The McGraw-Hill Companies

3Q 2010 Earnings Call

October 26, 2010

Presenters:

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The McGraw-Hill Companies

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"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.

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Harold McGraw III

Chairman, President and CEO
The McGraw-Hill Companies

MHP 3Q 2010 results

15% increase in 3Q EPS

- **3Q 2010: $1.23 (includes $0.02 for gain on divestitures and $0.01 dilution for acquisition of TheMarkets.com)**

5.5% increase in 3Q revenue: $1.98 billion

- **Grew 6.8% excluding divestiture of *BusinessWeek***

Increasing EPS guidance for 2010

Now anticipate EPS in the $2.60 to $2.65 range

We expect to achieve the high end of the range

- **Excludes one-time gain of $0.02 from divestitures**
- **Includes dilution of $0.02 from acquisitions**

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Financial Services

McGraw-Hill Education

Information & Media

3Q 2010 results at Financial Services

S&P Credit Market Services' 3Q revenue increased 11.1%

- **Domestic revenue grew 20.9%**
- **International revenue grew 0.9%**

S&P Investment Services' revenue grew by 6.3%

3Q 2010 results at Financial Services

Revenue — **+9.5% to $697.4 million**

- **S&P Credit Market Services: +11.1% to $473.2 million**
- **S&P Investment Services: +6.3% to $224.2 million**

Operating Profit — **+6.6% to $273.1 million**

- **Includes $7.3 million pre-tax gain on divestitures**

Operating Margin — **39.2%**

- **Increases in incentive compensation, incremental costs for compliance and substantial staff increases overseas, mainly in India**
- **Acquisition of TheMarkets.com**

Drivers of 3Q revenue growth at Financial Services

Increased refinancing activity

Investors' search for yield

Robust bank loan market

Recovery in equity market, which benefited S&P Indices

Interest rate spreads: A key factor in issuance levels

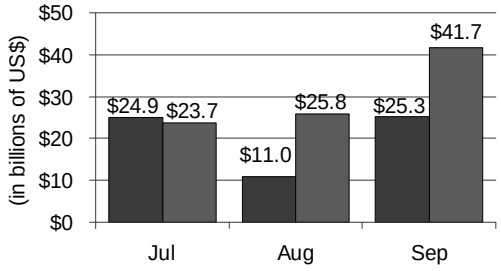
Speculative-grade spreads began tightening in September; trend continued into October

Basis Points	10/21/10	9/30/10	9/1/10	January 2010	5 year Mvg Avg
Speculative-grade composite spread	616	641	675	616	579

Source: Standard & Poor's Global Fixed Income Research

Global high-yield new issue increased in 3Q 2010

Worldwide Corporates High Yield



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

2009 **2010**

Refinancing: More than 2/3rds of U.S. high-yield volume in 2010

U.S. Issuance	Bond Volume	
	3Q '10	YTD
M&A Non-LBO	9.6%	11.6%
DIP	0.0%	0.0%
Corp Purpose	11.1%	10.0%
Exit Financing	0.6%	1.9%
LBO	4.9%	4.0%
Other	0.0%	0.1%
Proj Financing	0.0%	0.1%
Recap	0.7%	0.3%
Dividend	4.8%	3.9%
Refinancing	68.4%	68.1%
Total	$75.9B	$195.0B

Source: Standard & Poor's Leveraged Commentary Data

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Investment-grade issuers stepping up activity to lock in low yields

Investment-grade spreads have widened, but are still just slightly above the five-year moving average

Basis Points	10/21/10	9/30/10	9/1/10	January 2010	5 year Mvg Avg
Investment-grade composite spread	203	203	204	193	198

Source: Standard & Poor's Global Fixed Income Research

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Outlook for global bank loan market

3Q: Global bank loan ratings soared

- **Absolute volume still on the low end of historical averages**

Fundamentals remain strong

Liquidity is good in U.S.; only slightly less in Europe

Municipal market: Usual seasonal slow down in summer months

Public finance dollar volume issuance declined in 3Q, but…

Deal volume increased

Fueled by:

- **Refundings, which were up 11%**
- **Taxable Build America Bond program**
  - **YTD, taxable bond debt is 32% of muni market**

