The McGraw-Hill Companies

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Thank you, Brian [Shipman].

Good morning, everybody, and thank you for being here. If you're listening in on the webcast, we thank you.

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.

We meet this morning at a time when the world is searching for solutions to all of the current economic difficulties. We all see housing prices continue to slide, although that will end, and that will probably bottom out somewhere towards the end of this year and maybe into 2010, but it will end. Unemployment is continuing to rise, and as a lagging indicator that will get a lot of coverage as we go, but that too will end—whether it's the end of the year or just into 2010.

Quality spreads have improved from the November peak, but remain wide. Lending activity is still light, although there is some activity emerging, especially in some of the investment-grade areas. The revised Gross Domestic Product figures will show a steeper decline for the fourth quarter of 2008. In the fourth quarter, the 3.8% we saw included higher federal spending, higher inventories and lower exports. I think we're going to see—especially on an inventory side—probably something like a 5.9% decline for the fourth quarter, and something like a 5.8% decline for the first quarter of 2009. A year from now, looking back, I think we're going to see that this is clearly a bottom or very close to a bottom.

Economists also expect the economy to find a bottom in the next six months with the help of the new federally funded stimulus package, The American Recovery and Reinvestment Act, and we'll talk a little bit about that and the potential impacts that it could have on the company.

It's one of an alphabet soup of existing and prospective government programs designed to:

- Stimulate spending,
- Revive credit and housing markets,
- Provide relief to the states,
- Boost construction activity, and

- Help restore educational funding.

In various forms, U. S. government funding now covers virtually the entire funding mix in financial markets. As this slide shows, there are programs for:

- Commercial paper
- Term unsecured debt
- Deposits
- Secured borrowing at banks and broker-dealers, and
- Equity capital

In addition, there also are important initiatives by the Bank of England and the European Central Bank, which has led one analyst to label all these efforts "the acronym credit market relief program." All this activity may underpin the Federal Reserve's own forecasts for economic growth in 2010. The Fed is currently projecting a rise in real GDP of 2.5% to 3.3% over the fourth quarter of 2009, which is forecasted to decline 0.5% to 1.3%. Other economists are a little bit more bullish.

In the midst of economic uncertainty and the federal government's effort to stimulate growth, the things we are focused on in this current environment are:

- Managing costs,
- Making sure that you're preserving liquidity,
- Having a very strong balance sheet and solid free cash flow, and
- Maintaining access to credit facilities

All of these kinds of factors are what we're focused on.

We have a very strong financial position and we're going to maintain it. In 2009, we are reducing pre-publication costs and investments by approximately $29 million from 2008 levels to $225 million. That underscores our commitment to produce free cash flow in 2009 in the range of $430 million to $450 million, which is comparable to the level attained in 2008 despite our projection for lower operating results. It's the result of easier working capital comparisons as well as reduced investments that we just talked about. Unlike many companies, our free cash flow figure includes payment of dividends to shareholders. To calculate free cash flow at The McGraw-Hill Companies, we subtract the following from cash provided by operations:

- Prepublication investments,
- Purchase of property and equipment,
- Additions to technology projects, and
- Dividends.

We have the cash to fund operations, make investments, pay down debt and return cash to shareholders.

Unlike many companies, we raised the dividend this year. In fact, we are one of only 26 companies in the S&P 500 to increase the dividend for at least 36 consecutive years. Our Board of Directors approved the latest dividend increase at the end of January. The annualized rate for 2009 is $0.90, up 2.3% over last year.

Now, we've all noticed that the new government stimulus package could favorably impact some of our key markets, so I want to make sure that we take a closer look at that for you today.

McGraw-Hill Education

We'll start with McGraw Hill Education.

Both politicians and the general public overall have repeatedly made it clear that the continued support and significant improvement of elementary-high school education (Pre-K–12) should be a major objective of state government. That's a critical reason why in recent weeks, the attention of all stakeholders in the U.S. educational community has been focused on the federal stimulus package that has been taking shape in Washington and has been reported on the last couple of weeks.

McGraw-Hill Education recently completed its own analysis of the new federal stimulus package. As this pie chart shows, there is $106 billion in the package that will benefit education. The funding has both direct and indirect benefits for educational publishers. As you can see, $53.6 billion has been allocated for state fiscal stabilization. We all know about the pressure on state budgets. The Center on Budget and Policy Priorities as recently as February 10th, reported that 46 states face funding issues in their Fiscal Year 2009 and 2010 budgets, and we know that 41 states are now currently running deficits.

