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Prepared Remarks  
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Thank you, Brian [Shipman].

We appreciate this opportunity to review prospects for The McGraw-Hill Companies. I think we can get to a lot of the things that might be on your mind or you're thinking about, whether it's the industry or whether it's McGraw-Hill in general.

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.

Let's start with some basic 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;
- We have again increased the dividend;
- We expect to resume share buy backs this year;
- Advances in technology are creating new growth opportunities;
- We will grow digitally; and
- We will grow in global markets.

I also want to bring you up-to-date and share our thinking on two issues that have been in the news a lot lately—legal and regulatory developments affecting the credit rating agencies.

- We are making progress on the legal front, and
- The regulatory situation remains very fluid.

I'll go into details on both of those. So let's take a look at these trends in a little bit more detail.

The economy continues to show signs of stronger than expected recovery, although the expansion will probably be somewhat more sluggish than the normal bounce back from recession, according to David Wyss, S&P's chief economist.

- Real GDP rose 3.2% at an annual rate in the first quarter.
- Real GDP has now risen for three consecutive quarters, a clear sign that the recession is over.
- The housing market continues to show signs of improvement.
- And contracting credit spreads signal less risk aversion.

Maintaining a strong balance sheet and positioning the company for growth once the economy began to recover has been a priority. In last year's challenging operating environment, we did just that.

- We strengthened the balance sheet,
- Enhanced our liquidity, and
- Contained and reduced costs.

By achieving those goals, we entered 2010 in a very strong financial position. A strong finish in the fourth quarter last year—earnings per share grew by 43.2%—set the stage for a solid 2010. And, again, the comparison is starting to get easier.

The momentum continued in the first quarter when we reported a 65% increase in diluted earnings per share of 33 cents. For the year, our guidance calls for diluted earnings per share of \$2.55 to \$2.65 versus \$2.33 last year.

Signaling confidence in our prospects, the Board of Directors in January increased the dividend for the 37<sup>th</sup> consecutive year. Since 1974, our annual dividend has grown at an average compound rate of 9.9%. We also told investors that we will repurchase shares later this year. There are 17.1 million shares remaining in the share repurchase program. Since 1996, approximately \$9.4 billion has been returned to shareholders through dividends and stock buyback programs.

In an increasingly digital and global economy, we are investing to capture growing opportunities and to improve the operating leverage across all our businesses. It has been estimated that by 2012 the amount of digital data in the world will be five times larger than it was in 2008, and that's based on a University of Michigan study. Producing quality from such quantity is key to our future. Benchmarks and standards from The McGraw-Hill Companies will continue to serve our customers' need for knowledge in the expanding digital and global economy.

In the last ten years, revenue from foreign sources has grown faster than it has in the United States. In 2009, foreign source revenue accounted for 29% of The McGraw-Hill Companies' total revenue. By the end of this year, foreign source revenue is expected to produce more than 30% of our total. We expect all three segments to contribute to the improvement. The 10-year compound annual growth rate for foreign source revenue through 2009 is 8.9 % versus a 2.7% increase for domestic revenue.

Earlier, I pointed out that we continue to make progress on the legal front. At last count, federal and state courts have dismissed 12 cases against the company in their entirety, including 11 from the beginning of this year. In this same period, three motions to dismiss have been denied in whole or in part by federal and state court judges, pending discovery. We believe these cases are without merit and at the appropriate time we will ask the courts for dismissal. It is worth noting that seven different federal judges and a state court judge are responsible for the 12 dismissals.

And, again, the dismissals have occurred in all three major categories:

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.

We continue to regard the legal risk as low.

On the regulatory front, the last major legislative action this year probably will be the financial reform bill which is now under consideration in the U.S. Senate. We are still working to resolve contradictory language in the proposed legislation. We have pointed out to both Republicans and Democrats that 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. And we believe that all market participants from a liability standard should be treated the same, whether you're an auditor or whether you're an underwriter or whether you're a rating agency.

And let me be clear. We support proposals that increase transparency, accountability, openness, and restoration of confidence to the financial markets. But some amendments would increase federal bureaucracy and undermine efforts to establish consistent international ratings. And, again, globally consistent ratings across asset classes and across geographies is very, very important.

Furthermore, some of the proposals ignore the significant new SEC rules encouraging more competition and requiring NRSROs to manage conflicts of interest, including requirements for issuers to provide underlying information on structured finance securities to all NRSROs and not just the NRSRO they hire. That will provide all NRSROs the opportunity to issue unsolicited opinions.

In an environment stressing regulation and compliance, we are examining new ways to further improve our own processes consistent with regulations both here and abroad. For example, we are looking at new ways 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 strengthen analytics, increase transparency and reinforce the integrity of the ratings process. Our ratings today are more transparent, more comparable and more stable.

- To increase transparency, we are providing investors with more information than ever before about underlying assumptions.

- To make ratings more comparable across sectors and time, we have revised ratings criteria and strengthened analytics.
- To make ratings more stable, we are employing measures that better account for the impact of periods of severe economic stress.