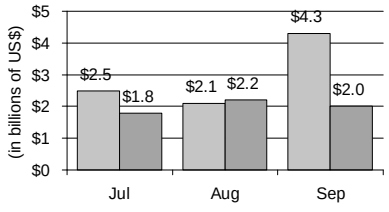
Structured finance market struggling to recover

Residential mortgage-backed securities market can't compete with spreads on structured vehicles that benefit from government support

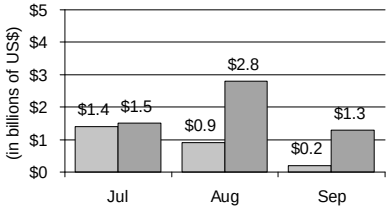
- **Fannie Mae**
- **Freddie Mac**
- **Ginnie Mae**

Tracking 2010 new issuance: U.S. structured finance through September

U.S. RMBS



U.S. CMBS



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

2009 **2010**

Favorable trends in the asset-backed market

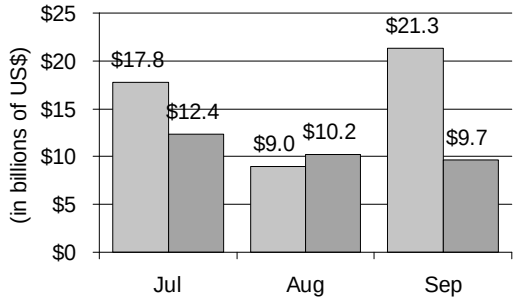
Steady spread contraction across all asset-backed securities

Asset-backed securities	January 2010	October 2010
Prime autos	LIBOR + 55 bps	LIBOR + 22 bps
Credit cards	LIBOR + 80 bps	LIBOR + 22 bps
FFELP student loans	LIBOR + 50 bps	LIBOR + 30 bps

Source: J.P. Morgan

Tracking 2010 new issuance: U.S. structured finance through September

U.S. Asset-Backed Securities



Source: Thomson Financial, Harrison Scott Publications, Standard & Poor's **2009** **2010**

Outlook for corporates: 4Q new issuance off to solid start

High-yield issuers finding a receptive market

Investment-grade issuers taking advantage of attractive funding rates

Leveraged loans will continue to fill the institutional pipeline

- **Favorable rates and heavy demand should continue to fuel this market**

Outlook for structured finance market

New pressures in structured finance market

- **Dodd-Frank legislation**
- **New FDIC Safe Harbor rules**
- **New SEC regulations**
  - **Impose restrictions on sponsors of securitization**
  - **Greater regulatory oversight on transactions**

Greater disclosure and transparency will benefit investors

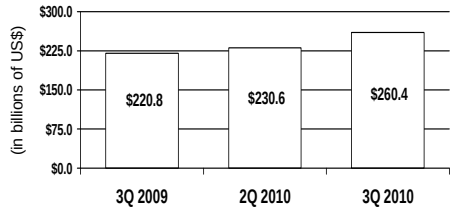
After period of adjustment, S&P expects securitization to be a significant funding tool for many issuers in years ahead

S&P Investment Services: New record for ETFs

$260.4 billion in assets under management based on S&P indices at end of September

- **17.9% year-over-year increase**
- **12.9% sequential increase over 2Q 2010**
  - **Growth in SPDR and iShares in ETFs were major contributors**

Assets Under Management Based on S&P Indices



Source: Bloomberg

S&P Indices: More ETFs, more trading volume

19 new exchange-traded funds launched in 3Q

- **Includes nine new Vanguard ETFs based on core U.S. indices, including the S&P 500**

Now 278 exchange-traded funds based on S&P Indices

7.3% growth in average daily volume for major exchange-traded derivatives based on S&P Indices

- **3Q daily average volume: 3,069,000 contracts**

Finding new ways to grow S&P Indices

S&P will be introducing new indices in various asset classes:

- **Commodities**
- **Fixed income**
- **Equities**

Historic first for S&P Indices in 3Q

Licensed Options Clearing Corporation to handle trades of over-the-counter S&P index-based option contracts and receive royalties

- **First time S&P has licensed indices for central counterparty clearing**

Capital IQ continues to expand in global markets

Acquired TheMarkets.com's research and estimates business in September

- **Positions Capital IQ for significant growth on the buy side**
- **Modest overlap between TheMarkets.com's 2,000 clients and Capital IQ's 3,300 clients**

