

**2009 Citi Global Entertainment,
Media and Telecommunications Conference**

Prepared Remarks
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Harold McGraw III

Chairman, President and CEO
The McGraw-Hill Companies

Thank you, Catriona.

Good morning and Happy New Year to you all.

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.

I am pleased to discuss today The McGraw-Hill Companies and some of the issues that we're facing and where and how we're dealing with them.

We meet in a time of economic uncertainty but with some expectation that help is on the way. We have seen unprecedented government intervention and apparently more stimulus is coming. Still, it is difficult to pinpoint the timing of a recovery. In this environment, we are focused on managing costs and preserving liquidity. We are doing both and we will continue to do both.

The latest action on costs was announced yesterday. We took a fourth quarter pre-tax restructuring charge of \$26.3 million, consisting mostly of employee severance costs for a workforce reduction of approximately 375 positions, and that's across the corporation. The after-tax charge was \$16.4 million, or \$0.05 per diluted share of fourth quarter earnings in 2008.

As part of our measured approach to cost cutting, we also took restructuring charges in the second and the third quarters of 2008. The combined actions eliminated 1,045 positions in 2008 for a pre-tax charge of \$73.4 million. After taxes, it came to \$45.9 million, or \$0.14 per diluted share. If the situation requires more action, I can assure you that we are prepared to do more in 2009.

A strong balance sheet has long been a hallmark of our company and we aim to keep it that way. Our cash flow is more than sufficient to meet our requirements. We will have the cash to fund operations, make investments, pay down debt, and return cash to shareholders.

The McGraw-Hill Companies

The McGraw-Hill Companies has paid a dividend every year since 1937 and increased it every year since 1974. The next decision on the dividend will be made when the Board of Directors meets on January 28th. And obviously, they know the importance of the dividend to our investors.

Most of our debt is long term. We have \$1.2 billion equally divided among three senior notes:

- A five-year note due in 2012,
- A 10-year note due in 2017, and
- A 30-year note due in 2037.

Clearly, no major repayments are due any time soon.

Our cash flow, as we all know, is seasonal, coming in strongly in the second half of the year. There was no change in that pattern in 2008.

We can access the commercial paper market at reasonable rates and our commercial paper program is backed up with a \$1.15 billion credit facility, which was renewed in the fall of 2008.

We are closing the books on 2008, so I cannot comment now on fourth quarter results. And since we are also completing our budget reviews, we plan to provide guidance for 2009 as part of the January 27th earnings report.

We continue to strengthen the organization. As you may recall, Standard & Poor's announced last year that it was taking 27 steps – 27 leadership actions – to improve governance, analytics, information and education.

One of those key steps was to name an Ombudsman for Standard & Poor's credit ratings. This morning, it was announced that Ray Groves has been selected to be S&P's first Ombudsman. He was with Ernst & Young for 37 years and served as chairman and chief executive officer for 17 years until his retirement in 1994. From 1995 to 2001, he was chairman of Legg Mason Merchant Banking. From 2001 to 2005, he was president, chairman and senior advisor of Marsh, Inc.

The Ombudsman reports outside of S&P's business units. It reports to me and has accountability which includes the Audit Committee of the McGraw-Hill Board of Directors. As Ombudsman, he will address issues and concerns raised both inside and outside the company, and he will report annually to the public on his activities.

With that, I now want to review where we are in terms of leveraging our diversity to increase opportunities and reduce risk. In a rapidly changing world, integrating content, technology, and distribution offers significant growth opportunities.

McGraw-Hill Education

Let me begin with McGraw-Hill Education.

The convergence of content, technology and accountability has raised expectations about American education at a critical time in our development. The reason is compelling. There is no question – no question whatsoever – that an education is essential in a global economy where knowledge, creativity and innovation are all the growth drivers.

The McGraw-Hill Companies

Today, we have more children than ever to educate. In the U.S., enrollments continue to rise at all levels of schooling, and that's according to estimates by the National Center for Educational Statistics.

Enrollments in pre-K through grade 12 increased an estimated 0.3% to 55.9 million in the current school year and are expected to reach about 60 million by 2016.