Under the stimulus plan, the $53.6 billion may be used to help restore K–12 and higher education budget cuts, for school modernization and any activity authorized under the Elementary and Secondary Education Act and two other programs as well. One is The Workforce Investment Act, which focuses on career and vocational education; the other is for the elementary-high school market. The $25.2 billion targeted for Title I and Individuals with Disabilities Education Act will have the most direct impact on educational publishers because of existing product and service opportunities. I will go into that a little bit more. For now, enrollments, always critical in higher education, will benefit from the increase in funding for Pell Grants, which help students pay tuition from tuition tax credits.

We have examined the new funding and matched the programs with our strengths. As this slide shows, McGraw-Hill Education is well positioned with a broad range of products that meet market needs. In particular, we are very well established in the three el-hi markets that have been targeted for special funding increases. We have been very successful with core reading and math programs in urban school districts, which receive the great majority of Title 1 funds. Our intervention products are widely used in special education programs, which receive IDEA funds. And we are a leading provider of career education and vocational materials used in programs supported by Perkins funds. In all three cases, schools may use their allocations from these funds to purchase instructional materials.

In the college and university market, the increased funding will take some of the tuition pressure off students and their families, helping to maintain enrollments, and these grants and tax credits may also be spent on instructional materials—certainly a plus for our higher education business.

Timing is critical. The new U.S. Secretary of Education, Arne Duncan, promises to move swiftly to distribute the funds. Once the Department of Education posts specific guidelines and a timetable for each funding stream on its website, it is Secretary Duncan's goal to get half of the money to states within 40 days and the second half within six months. Recipients will have approximately two years to spend the funds.

The new funding has the potential to:

- Protect the 2010 and 2011 state adoption schedule,
- Restore funds to first-year purchases in adoption states,
- Fund vocational and technical career programs, and
- Mitigate funding pressures in the open territory market.

It's going to take awhile to assess the pace of this funding and how the monies will be allocated state by state and district by district. For that reason, we are not changing at this time our forecast for the state new adoption market. All of our financials and our projections do not include any support from the federal stimulus package at this time until we see the monies flow and see what the impacts are going to be. We still estimate that the total dollars available in the state new adoption market in 2009 will be $675 million to $725 million. The ramp up in the market comes next year, in 2010 and 2011. At this point, we have seen only two significant changes in the 2009 schedule. Florida eliminated its call of K-12 music and South Carolina reduced its math call from K-12 to K-5. South Carolina is now expected to buy 6-12 math in 2010.

California and Florida are key adoption states this year. In Florida, Governor Crist has embraced the stimulus package, suggesting it will go a long way to solve educational funding issues in his state. The new adoption opportunity in Florida this year is 6-12 literature. California is buying K-5 reading and is in the second year of its math adoption. The state last week passed a budget, which includes a 15% cut for instructional materials in fiscal year 2009 to $355 million and a 4.9% reduction to $340 million in 2010. That's actually a very good outcome considering the battle royal in California to create a budget. The situation could improve because funding from the new stimulus plan is not reflected in their new budget.

Although you would never know it from reading the headlines, the annual product selection process in key markets is moving ahead. Regional meetings organized by state education departments that allow listed publishers to present their programs to local educators are proceeding normally. The meetings are fairly well attended and are generating many requests for follow-up presentations from our sales representatives. That's a good sign.

It's early days in the 2009 school market. So it's much too soon to change any forecasts for this year. We believe the stimulus package will alleviate funding conditions in the market, but until there is greater clarity, we will stick with our forecast of a Pre-K–12 market decline of 10% to 15% in 2009, and that will probably change.

The U.S. college and university market is also going to benefit from the stimulus package, but here too we will stay with our original forecast of 3% to 4% growth in 2009 until there is more clarity.

What is clear is the education market's appetite to acquire 21st century skills. The confluence of content, technology and distribution is improving our ability to meet this demand by producing digital products and services. In the digital world, we can enrich the learning environment and improve the learning experience while increasing access and mobility by providing information where and when you need it. We are benefiting from the trend with a growing lineup of new digital offerings that include individualized online tutoring, a lecture capture service, and assessment placement tools that enable schools to determine the most appropriate courses for entering students. That's an awfully important part about getting a student started well and retaining that student in the school.

In the college market, features that help faculty and students are available this year on a robust new platform we call McGraw-Hill Connect. Bridging the printed page with a dynamic online leaerning environment, McGraw-Hill Connect integrates an e-book, study tools and assessment all in one place. It's offered in 18 disciplines for 2009.