Capital IQ expects to:

- **Add clients**
- **Add revenue**
- **Create cost synergies**
- **Grow in domestic and international markets**

Capital IQ continues to expand in global markets

Capital IQ now offers core data for the buy-side's workflow

- **Earnings models**
- **Estimates**
- **Fixed income research**

What Capital IQ and TheMarkets.com now offer investors

Client Segment		Content: Sell Side Research	Content: Sell Side Analyst Models	Content: Fixed Income Research
Buy Side	Capital IQ	◔	○	◔
	CIQ + The Markets.com	●	●	◕
Private Equity Venture Capital	Capital IQ	◑	○	○
	CIQ + The Markets.com	●	●	◕
Corporate IR Dept, Business Development	Capital IQ	◑	○	○
	CIQ + The Markets.com	●	●	◕

○ No offering ● Strength of offering

Gaining more clarity on regulatory issues

S&P expects to be registered with European regulators later this year

- **Application has been filed**

S&P received its license in Japan as an approved agency

- **Completed before the October deadline**

S&P is discussing new regulatory proposals with Hong Kong, Canada and Taiwan

Gaining more clarity on regulatory and legal issues

SEC rule-making will be required to implement many of the new Dodd-Frank Act's provisions

- **S&P continues to engage with SEC and market participants as part of rule-making process**

How S&P has invested to meet regulatory commitments

S&P created Quality, Criteria, Compliance, Risk (QCCR) framework

- **Invested in technology platforms and staffing for quality, criteria, compliance and risk management**

The costs of creating a framework to deal with regulations

S&P spending for QCCR-related items:

- **2009: $63 million**
- **2010: Expect spending to increase by about $15 million**
- **2011: On a preliminary basis, expect spending to increase in the $12 million to $15 million range**

Price increases have helped mitigate some costs in 2010, including the incremental expenses for QCCR-related items

- **We expect price increases will help us in 2011**

Monitoring the impact of new regulations on bank lending

Regulators are forcing banks to shrink their balance sheets

- **Banks are retrenching and sitting out one of the busiest periods in the corporate bond market**
- **Inevitable that banks will support less debt as they keep more capital**

Reduced bank lending is a plus for public debt markets

Latest developments on litigation front

Our assessment of legal risk facing the Corporation is unchanged

- **15 cases have been dismissed outright**
- **Five cases have been withdrawn**

Latest developments on litigation front

Favorable ruling in case of Rice versus S&P and Moody's on October 22, 2010

- **Federal district court in California dismissed complaint with prejudice**
- **The court on intentional misrepresentation claim:**

"Defendants' credit ratings are opinions of future creditworthiness or value of companies…and therefore are not actionable unless Plaintiffs can demonstrate the Defendants' representatives who published credit ratings actually knew the credit ratings were false or did not believe that the credit ratings were true at the time that each credit rating was issued."

—Judge Cormac J. Carney

Latest developments on litigation front

The court on a negligent misrepresentation claim concerning a professional opinion:

> ***[It can be stated by] "a narrow and circumscribed group of persons to whom or for whom the misrepresentations were made…The rationale for limiting liability to a specific group of persons is to protect professionals who provide information from unlimited and uncertain liability."***
>
> **—Judge Cormac J. Carney**

New development in Parmalat litigation in Italy

- **Court-appointed experts recently filed a report critical of the rating S&P assigned to Parmalat during 2000-2003**
- **S&P expert disputed the methodology, findings, and conclusions of the report**
  - **Accountants' report, as a matter of law, is not binding in court**
- **Judge scheduled a hearing for January 2011**
- **We continue to believe outcome should not have a material adverse effect on Corporation's consolidated financial condition**

2010 outlook for Financial Services

Summary

- **Revenue growth: Expect mid single-digits**
- **Operating margin: Now expect 150 basis-point decline, primarily due to acquisition of TheMarkets.com**
  - **Previously expected 100 basis-point decline**

The McGraw-Hill Companies

Financial Services

McGraw-Hill Education

Information & Media

3Q 2010 segment results at McGraw-Hill Education

Revenue	**+5.5% to $1.1 billion**
	• **School Education Group: +6.7% to $534.7 million**
	• **Higher Education, Professional and International Group: +4.3% to $520.0 million**
Operating Profit	**+19.9% to $357.5 million**
	• **Includes $3.8 million pre-tax gain on divestiture**
Operating Margin	**33.9% vs. 29.8% in 3Q 2009**
	• **Includes 40 basis points from gain on divestiture**