Enrollments in degree-granting higher education institutions increased by an estimated 1.7% to 18.3 million this year and are projected to reach 20.4 million by 2016. However, growth in this market could be more robust, at least over the short term, if the past holds true. During economic downturns, postsecondary enrollments tend to increase as unemployed workers return to school to upgrade their skills and current students remain in school longer to become more competitive in the tight job market.

But the U.S. is not the whole story by any means. McGraw-Hill Education is a global business, and we have very active publishing programs that are benefiting – and will continue to benefit – from steadily growing enrollments in India, China, the Middle East, and Latin America.

And even as enrollments are growing worldwide, technology is becoming an integral part of our educational and professional product and service offerings. That's why we continue to invest in digital content and data management capabilities.

Now, the application of technology requires a fundamentally different approach to how we think about content and the new opportunities to diversify the business, improve our efficiency, and create new revenue streams. The old business model was too static. Content was sequential. As the model shifts to incremental and renewable revenue streams, we are delivering dynamic content across a broad array of digital formats, including online courses, e-books, iPods, DVDs and CDs.

Let me show you an example of a new digital product that connects college students and instructors to content and resources and becomes a source of incremental revenue. It is a wonderful new program called McGraw-Hill Connect. We will introduce this online assessment system in approximately 15 disciplines this year. It allows instructors to organize all of their courses from practice questions and homework to quizzes and exams in this system.

In the next couple of slides let me give you a taste of just what McGraw-Hill Connect can do:

- Because learning isn't linear, McGraw-Hill Connect offers movies, animation and audio files to capture the students' imaginations and help them retain information.
- Lecture Capture provides functionality for instructors to record their lectures and assign them to students as tagged, searchable content.
- Diagnostic tools: Students who wonder if they understand the material can evaluate their own knowledge of the concepts being taught in the course and fill in the knowledge gaps.

The promise of technology, increasing enrollments here and abroad for the foreseeable future, and the absolute necessity that we educate our children to remain competitive – all these factors underpin our belief in the long-term prospects for this market.

Now, before you think I am ignoring the elephant in the room, which is state and local funding pressure on the educational market in 2009, I am not. There's no doubt that state budget deficits will have an impact this year and I will review that situation shortly. But that's not the whole story again for education.

I've already pointed out that the college and university business is counter-cyclical. It is also the steadiest business in the education market. The ability to establish a title's reputation in the marketplace and then issue revised editions over time gives the college business a high level of recurring revenue. We currently expect the U.S. college and university market to grow about 3% to 4% in 2009 after a similar increase in 2008. Digital products will be an important contributor to this growth story.

Now, the elementary-high school market will be under pressure in 2009. We saw the start of that downturn last August when a drop in sales pushed the industry in a negative position for 2008 after sales had been running ahead of schedule from the previous year through July. The slump has continued and industry sales are down 4.0% after 11 months, and that's according to the latest report from the Association of American Publishers, AAP.

The shortfalls in state and local tax revenue as well as the declining income for investment funds that both states and individual school districts rely on to meet a variety of ongoing costs make it difficult to forecast 2009 sales for the el-hi market.

On the macro level, it is almost impossible to quantify probable reductions in spending for instructional materials with cuts in overall education budgets because there are so many variations in funding practices across the states. But it is reasonable to assume that the mid-year budget cuts we are anticipating in such states as California, Florida and New York will affect purchasing by school districts in the first half of 2009.

Nearly all states have concerns about balancing their 2009-2010 fiscal-year budgets, most of which go into effect on July 1. Remember, 46 states start their new fiscal year on July 1. These funds will largely determine funding for instructional materials purchases in the second half of the year.

We never expected the 2009 market opportunity to match 2008 because of a reduced state new adoption schedule. A robust state new adoption market in 2008 has made the drop in 2009 much steeper. We had originally projected a state new adoption opportunity of \$850 to \$900 million for 2009. We currently project state new adoption revenue opportunities this year in the \$725 to \$775 million range, and that is a decline of approximately 25% from 2008.

The biggest opportunities in the K-12 market in 2009 are offered by the first-year K-8 reading and literature and second year K-8 math in California and the first year grade 6-12 reading/literature in Florida. Both states permit the implementation of core curriculum materials over two years and both are facing serious budget deficits. That could lead to a lighter 2009 purchasing schedule than originally forecast. We just don't know at this point.

