

*The **McGraw-Hill** Companies*

4Q 2009 Earnings Call

January 26, 2010

Presenters:

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Chairman, President and CEO

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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 collateralized debt obligations ("CDO"), 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 residential and commercial mortgage-backed securities and CDOs backed by residential mortgages and related asset classes; 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.

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Harold McGraw III
Chairman, President and CEO
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MHP 4Q 2009 results set the stage for more growth in 2010

43.2% increase in 4Q EPS

- 4Q 2009: \$0.53, including a \$10.5 million pre-tax gain, or \$0.02 on divestiture of *BusinessWeek*
- Compares to 4Q 2008: \$0.37, including a restructuring charge of \$0.05 per diluted share

4Q revenue increased 3.3%

Results mark the first quarterly increases in diluted EPS and revenue since 3Q 2007

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Improving prospects reflected in 2010 guidance

2010: We expect \$2.55 to \$2.65 per diluted share

Encouraged by:

- Improvement in economy, albeit at modest pace
- Improving financial markets
- Narrowing bond spreads
- Low interest rates
- Prospects for a better year in education markets

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Board increases dividend, approves share buybacks

Actions at January 2010 Board meeting:

- Increased dividend by 4.4%
- Announced MHP's intention to resume share repurchases in 2010
 - Will buy back over time the 17.1 million shares remaining in the program

MHP has increased its dividend annually for 37 consecutive years

- Since 1974, dividend has grown at average compound annual rate of 9.9%

Since 1996, MHP has returned approximately \$9.4 billion to shareholders through dividends and stock buybacks

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McGraw-Hill Education

Financial Services

Information & Media

4Q 2009 segment results at McGraw-Hill Education

Revenue	+2.6% to \$520.0 million <ul style="list-style-type: none">• School Education Group: (7.6%) to \$149.8 million• Higher Education, Professional and International Group: +7.5% to \$370.2 million
Operating Profit	\$33.5 million <ul style="list-style-type: none">• Compares to \$12.7 million loss in 2008 which includes an \$11.4 million restructuring charge

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Improved operating margin at McGraw-Hill Education

Operating margin
• 4Q 2009: 6.4%
• 2009: 11.6%
– Includes restructuring charge of \$11.6 million
– Excluding restructuring charges, operating margin was 12.0% in 2009

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McGraw-Hill Education

Tale of two markets in 2009:

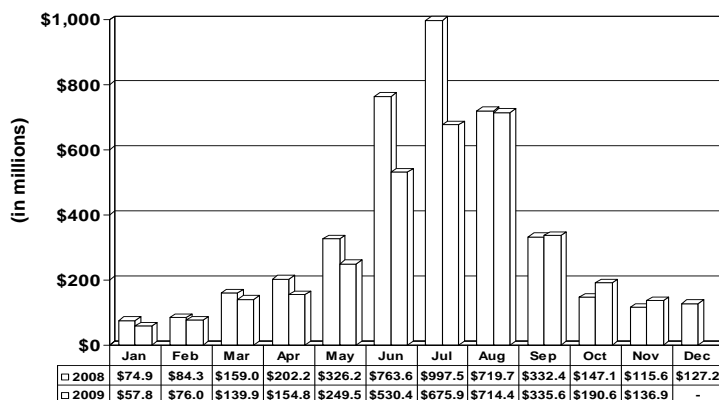
- Elementary-high school market: Declining sales
- U.S. college and university market: Consistent counter-cyclical growth

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Elementary-high school market may decline about 15% in 2009

Total Basal and Supplemental K-12 Net Sales



Source: Association of American Publishers

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30% share in 2009 state new adoption market

We captured 30% of the total available dollars in the 2009 state new adoption market

- **2009 market: \$500 million to \$510 million range**
 - **Represents 50% decline from 2008 state new adoption market**

Positive signs for el-hi market

Reasons for pick up in 4Q 2009 ordering:

- **State allocations reached local districts later than usual in some regions**
- **Some federal stimulus funds arrived**

Our intervention programs benefitted from incremental funding for Title I and Individuals with Disabilities Education Act (IDEA)

Shift in testing for the el-hi market

7.6% decrease for the McGraw-Hill School Education Group in 4Q 2009 due to decline in testing

- Major reason for decline in testing was the managed phase-out of statewide summative contracts in Arizona, California, and Florida

