

The McGraw-Hill Companies
4th Quarter 2012 Earnings Conference Call

Prepared Remarks
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Vice President, Investor Relations
The McGraw-Hill Companies

Good morning. Thank you for joining us this morning for The McGraw-Hill Companies' fourth quarter and full-year 2012 earnings call.

This morning we issued a news release with our results. I should comment there was a bit of confusion with some of the press reports coming out of that. I want to remind all the listeners that the McGraw-Hill Education business was reclassified as a discontinued operation. What that means is you are not going to see McGraw-Hill Education revenue in the revenue line. You see that the ultimate results, if you will, the profitability of McGraw-Hill Education in one line entitled Discontinued Operations. So hopefully, the media can straighten that out.

In today's earnings release and during the conference call we're providing adjusted financial information. This information is provided to enable investors to make meaningful comparisons of the Corporation's operating performance between periods and to view the Corporation's business from the same perspective as management's. The earnings release contains exhibits that reconcile the difference between the non-GAAP measures and the comparable financial measures, calculated in accordance with U.S. GAAP. The results also reflect the reclassification of McGraw-Hill Education as a discontinued operation, as I mentioned a moment ago.

Before we begin, I need to provide certain cautionary remarks about forward-looking statements. Except for historical information, the matters discussed in the teleconference 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-Ks, 10-Qs, and other periodic reports filed with the U.S. Securities and Exchange Commission.

We're aware that we do have some media representatives with us on the call. However, this call is for investors and we would ask that questions from the media be directed to Jason Feuchtwanger in our New York office at (212) 512-3151 subsequent to this call.

Now, I would like to turn the call over to Harold McGraw III, chairman, president and CEO of The McGraw-Hill Companies. Terry.

Harold McGraw III

Chairman, President and CEO
The McGraw-Hill Companies

Thank you, Chip. Good morning everyone. Thanks for being with us and welcome to today's conference call.

While we are excited about sharing our Growth and Value Plan accomplishments and the strong financial results delivered both in the fourth quarter and in the full year, we recognize that investors are keenly interested in receiving a thorough update concerning recent legal developments. Therefore, the normal sections that Jack Callahan, our chief financial officer, and I cover have been somewhat abbreviated.

So in addition to Jack Callahan, joining me on today's call you will also hear presentations from Ken Vittor, our General Counsel, and Doug Peterson, the President of Standard & Poor's Ratings. Ken will discuss the civil complaint we received last week from the Department of Justice and demonstrate that this and other state claims are entirely without factual or legal merit; and we will vigorously defend our Company, as we have successfully defended against more than 40 other financial crisis-related cases.

Doug Peterson will then discuss the ongoing changes that we have made and will continue to make to ensure the highest quality ratings. And, at the end of the call I will make a few summary remarks and then open it up for questions. So let's begin.

In September of 2011 we introduced our Growth and Value Plan. Today we are pleased to discuss the many achievements of this plan. There were four principal components of the Growth and Value Plan.

First, I told you that we would transform McGraw-Hill from a holding company into two focused, industry-leading, standalone operating companies: McGraw Hill Financial, focused on the global capital, commodities and commercial markets; and McGraw-Hill Education, focused on educational services and digital learning.

For McGraw-Hill Education, we found a more attractive path forward for shareowners in the form of a sale to Apollo Global Management for \$2.5 billion. All of the government approvals have been received and Apollo is securing their financing. We expect the deal to close in the first quarter.

Second, we discussed stepping up our focus on reducing costs and committed to reducing run rate costs by at least \$100 million. Today we are proud to announce that we have achieved \$175 million in yearly savings. The principal components of the savings come from redesigning the employee benefits plans, including a freeze of the U.S. pension plan, select headcount restructurings of approximately 670 employees within McGraw Hill Financial, and approximately 10% of the Education work force, and the migration of numerous accounting, IT and human resource work streams to world-class partners.

While McGraw Hill Financial will end up with some stranded costs, we estimate that approximately one-third of the savings will be realized by McGraw Hill Financial after taking into account these additional stranded costs.

Third, we committed to accelerating the pace of capital returned to shareholders. Here again, we delivered on our commitment. During 2011 and 2012 we spent \$1.8 billion and repurchased 41.5 million shares. And, importantly, we plan to continue our share repurchase activity in 2013. Jack Callahan will discuss that in a moment.