In the open territory, individual school districts are more sensitive to economic downturns because they are more dependent on local property tax revenue. In hard times, they often delay or minimize expenditures for instructional materials. They are using existing books longer by rebinding old copies. They photocopy ancillaries. They limit quantities of new adoptions by implementing only a few grades of a series each year or by buying classroom sets instead of a book per student.

But based on these assessments of the reduced opportunities in the state new adoption market and a slowdown in open territory, we currently think el-hi sales for the industry could fall between 10% and 15% in 2009.

The McGraw-Hill Companies

Fortunately, the state new adoption market improves substantially in 2010. We still expect it to top \$1 billion as Texas re-enters into the market.

Some of the delays and postponements that we are seeing will also result in pent-up demand. For these reasons and others I've outlined today, I remain very sanguine about the longer term prospects for education.

So, summing up for McGraw-Hill Education:

- A challenging 2009 for the elementary/high school market with industry sales perhaps down 10% to 15%;
- 3% to 4% growth for the U.S. college and university market, which again is likely to be counter-cyclical to the broader economic downturn;
- Growing enrollments; and
- Growing sales of technology products and services.

Information & Media

Let me shift over to McGraw-Hill Information & Media.

Here, we're building on the leading industry positions where our businesses represent the standard or provide leading benchmarks. By building on our expertise, we are creating a framework for growth in the business-to-business market.

The emphasis on information and integrating our products with customers' workflow and infrastructure increases our diversity, creates more resilient revenue stream and reduces dependency on cyclical advertising. In 2009, broadcasting will not have the benefit of political advertising and economic conditions will continue to challenge print.

The chart here illustrates the direction that we are taking by using our rich legacy to:

- Create communities of interest,
- Increase quality lead generation,
- Develop new ways to monetize audiences,
- Produce more modular content, and
- Provide more customized experiences.

Digital transformation is a key to our progress and impacts all of our businesses. New mediums provide us with an opportunity to capture more audience share. And let me illustrate a range of initiatives now that are under way at Information & Media:

- Here's an example of a new way to monetize an audience. McGraw-Hill Construction generates premium prices for ads placed in its new video library that are targeted at specific customers.
- Technology has enabled us to enter the widget business, a new way to package content for greater value and customer engagement. As you probably know, widgets are self-contained mini applications that users grab from sites and deploy on their own personal web page or their own computer. We have launched a program to create these widgets for each of our businesses.
- The J.D. Power Business Center consolidated its deliverables into a single integrated platform to provide clients self-service tools and a more customized and user-friendly experience.
- Here's an example of modularizing content. Platts recently launched a liquefied natural gas micro site to provide targeted information to traders in that sector. Based on disparate content delivered into a real-time tool, the new Platts service enables traders to calculate prices based on geography.

The McGraw-Hill Companies

The digital transformation comes from our development of a robust infrastructure with common capabilities. That, of course, is a strategic thrust for the entire company as part of our effort to employ technology to distribute information more widely at less cost. It's a platform to grow on.

So, summing up for Information & Media:

- We've created a framework for growth in the business-to-business market, and
- The digital transformation is creating new opportunities.

Financial Services

With that, let me turn to the Financial Services segment.

The current market turmoil underscores the growing linkages between the world's economies and the world of finance. What may not be as well recognized is that today's problems are also creating new opportunities for revenue diversification as well as growth at Standard & Poor's.

In our Financial Services segment, as in others at The McGraw-Hill Companies, our strategic goal continues to be the development of a diverse and resilient portfolio.

To reduce dependence on new issue volume in the U.S. bond market, S&P:

- Expanded overseas, and that continues to be a core growth driver;
- Developed new products and services; and
- Created a deferred revenue stream by emphasizing recurring annual fees through frequent issuer programs, surveillance fees and subscription services.

Today we believe more can be done with our intellectual property. To achieve that goal, S&P must go beyond its traditional offerings. That requires leveraging benchmarks, research, data and analytics across S&P to deliver content and workflow solutions to global investors. We're actively working on new ways to connect and deliver S&P's rich portfolio.

A key to that expansion I am describing is S&P Investment Services. In 2007, this non-ratings business produced 26% of S&P's revenue. It is growing at a double-digit rate in 2008 and through nine months of 2008 represented a third or 33% of S&P's revenue.