In testing, we are increasing the focus on formative and non-custom, “off-the-shelf” markets

- Less emphasis on lower margin custom contracts

We continue to win summative contracts with a selective bidding strategy

- 4Q 2009: Contracts awarded in North Dakota, Alabama, Indiana, and New York

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Continued progress in formative testing market

More progress with *Acuity*, our formative assessment program

- New York City, nation’s largest school district, now in third year of *Acuity* contract
- Philadelphia recently signed on for start of new school year

Many district-level opportunities are in the pipeline for 2010

Some states are introducing or expanding the use of *Acuity* in their applications for the federal Race to the Top funding

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2010 el-hi market could grow 6% to 7%

**2010 state new adoption market estimated
between \$925 million and \$975 million**

**Open territory to decline in 2010 given state
budget pressures**

**Residual sales in adoption states expected to
decline**

- **Typically falls off in strong state new adoption year**

Texas and Florida: The key adoption states in 2010

Florida scheduled to buy K–12 math

- **State adopted new math standards**
- **Adoption activity currently very brisk at district level**

**Texas funding of \$465 million in place for K–12
reading and literature adoption**

Outlook for 2010 state new adoption market

Continue to see evidence of pent-up demand

- Budget pressures remain until economic recovery is further along

California: Market may see some purchasing that was postponed in 2009

- Funding levels remain uncertain
- Some districts may buy K–8 reading as part of second year adoption
- Some potential for math sales at grades 6–8 and 9–12
- Governor's budget proposal for 2010–2011 fiscal year instructional materials is \$332.5 million, flat with 2009

Solid 2009 performance in higher education

Surge in second-semester ordering late in year boosted performance

- Industry sales will likely exceed our 8% to 10% growth estimate

Higher Education, Professional and International Group's revenue grew 7.5% in 4Q 2009

2010: Expect U.S. college market to grow 5% to 7%

Outlook for higher education

Surge in enrollments helped drive industry growth

Two-year colleges and career colleges showed most rapid growth

- Career Education was MHP's fastest growing higher education imprint in 2009

All our major imprints grew in 2009 and are expected to do so again in 2010

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Digital growth opportunities in higher education

HPI Group's digital revenue grew at double-digit rates in 4Q 2009 and for the year

- Includes e-books, online courses, and online study tools for students like *McGraw-Hill Connect*

Pace of integrating content, technology and distribution is accelerating

- Rapid development of new devices and formats for e-book market
- We will take full advantage of digital opportunity

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Look for McGraw-Hill e-books on new Apple Tablet

All our e-books for college market on *CourseSmart* already run on iPhone operating system

- New Apple device expected to use same operating system
- If so, our *CourseSmart* e-books should run well right out of the box on new Apple Tablet

Growing digital opportunities in the higher education market

CourseSmart does not share revenue with Apple

- Students must subscribe to *CourseSmart* or its college bookstore partners to access our e-books
- *CourseSmart*'s iPhone application is free to subscribers

About 95% of McGraw-Hill Higher Education's current titles are available as e-books

Growing digital opportunities in the professional markets

Subscriptions to our services are growing at a double-digit pace

In 1Q 2010, we will launch *AccessPhysiotherapy*

- Sixth specialty site in the *AccessMedicine* family of online medical information subscription sites
- Broadens market beyond medical education and clinical practice to the allied health field

More digital products to be launched in 1Q 2010

- New opportunities to broaden our reach
- *Kiss, Bow or Shake Hands* is a new digital subscription-based reference for international business etiquette

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Investing for more digital growth

We are not waiting for the tipping point in digital growth

- We are ramping up our investment in learning platforms and content management capabilities

2010 operating margins will be impacted by:

- Our ongoing investment in the development of next-generation products and programs
- Marketing and sales expenses associated with robust state new adoption schedule

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2010 guidance for McGraw-Hill Education

Growth in key education markets

- 6% to 7% increase in the 2010 el-hi market
- 5% to 7% growth in U.S. college market