We also returned approximately \$1.3 billion to shareholders through dividends. Along with our normal quarterly dividend, we distributed a special dividend of \$2.50 per share in December of 2012, or approximately \$700 million. Most recently we increased our regular quarterly dividend by about 10%.

And lastly, we committed to investing for growth. Earlier this year we formed the S&P Dow Jones Indices joint venture. With some of the most widely followed and trusted brands in the index space, we believe this joint venture will prove to be of great value, not only to our customers but also to our shareholders.

In addition, during 2012 the Company acquired:

- QuantHouse, R² Financial Technologies, and Credit Market Analysis Limited to bolster our capabilities within S&P Capital IQ;
- Coalition Development Ltd. to add high-end analytics to CRISIL, that's our credit rating agency in India; and
- Kingsman SA, providing Platts with a springboard for growth into global agricultural commodities markets.

Now, turning to the business results, McGraw Hill Financial delivered for the full year 2012:

- 13% revenue growth,
- 24% adjusted operating profit growth, and
- 32% adjusted earnings per share growth.
- Our operating leverage and share repurchases amplified the earnings per share.

Standard & Poor's Ratings Services

Standard & Poor's Ratings Services ended an already solid year with a strong fourth quarter. Revenue for the segment grew 34%, with a 46% increase in domestic revenue and a 23% increase in international revenue. Adjusted segment operating profit increased 63% and the corresponding operating margin increased 750 basis points to more than 43%.

Continued low interest rates, the tightest spreads of the year, concerns about the fiscal cliff, and a surge in special dividends, all contributed to a very strong quarter of debt issuance.

For the full-year 2012, Standard & Poor's Ratings Services delivered double-digit growth for both revenue and adjusted operating profit. This was the second best worldwide Corporates and Governments issuance year on record at \$4.5 trillion and U.S. structured issuance increased more than 50%.

This chart shows a steady progression of increased issuance in the United States and, while a bit more erratic, a similar trend in Europe. The sequential fourth-quarter increase in U.S. issuance was predominately due to low treasury yields, low spreads, ample liquidity, and an abundance of dividend recapitalization deals.

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Beginning this quarter, S&P Capital IQ and S&P Dow Jones Indices will be reported as separate lines of business. We are going to do this to give investors added transparency into the growth and value creation for both businesses.

S&P Dow Jones Indices

So let me start with S&P Dow Jones Indices.

In the fourth quarter, organic revenue increased 5% and the addition of the Dow Jones index revenue brought total revenue to \$110 million. The principal driver of the organic revenue growth was a 28% increase in assets under management in exchange-traded funds linked to S&P indices to \$402 billion. Including the assets under management linked to Dow Jones indexes, assets under management increased 27% to \$466 billion.

Partially offsetting this growth was a decline in average daily volume for the major exchange-traded derivatives and over-the-counter derivative activity of almost 20%.

While the joint venture realized \$67 million of adjusting operating profit, \$50 million is retained by the Company as 27% of the profits are forwarded to our partners.

You can see the full-year figures on this slide as well. We are encouraged by the prospects for 2013. Through November, investors pulled \$119 billion from actively managed U.S. stock funds in 2012, the biggest yearly outflow since 2008, that's according to the latest data from Morningstar. Industry exchange-traded fund inflows reached a record \$191 billion in 2012, surpassing the \$169 billion inflow in 2008. We believe this strong trend of increased index investing will continue.

S&P Capital IQ

In the fourth quarter, S&P Capital IQ delivered top-line growth of 8%, of which 5% was organic. Two key offerings, S&P Capital IQ (within Desktop Solutions) and Global Data Solutions (within Enterprise Solutions) delivered double-digit revenue growth. These results were offset somewhat by declines in revenue from Equity Research and the continued planned migration away from TheMarkets.com.

Both S&P Capital IQ and RatingXpress delivered mid to high single-digit subscriber growth. RatingsXpress is now available on Xpressfeed. This will enable customers to receive updates every 15 minutes instead of only once or twice during the day.

