J.P. Morgan 38th Annual Technology, Media and Telecom Conference

Prepared Remarks
May 17, 2010

Harold McGraw III
Chairman, President and CEO
The McGraw-Hill Companies

Thank you very much, Michael [Meltz]. I will review some prospects and some trends, and then we will go to questions.

Before I begin, I must draw your attention to the following cautionary remarks. Except for historical information, matters discussed in this presentation may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including projections, estimates, and descriptions of future events. Any such statements are based on current expectations and current economic conditions and are subject to risks and uncertainties that may cause actual results to differ materially from results anticipated in these forward-looking statements. In this regard we direct listeners to the cautionary statements contained in our Form 10-K's, 10-Q's, and other periodic reports filed with the U.S. Securities and Exchange Commission.

Let's start with some basic observations about our current situation:

- Our markets are recovering;
- We expect to grow in 2010;
- Our year is off to a very good start;
- Our financial position is strong;
- We have again increased the dividend;
- We have resumed our share buybacks this year;
- Advances in technology are creating new growth opportunities;
- We will grow digitally; and
- We will grow in global markets.

We also will bring you up-to-date, and share our views on two issues that are in the news—legal and regulatory developments affecting the credit rating agencies. We are making progress on the legal front, and the regulatory situation remains very fluid.

With that as an agenda, let me again go through a few new facts and amplify some of the trends, and then we will go to your questions.

The economy continues to show signs of stronger than expected recovery:

- Real GDP rose 3.2% at an annual rate in the first quarter, and
- Real GDP has now risen for three consecutive quarters, a clear sign that the recession is behind us.

A strong finish in the fourth quarter last year—earnings per share grew by 43.2%—set the stage for a solid start in 2010. That momentum continued in the first quarter when we reported a 65% increase in diluted earnings per share of 33 cents. For the year, our guidance calls for diluted earnings per share of $2.55 to $2.65 versus $2.33 in 2009.

In January we increased the dividend for the 37th consecutive year. Since 1974, our annual dividend has grown at an average compound rate of 10%. We have resumed repurchasing shares this year, and again we said in January that we were going to be doing this. We amplified that again in April, and we have begun that. We are working off the 17.1 million shares that were authorized prior to cutting that in 2008.

In an increasingly digital and global economy, we are investing to capture growing opportunities and to improve the operating leverage across all our businesses. Revenue from foreign sources will continue to grow faster than revenues in the United States. The 10-year compound annual growth rate for foreign source revenue through 2009 is 8.9% versus a 2.7% increase for domestic revenue. By the end of 2010, foreign source revenue will represent more than 30% of our total.

Earlier, I pointed out that we continue to make progress on the legal front. At last count, federal and state courts have dismissed 12 cases against the company in their entirety, including 11 so far this year. In this same period, three motions to dismiss have been denied in whole or in part by federal and state court judges, pending discovery. We believe these cases are without merit and at the appropriate time we will ask the courts for early dismissal on those.

It is worth noting that the seven different federal judges and a state court judge are responsible for the 12 dismissals. The dismissals have occurred in all three major categories:

1. Underwriter claims—
   These are claims that say we are actually a seller and distributor of securities, which we are not.
2. Stock drop lawsuits—
   Whenever there is a decline in the stock price, you will get these class action suits saying that you did not give good information or content, and that is not the case because a lot of people in the financial area were affected.
3. State law claims

In all the dismissals, the courts have issued clear and unambiguous decisions. They have ruled that:

- Rating agencies are not underwriters or sellers of securities;
- Ratings are opinions, not statements of fact;
- After-the-fact criticisms of rating agencies do not support an inference that rating agencies did not believe their ratings were appropriate when issued;
- Alleged conflicts of interest in the business model were well known by investors; and
- Investors were adequately warned of the risks and limitations of credit ratings, which are not buy, sell, or hold recommendations.

We continue to regard the legal risk as low. And for the record, as we told investors last week, we have not received a Wells notice from the SEC or anything like that.

On the regulatory front, the last major legislative action this year probably will be the financial overhaul reform bill, which is now under consideration in the U.S. Senate. The legislative process will continue until it is resolved in conference, but this may take us into June. We are still working to resolve contradictory language in the proposed legislation. We have pointed out that the legislation promises a level playing field for all participants, but in an unprecedented and discriminatory move also proposes to lower pleading standards currently in the bill solely for credit rating agencies. Having a single pleading standard for all market participants would seem to be something that everyone should agree on, and we are pushing very aggressively on a clarification of that language.

Let me be clear. We support proposals that increase transparency, accountability and restore confidence to financial markets. But some proposals in Congress would set a precedent for governments, not just the U.S. government, to interfere in the rating process, undermining analytical independence and ironically increasing investor perceptions that rating opinions are government endorsed. Having no apparent government seals of approval on rating opinions would also seem to be something that everyone should agree on.

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

Clearly, we are confronting some fundamental contradictions. On the one hand, there is a move, which we support, to remove ratings from statutes and regulations to discourage anyone from thinking that our rating opinions have the government's seal of approval. But at the same time, there are proposals in Congress to put the government's thumb on the ratings scale. We are not alone in our concerns about the potential for unintended consequences there.