Segment revenue growth of 7% to 8%

Operating margins unchanged from 2009

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McGraw-Hill Education

Financial Services

Information & Media

4Q 2009 results at Financial Services

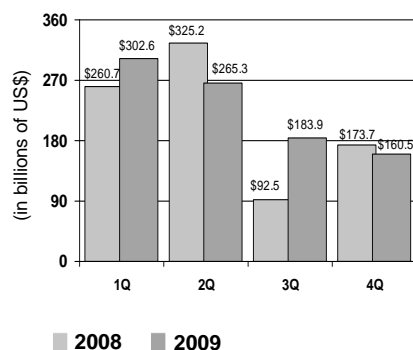
Revenue	+10.6% to \$689.2 million <ul style="list-style-type: none">• S&P Credit Market Services: +19.4% to \$473.4 million• S&P Investment Services: (4.8%) to \$215.8 million
Operating Profit	+14.6% to \$250.0 million

4Q 2009 results at Financial Services

- Operating margin
- 4Q 2009: 36.3%
 - Full year 2009: 39.4%, excluding loss on divestiture of Vista Research and net restructuring charge
 - 2009 operating margin also reflects costs of compliance to meet increased regulation of S&P Credit Market Services

U.S. corporate issuance up 7% for 2009

U.S. Corporate



- 19.4% increase in 4Q revenue at S&P Credit Market Services

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

4Q '09 surge in U.S. industrials, high-yield issuance

U.S. Industrials	4Q 2008	4Q 2009	4Q '09 vs. 4Q '08
No. of issues	94	181	+92.6%
Par Value	\$78.1 billion	\$93.0 billion	+19.0%

U.S. High-Yield	4Q 2008	4Q 2009
No. of issues	3	101
Par Value	\$1.3 billion	\$44.1 billion

4Q issuance increased for industrial and high-yield bonds in Europe

4Q high-yield issues in Europe

- 4Q 2008: No high-yield issues
- 4Q 2009: 27 high-yield issues

Dollar value of European industrial issuance was \$93.6 billion, up 36.9% in the fourth quarter

- Represented 154 deals, an increase of 46.7%

Positive signs for S&P Credit Market Services

Transaction revenue: 62.5% increase in 4Q

Non-transaction revenue: 6.0% increase in 4Q

- Represented 69.2% of S&P Credit Market Services' 2009 revenue
- Continues to be a durable revenue stream

\$ in millions	1 st Quarter		2 nd Quarter		3 rd Quarter		4 th Quarter		Full Year		%
	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	
Transaction	136.6	111.6	187.4	146.8	120.0	127.8	94.2	153.0	538.2	539.2	0.2%
Non-Transaction	290.7	279.8	320.5	310.6	303.2	298.3	302.1	320.3	1,216.6	1,209.0	-0.6%
Total CMS	\$427.3	\$391.4	\$507.9	\$457.4	\$423.2	\$426.1	\$396.3	\$473.4	\$1,754.8	\$1,748.2	-0.4%

Note: Totals may not sum due to rounding

Outlook for 2010: S&P Credit Market Services

We expect revenue growth in 2010 from:

- Transaction and non-transaction
- Domestic and international markets

S&P Credit Market Services' international revenue was up 17.7% in 4Q 2009

- All regions grew
- Provided 49.4% of total revenue

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Interest rate spreads: A key gating factor for issuance

Since January 2009, spreads have narrowed:

Basis Points	1/21/10	One Month ago	1/1/09	5 year Mvg Avg
Investment-grade composite spread	183	200	531	198
Speculative-grade composite spreads	596	628	1,628	573

Source: Standard & Poor's Global Fixed Income Research

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Favorable trends in the credit markets

Spread between three-month LIBOR and Federal Reserve's overnight rate is down to 0.25%

- Key gauge of how banks assess riskiness of lending to one another

Spread contraction also across major consumer asset-backed securities during 2009

Asset-backed securities	January 2009	December 2009
Autos	LIBOR + 605 bps	LIBOR + 55 bps
Credit cards	LIBOR + 525 bps	LIBOR + 80 bps
FFELP student loans	LIBOR + 355 bps	LIBOR + 50 bps

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Favorable trends in the credit markets

Strong demand for non-financial institution paper by investors who want to diversify their portfolios

Investors are increasingly comfortable in buying lower-rated bonds

- 4Q 2009: 60% of speculative-grade issuance was rated single B+ or below

Corporates: High-yield bond market has become more attractive than leveraged loan market

- Companies with riskier credits are lining up to tap it
- Some investors choose speculative-grade because of less restrictive covenants and longer maturities