Adjusted operating profit decreased 1% and there was a modest decline in the adjusted operating margin as the segment integrates and develops newly acquired technology and products from R², QuantHouse, and CMA into new S&P Capital IQ offerings.

For the full year, S&P Capital IQ revenue increased 9%, of which 7% was organic and adjusted operating profit increased 6%. Through the first six months of the year, adjusted operating profit increased 19%, but due to the acquisitions and the associated investment, profitability declined in the second half.

We have made great progress developing these new technologies. By the end of the first quarter we expect QuantLINK to be able to deliver low-latency data from every major exchange in North America, Europe, and Asia. In addition, we anticipate rolling out our new Portfolio Risk Analytics product in the second quarter.

Commodities & Commercial Markets

Now let me turn to the Commodities & Commercial Markets segment. Revenue growth in the fourth quarter was 9%, with international revenue up 21%. The leverage of this business is very evident as adjusted operating profit increased 27% and the margin increased 300 basis points to 22.7%.

Platts, J.D. Power, and Aviation Week drove fourth quarter revenue growth and offset declines in McGraw-Hill Construction. Margins, while up year-over-year, were down sequentially due to the Kingsman acquisition and technology investments in new products and capabilities.

For the full year, Commodities & Commercial revenue grew 9% and adjusted operating profit grew 40%. Both Platts and J.D. Power delivered record revenue. And, with the explosive growth that Platts has provided and the investor attention it has received this year, I don't think that I can continue to call it our "hidden" gem.

Now I would like to turn the call over to Jack Callahan, our chief financial officer, for additional detail on the financials and he'll also be going into the outlook for 2013. Jack.

Jack Callahan

Executive Vice President and CFO
The McGraw-Hill Companies

Thank you, Terry.

This morning I want to discuss three topics:

- First, now that Education has moved to discontinued operations, I want to baseline our McGraw Hill Financial results, including cash flow and our strong balance sheet position, which now form the starting point for future performance.
- Second, I will detail the one-time charges that were essential to separate and stand up the two companies. This will help investors better evaluate the underlying performance of McGraw Hill Financial.
- And lastly, I will provide our guidance and outlook for 2013 across our four lines of business, and for other selected financial items that are foundational to the future performance of McGraw Hill Financial.

Let me begin by comparing our previously consolidated McGraw-Hill Companies results, which include McGraw-Hill Education, to our new continuing business — McGraw Hill Financial.

As you can see from the slide, McGraw Hill Financial has achieved a 2010–2012 revenue CAGR of 11%, almost three times higher growth compared to The McGraw-Hill Companies. This growth is based largely on capital and commodity market participants who value the benchmarks, analytics and independent insights that McGraw Hill Financial provides. Reflecting this stronger revenue growth, McGraw Hill Financial has delivered a 2010-2012 adjusted earnings per share CAGR of 20%, a growth rate more than 50% higher when compared to our historical performance pre-separation.

It has taken a tremendous effort across the organization to establish two separate, industry-leading companies. Now we turn our focus across McGraw Hill Financial to provide market participants with valuable and essential services and to target more pronounced growth for both our shareholders and employees.

Let me review full-year results. McGraw Hill Financial's revenue grew 13% to \$4.45 billion, and adjusted segment operating profit grew 21%, with margins increasing 230 basis points to 35.7%. The margin expansion was driven by the benefits realized from our cost reduction initiatives and positive sales mix.

Adjusted unallocated expense grew 2% as an increase in incentives offset tight cost management. These unallocated expenses include approximately \$20 million to \$25 million of stranded costs due to the divestiture of McGraw-Hill Education.

The tax rate declined 130 basis points while non-controlling interests grew \$33 million, both primarily due to the impact of the S&P Dow Jones joint venture.

For the year, adjusted net income from continuing operations grew 24% while adjusted earnings per share from continuing operations grew even faster with 32% growth to \$2.75. Share count dropped from 304 million shares to 285 million shares due to our share repurchase program. Overall, 2012 was a strong base year for McGraw Hill Financial and one on which we plan to build for 2013.

Now, I will discuss the more recent fourth quarter results.

McGraw Hill Financial delivered excellent growth well ahead of full-year results with a 22% increase in revenue and a 45% increase in adjusted segment operating profit. As Terry mentioned, Standard & Poor's Ratings led the growth, benefiting from the strong debt issuance trends, especially when compared to the modest market activity of a year ago.