You only have to listen to Senator Dodd's comments during the debate last week on why he was voting against the Franken and LeMieux amendments. The Franken amendment would establish a Board appointed by the SEC to assign a qualified NRSRO to do initial structured finance ratings. The LeMieux amendment would remove rating requirements and references from existing laws and deletes a provision from the Bill requiring a study on the implications of such a step.

On the Franken amendment, Senator Dodd said: "I do not know what the implications are because we have had no real examination of [it]…I am just uneasy about what the implications can be…I just do not know whether it is sound…" And on the LeMieux amendment Senator Dodd said: "Congress could not simply repeal safety and soundness laws without careful prior study of the impact on the markets."

Senator Dodd urged his colleagues to review his Committee's bill. He said "Our bill sets out a process by which overreliance on these rating agencies can be reduced without creating risk throughout the financial system. That is my concern. Stripping everything out of safety and soundness in this area does not get you safety and soundness." We agree. That's why we support proposals to increase transparency, accountability and restore confidence to financial markets.

In an environment stressing regulation and compliance, we are examining new ways to further improve our own processes consistent with regulations both here and abroad. And again, the most important thing, and we articulate this all the time, is to get to globally consistent regulation. We have the completion of the regulation in Europe. We have completed Australia, Japan, and now, as we complete the reform overhaul bill here, we have to eventually get to a point where we have this global consistency so that people have a constant and steady measure of ratings.

For example, we are looking at new steps to evaluate data and the quality of the information sources used in the ratings process. We are evaluating whether or not to rate some issues, issuers, or transactions that don't have a track record. That may mean rating fewer emerging companies, potentially limiting access to funding in public markets for growth and innovation.

S&P has already taken important steps to strengthen analytics, increase transparency and reinforce the integrity of the ratings process. Our ratings today are more transparent, more comparable and more stable.

- To increase transparency, we are providing investors with more information than ever before about underlying assumptions;
- To make ratings more comparable across sectors and time, we have revised ratings criteria and strengthened analytics;
- To make ratings more stable, we are employing measures that better account for the impact of periods of severe economic stress; and
- Finding new ways to increase the value of its credit ratings for investors is one of the best lessons of this credit crisis and it is one that S&P has learned well.

I was going to go into each of the operations but let me just hold it here. We did a conference last week, and there is a transcript out there, and you can get that. I would say that in terms of the year, we are off to a very good start:

- **Financial Services** will probably come in with high single-digit revenue. Margin about the same as last year, maybe as much as 100 basis points off — something like that due to regulatory compliance —but very close.
- **McGraw-Hill Education:** On the Education front, we are looking at:
  - 6% to 7% growth in the elementary-high school market top line, and
  - 5% to 7% in higher education and the professional market.
- **Information & Media:** We are looking for mid single-digit growth in Information & Media. That is excluding *BusinessWeek*, which was divested in December of 2009 and a return to mid-teen margins.

And for the Corporation we are looking for diluted earnings per share of $2.55 to $2.65 for the full year compared to $2.33 last year.

Thank you.

To access the accompanying slides online, go to:
http://investor.mcgraw-hill.com/phoenix.zhtml?p=irol-eventDetails&c=96562&eventID=3090517

"Safe Harbor" Statement Under the Private Securities Litigation Reform Act of 1995
This presentation includes certain forward-looking statements about our businesses and our prospects, new products, sales, expenses, tax rates, cash flows, prepublication investments and operating and capital requirements. Such forward-looking statements include, but are not limited to: the strength and sustainability of the U.S. and global economy; the duration and depth of the current recession; Educational Publishing's level of success in 2010 adoptions and in open territories and enrollment and demographic trends; the level of educational funding; the strength of School Education including the testing market, Higher Education, Professional and International publishing markets and the impact of technology on them;

the level of interest rates and the strength of the economy, profit levels and the capital markets in the U.S. and abroad; the level of success of new product development and global expansion and strength of domestic and international markets; the demand and market for debt ratings, including corporate issuance, CDO's, residential and commercial mortgage and asset-backed securities and related asset classes; the continued difficulties in the credit markets and their impact on Standard & Poor's and the economy in general; the regulatory environment affecting Standard & Poor's; the level of merger and acquisition activity in the U.S. and abroad; the strength of the domestic and international advertising markets; the strength and the performance of the domestic and international automotive markets; the volatility of the energy marketplace; the contract value of public works, manufacturing and single-family unit construction; the level of political advertising; and the level of future cash flow, debt levels, manufacturing expenses, distribution expenses, prepublication, amortization and depreciation expense, income tax rates, capital, technology, restructuring charges and other expenditures and prepublication cost investment.

Actual results may differ materially from those in any forward-looking statements because any such statements involve risks and uncertainties and are subject to change based upon various important factors, including, but not limited to, worldwide economic, financial, political and regulatory conditions; currency and foreign exchange volatility; the health of debt and equity markets, including interest rates, credit quality and spreads, the level of liquidity, future debt issuances including, corporate issuance, residential and commercial mortgage-backed securities and CDO's backed by residential mortgages, related asset classes and other asset-backed securities; the implementation of an expanded regulatory scheme affecting Standard & Poor's ratings and services; the level of funding in the education market (both domestically and internationally); the pace of recovery in advertising; continued investment by the construction, automotive, computer and aviation industries; the successful marketing of new products, and the effect of competitive products and pricing.