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Favorable trends in the credit markets

Non-financial firms are borrowing now to repay expensive debt

- Widely expected that corporate borrowing costs will increase as economy improves

Deleveraging of financial institutions

- Credit availability is declining systemically
 - Limited availability of bank loan funding will result in greater reliance on primary bond market

Favorable trends in the credit markets

S&P believes 2010 may offer a window of opportunity for refinancing debt

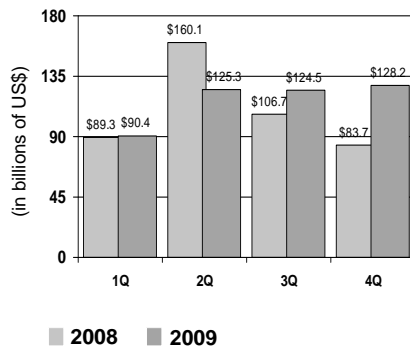
- Refinancing of current and future maturities was robust in 2009 and should be again in 2010
- About one-third of estimated \$300 billion coming due in 2010 was refinanced in 2009

Dramatic rise in corporate debt coming due from 2011 through 2014

- Estimated at \$2 trillion
- Some may be refinanced in 2010, adding to \$200 billion due this year

Public finance: 2009 a solid year; 2010 looks promising

U.S. Public Finance

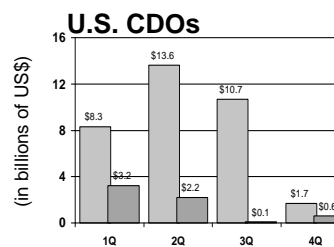
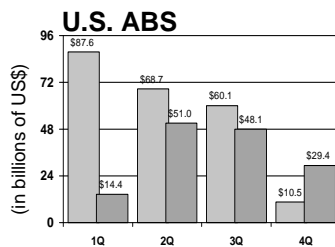
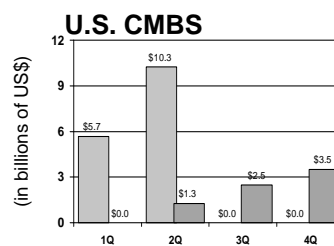
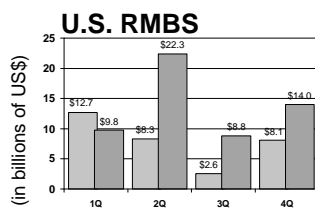


Source: Thomson Financial, Harrison Scott Publications, Standard & Poor's

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Structured finance: 2010 recovery problematic after slow 2009



Legend: 2008 (light gray), 2009 (dark gray)

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

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2009 results at S&P Investment Services

S&P Investment Services produced about 33% of Financial Services' 2009 revenue

- 4Q 2009: Revenue down 4.8%, but down only 1.7% excluding divestitures
- Full year 2009: Revenue declined 4.2% to \$861.9 million; declined 1.5% excluding divestitures
- Expiration of Independent Equity Research Settlement in July a factor in revenue fall off

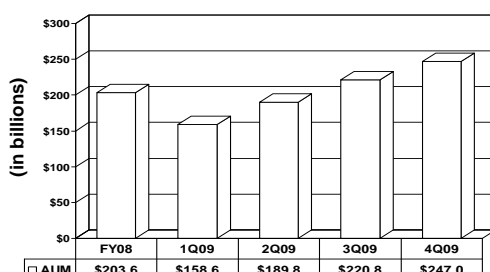
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2009 ended strongly in key markets

New high of \$247.0 billion at end of 2009 for assets under management in exchange-traded funds based on S&P indices

- More than \$43 billion higher than at year-end 2008
- Previous high of \$235.3 billion set at end of 2007



**S&P Index-Based
Total ETF Assets
Under Management**

Source:
Standard & Poor's and Bloomberg

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Finding new ways to grow index business

S&P has expanded into different indices for new asset classes, investment strategies and markets:

- **Commodities**
- **Fixed income**
- **Real estate**
- **Custom**
- **Thematic**
- **Has successful relations with exchanges around the world**

217 exchange-traded funds based on S&P indices at the end of 2009

- **Five added in 4Q 2009**
- **More coming in 2010 in commodities, equities, fixed income and alternative investments**