Adjusted unallocated expense grew 7%, primarily due to increased incentive compensation due to the strong overall operating results.

Our tax rate declined 150 basis points versus prior year, generally in line with the full year, primarily due to the impact of the S&P Dow Jones Indices joint venture. Offsetting this decline was a \$17 million increase in noncontrolling interests, largely representing CME's share of the joint venture profits.

Adjusted net income grew 52% while adjusted earnings per share grew 56% to \$0.72. Overall, a solid finish to a strong year.

Now let me just take a moment to run through the one-time charges we have excluded from adjusted earnings:

- McGraw Hill Financial incurred a net \$25 million in one-time charges in the fourth quarter and \$174 million for the full year. Excluding the \$52 million non-cash benefit from a change in the vacation policy, the one-time costs were \$77 million in the fourth quarter and \$226 million for the full year. Going forward, Growth and Value Plan costs and related restructuring actions are anticipated to ramp down over the first half of 2013.
- With regard to discontinued operations, McGraw-Hill Education incurred one-time cash charges of \$61 million and a \$497 million intangible impairment at School Education, which we indicated we would incur in November 2012 when we announced we had signed an agreement to sell McGraw-Hill Education to Apollo. There was also a benefit from the company-wide change in the vacation policy in the discontinued operations.

Now, let me turn to cash flow and the balance sheet:

- Free cash flow before the payment of the regular dividend was \$626 million in 2012. The decline of \$183 million versus 2011 was entirely driven by Growth and Value Plan expenses and \$150 million pension contribution made in the fourth quarter of 2012.
- We finished the year with \$761 million in cash and short-term investments and over \$1.2 billion in debt: \$800 million long-term and \$457 million short-term. The short-term debt consists of commercial paper which will be paid down with the proceeds from McGraw-Hill Education. Overall, we have an exceptionally strong balance sheet and we intend to maintain it going forward to both build the business and, as appropriate, return cash to shareholders.

Now let me turn to 2013 guidance. As a reminder, our guidance is based on 2012 adjusted results from continuing operations. First the lines of the business:

- We expect S&P Ratings to grow high single-digits, both top and bottom line, reflecting the continued favorable issuance environment. Given the strong finish this year, we obviously expect the comparisons to 2012 will become more challenging in the second half of 2013.
- For S&P Capital IQ, we expect mid single-digit revenue growth; but relatively flat profits given continued investments. We do anticipate profit growth in the back half of the year, as the first half of the year is likely to be below year ago as we cycle through the acquisitions, particularly QuantHouse, and targeted technology investments.
- For S&P Dow Jones Indices, we expect approximately 20% top- and bottom-line growth, benefitting from the full-year benefit of the joint venture. We expect organic growth to be in the mid-single digits, although results are always a bit of a challenge to predict given the on-going volatility in the market.
- For Commodities & Commercial, we expect high single-digit revenue growth with continued margin expansion targeting low double-digit profit growth.

Taken in total, we expect high single-digit revenue and segment operating profit growth for McGraw Hill Financial.

Let me provide additional detail on selected financial items:

- Unallocated expense, which was \$202 million in 2012, should decline by \$10 million-to-\$15 million in 2013, although this line can be impacted by swings in incentive compensation.
- We expect net interest expense to be approximately \$35 million-to-\$40 million, versus \$81 million in 2012. This decline reflects the pay down of \$400 million in 5.375% senior notes in November 2012 and the anticipated pay down of our existing short-term debt once the funds from the sale of McGraw-Hill Education are received. We will also earn interest on the \$250 million of 8.5% senior unsecured notes which will be received as part of the sale of McGraw-Hill Education to Apollo.
- We expect our adjusted tax rate to be approximately 35% in 2013, a 100 basis-point decline from 2012 reflecting a full-year's benefit of the S&P Dow Jones Indices joint venture and other on-going tax planning initiatives.
- We expect noncontrolling interests to be \$90 million-to-\$100 million versus \$52 million in 2012 largely due to the full-year impact of the joint venture.
- Capital expenditures are anticipated to be approximately \$125 million.
- Free cash flow should continue to be strong and is expected to be in the range of \$650 million-to-\$700 million before the payment of the basic dividend.