State new adoption market key to 2010

On track to capture about 30% of total available dollars in this year's state new adoption market

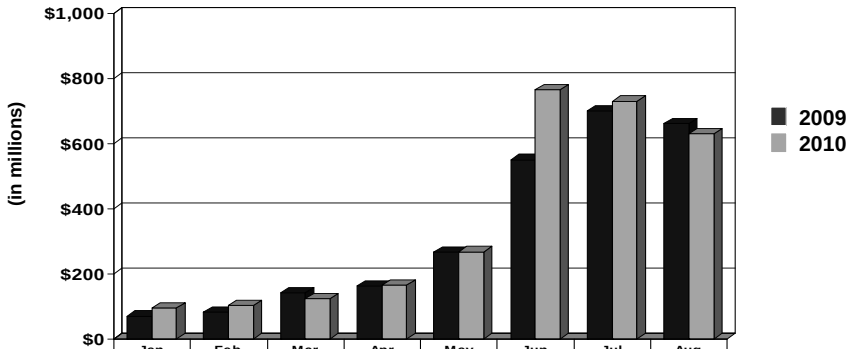
2010 state new adoption market to grow between 65% to 75% over 2009

- **Anticipate $825 million to $875 million opportunity**

Expect 4% to 6% growth for overall el-hi market

Overall el-hi market up 8.0% through August 2010

Total Basal and Supplemental K–12 Net Sales

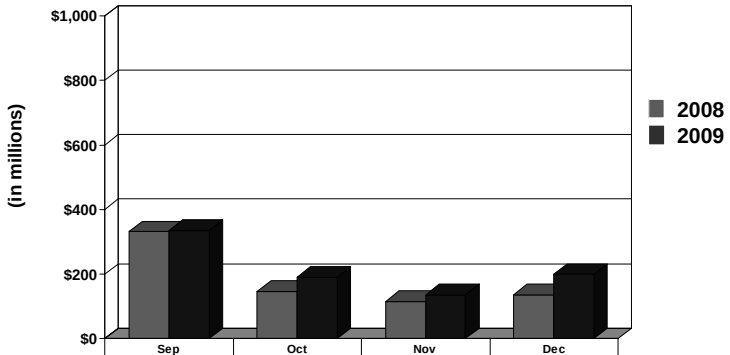


	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
2009	$69.7	$81.7	$141.2	$162.1	$266.3	$551.1	$700.7	$662.0
2010	$94.6	$102.3	$123.8	$164.2	$267.3	$766.0	$729.9	$629.6

Source: Association of American Publishers, AAP Monthly El-Hi Book Publishing Report, August 2010

El-hi industry sales grew in each of last four months of 2009

Total Basal and Supplemental K–12 Net Sales



	Sep	Oct	Nov	Dec
2008	$332.4	$147.1	$115.6	$136.2
2009	$335.6	$190.6	$136.9	$200.0

Source: Association of American Publishers, AAP Monthly El-Hi Book Publishing Report, Dec 2009

Outlook for September and 2010

Early indications that adoption market slowed in September

- **Even if industry sales remain flat in the last four months of 2010, the el-hi market could reach high end of 4% to 6% growth forecast for 2010**

McGraw-Hill had strong sales in September, especially in the adoption states

Seizing the opportunities in adoption states

Reading, literature, and math represent biggest revenue opportunities in 2010 state new adoption market

McGraw-Hill did well in very large K–5 reading market

- **Strong performances in Texas, California**
- **Expect to capture about 45% of K–5 reading market**
- **Expect to capture 32% of the K–12 reading and literature opportunity**

Seizing the opportunities in adoption states

Overall capture rate in K–12 math adoptions will be about 28%

- **School Group expects to win more than 40% of secondary school market with programs in Florida, California, Indiana, West Virginia, and Oklahoma**
- **Underperformance in Florida's K-5 math adoption**

Sales decline in open territory

Sales were down in 3Q for MHP and the industry

Reflects budget pressures in states such as:

- **New Jersey**
- **Michigan**
- **Illinois**
- **Missouri**

A seasonally slow period for the testing market

3Q is normally slow in testing market

2010 has additional impact of planned phase out of statewide custom contracts in Florida, Arizona and California

Procedural delays in signing some important contracts were a factor in the quarter

- **Issues will be settled in 4Q, a seasonally important period in the testing market**

Good year taking shape in U.S. higher education market

Federal government has increased spending on student aid by nearly 50% to $145 billion

- **Contributor to growth in U.S. higher education enrollments**
- **Market is benefiting for a second year in a row**

Indications of 4% to 5% growth in fall enrollments at colleges and universities

- **2009 enrollments increased by 7% to 8%**
- **At the beginning of 2010 we had not anticipated an increase this fall**

Growing digital opportunities in higher education

All our major higher education product lines produced year-over-year growth in the critical 3Q

- **Added impetus from double-digit growth of digital products and services**

Our lineup of homework management, assessment and tutoring products is gaining traction and expanding the addressable market

- **Through September, registrations have grown to 1.9 million, a 26% year-over-year increase**
- ***McGraw-Hill Connect*™ is our leader in this rapidly growing market**

Lecture capture—an important opportunity in higher education

Newly acquired Tegrity provides:

- **Scalable, automated lecture capture service — a core feature of *McGraw-Hill Connect***
- **The ability to replay lectures and review material presented in classroom anytime, anywhere**

More than 200 education institutions use Tegrity

A new search engine for customizing content

Newly launched McGraw-Hill Create provides:

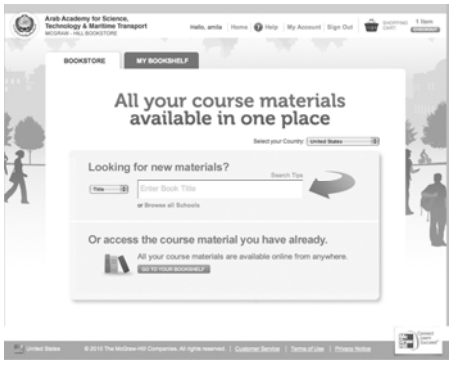
- **A Google-like search engine that enables instructors to customize quality content for courses**
  - **Can draw on 4,000 textbooks; 5,500 articles; 11,000 literature, philosophy, and humanities readings; and 25,000 business case studies**
- **How Create works:**
  1. **Instructor customizes text. Digital review copy available in less than an hour**
  2. **Printed review copies delivered in 3 to 5 days**
  3. **Students can purchase the e-book from the McGraw-Hill e-bookstore or printed copies at campus bookstore**
- **Instructor access to McGraw-Hill Create content through Blackboard accounts**

A window into our future

Expanding in digital and international markets

New, custom McGraw-Hill Create site for the Arab Academy for Science, Technology and Maritime Transport in Egypt

- **30 titles will be delivered to students using institutionally purchased access codes**
- **Six titles delivered as e-books for testing the student experience with a new e-reader**



New custom site for Rotterdam School of Business in The Netherlands

- **Underscores McGraw-Hill's global content**

What happens when a digital model replaces the legacy model

Connecting content and managing digital assets globally—a powerful combination

With McGraw-Hill Create, we are not supplying physical products, which means:

- **No printing and binding costs**
- **No inventory or warehousing costs**
- **No shipping charges**
- **No returns**
- **No used books**

Tracking the digital transition in professional markets

We are seeing an acceleration of online ordering

Our e-book sales through major e-book retailers to consumers have nearly tripled in 2010

- **More than 5,000 McGraw-Hill professional titles are available as e-books**

Outlook for higher education

4Q 2010 will be challenging, even with rapid growth of digital products and services

- **We had significant upswing in operating profits in 2009 based on:**
  - **Surge in second semester orders in the U.S. higher education market**
  - **Improved results in professional and international markets**
- **Difficult to predict timing of second semester ordering in higher education**

U.S. higher education market expected to grow 8% to 10% in 2010

Outlook for elementary-high school

Factors in 4Q elementary-high school market:

- **Pent up demand in el-hi market, but budget pressures continue to constrain school district spending in many regions**
- **Arrival of new federal funds could be a positive factor**
- **School Education Group is working on a large number of large basal adoptions in the open territory**
- **Also working on excellent fourth-quarter opportunities for intervention products**
- **Federal funding will play a part in some of these purchases but large district orders are paid for with a blend of funding sources, so it is difficult to predict what will materialize**

2010 outlook for McGraw-Hill Education

Revenue: Still expect low single-digit increase

Improved operating margin forecast: Now expect improvement of 200 basis points to 14%

- **Previously forecasted flat margins**

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Financial Services

McGraw-Hill Education

Information & Media

3Q 2010 results at Information & Media

Revenue	**(4.7%) to $227.8 million**
	• **+5.1% excluding divestiture of *BusinessWeek***
	• **Business-to-Business Group: (7.1%) to $204.1 million +3.3% excluding *BusinessWeek***
	• **Broadcasting Group: +23.5% to $23.6 million**
Operating Profit	**Increased 55.1%, or $16.3 million, to $45.8 million**
Operating Margin	**20.1% vs. 12.4% in 3Q 2009**

3Q results at Business-to-Business Group

Demand for Platts' data and information products continues to drive strong growth in U.S. and international markets

- **More than 60% of Platts' revenue comes from outside the U.S.**

Platts: Expanding coverage, new price assessments

Continuing to expand coverage of refined petroleum markets in U.S., Europe, and Asia

Creating new price assessments in gasoline, fuel oil, and naphtha, a raw material for gasoline

Expanded suite of daily spot price assessments to include alumina, a mineral produced from bauxite ore and used to make aluminum

Began producing new price assessments in the India coal market to address needs of power producers, coal traders, and ship brokers

3Q results at Business-to-Business Group

Softness in construction

- **Smaller regional contractors hardest hit by declining activity in construction market**

J.D. Power and Associates

- **Weakness in global automotive business offset improvement in the non-auto market**

Broadcasting: Improvement in 3Q results

3Q: Revenue increased 23.5% to $23.6 million

- **Improved national and local time sales**
- **Increase in political advertising**
  - **Attracting significant ad dollars in Colorado for the contest for governor, a heated race for a Senate seat, and issue-related advertising**

Outlook for 2010: Information & Media

Summary for 2010:

- **Revenue: Still expect mid single-digit decline**
  - **Excluding *BusinessWeek* divestiture, revenue will increase in the mid single-digit range**
- **Operating margin is improving: Now expect mid- to high-teens**
  - **Previously anticipated operating margin in the mid-teens**

Outlook for 2010: The McGraw-Hill Companies

Improved EPS guidance: Now expect earnings per diluted share guidance in the $2.60 to $2.65 range

- **Expect to achieve high end of range**
- **New guidance excludes $0.02 of one-time gains from divestitures, but includes dilution of $0.02 from acquisitions**

The McGraw-Hill Companies

Robert J. Bahash

Executive Vice President and Chief Financial Officer
The McGraw-Hill Companies

The cost of recent acquisitions

Expect to spend approximately $360 million on acquisitions and a recent equity investment

- **TheMarkets.com's research and estimates business for Capital IQ**
  - **2010: Dilution of $0.01 in 3Q and $0.01 in 4Q**
  - **2011: Expected to be accounting and cash flow accretive**
    - **Expected to generate approximately $60 million in revenue**
    - **Anticipate $15 million in intangible amortization**
- **Tegrity, a lecture capture service, becomes part of the Higher Education, Professional and International Group**
- **Pipal Research for CRISIL (expected to close in 4Q)**
- **Equity investment in Ambow Education, a leading provider of educational and career enhancement services in China**

Three divestitures in 3Q 2010

McGraw-Hill Education

- **Divested a small secondary school business in Australia**

CRISIL

- **Divested a 7% equity interest in the National Commodity and Derivatives Exchange of India to comply with local regulations**
  - **We continue to maintain 5% ownership**
- **Divested remaining 10% interest in Gas Strategies Group**
  - **90% interest was sold in December 2008**

Accounting for 3Q divestitures

McGraw-Hill Education

- **3Q divestiture generated a $3.8 million pre-tax gain**

CRISIL divestitures generated $7.3 million in pre-tax gains

- **Since CRISIL is a non-wholly owned subsidiary, part of the gain is deducted for purposes of calculating EPS**
- **$2.3 million represents the post-tax portion of the gain which is attributable to the minority owners of CRISIL and is shown as a component of "net income attributable to noncontrolling interests"**