Data and information benefiting S&P Investment Services

Capital IQ added new clients in 2009 and now serves more than 2,900 clients

- **An increase of 9.9% for the year**

2010: New customers and increases from current customers are expected to produce another year of growth

2010 guidance for S&P Investment Services

We expect revenue to increase with more growth from S&P Indices and Capital IQ

Mitigating factors in first part of 2010:

- **Divestiture of Vista Research in May 2009**
- **Expiration of Research Settlement in July 2009**

The regulatory outlook for S&P: Creating a global framework

Getting close to finish line on global regulation

Europe:

- **November 2009: Issued its final regulation for credit rating agencies**
- **By September: S&P will need to apply for registration in Europe**
- **Regulations are being developed by Committee of European Securities Regulators (CESR) based on IOSCO's Code of Conduct**

The regulatory outlook for S&P: Creating a global framework

Australia:

- January 1, 2010: S&P has been licensed to provide its ratings to wholesale investors

Canada, Japan and India:

- We continue to work with regulators

The regulatory outlook for S&P: Creating a global framework

United States:

- House and Senate continue to consider regulation of rating agencies as part of omnibus financial markets reform legislation
- We continue to work with Congress on draft legislation. Concerned about proposed discriminatory liability standards

Latest developments on litigation front

Three general categories of lawsuits:

1. Lawsuits alleging S&P is an underwriter or seller of securities
 - Update: We continue to make applications seeking dismissal and oral arguments have been proceeding in several of them
2. Lawsuits alleging corporate statements on earnings and ratings were misleading (stock drop suits)
 - Update: Motions to dismiss have been fully briefed and oral arguments have been held in two cases
3. Lawsuits based on state law claims
 - Update: Making applications or awaiting decisions on motions to dismiss
 - We are in the discovery phase of the Abu Dhabi case

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2010 guidance for Financial Services

Summary

- Revenue expected to grow in high single digits
 - Growth at S&P Credit Market Services and S&P Investment Services
- Operating profit will grow
- Operating margin will decline about 100 basis points
 - Pressure as S&P makes investments in infrastructure of its business to support future growth and comply with new regulatory requirements
 - Will also invest in key S&P Investment Services businesses
 - S&P Investment Services added fewer net subscribers than in 2008; will impact 2010 revenue

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McGraw-Hill Education

Financial Services

Information & Media

**4Q 2009 results at
Information & Media**

Revenue (11.4%) to \$253.3 million

- Broadcasting Group:
(26.6%) to \$23.3 million
- Business-to-Business Group:
(9.5%) to \$230.0 million

Operating Profit +40.6% to \$45.9 million

- Includes a pre-tax gain of \$10.5 million on the divestiture of *BusinessWeek*
- Excluding gain on *BusinessWeek* and a prior year restructuring charge, operating profit declined 6.8%

Information & Media: 4Q 2009 results

Operating margin

- 4Q 2009: 18.1%
 - Versus 11.4% in 4Q 2008
- Full year 2009: 9.7%
 - Reflects gain on the sale of *BusinessWeek*
 - Excluding the gain and the 2Q 2009 restructuring charge of \$4.0 million, the operating margin was 9.0%

Information & Media: 4Q 2009 results

Business-to-Business Group

- 4Q: 9.5% decline in revenue
 - Weak advertising market
 - Problems in automotive sector

Broadcasting Group

- 4Q: 26.6% decline in revenue

Reduced exposure to cyclical advertising

2009: Advertising represented approximately 3.5% of MHP's total revenue

- Down from about 4% in 2008

2010: Exposure to advertising market will be reduced to approximately 2% with the sale of *BusinessWeek*

Broadcasting: Positive signs for 2010

Political advertising will rebound in 2010

- Senate and House races in Indiana, Colorado and California
- Governor races in Colorado and California
- Spending on issues and propositions

Political spending on local TV stations gets boost from recent U.S. Supreme Court decision

- Corporate campaign spending restrictions lifted

Recently renewed affiliation agreement with ABC

- Will have an adverse but immaterial impact on segment's future revenue and profitability