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Summing up, we expect another strong year in 2013 with revenue growth in the high single-digits and earnings per share of \$3.10 to \$3.20—approximately 15% growth. Please note our guidance does include the impact on continued share repurchase. Once we receive the proceeds from the sale of Education, we anticipate resuming our share repurchase program, subject to market conditions. As a reminder, 16.9 million shares remain in our current share repurchase authorization.

Now let me turn the call back over to Terry.

Harold McGraw III

Chairman, President and CEO
The McGraw-Hill Companies

Thanks, Jack.

As you heard from Jack's review, 2012 was just a terrific year for McGraw Hill Financial. We continue to generate substantial amounts of cash, and our 2013 guidance paints a picture of continued growth.

With that, let me now ask Ken Vittor, McGraw-Hill's General Counsel, to address the recent legal developments and how we plan to defend our Company against a civil complaint that we just received last week from the Department of Justice.

Kenneth Vittor

Executive Vice President and General Counsel
The McGraw-Hill Companies

Thank you, Terry.

I want to describe the legal actions that were brought last week by the Civil Division of the United States Department of Justice, as well as a number of cases filed just after the DOJ announcement by state Attorneys General. As Terry said at the beginning of the call, the Company does not believe the cases have legal or factual merit and we intend to defend the Company vigorously — as we have successfully defended against more than 40 other financial crisis-related cases.

Last Monday, February 4, the Civil Division of the United States Department of Justice filed a civil lawsuit against The McGraw-Hill Companies and Standard & Poor's Financial Services LLC in Federal Court in California. No other companies are named as defendants in the case, nor are there any individuals who have been named as defendants.

The case was brought under the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 — known as the FIRREA statute. This is a federal statute that permits the Department of Justice to seek civil penalties if it can establish that violations occurred of a number of other statutes and that the violations "affected" a federally-insured financial institution. In this case, the government is alleging that violations of the mail fraud, wire fraud and bank fraud statutes occurred and that they affected financial institutions, including Western Corporate Federal Credit Union (known as "WesCorp"), Citibank and Bank of America.

The government alleges that the Company violated these statutes when it issued its forward-looking rating opinions concerning creditworthiness, or confirmed those opinions, on 33 collateralized debt obligations (known as “CDOs”) in 2007. The government claims that, in preparing its ratings, S&P knowingly failed fully to take into account risks associated with residential mortgage-backed securities (known as “RMBS”) that were being used as collateral for the CDOs.

The government also claims in its lawsuit that S&P’s statements about its independence and objectivity were false because, during the years 2004 to 2007, S&P allegedly made adjustments or delayed adjustments to the models it used to rate RMBS and CDOs in order to preserve market share, at the expense of analytical accuracy.

The government says that it is seeking more than \$5 billion in penalties. This figure is based on losses that were allegedly suffered by federally-insured financial institutions that purchased CDOs rated by S&P in 2007.

The Complaint includes specifics regarding only about \$500 million of the \$5 billion the government is seeking. The government has not explained where the other \$4.5 billion in alleged losses come from. The revenues S&P earned in connection with the CDOs identified in the Complaint were less than \$15 million. About half of the par value of the CDOs identified in the Complaint relates to losses that allegedly affected Citibank and Bank of America after purchasing CDOs that they, or their affiliates, had underwritten or arranged.

The penalties that the government is seeking in this case are based on its position that they are not required to show that the losses were proximately caused by S&P’s rating opinions.

The government cannot recover any penalty, of course, unless it first proves that a violation of one of the statutes occurred. S&P believes that, to do this, the government is required to prove:

- That S&P rating committees did not believe the ratings that S&P gave to the CDOs at the time these rating opinions were issued,
- That S&P assigned those ratings with the intent to defraud the investors which purchased those CDOs, and
- That S&P’s rating opinions “affected” a federally-insured financial institution.

As I said at the beginning of my remarks, the Company intends to defend this lawsuit vigorously. We believe that the complete record does not support the government’s theory:

- S&P did not make changes to its models that it believed were not analytically justified. Nor did S&P refuse to make changes that had been determined to be analytically justified by a committee.
- The culture at S&P has always been characterized by vigorous debate and robust analysis. Although there may have been opinions within the Company, even very strongly-held opinions, that did not carry the day, this is not evidence of fraud.

