

Noble Financial ONTRACK 2010 Conference

Prepared Remarks

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Thank you, Michael [Kupinski].

We are pleased to be here today to discuss the outlook 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.

In the time I have today, I will review the outlook for the year. But I will spend most of my time updating you on how The McGraw-Hill Companies is dealing with three key issues. They are:

- Regulation of ratings
- The legal outlook
- The digital transformation of education

I will close with some comments on:

- Why our year is off to a very good start
- The increase in our dividend, and
- The resumption of share buybacks.

Let's start with the regulatory outlook. We are carefully tracking the growth of regulations both here and around the world:

- On September 7th, new regulations will go into effect in Europe.
- In October, there will be new Japanese regulations.
- On June 2nd, new and amended rules from the Securities and Exchange Commission took effect.
- Last January, Australia implemented new rules for rating agencies.
- And Congress is now expected to pass a financial overhaul reform bill for the President's signature by the 4th of July weekend.

Clearly, a new regulatory environment has been taking shape for some time. Our response: Don't wait for the ink to dry on the new regulations. Prepare to operate in the new environment. And that is exactly what we've been doing since the Credit Rating Agency Reform Act of 2006 took place in June of '07. That's

why we have been working closely with regulators, policymakers, and market participants to make significant changes at S&P Credit Market Services.

For example, we are looking at new steps to evaluate data and the quality of the information sources used in the ratings process. We are evaluating whether or not to rate some issues, issuers, or transactions that don't have a track record. That may mean rating fewer emerging companies, potentially limiting access to funding in public markets for growth and innovation.

S&P has already taken important steps to meet new market needs. Those steps include:

- Improving ratings' stability,
- Adding value to ratings through more analysis and features,
- Increasing comparability of ratings,
- Adding more checks and balances to the ratings process, and
- Educating the market about ratings and the ratings scale.

To increase transparency, S&P now regularly provides more information about:

- The assumption of its models,
- The use of "what if" scenarios, and
- Stress tests. S&P now publishes specific economic scenarios for each rating category that illustrate the level of stress an instrument might withstand without defaulting.

S&P has invested heavily to expand its compliance capabilities. Including people, systems, and technology, S&P spent about \$60 million last year on these efforts. In 2010, S&P may spend about \$75 million. And again, this is on compliance systems. These costs may be impacted by final regulations.

Strengthening analytics, increasing transparency, and reinforcing the integrity of the ratings process will enable S&P to enhance the value to investors of its global benchmarks for credit risk. That's why ratings will be essential to investors who require a common and transparent language for evaluating and comparing creditworthiness across sectors and geographies.

The last major legislative action on the regulatory front this year probably will be the financial overhaul reform bill now working its way through the U.S. Congress. The legislative process will continue until it is resolved in conference this month.

The legislation promises a level playing field for all participants, but in an unprecedented and discriminatory move also proposes to lower pleading standards solely for credit rating agencies. Having a single pleading standard for all market participants would seem to be something that everyone should agree on. Some proposals in Congress would set a precedent for government to interfere in the rating process, undermining analytical independence and ironically increasing investor perceptions that rating opinions are government endorsed. These proposals ignore the strong oversight rules for rating agencies in the Senate bill and the significant new SEC rules encouraging more competition and requiring NRSROs to manage conflicts of interest.

There also is a move to remove ratings from statutes and regulations to discourage anyone from thinking that our rating opinions have the government's seal of approval. We support that proposal and others that increase transparency, accountability, and restore confidence to financial markets.

Let's now look at legal issues.

We are making progress on the legal front. Twelve cases against the company have been dismissed in their entirety, including 11 so far this year. Those decisions were made by eight different judges. Five cases also have been dropped by the plaintiffs. In the same period, three motions to dismiss have been denied in whole or in part pending discovery. I will come back to these cases in a minute.

First, I want to point out that there are dismissals in all three major categories of the suits:

1. Underwriter claims
2. Stock drop lawsuits
3. State law claims

In all the dismissals, the courts have issued clear and unambiguous decisions. They have ruled that:

- Rating agencies are not underwriters or sellers of securities.
- Ratings are opinions, not statements of fact.
- After-the-fact criticisms of rating agencies do not support an inference that rating agencies did not believe their ratings were appropriate when issued.
- Alleged conflicts of interest in the business model were well known by investors.
- Investors were adequately warned of the risks and limitations of credit ratings, which are not buy, sell, or hold recommendations.