No one has done a better job of building benchmarks at S&P than S&P index services. We made more progress in 2008 toward achieving our strategic aspiration – an S&P index for all investments and instrument categories. In 2008, S&P added to its growing family of indices in:

- Equities,
- Arbitrage,
- Currency,
- Fixed income, and
- Asset allocation.

Through November of 2008, S&P launched more than 70 new indices that led to the creation of 59 exchange-traded funds based on our indices compared to 46 ETFs for the same period in 2007. There are now more than 200 exchange-traded funds based on S&P indices.

In what has been a volatile market in 2008, exchange-traded funds using S&P indices have demonstrated resilience. While broad market measures such as the S&P 500 are down by 40%, assets

under management in S&P-based exchange-traded funds had declined by only 10% year-over-year to \$186 billion at the end of November. Two factors contributed to the smaller decline:

- The use of ETFs as hedging tools, as traders used baskets of stocks to make bets on the direction of the market, and
- New asset inflows from mutual funds.

Market volatility and exchange-traded derivatives have been a winning combination for index services. The average daily volume for major derivative contracts based on S&P indices was 3.6 million. That's about a 40% year-over-year increase.

Growth has also been a hallmark of S&P's financial data and analytics business, better known as Capital IQ, Compustat, and ClariFi. They represent one of our major delivery platforms for providing critical S&P assets to the buy-side, the sell-side and corporations.

As this timeline shows, we have continued to invest in Capital IQ since acquiring it in 2004 to add S&P data, further enrich the service, and improve functionality. Here's a look at one of the newest innovative features. Screening visualization gives our clients a new ability to gain a fresh perspective from large amounts of data:

- Here's a view of sector returns in a scatter plot chart weighted by market capitalization.
- You can quickly see median and average returns by sectors.
- With another click, you can see returns by beta deciles.

The contraction on Wall Street obviously poses a challenge for our financial data businesses. We plan to meet that challenge with the newest delivery and analytics technology in the marketplace and an integrated data model that adds value to our clients as they diversify their exposure across asset classes as well as regions.

Last spring, we announced a new effort to realize untapped potential at S&P, and we called that initiative Fixed Income Risk & Management Services, FIRMS. And let me give you a little sense of where we are. As you know, financial institutions are clamoring for credit and risk analysis. FIRMS, under the leadership of Lou Eccleston, is creating a portfolio of products and services to meet the need globally.

FIRMS is already benefiting from the key market trends we have seen. And here we're seeing:

- The disconnect between price and value for complex securities,
- Regulatory calls for greater due diligence and analysis by investors,
- The need for greater analysis around minimum capital requirements and supervisory surveillance in Basel II,
- New focus on repackaging, revaluation and re-pricing of distressed debt, and
- Surgical scrutiny of linkages in financial support as the market sorts out where the exposures are – the roles of counterparties and obligors.

To help with the investment analysis process, FIRMS offers capabilities ranging from a credit portal and pricing services to integrated data and proprietary model libraries and analytic and research services.

As part of FIRMS' expansion, S&P next week will launch a completely revamped global credit portal that leverages the latest content and technology. This new credit portal enhances the distribution of credit ratings and research from Credit Market Services and serves as a platform to integrate and leverage fixed-income content from S&P. With expanded content and added market views, it will

integrate seamlessly into the workflow of market participants allowing them to perform efficient credit risk-driven analysis by providing sector, sub-sector, industry and entity views to help conduct surveillance and monitor the counterparty risk.

One quick example will illustrate the power of our new credit portal. As you know, in structured transactions there are potential exposures or opportunities on multiple levels from obligor to servicer to trustee to credit support. Sorting that out is critical and can be time consuming. Here's how you can quickly drill down to understand linkages and obligor relationships. On this next screen, we deliver an expanded view of securities and participants to speed up portfolio surveillance activities by investors. Click on any one of the blue buttons and you still get more important detail.

The effort to diversify and create resilience is not limited to S&P Investment Services. Earlier, I pointed out how we are reducing our dependence on transaction volume in the U.S. bond market by expanding overseas and by building a deferred revenue stream.

International revenue is holding up better than domestic. For S&P Credit Market Services it was off about 3.5% after nine months, partially reflecting a benefit from foreign exchange.