Improvement expected at J.D. Power in 2010

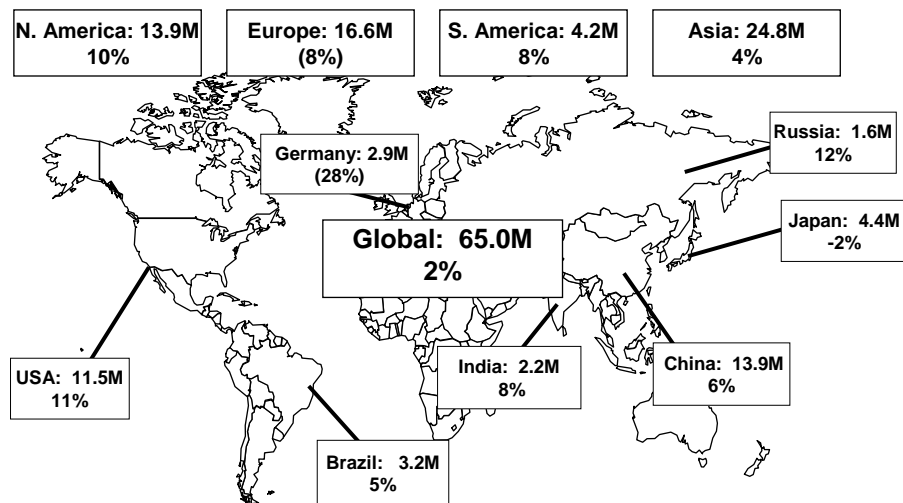
Global automotive market recovering

- Global light vehicle sales forecasted to rise 1.6% after 3.1% decline in 2009
- Continued growth in China—an increasingly important market for J.D. Power
- North America begins recovering; volume up 10%

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J.D. Power's 2010 global automotive market forecast



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New online platform to cut costs at J.D. Power

J.D. Power will complete migration of syndicated studies to online platform

- Will reduce costs and improve data quality and utility of research data for clients

Tracking the digital transformation of Information & Media

A plus for the segment in 2010

B2B digital revenue grew in 2009 and represents more than half of group's 2009 sales

- Represented less than 50% in 2008

More global expansion at Platts

Platts is strengthening its benchmark status in core commodity markets

- Launched series of new oil price benchmarks for Indian markets
- Launched new price assessment for first Russian petroleum stream flowing through Eastern Siberian Pacific Ocean pipeline for Asian markets

Platts closely monitors market developments to anticipate and develop new benchmarks and assessments for markets around the globe

2010 guidance for Information & Media

Sale of *BusinessWeek* will impact revenue and the operating margin in 2010

Revenue will decline mid single-digits

- Excluding \$100 million impact from the *BusinessWeek* divestiture, revenue will increase mid single-digits

Operating margin will rebound, climbing into mid-teens

Guidance for The McGraw-Hill Companies

**2010 diluted earnings per share in the \$2.55 to
\$2.65 range**

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Robert J. Bahash
**Executive Vice President and
Chief Financial Officer**
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MHP starts 2010 in a strong financial position

Ended 2009 with cash and short-term investments of \$1.23 billion

Year-end gross debt: \$1.2 billion

- Comprised of long-term unsecured senior notes
- No commercial paper outstanding at end of 2009

Slight positive net cash position at end of 2009 compared to net debt position of \$796 million at end of 2008

Managing costs and expenses a priority in 2009

Adjusted expenses represent reported expenses adjusted to exclude:

- Restructuring charges in 2009 and 2008
- Loss on divestiture of Vista Research
- Gain on divestiture of *BusinessWeek*

Adjusted segment and corporate expenses declined despite increases in incentive compensation

- 4Q 2009: (0.3%)
- Full year 2009: (4.7%)

Adjusted expenses also declined when excluding impact of foreign currency

- 4Q 2009: (3.3%)
- Full year 2009: (3.4%)

Expenses declined in 2009 at McGraw-Hill Education

McGraw-Hill Education's adjusted expenses declined

- 4Q 2009: (4.2%)
- Full year 2009: (8.4%)

Adjusted expenses, at constant currencies, also declined

- 4Q 2009: (6.2%)
- Full year 2009: (7.3%)

Full year decline, despite higher incentive compensation, driven by:

- Lower cost of sales and reduced selling and marketing costs due to declining revenue opportunities
- Savings from previous restructuring actions

2010 outlook for expenses at McGraw-Hill Education

Guidance for 2010: Expect 7% to 8% expense increase versus 2009 adjusted expenses. Reflects:

- Significant promotion and marketing expense in first year of robust state new adoption market
 - Profit contribution increases in subsequent years from residual sales
- Investment in technology and personnel to support digital initiatives, particularly at Higher Ed and Professional
- Mitigated by savings from 2Q 2009 merging of our core basal publishing operations with our alternative basal and supplemental publishing operations

2009 expenses at Financial Services

Financial Services' adjusted expenses increased

- 4Q 2009: +10.3%
- Full year 2009: +1.6%

Adjusted expenses, at constant currencies, also increased

- 4Q 2009: +4.1%
- Full year 2009: +3.4%

Full year 2009 expense growth was driven by increases in incentive compensation and compliance costs but was offset by benefits of restructuring, tight expense control, and divestitures

2010 outlook for expenses at Financial Services

Guidance for 2010: Expect 9% to 10% increase versus 2009 adjusted expenses. Driven by:

- Continued investment in our fast growing businesses
- Carry over impact of 2009 hires and planned hires in 2010
- Additional investment to support regulatory and compliance efforts

Regulatory and compliance costs

- Full year 2009: Approximately \$20 million of additional costs versus 2008
- 2010 guidance: Expect increase comparable to 2009
 - Highly dependent on final form of regulation

Expenses declined in 2009 at Information & Media

Information & Media's adjusted expenses declined

- 4Q 2009: (12.1%)
- Full year 2009: (8.7%)

Adjusted expenses, at constant currencies, also declined

- 4Q 2009: (12.7%)
- Full year 2009: (7.9%)

Factors influencing decline:

- Restructuring savings and lower cost of sales due to reduced revenue
- 4Q 2009 expenses benefitted from divestiture of *BusinessWeek*

2010 outlook for expenses at Information & Media

Guidance for 2010: Expenses expected to decline in the low teens versus 2009 adjusted expenses

- Primarily reflects the divestiture of *BusinessWeek*

Measuring the impact of *BusinessWeek* divestiture

2010: Now expect a pre-tax benefit of approximately \$25 million from the *BusinessWeek* divestiture

- Previously estimated \$20 million to \$25 million

Information & Media's 2010 results will reflect \$38 million in savings from *BusinessWeek* divestiture

- Corporate expense will increase \$13 million as a result of managing vacant space and other support costs following the divestiture

Factors influencing Information & Media's results

2009 results were adversely impacted by non-cash accounting, a result of converting J.D. Power's studies onto Compass, a new online reporting and analytical tool

- Revenue previously recognized at the time of the syndicated studies' release will now be recognized ratably over the 12 months of the subscription

2009: \$11 million decrease in revenue and \$7 million decrease in profit

2010: Expect impact to be similar to 2009

- We expect all J.D. Power customers to be accessing new digital delivery platform

2010 outlook for corporate expenses

4Q 2009: \$36.4 million

- \$7.4 million increase compared to 4Q 2008, excluding the 2008 restructuring charge, largely due to \$10.3 million increase in incentive compensation

2009: Increased \$20.9 million, excluding the 2008 restructuring charge

- Largely due to \$23 million increase in incentive compensation

2010: Expect to increase \$25 million to \$30 million

- Primarily due to increase in vacant space in New York resulting from *BusinessWeek* divestiture and restructuring actions at McGraw-Hill Education

Measuring the impact of incentive compensation

Incentive compensation increased in 4Q 2009 compared to a depressed 2008

- 4Q 2009: Increased \$56.6 million
- 2009: Increased \$96.2 million
 - 2009 increases driven primarily by stronger than anticipated results and reversals taken in accruals in the prior year

2010: Expect incentive compensation to grow in normal patterns with MHP's projected performance

- Stock-based compensation expected to reach \$50 million compared to \$22.3 million in 2009 due to three-year earning and vesting period, off a depressed base

Foreign exchange rates: A factor all year

For nine months, foreign exchange decreased revenue and expense; minimal impact on profits

Trend reversed in 4Q 2009:

- Foreign exchange benefitted revenue by \$25.8 million while increasing expenses by \$36.3 million
- Operating profit was reduced by \$10.5 million

Full year 2009:

- Foreign exchange decreased revenue by \$70.4 million and decreased expenses by \$60.9 million
- Operating profit declined \$9.5 million

