007.

That guidance also excludes:

- $0.08 restructuring charge in the fourth quarter that we announced earlier today. The pre-tax charge of $43.7 million ($27.3 million after tax) is mostly for employee severance costs related to a workforce reduction of approximately 600 positions, or about 3% of our global workforce.

Here is how the number of positions and pre-tax restructuring charges break down by segment:

- For McGraw-Hill Education: 304 positions and a pre-tax charge of $16.3 million
- For Financial Services: 172 positions and a pre-tax charge of $18.8 million
- For Information & Media: 114 positions and a pre-tax charge of $6.7 million
- For Corporate: 21 positions and a pre-tax charge of $1.9 million

For the fourth quarter of 2007, we still believe the Corporation's revenue and earnings will not match last year's results. That reflects a high single-digit revenue decline and some margin contraction in Financial Services and a decline in operating profit and some margin contraction at McGraw-Hill Education.

We are completing work on our budgets for 2008. As part of the process, we are taking a hard look at all costs and for opportunities to streamline operations. After 2007 earnings are reported on January 24 and the market has the key numbers, we plan to provide guidance for 2008.

Thank you.

To access the accompanying slides online, go to:
http://phx.corporate-ir.net/phoenix.zhtml?c=96562&p=irol-EventDetails&EventId=1735050