Now let's look at the cases where a dismissal was not granted. These are the Abu Dhabi and so-called Rhinebridge cases in federal court and CalPERS case in the state court in California. Some have read more into these court decisions than is warranted at this very early stage in the proceedings.

For example, you may have read recently that the courts are rejecting our First Amendment defense. That assertion represents a fundamental misunderstanding of the law and the procedural status of the cases. Two critical points will help clear up any misunderstanding:

- First, in ruling on a motion to dismiss, courts are legally required to accept as true all of the facts alleged by the plaintiffs. And to the extent any reasonable inferences can be drawn from these facts, courts must also favor the plaintiffs at this preliminary stage of the case.
- Second, the courts' decisions are not definitive rulings on the factual or legal merits of the claims against S&P. The decisions simply allow the claims to move to the pre-trial phase of the case, or discovery.

For example, here is a fact that will become crystal clear in the Abu Dhabi case. The plaintiff asserted that S&P ratings were not widely disseminated. What we will clearly show the Court during discovery is that the rating opinions were available globally at no charge and distributed to the wire services for their dissemination.

Even with the significant legal hurdles to overcome on a motion to dismiss, the court in the Abu Dhabi case dismissed 10 of 11 claims, including all of the plaintiff's negligence-based allegations. And the judge ruling from the bench in the CalPERS case dismissed one of the two claims. And we will appeal the claim that was not dismissed. We remain confident of getting dismissals in the next phase of these cases. We continue to regard the legal risk in these cases as low.

And for the record, we have not received a Wells notice from the SEC.

The third issue is a digital one. Ultimately, the real digital transformation of education is not about textbooks or e-books. It is about the creation of more effective educational solutions. It is about linking technology, content, and distribution in ways that transform not merely the delivery of content but also the quality and the utility of content. It is about moving educational content into interactive, adaptive, mass customizable forms that improve the teaching and learning experience. That's an exciting prospect, but we are sometimes asked if we think technology is a threat to our educational business. The answer is an absolute "no."

There are five basic concepts that illustrate how we think about the innovative power of technology.

First, in education not all information is equal. Information on any subject, accurate or not, is easy to find online. Downloading, cutting, and pasting from various sites is how many students write term papers these days. But creating curriculum content—content that covers a semester or whole year of a student's education—is not so simple. Curriculum content must be accurate, it must be authoritative, and it must be sequenced according to a logical learning progression.

Second, in education, content counts because digital offerings won't be widely used unless they match the demands of the marketplace. Educational content must correlate closely to the state standards on which students are tested, for example, and must be accompanied by teacher resources for meeting a variety of classroom needs. Educational publishers have the experience and resources needed to create products that meet customers' expectations.

Third, digital does not disintermediate content. On the contrary, it empowers us because we have deep and broad lists of textbook and reference materials from authoritative sources. For example, our AccessMedicine Web sites generate a strong global subscription business, precisely because they provide access to McGraw-Hill's world-renowned content—content that we have enhanced with the media-rich, interactive features technology makes possible.

Fourth, the digital business model expands the addressable market. Changing the workflow of students, instructors, and professionals changes the opportunity for publishers who know how to tailor their digital offerings to the needs of customers.

Fifth, digital delivery allows for added functionality and higher value. We already are drawing on our extensive digital content libraries to create applications for smartphones and other hand-held devices. Available for a variety of fields—including medicine, business, and foreign language learning—these clearly targeted apps are ideal for situations where accurate information is needed quickly.

For all these reasons, we believe digital products and services will be important factors in the performance of McGraw-Hill Education this year and in the years ahead. Our digital business is growing at a double-digit rate and now accounts for approximately 15% of our revenue in higher education and professional markets.

In the college and university market, we are using technology to expand the addressable market. The great majority of our college and university books are currently available as e-books. And we are rapidly penetrating a new market by offering self-assessment tools to help college students master their coursework. We now have more than 1.2 million student users who have registered for McGraw-Hill Connect and other digital study and homework management products.

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Let's take a look at McGraw-Hill Connect.

[Video Clip: McGraw-Hill Connect]

McGraw-Hill Connect is a new all-digital learning platform for the higher education market. It connects students to their professors and to a range of engaging, interactive content for more effective learning. These connections are personalized to the particular content a student needs to succeed.

Here, a student taking a course in biology logs on to complete an assignment on cell anatomy. He identifies the parts of an animal cell and checks his work. Several answers are incorrect. The student seeks help and is brought to the appropriate page in the e-book for additional review. He then explores a library of online images and videos specific to the material he is learning. By using this interactive content, the student gains a better understanding of difficult concepts and is better able complete the assignment. The student tries to remember how the instructor explained the concept earlier that day and replays the exact point in the recorded class lecture on the function of animal cells.

