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Focusing on three key issues

- Regulations of ratings
- Legal outlook
- The digital transformation in education

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Tracking global regulations

- September 7: New regulations in effect in Europe
- October: New Japanese regulations
- June 2: New and amended rules from SEC took effect
- January 2010: Australia implemented new rules for rating agencies
- By July 4: Congress expected to pass financial reform act

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Preparing to operate in the new regulatory environment

- Not waiting for "ink to dry"
 - Continue to work closely with regulators, policymakers and market participants to implement significant changes at S&P Credit Market Services
 - Exploring new steps to evaluate data and the quality of the information sources used in the ratings process
 - Evaluating whether or not to rate some issues, issuers, or transactions that don't have a track record
 - May result in rating fewer emerging companies, potentially limiting access to funding in public markets for growth and innovation

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How S&P has strengthened its ratings process

- **S&P has taken important steps to:**
 - Improve rating stability
 - Add value through more analysis and features
 - Increase comparability of ratings
 - Add more checks and balances to the ratings process
 - Educate the market about ratings and the ratings scale

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How S&P is adding value to ratings

- **To increase transparency, S&P now regularly provides more information about:**
 - The assumptions in its models
 - The use of “what if” scenarios
 - Stress tests that illustrate the level of stress an instrument might withstand without defaulting

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How S&P is adding value to ratings

- **S&P has invested heavily in people, systems and technology to expand its compliance efforts**
 - 2009: Spent about \$60 million
 - 2010: May spend around \$75 million
 - 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 its value to investors**
 - We feel investors will continue to require a common and transparent language for evaluating and comparing creditworthiness across sectors and geographies

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The regulatory outlook: Contradictory language

- **U.S. Senate financial reform bill promises a level playing field for all participants, but at the same time proposes to lower pleading standards only for credit rating agencies**
- **To impose lower pleading standards on rating agencies is unprecedented and discriminatory**
 - Goal should be a single pleading standard for all

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Fundamental contradictions in the regulatory outlook

Some proposals would set a precedent for more government interference in the rating process which could undermine analytical independence and increase perceptions that rating opinions are government endorsed

Proposals ignore Senate bill's strong oversight rules and new SEC rules encouraging more competition and requiring NRSROs to manage conflicts of interest

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Supporting regulatory soundness and safety

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

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Latest from the litigation front

- **12 cases completely dismissed; 11 this year**
 - Eight different judges have ruled on the 12 dismissals
- **Five cases have been dropped by plaintiffs**
- **Three motions to dismiss have been denied in whole or part, pending discovery**
- **Dismissals fall into three major categories:**
 1. Underwriter lawsuits
 2. "Stock drop" suits
 3. Suits involving state law claims

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Latest from the litigation front

- **Clear and unambiguous takeaways from recent court decisions:**
 - Rating agencies are not underwriters or sellers of securities under securities laws
 - Ratings are opinions, not statements of fact
 - After-the-fact criticisms of rating agencies do not support the inference that rating agencies didn't believe the appropriateness of their ratings at time of issuance

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Latest from the litigation front

- **Clear and unambiguous takeaways from recent court decisions** (continued):
 - Rating agencies' alleged conflicts of interest were widely known by investors
 - Investors were adequately apprised of risks and limitations of using credit ratings
 - Not recommendations to buy, sell or hold securities

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Latest from the litigation front

- **Dismissals have not been granted in three cases**
 - Abu Dhabi and Rhinebridge cases in federal court
 - CalPERS case in state court in California

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Latest from the litigation front

- **What did courts decide?**
 1. In ruling on a motion to dismiss, courts are legally required to accept as true all of the allegations
 - Must also favor the plaintiffs at this preliminary stage
 2. The courts' decisions are not definitive rulings on the factual or legal merits of the claims against S&P
 - They simply allow the claims to move to discovery, the pre-trial phase of the case

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Latest from the litigation front

- **Abu Dhabi case**
 - During discovery we will show that S&P rating opinions were available globally at no charge and widely disseminated through the wire services
 - 10 of 11 claims have been dismissed, including all of the plaintiff's negligence-based allegations
- **CalPERS**
 - Judge already dismissed one of the two claims
 - We will appeal claim that was not dismissed
- **We remain confident in getting dismissals and regard the legal risk in these cases as low**

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Latest from the litigation front

- **We have not received a Wells notice from the SEC**

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Our vision of the digital transformation in education

- **The digital transformation of education is not about textbooks or e-books**
- **The strategy:**
 - Creating more effective solutions
 - Linking technology, content and distribution
 - Moving educational content into interactive, adaptive, mass customizable forms
 - Improving the teaching and learning experience

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Technology: An opportunity, not a threat

- **Here's what we know as an educational publisher:**
 1. All information is not equal in the education marketplace
 - Creating curriculum content that is accurate, authoritative and properly sequenced is challenging
 2. Content counts and correlating it to standards is vital
 3. Digital does not disintermediate content
 4. Digital business model expands the addressable market. Changing the workflow changes the opportunity.
 5. Digital delivery adds functionality and higher value

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Our growing digital initiatives

- **Digital revenue is increasing at a double-digit rate in our higher education and professional markets**
- **Accounts for 15% of our revenue in these markets**

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Growing digital opportunities in higher education

- **Using technology to increase the addressable market**
 - Majority of our college and university textbooks are now available as e-books
 - Offering self-assessment tools for college students
- **Now more than 1.2 million registered users of McGraw-Hill Connect™ and other homework management products**

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Growing digital opportunities in higher education

- **McGraw-Hill Connect™ [video]**



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More digital content for the el-hi market

- Our elementary-high school products and services are integrating digital components into virtually every program we produce
 - We offer multimedia packages
 - Mix of components varies by grade and subject
- Interactive online student editions are a part of the future that is already here

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More digital content for the el-hi market

- ConnectED [video]



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Growing digital opportunities in el-hi

- ConnectED and McGraw-Hill Connect illustrate how we use the power of technology to provide solutions

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Positive indicators for growth in 2010

- Our markets are recovering
- We expect growth in 2010
- Our year is off to a very good start
- Our financial position is strong

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Positive indicators for growth in 2010

- Increased the dividend for 37th consecutive year
 - Annual dividend has grown at an average compound rate of 9.9% since 1974
- Resumed share buybacks this year
 - 17.1 million shares authorized in the share repurchase program at the end of 2009

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Positive indicators for growth in 2010

- We are investing in the growing digital and global economy to:
 - Capture growing opportunities
 - Improve the operating leverage across all our businesses

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2010 outlook for MHP

- **EPS**
 - 4Q 2009: +43.2%
 - 1Q 2010: \$0.33, a 65% increase

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2010 outlook for Financial Services

- Encouraging trends in 1Q continued through April
- Corporate issuance in May has not matched the record levels experienced in April
- Recently, some issuers moving to sidelines because of uncertainty over conditions in Europe, pending U.S. regulations, and widening credit spreads

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2010 outlook for McGraw-Hill Education

- **Growth in key education markets in 2010**
 - 6% to 7% in the elementary-high school market
 - 5% to 7% in the U.S. higher education

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2010 outlook for Information & Media

- **Revenue:** Excluding \$99 million from *BusinessWeek* divestiture, revenue will increase in the mid single-digit range
- **Operating margin:** Expect to rebound into the mid-teens

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2010 outlook for The McGraw-Hill Companies

- **2010 guidance**
 - Based on current expectations, we expect diluted earnings per share in the \$2.55 to \$2.65 range

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