Here's one example taken from *The Art of Public Speaking* by Stephen Lucas, the market's leading textbook in its field. Materials are updated frequently to incorporate current speeches to better engage students. Here we are looking at a chapter on "Analyzing the Audience," which has been correlated to a critical speech last year by Barack Obama. Students watch and listen to how he presents himself and his ideas in ways that connect with the audience's goals, values and beliefs. Let's listen to this brief clip to show you one example.

> [Audio Clip]
> *"I chose to run for the presidency at this moment in history because I believe deeply that we cannot solve the challenges of our time unless we solve them together* - *unless we perfect our union by understanding that we may have different stories, but we hold common hopes; that we may not look the same and we may not have come from the same place, but we all want to move in the same direction — towards a better future for our children and our grandchildren."*

And because the online version provides flexibility, Connect Lucas can be updated with new speeches all the time, to keep it fresh.

Speech Capture is another important new tool that enables instructors to assess speeches in an online environment and provide feedback to students. After students upload video recordings of their speeches, instructors watch the speech online and insert evaluations during each video. Here an instructor indicates at time code 23 seconds that the student is referring to her notes too frequently. Speech Capture is getting very positive feedback from instructors and students who can view the instructors' critiques all in one place.

It's a very small example, but in showing Connect Lucas, our hope is to demonstrate the convergence of technology and content and how we are able to leverage content and distribution to enrich the learning experience for students and enabling instructors to create, administer and grade assignments completely online. It is a winning combination.

So, let's sum up for McGraw-Hill Education:

- Federal funds may alleviate pressure on state and local funding for education,
- At this time, we'll stay with our original forecast of a 10% to 15% decline in the el-hi market in 2009, and
- A 3% to 4% growth in the U.S. higher education market.

The segment in 2009 will have:

- A low single-digit decline in revenue, and
- About a 300 to 400 basis point decline in margin, excluding 2008 restructuring charges, which implies an operating margin of roughly 10%.

Financial Services

Let's turn to Financial Services.

Nothing has happened at this point in the year to suggest a change in guidance for this segment. We expect revenue to grow 1.5% to 2% in 2009 based on high single-digit growth at S&P Investment Services, which produced 34% of the segment's revenue last year, and a slight decline in revenue at S&P Credit Market Services, which is the credit rating side of S&P.

At Credit Market Services, we expect non-transaction revenue to grow about 1% to 2%. Non-transaction revenue accounted for 73% of ratings total revenue last year and represents a very resilient revenue stream. Nearly 90% of non-transaction revenue is recurring. It includes surveillance fees, annual contracts and subscriptions. The recurring portion grew last year and will do so again in 2009. It will be helped by modest price increases.

Transaction revenue, which is based on new public issuance of corporate, public finance and structured finance instruments, is expected to decline 10% to 12% in 2009. After a 55% decline in 2008, we do expect some better comparisons in the second half of this year. S&P Credit Market Services' transaction revenue represented 18% of the segment's revenue in 2008.

The revenue increase at S&P Investment Services in 2009 depends on continued growth for our index services, the sales of new products and services, particularly at Capital IQ, and modest price increases.

We anticipate a 250 to 300 basis point decline in the segment's operating margin, excluding the impact of restructuring charges taken in 2008. That implies an increase in expenses of approximately 6% resulting in an operating margin of approximately 38%, maybe a little bit more.

The strengthening dollar will have an impact on the segment in 2009. Foreign exchange rates mainly affect Credit Market Services revenue. Our guidance is based on current foreign exchange rate projections. On a constant currency basis, segment revenue is projected to grow approximately 5% to 6% and expenses will increase approximately 10%, and that number is reflecting:

- The full-year impact of 2008 hiring—which was mostly overseas,
- Continued investments in fast-growing businesses, but at a reduced rate, and
- Increased stock-based compensation.

The benefits of our 2008 restructuring actions will partially offset these items.

We expect the year for financial services to get off to a slower start. New issue volume in January was off in all U.S. asset classes except public finance—and that's one to watch, especially with the state condition given the stimulus. We might see more on the public finance side**,** which was up 8.8% year-over-year and CDOs, which were up 86% off a very small base. Sequentially, the declines since December in U.S. corporates were not as great as the year-over-year fall-off. But while the investment grade and cross border debt markets showed some signs of life in January, it is too soon to suggest this activity represents a sustainable trend. We do believe, however, that investors in the next few months are prepared to re-enter the market for investment-grade corporate bonds

Reviving the financial system remains a key requirement to revitalizing the economy. As I pointed out earlier, the federal government's actions through TARP, TALF and the other plans have a critical role to play.