Finding new ways to increase the value of its credit ratings for investors is one of the great lessons of this credit crisis and it is one that S&P has learned well.

## **Financial Services**

With that as an overview of trends, let's take a closer look at prospects for each of our operating segments, and let's start with Financial Services.

Improving conditions in financial markets have been evident for several months. Following a strong fourth quarter performance in 2009, Financial Services produced solid results in the first quarter of 2010. Notably, revenue at S&P Credit Market Services increased by 19.4% in the fourth quarter and by 15.4% in the first quarter. The encouraging trends are continuing into April.

For S&P Credit Market Services, we expect more growth from:

- High-yield issuance,
- Bank loan ratings,
- Increased investment-grade transactions, and
- The municipal market.

Structured finance may show modest improvement against weak comparisons.

An important factor in the market is the increasing amount of maturing U.S. corporate debt. As this graph shows, the amount of maturing investment- and speculative-grade debt increases through 2012, stays high in 2013, and bounces up again in 2014. According to S&P, about \$480 billion in debt matures in 2010, another \$568 billion comes due in 2011 followed by \$723 billion in 2012. That's a nice pipeline.

Refinancing debt is creating a surge in high-yield issuance. The surge was driven partly by private equity companies refinancing the debt they took on for buyouts in the last decade. The increase in new issuance obviously contributes to the growth of transaction revenue at S&P Credit Market Services. But since approximately two-thirds of S&P Credit Market Services' top line comes from non-transaction revenue, our progress here is also important. In the first quarter, non-transaction revenue grew by 8.1%.

To reduce dependency on any single market or asset class, S&P created a deferred revenue stream by emphasizing recurring annual fees through frequent issuer programs, surveillance fees and subscription services. That's how we define non-transaction revenue.

Increased subscriptions, annual fees, and price increases all contributed to first quarter growth of non-transaction revenue. This is a durable revenue stream and we expect more growth this year.

Underscoring our confidence is the increase in the corporation's unearned revenue. We ended the first quarter with unearned revenue of \$1.1 billion, that's up 2.8% from the prior year. In constant currency

and excluding the impact of divestitures, most notably *BusinessWeek*, unearned revenue grew by 4.3% in the first quarter. Financial Services accounts for 75% of the corporation's total unearned revenue.

We also expect growth this year from S&P Investment Services, which reported a 1.5% decline in revenue in the first quarter. That decline was primarily attributable to the divestiture of Vista Research last May and the expiration of contracts for the Independent Equity Research settlement. We expect to continue benefitting from the growth of Capital IQ, which has more than 3,000 clients now, a new record.

S&P Indices will be another growth driver as we continue to expand our indices. At the end of the first quarter, there were 238 exchange-traded funds based on S&P indices with \$254.2 billion in assets under management. That is a record high. It is our goal to provide an index for every type of investment, so we will continue to add new indices in commodities, fixed income, equities, strategy and customized for our clients.

We recently licensed the National Stock Exchange of India to create and list Indian Rupee-denominated futures contracts on the S&P 500. As part of our expansion of fixed income offerings, S&P Indices launched the S&P/BG Cantor U.S. Treasury Bill and Bond Indices. And there is more in the pipeline.

We are also building out our Global Credit Portal. Many know the portal as the home of the very successful S&P Ratings Direct. The Global Credit Portal is also the place to go for Web-based workflow solutions that enable our clients to perform credit risk-driven analysis.

To facilitate growth, we have redesigned and upgraded the Global Credit Portal and started to introduce new products. For example, we are beginning to add clients for the Credit Health Panel, a new service with information on 26,000 publicly-traded non-financial companies—23,000 of which are not rated by S&P Credit Market Services. Independently developed by S&P's Valuation and Risk Strategies Group, the Credit Health Panel delivers quantitatively derived credit health assessments for an unrated universe. There is information on:

- Cash generation capabilities,
- Operational risks, and
- Debt servicing capacity.

Our proprietary credit model enables subscribers to compare a company's fundamental performance against its peers to assess creditworthiness and the probability of default.

We will follow up with another new service this summer. It is called Risk-to-Price. Since the credit crisis, S&P's Market Credit and Risk Strategies Group, which also is independent of ratings, has worked to develop a methodology that helps investors understand if they are being fairly compensated for both market and credit risk in corporate bonds. The Risk-to-Price score ranks securities on a relative basis according to each issue's intrinsic balance between risk and return. The higher the score the better the securities may be compensating their owners. Importantly, the scores are determined by evaluating the probability of default, bond volatility and the option-adjusted spread—in other words, a blend of credit risk, market risk, and value. Risk-to-Price will provide daily scores on more than 6,000 U.S. and European bonds. It's a powerful idea that is attracting interest from a broad range of buy- and sell-side clients.

## ***The McGraw-Hill Companies***

These new products represent important actions we are taking to realize our potential by leveraging S&P's intellectual capital.