Share repurchase: Back in the market

3Q 2010: Repurchased 2.2 million shares for a total cost of $69 million

- **Average price: $31.14 per share**

YTD 2010: Repurchased 8.7 million shares for a total cost of $255.8 million

- **Average price: $29.37 per share**

8.4 million shares remain in the 2007 program authorized by the Board of Directors

Update on diluted weighted average shares outstanding (WASO)

3Q 2010: 309.3 million shares

4.4 million share decline compared to 3Q 2009

- **Primarily due to full impact of 2Q 2010 share repurchases**

3.9 million share decline from 2Q

- **Reflects full impact of 2Q share repurchases and weighted impact of 3Q share repurchases**

Fully-diluted shares at end of 3Q 2010: Approximately 308 million shares

From net debt to a net cash position in 3Q

Net cash and short-term investments:

- **As of September 30: $157.7 million**

In 3Q, shifted from 2Q's $53 million net debt position

- **Primarily driven by strong free cash flow, partially offset by funding for acquisitions and share repurchases**

Cash and short-term investments:

- **3Q 2010: $1.356 billion**

Gross debt: Approximately $1.2 billion

- **Comprised of long-term unsecured senior notes**
- **No commercial paper outstanding**

Outlook for free cash flow in 2010

3Q 2010: $552 million

YTD 2010: $651 million versus $507 million for same period last year

- **$144 million increase from prior year**
  - **Primarily due to stronger operating results and a continuing focus on asset management**

2010: Now expect free cash flow in excess of $700 million versus previous guidance of $600 million to $650 million

- **Improvement driven by stronger operating results, reduced capital investment projections, and more favorable working capital than previously anticipated**
- **2009 full-year free cash flow was $770 million**

Outlook for pension plan funding

3Q 2010: We made a $14 million discretionary contribution

4Q 2010: We anticipate making an additional discretionary contribution

- **Potentially in the range of $50 million**

3Q expense savings at McGraw-Hill Education

3Q 2010: Adjusted expenses roughly flat, declining 0.1%

YTD 2010: Adjusted expenses declined 1.3%

Benefited from:

- **Merging of publishing operations in 2009**
- **Reduced expenses due to planned phase out of statewide, low-margin custom contracts in California, Florida and Arizona**
- **$15 million decline in amortization of prepublication costs**

Offset by:

- **Increases in selling and marketing costs for the state new adoption opportunities**
- **Continued digital investments**

2010 margin guidance for McGraw-Hill Education

Now expect 200 basis point margin improvement

- **Versus previous guidance of flat margins**

3Q expenses at Financial Services

3Q 2010: Adjusted expenses increased 13.3%
- **Increased 12.8%, at constant currencies**

YTD 2010: Adjusted expenses increased 10.1%
- **Increased 9.3%, at constant currencies**

3Q and YTD increases driven by increased salaries and occupancy costs, primarily due to international hires, and higher incentive compensation

2.7% increase in Financial Services' 3Q expenses due to:
- **$5 million in incremental expenses from TheMarkets.com acquisition**
- **$5.4 million in additional costs related to regulatory and compliance initiatives**

Outlook for 4Q expenses at Financial Services

4Q 2010: Expect an increase comparable to 3Q in costs related to regulatory and compliance efforts
- **Still projecting $15 million in additional full-year costs**

How stock-based compensation affected Financial Services

2010: Due to stronger operating results, we now expect an approximate $40 million increase in MHP's stock-based compensation

- **Previously expected a $30 million increase versus 2009, due to the three-year earning and vesting period, which is off a depressed base**
- **Majority of 2010 increase was realized in 3Q, as anticipated, due to particularly depressed levels in 3Q 2009**

3Q 2010: $10.6 million increase in Financial Services' stock-based compensation

2010 expense guidance for Financial Services

Now expect Financial Services' margin to decline by approximately 150 basis points

- **Implies 9% to 10% increase in expenses, compared to previous guidance of 7% to 8% increase**
  - **Increase is largely driven by TheMarkets.com acquisition**

3Q expense savings at Information & Media

3Q 2010: Adjusted expenses declined 13.1%

YTD 2010: Adjusted expenses declined 17.4%

Factors influencing decline:

- **3Q 2010: Divestiture of *BusinessWeek* reduced 3Q revenue by $22 million and expenses by $32 million, for a positive profit impact of approximately $10 million**
- **YTD 2010: *BusinessWeek* divestiture reduced revenue by $78 million and expenses by $111 million, for a positive profit impact of $33 million**
- **4Q 2010: *BusinessWeek* divestiture is expected to reduce revenue by $22 million and expenses by $27 million, for a positive profit impact of $5 million and full-year savings of $38 million**

2010 expense guidance for Information & Media

2010: Expect adjusted expenses to decline in mid teens versus previous guidance of a decline in the low teens

2010 outlook for corporate expenses

3Q 2010: $44.4 million

- **$16.5 million increase compared to 3Q 2009**
  - **Primarily driven by increased incentive compensation compared to lower levels in 2009 and normal increases due to stronger operating results, as well as increased excess vacant space**

2010 outlook for corporate expenses

Making progress in reducing excess space

- **We have finalized one agreement to sub-lease excess space in New York; several promising inquiries regarding additional space**
- **Because we are sub-leasing at a lower rate than we are paying, accounting rules require us to take a one-time charge for the difference between the present value of payments we will receive versus payments to be made over the term of the lease**
- **New EPS guidance excludes this one-time charge since we are still finalizing the accounting**

2010: Expect $30 million to $35 million increase versus previous guidance of a $25 million to $30 million increase

- **Increase is due to additional incentive compensation accruals**

Outlook for net interest expense

3Q 2010: $19.3 million

- **Compared to $17.8 million in 3Q 2009 and $20.8 million in 2Q 2010**

2010: Expect full-year interest expense to be roughly comparable to 2009, which was $76.9 million

Outlook for effective tax rate

3Q 2010 and YTD: 36.4%

- **Unchanged from 2009**

2010: Expect a comparable rate

Reduction in 2010 prepublication investments

3Q 2010: $39.3 million

- **$5.4 million decrease versus 3Q 2009**

YTD 2010: $99.3 million

- **$30.4 million decrease versus prior year**

Outlook for prepublication investments

2010: We now expect approximately $160 million

- **Previous estimate of $195 million to $205 million**

Reduction is due to several factors:

- **Timing of adoption of Common Core Standards**
- **Re-evaluating several programs to enhance our digital offerings which has caused timing delays for a number of prepublication investments**
- **Continue to realize savings from combining core basal publishing operations with alternative basal and supplemental publishing operations**

Outlook for property and equipment expenditures

3Q 2010: $16.6 million

- **$1 million higher than 3Q 2009**

YTD 2010: $38.6 million

2010: Now expect $70 million to $80 million

- **Previous estimate of $90 million to $100 million**
- **Full year compares to $68.5 million in 2009**

Outlook for non-cash items: Amortization of prepublication costs

3Q 2010: $112.0 million

- **$15.2 million decrease versus 3Q 2009**

2010: Now expect $245 million to $250 million

- **Previous estimate of $260 million to $265 million**
- **Compared to $270 million in 2009**
- **Reflects recent lower level of investments**

Outlook for non-cash items: Depreciation

3Q 2010: $24.8 million

- **Compared to $26.0 million in 3Q 2009**

2010: Now expect to be slightly below last year, which was $113 million

Outlook for non-cash items: Amortization of intangibles

3Q 2010: $9 million

YTD 2010: $32 million

2010: Now expect to be closer to $50 million, reflecting impact of our recent acquisitions

- **Compared to previous estimate of $40 million**

Outlook for unearned revenue in 2010

3Q 2010: $1.1 billion

- **4.2% increase compared to 3Q 2009**
- **Increased approximately 5%, at constant foreign currency exchange rates and excluding impact of acquisitions and divestitures, compared to 3Q 2009**

Outlook for unearned revenue in 2010

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

- **3Q 2010: Low single-digit growth**
  - **Strong growth in ratings-related information products, S&P Indices, and Capital IQ**

While still small, McGraw-Hill Education is showing strong growth due to sales of digital products

2010: Expect mid single-digit growth

The McGraw-Hill Companies

3Q 2010 Earnings Call

October 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

3Q 2010 Earnings Call

October 26, 2010

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