He then uses LearnSmart, an adaptive study coach, to make sure he is ready to take a quiz on the chapter. The student answers questions to determine how well he knows the material and is provided an individualized learning plan which includes how much time he needs to study. He can also download these resources to mobile devices for additional studying on the go.

Instructors can track each student and class through visual reports, and can provide early intervention to students who are at risk of failing.

McGraw-Hill Connect significantly enhances the value of McGraw-Hill's educational offerings and helps students connect to knowledge, connect to learning, and connect to their future.

In the elementary and the high school market, digital components are integrated into virtually every program we produce. In fact, it is misleading to speak of el-hi "textbooks" because what we offer are really multimedia packages. The mix of components varies by grade and subject, but interactive online student editions are a part of the future that is already here. Let's take a look:

[Video Clip: ConnectED]

McGraw-Hill Education is now making its content and resources for pre-kindergarten through high school available on one digital platform for teachers, students and parents. ConnectED engages students with digital solutions and interactive content that enhances the learning experience across a range of subjects. Students have online, anytime access to interactive texts. They can highlight key points and add notes and comments. For math programs, such as Math Connects, the chapter playlist offers online manipulatives and games that provide students with a range of tools and strategies to learn difficult concepts.

To engage students and assist struggling readers, programs such as Treasures include a rich library of leveled readers with audio support. Writer's Workspace is a new, all-digital language arts and writing program for middle and high school students. It allows students to prepare writing assignments online and get feedback from their teacher throughout the process. Students and parents can use the digital resources on ConnectED while they are doing homework and studying. Materials are also available in Spanish.

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To save teacher's time, every program includes daily lesson plans for the entire school year. Teachers can personalize their lessons by adding additional content which is easily accessible through four types of searches: by a textbook's table of contents, by state standards, by a specific learning concept, and by keywords.

Even in the middle of a classroom lesson, teachers can call on digital resources to help students understand and learn.

McGraw-Hill ConnectED – Digital Solutions, Better Teaching, Better Learning.

ConnectED and McGraw-Hill Connect demonstrate how we are using the power of technology to provide the kind of solutions our customers need to teach and to learn more effectively.

Let's conclude with some observations about our current situation:

- Our markets are recovering,
- We expect to grow in 2010,
- Our year is off to a very good start.

Our financial position is strong.

- In January we increased the dividend for the 37th consecutive year. Since 1974, our annual dividend has grown at an average compound rate of 9.9%.
- We have resumed share buy backs this year. There were 17.1 million shares authorized in the share repurchase program at the end of 2009.
- In an increasingly digital and global economy, we are investing to capture growing opportunities and to improve our operating leverage.
- A strong finish in the fourth quarter last year—earnings per share grew by 43.2%—set the stage for a very solid start in 2010. That momentum continued in the first quarter when we reported a 65% increase in diluted earnings per share of \$0.33.

In Financial Services:

- The encouraging trends we experienced in the first quarter continued through April.
- Corporate issuance in May has not matched the record level we experienced in April. Recently we have seen some issuers moving to the sideline in the face of uncertainty over conditions in Europe, pending regulatory changes in the U.S. and widening credit spreads.

In Education, we still expect growth in our markets:

- 7% growth in the el-hi market.
- 5% to 7% in U.S. higher education.

In Information & Media:

- Excluding the \$99 million from the *BusinessWeek* divestiture, revenue will increase in the mid single-digit range and,
- The operating margin will rebound into the mid-teens.

Based on current conditions, our guidance for the year for The McGraw-Hill Companies calls for diluted earnings per share of \$2.55 to \$2.65.

Thank you.

To access the accompanying slides online, go to:

<http://investor.mcgraw-hill.com/phoenix.zhtml?c=96562&p=irol-EventDetails&EventId=3115995>

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This presentation includes certain forward-looking statements about our businesses and our prospects, 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; the duration and depth of the current recession; Educational Publishing’s level of success in 2010 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 corporate issuance, CDO’s, residential and commercial mortgage and asset-backed securities and related asset classes; the continued difficulties in the credit markets and their impact on Standard & Poor’s and the economy in general; 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 strength and the performance of the domestic and international automotive 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, corporate issuance, residential and commercial mortgage-backed securities and CDO’s backed by residential mortgages, related asset classes and other asset-backed securities; 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, automotive, computer and aviation industries; the successful marketing of new products, and the effect of competitive products and pricing.