So, let's sum up for Financial Services:

- The markets are recovering;
- We are making progress in the courts;
- Revenue is expected to grow in the high single-digits with improvement at S&P Credit Market Services and S&P Investment Services;
- Operating profit will grow; and
- Operating margin will decline by about 100 basis points in 2010, reflecting investment in infrastructure to support future growth and comply with new regulatory requirements.

### **McGraw-Hill Education**

With that, let's turn to McGraw-Hill Education.

We expect to benefit this year from growth in education markets. We expect both the elementary-high school and higher education markets to show improvement in 2010. We are forecasting:

- 6% to 7% growth in the el-hi market and
- 5% to 7% increase in the U.S. higher education market.

Digital products and services and global expansion 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.

We continue to add products for professional markets. In medicine, we recently introduced a sixth specialty site to our internationally successful AccessMedicine suite. It is called AccessPhysiotherapy and broadens our addressable market by going beyond medical education into the allied health field. We have also launched our first digital subscription products for the professional business market.

We have broadened our market geographically by signing a partnership agreement with the Chinese Education and Research Network. For the first time, our Access suite of products will be available to Chinese students, educators and researchers. By creatively linking content, technology and distribution, McGraw-Hill Education is helping students acquire 21<sup>st</sup> century learning skills. Our focus: create solutions to improve the learning experience.

In the college and university market, we are using technology to expand the addressable market. Most of our college and university textbooks are available as e-books. And we are now 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 registered users of *McGraw-Hill Connect*<sup>TM</sup> and our other digital study and homework management products.

To have a better look at McGraw-Hill Connect, let's take a look at this short video.

[Video: 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.*

For years, college publishers have focused on the instructor, who still selects material for the course. But as you have just seen with *McGraw-Hill Connect*, the application of technology is creating a new online market focused on students. And as our double-digit growth rate for these products demonstrates, it is a rapidly expanding market with great potential.

In the elementary-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 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.

But the key to growth in the el-hi market this year is the state new adoption calendar. We expect \$875 million to \$925 million in state new adoptions, about an 80% year-over-year increase for this market. That increase will offset the expected low single-digit decline in open territory sales and a somewhat steeper drop in residual sales. And, again, remember there are 20 adoption states in the United States, and the other 30 are the open territory sales. The McGraw-Hill School Education Group is aiming for a 30% or more share of this year's state new adoption market.

After three months this year, el-hi market sales are up 11.9%, but first quarter results typically represent less than 10% of a full year's results. In 2008, the first quarter accounted for 7.9% of the total. In 2009, the first quarter industry revenue accounted for 8.1% of the year's total. We don't expect the pattern to change in 2010.

Summing up for McGraw-Hill Education:

- Growth in key education markets in 2010;
- 6% to 7% growth in the elementary-high school market;
- 5% to 7% in the U.S. college market;
- Segment revenue growth of 6% to 7%; and
- Operating margin unchanged from 2009.

## **Information & Media**

And, finally, let's just take a look at the Information and Media segment.

We expect this segment to produce better results this year. The operating margin in the first quarter was 13.5%. The last time the segment produced a full-year margin in this range was 2004 when we reported 14.9%.

Some important decisions we have made are key factors in the segment's improved performance:

- The obvious one is the divestiture of *BusinessWeek*, which was sold on December 1, 2009.
- Less apparent is the decision to invest in the digital transformation of our Business-to-Business Group. Digital products and services accounted for more than 60% of the first quarter revenue and contributed to the margin improvement.

We have been building on leading industry positions in the global energy, construction, marketing, and aviation where Information & Media products and services represent the standard or provide important benchmarks within those industries.

Some of our growth in the Business-to-Business area has been masked by the deterioration of the advertising market experienced by *BusinessWeek*. You can see the impact on the segment's revenue line. In the first quarter, revenue declined 8.5%, but excluding *BusinessWeek*, it grew by 4.3%. As this schedule shows, the absence of *BusinessWeek* revenue will be a factor in all four quarters this year.

In the first quarter, the divestiture reduced expenses by \$40 million for a positive profit impact of approximately \$12 million. For the full year, Information & Media will reflect savings of \$38 million from the divestiture of *BusinessWeek*. We also expect our Broadcasting Group to benefit from a pick up in political advertising this year, and that's already underway.

So, summing up for Information & Media:

- 2009 sale of *BusinessWeek* will have a positive impact on segment results in 2010.
- Revenue: expect mid-single digit decline.
- Excluding \$99 million from *BusinessWeek* divestiture, revenue will increase in the mid single-digit range.
- Operating margin: expect to rebound into mid-teens.

And that concludes our comments on the operations. Our guidance for the year calls for diluted earnings per share of \$2.55 to \$2.65.

**To access the accompanying slides online, go to:**

<http://investor.mcgraw-hill.com/phoenix.zhtml?p=irol-eventDetails&c=96562&eventID=3058919>

**“Safe Harbor” Statement Under the Private Securities Litigation Reform Act of 1995**

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.