Clearly, the growth of non-transaction revenue has helped to cushion some of the decline on the transaction side. After nine months of 2008, non-transaction revenue at S&P Credit Market Services was up almost 9%, 8.9% to \$969.2 million while transaction revenue declined 54.2% to \$389.2 million. Nearly 85% of the non-transaction revenue stream at Credit Market Services has recurring components.

The main contributors again are:

- Relationship fees,
- Surveillance fees, and
- Subscriptions.

There is great resilience here and we still expect to see some growth in 2009. Modest price increases will help as well.

Transaction revenue remains the wild card in 2009. Perhaps we will have more visibility in the second quarter after the market has evaluated the government's new stimulus package.

As part of our own assessment of the health of credit markets, we are carefully monitoring:

- The cost of interbank loans. The LIBOR rate has come down sharply in recent weeks, but still remains high relative to the federal funds rate, we probably see it coming from 1.5%, down to below 1%;
- Spreads on credit default swaps, speculative and investment-grade bond yields. Spreads need to come down to signal perception of reduced risk;
- Stabilization of the housing market;
- The issuance pipeline: While the pipeline in structured finance is weak, S&P believes there is potential pent-up demand in corporate issuance.

For 2009, S&P estimates that we will see the maturing of \$451 billion of investment-grade bank debt, now those are loans and revolvers, bonds and notes of all financial and non-financial firms issuing in the U.S. Another \$177 billion of speculative-grade debt will also mature.

Finally, a comment on the legal and regulatory outlook. Our recent litigations are in the early procedural stages.

There are a couple of broad themes worth noting:

1. S&P ratings are statements of opinion, not promises or guarantees of default probabilities. The Courts have repeatedly recognized that because of their nature, S&P's ratings and those of other rating agencies are entitled to a high degree of protection. That includes the First Amendment.
2. A number of the cases involve decisions by investors to purchase securities rated by S&P. Plaintiffs in these cases seek to ignore repeated public statements about the nature and the limitation of ratings. As we have made clear in our publications, S&P does not make buy, sell, or hold recommendations on a security nor do our ratings speak to the suitability of an instrument for investment. S&P ratings express views on creditworthiness.

We continue to believe the legal risk is low.

Regulating the credit rating agencies remains a work in progress. S&P expects regulatory changes and initiatives to continue in 2009 and possibly even into next year.

As I pointed out earlier, S&P is working hard to become part of the solution and is taking its own actions, including the creation of the Office of Ombudsman to address concerns about conflicts of interest, and analytical and governance issues.

Last month, the U.S. Securities and Exchange Commission (SEC) adopted new rules for NRSROs that mandate more disclosure of ratings histories and performance statistics and prohibited, for example, analysts negotiating fees with issuers. S&P has long maintained rigorous policies regarding the management of potential conflicts of interest.

We have also seen fresh initiatives in the European Union. In light of all of this activity, S&P continues to meet with policymakers, regulators, and politicians here and abroad.

We think smart regulation will help strengthen the financial market. Such regulation would recognize the global nature of financial markets and the analytical independence of rating agencies and their ratings methodologies.

The principle that ratings are independent opinions about the likelihood of future defaults was reaffirmed again in court at the end of December – this time in Israel. The ruling in Tel Aviv upheld the principle that S&P's independent opinions cannot be forcibly changed when an issuer disagrees.

The case involved a recent downgrade by Standard & Poor's Maalot, our wholly-owned subsidiary in Israel. The opinion was challenged in court by the company, its parent firm, and their expert witness. The court ruled that the opinion of the company and the expert witness about the correct rating is "...not the determining factor. They said that this aspect was entrusted to the professional discretion of the rating company, and not that of any expert. I find no grounds for judicial intervention."

So, summing up for Financial Services:

- New opportunities for revenue diversification and growth,
- New products and services from S&P Investment Services, and
- Non-transaction revenue to help cushion uncertainty in the new issue market in 2009.

And for the corporation, we will be giving guidance during our earnings call on January 27th.

Thank you.

To access the accompanying slides online, go to:

<http://investor.mcgraw-hill.com/phoenix.zhtml?c=96562&p=irol-EventDetails&EventId=2057985>

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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.