S&P Investment Services continues to expand. In index services, our goal is to produce an index for every single investment category. As this slide shows, we continue to move ahead. There are U.S. equities, families of indices for global and local markets, benchmarking tools for assets beyond stocks and bonds, strategy indices and now more fixed income indices. In January, as part of an effort to develop non-correlated indices, we launched four new indices:

- S&P Risk Control Indices/Euro,
- S&P CDS index series,
- S&P 500 VIX Futures Index, and
- S&P Financial Trends Indicator.

We also saw the listing of three new exchange-traded funds based on S&P indices. They are:

- iShares S&P/Citigroup International Treasury Bond,
- iShares S&P/Citigroup 1-3 year International Treasury Bond, and
- Horizons AlphaPro Managed S&P RTSX 60 in Canada.

There are more in the pipeline, and we are the leading provider of indices for exchange-traded funds.

To enhance its offerings, Capital IQ at the end of January released a new version of its platform. It includes embargoed brokerage research, UK share registry data, FDIC bank branch mapping tool, and various upgrades to existing features as well as a new fixed income summary page for each company which highlights capital structure, ratings, ratios, research, and maturity schedules. Capital IQ now has real-time and embargoed research from nearly 1,000 contributors as well as estimates data from 600 sources worldwide.

No presentation these days on Financial Services is complete without some comments on the regulatory and legal outlook. The latest step in S&P's ongoing dialogue with policymakers, regulators and market participants in Europe took place on Monday of this week when Deven Sharma, president of S&P, addressed the Committee of European Regulators at its conference in Paris. The acronym is CESR. It is expected to play a more important role in the future in coordinating regulation in certain areas, including credit ratings.

In Deven's remarks, he outlined 10 goals that we believe investors and other users of ratings want to see from regulators:

1. Ratings should be independently derived, credible and unbiased. Ratings firms should be accountable and subject to sanctions by regulators if they fail to comply with appropriate policies and standards for managing potential conflicts. However, policymakers should explicitly preserve the independence of ratings and ratings methodologies.
2. Regulators should conduct robust, periodic inspections of how ratings firms comply with their policies for managing potential conflicts of interest.
3. Ratings methodologies, processes and policies should be highly transparent.
4. The meaning and use of ratings should be clear, including the level of risk inherent in a rating.
5. Ratings on new and complex securities should be differentiated either through separate rating scales, or as S&P is doing, by providing more information about the risk characteristics of these securities.
6. Issuers of structured securities should be required to disclose publicly information about collateral pools that is currently provided to ratings firms confidentially.
7. Ratings policies should be applied clearly and consistently to minimize surprises when and if a rating is changed.
8. There should be transparency of communication between issuers and ratings firms, for instance when issuers request a rating on a structured security.
9. Ratings performance statistics, including comparability of ratings across asset classes and geographies, should be publicly disclosed.
10. There should be a competitive market for ratings with more and varying views on credit quality from qualified providers.

Our outreach program will continue around the world and with decision makers in the U.S. to ensure sound, internationally consistent regulation. And that is very important. We expect some resolution of these regulatory issues in Europe this spring. I believe here in the United States, as well. And, if you want to see a full text of all the goals and the detail, please go to our website for that (www.standardandpoors.com).

On the legal front, litigation is moving ahead and I thought it would be helpful to summarize the current situation. Essentially, the law suits fall in three broad categories:

- First, there are underwriter claims based on the Securities Act of 1933. This category includes a number of class actions by purchasers of subprime RMBS securities rated by S&P as well as one case involving Fannie Mae ratings. These cases assert claims that Standard & Poor's is liable as an "underwriter" or "seller" of securities under Section 11 and/or Section 12 of the Securities Act of 1933. Clearly, S&P is not an underwriter or seller of any securities. Although many of these cases were originally brought in state court, most have been removed to federal court and are subject to the Private Securities Litigation Reform Act. The company intends to seek dismissal of each of these actions and based on the current schedules, anticipates the first motion will be heard sometime in late spring, early summer. One case has already been dismissed.