Measuring 2009 free cash flow

(\$ in millions)	2009	2008
Cash provided by operating activities (GAAP)	\$ 1,320.8	\$ 1,168.8
Investments in prepublication costs	(177.0)	(254.1)
Purchase of property and equipment	(68.5)	(106.0)
Additions to technology projects	(23.8)	(25.4)
Dividends paid to shareholders	<u>(281.6)</u>	<u>(280.5)</u>
Free cash flow	\$ 769.9	\$ 502.9

- **Result: Free cash flow that is available for acquisitions, share repurchases or to pay down debt**

Notes:

- In 2009, the definition of Free Cash Flow was modified to exclude the impact of foreign exchange on cash. 2008 is presented on a comparable basis.
- Totals may not sum due to rounding

Outlook for free cash flow in 2010

Key drivers of growth in free cash flow in 2009:

- Significant reduction in cash incentive compensation payments
- Lower inventory purchases
- Significant improvement in accounts receivable collections
- Investments declined \$116.2 million, primarily driven by a reduction in prepublication costs of \$77.1 million

Guidance for 2010: We anticipate free cash flow in the range of \$550 million to \$600 million

- Reduction in free cash flow versus 2009 is due largely to more challenging working capital comparisons and increased investments

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Pension plan funding

Contributed approximately \$50 million to our U.S. pension plan in 2009

- U.S. plan remains underfunded following significant market declines in 2008, though improved since last year end
- 2010: We do not anticipate any funding requirements

Pension expense is expected to increase roughly \$20 million in 2010

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Strong financials provide flexibility

Well positioned to fund investments and return cash to shareholders while maintaining financial flexibility

Recently approved a 4.4% increase in dividend

Plan to resume share repurchase program in 2010

- 17.1 million shares remain from 2007 authorization

Increasing prepublication investments

2009: \$177 million

2010: Expect \$225 million to \$235 million

- Expected to increase \$48 to \$58 million, primarily for opportunities in state new adoption market

Increasing property and equipment expenditures

2009: \$68.5 million

2010: \$90 million to \$100 million

- Largely reflects increase in technology spending

Outlook for non-cash items

Amortization of prepublication costs

- 2009: \$270 million
- 2010: Expect \$260 million to \$265 million
 - Reflects lower level of investment in 2009

Outlook for non-cash items

Depreciation

- **2009: \$113 million**
- **2010: Expect to grow to \$120 million**

Outlook for non-cash items

Amortization of intangibles

- **4Q 2009: \$16.0 million**
 - Impacted by acceleration of the amortization of certain acquired intangibles
- **2009: \$52.7 million**
- **2010: Expected to decline to approximately \$40 million**
 - Decline due to accelerated amortization of certain intangibles in 2009 and other items being fully amortized

Diluted weighted average shares outstanding (WASO)

4Q 2009: 314.5 million shares

- 1.6 million share increase compared to 4Q 2008
- 0.8 million share increase compared to 3Q 2009

2009: 313.3 million shares

- 5.4 million year-over-year decline
 - Driven by full year impact of 2008 share repurchases

**Fully-diluted shares at end of 2009: Approximately
315 million shares**

Outlook for net interest expense

4Q 2009: \$20.0 million

- Compared to \$15.4 million in 4Q 2008 and \$17.8 million in 3Q 2009

2009: \$76.9 million

- Compared to \$75.6 million on 2008

**2010: Expect interest expense to be roughly comparable
to 2009**

Outlook for effective tax rate

2009: 36.4% for the full-year

2010: Expect a comparable rate

Outlook for unearned revenue in 2010

2009: \$1.1 billion

- 1.5% increase over 2008
- In constant currency and excluding impact of divestitures, grew 2.8% versus prior year

Financial Services represents approximately 74% of MHP's unearned revenue

- Financial Services is roughly flat versus prior year
- Strong growth for subscription products was offset by reductions in equity research and declines driven by lower Structured Finance revenues

2010: Expect mid single-digit growth

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4Q 2009 Earnings Call

January 26, 2010

Presenters:

Harold McGraw III
Chairman, President and CEO

Robert J. Bahash
Executive Vice President and CFO

Donald S. Rubin
Senior Vice President, Investor Relations

NOTE: A replay of this webcast will be available approximately two hours after the end of the call from www.mcgraw-hill.com/investor_relations

The McGraw-Hill Companies

4Q 2009 Earnings Call

January 26, 2010

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