- Second, there are McGraw-Hill shareholder claims. This category includes a class action under Section 10(b) of the Securities Exchange Act. We refer to this action as the Reese case. This case has been brought by purchasers of McGraw-Hill stock who allege that the company's statements about its earnings and ratings business were misleading. We have filed a motion to dismiss this action in its entirety. We expect to present oral arguments early this summer. There are two other cases that involve essentially the same facts. One is a "derivative" action that asserts claims that certain of the Directors and senior executives breached their duties to the Company. The other is a class action brought by participants in the Company's ERISA plans. We expect all the necessary papers will be filed with the court by June.

- Third, and the final category, are the state law claims. These include a group of cases asserting state-law claims, including fraud claims, relating to S&P's ratings of a variety of securities, including SIVs, SIV-Lites, CDOs, municipal bonds and Lehman Brothers debt. In one of these cases, Oddo Asset Management versus Barclay Bank PLC, pending in New York Supreme Court, McGraw-Hill has moved to dismiss the allegations, asserting First Amendment protection for its rating opinions as well as defense under New York law. It is expected that the Court will soon schedule oral arguments on the motion before issuing a decision.

In addition to the three big categories I've already mentioned, there are other cases, which include a complaint filed with HUD under the Fair Housing Act of 1968 and an action filed in Italy relating to Lehman Brothers. The company is currently preparing its responses to these matters. In all of these matters, we continue to assess the legal risk as low, and we'll be going for early dismissal on all of these as soon as we can present briefs.

So, summing up for Financial Services:

- Growth in non-transaction revenue at S&P Credit Market Services,
- Growth in S&P Investment Services,
- A slow start to 2009,
- Low single-digit revenue growth—probably about 1.5% to 2%,
- A margin decline of 250 to 300 basis points excluding 2008 restructuring charges, and
- A margin of approximately 38%, maybe a little higher.

Information & Media

Now, let me wrap it up with some comments on the Information & Media segment.

Here, too, we expect to see benefits from the new federal stimulus package. It's worth $130 billion to McGraw-Hill Construction customers and will stimulate more construction activity for the next three years. It adds:

- 7.6% to the construction market in 2009, bringing total construction to $494 billion, and
- 10.6% to the construction market in 2010, bringing the total to $542 billion.

The next two slides show what areas will benefit the most from the stimulus package this year and in 2010. Contractors, building product manufacturers, engineers, architects, and consultants focused on infrastructure and green products and energy grid construction companies will be among the biggest beneficiaries of this part of the stimulus package. As the industry leader, McGraw-Hill Construction will capitalize on the stimulus package. It reinforces the core strength of Dodge Construction for tracking leads and Sweets for finding products.

The stimulus package is also going to make green projects more important than ever, which plays to one of our strengths. McGraw-Hill Construction has been pioneering in the green field, locating and tracking projects, producing award-winning editorial content and sizing new opportunities for customers.

Nevertheless, it is still too soon to start changing our forecast for this segment. We expect revenue to decline in the low single digits despite continued strong growth for energy information from our Platts capability. The advertising environment is challenging and turmoil in the auto market is obviously contributing to this situation. We expect the operating margin to decline 200 to 300 basis points, excluding 2008 restructuring charges, which implies a margin of roughly 7.5% to 8.5%, with expenses flat, largely due to the benefits of the 2008 restructuring.

So, summing up for Information & Media:

- Low single-digit decline in revenue,
- 200 to 300 basis points decline in the operating margin, excluding the benefits of restructuring charges of 2008,
- Growth in information products will be offset by declines in advertising, and
- Still to be determined will be what the federal stimulus package will do in terms of benefitting McGraw-Hill Construction.

For the corporation, we expect the year to get off to a slow start. But seasonally, the first quarter is a very small part of our year. At this time, it is difficult to measure the impact of the new federal funds on our markets or the benefit of the federal rescue plan.

So, for now, we are not changing any aspect of the forecast we have given you for 2009:

- Consolidated 2009 revenue to decline 1% to 2% compared to 2008, and
- Earnings per share in the range of $2.20 to $2.30, but before any benefits of the stimulus plan.

It's a little early in the year and all that, but that's where we are at this point. And I think it's a very conservative approach to start the year with the same guidance that we're at, and we will adjust it as we go—and obviously we'll be informing you.

Thank you.

To access the accompanying slides online, go to:
http://investor.mcgraw-hill.com/phoenix.zhtml?c=96562&p=irol-EventDetails&EventId=2103101

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This presentation includes certain forward-looking statements about the Company's 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; Educational Publishing's level of success in 2009 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.