The government’s claim that S&P did not fully take into account the risk of RMBS that were going into CDOs in 2007 is also, we believe, a hindsight criticism of S&P’s rating opinions during this turbulent time, which we don’t think can support a fraud claim.

The Complaint details information about deteriorating residential mortgages that S&P had available to it in February, March, April, May, June and July of 2007. This data, by the way, about the rate at which residential mortgages were becoming “delinquent” is the same data that was available to the rest of the

market and to the government. It is the same data that the Federal Open Market Committee was reviewing during 2007, in the transcripts that were made public a few weeks ago.

What the Complaint leaves out is all of the work being done by S&P in each of those months to understand that data and to make good faith judgments about what it might mean for the securities that S&P rated. In fact, S&P reviewed this data every month and developed more stressful tests to help it update its opinion of any RMBS that was exposed to these delinquent mortgages. As a result, S&P took an increasing number of negative rating actions — CreditWatch actions and downgrades — in February, March, April, May, June and July 2007, even before its large-scale rating actions in mid-July.

These negative rating actions had a direct and automatic impact on S&P's CDO ratings. If the RMBS that was put on CreditWatch, or downgraded, was in a CDO, or was being considered for a new CDO, S&P's CDO rating took that negative status into account and required additional protection for the CDO.

Unfortunately, these actions turned out to be insufficient in anticipating the great speed, depth and duration of the housing crisis that ultimately came to pass. But the Company does not believe the government can prove that this failure — common to nearly everyone at the time — was the product of intentional misconduct by anyone at S&P. Significantly, the government's complaint also ignores the fact that all of the CDOs that it identifies received a virtually identical rating from at least one other rating agency.

The Company has publicly responded to the government Complaint in two press releases last week. These press releases, and additional information about the government's case, is also available on S&P's Web site.

Following the announcement of the DOJ lawsuit, 13 additional states and the District of Columbia filed lawsuits against McGraw-Hill and S&P. These lawsuits generally follow the pattern of the lawsuits that were already pending in Connecticut, Illinois and Mississippi, although there are some differences among them. One state, California, is suing for losses incurred by two state pension funds under a statute, the California False Claims Act, that potentially allows for treble damages. The lawsuits in Connecticut and Mississippi were brought against both S&P and Moody's. It is possible that additional states will file similar lawsuits.

Generally speaking, these cases are being brought under each state's consumer protection law and focus on S&P's statements regarding the independence and objectivity of its ratings practices.

The Company has been vigorously defending these lawsuits. It is the Company's position that its statements about objectivity and independence cannot be the basis for a claim of deception. The Company has recently received a very favorable ruling on this issue from the United States Court of Appeals for the Second Circuit. In addition, the United States Court of Appeals for the Sixth Circuit recently dismissed a civil lawsuit brought by the Ohio Attorney General against S&P, Moody's and Fitch arising from its pension funds' purchase of RMBS rated by the three rating agencies.

In short, we believe that we have strong defenses in the DOJ and the state lawsuits and expect to prevail.

Now, let me turn the call back to Terry.

Harold McGraw III

Chairman, President and CEO
The McGraw-Hill Companies

At this point I am going to turn the call over to Doug Peterson, President of Standard & Poor's. Doug will provide a review of the actions S&P has taken to strengthen ratings since the financial crisis began in 2007 which is an ongoing and continuous process as markets change. Doug.

Doug Peterson

President, Standard & Poor's

Thank you, Terry. I appreciate the opportunity to be here this morning.

It's been nearly 18 months since I joined Standard & Poor's as President. This follows a 25-year career with Citibank where I most recently served as chief operating officer of Citibank, N.A. Over my career at Citi, I worked with S&P in various ways and was impressed by the rigor, knowledge and professionalism of S&P's analysts. Since joining S&P, I've developed an even greater appreciation of the tremendous talent we have in our organization. Obviously we are facing a significant legal challenge but I am confident that this team of professionals will not let it distract them from the task at hand. They are an extremely committed group who care about the quality of the ratings they provide and are continually focused on how they can do their jobs even better.

Today I'd like to talk with you about both the past and the future. It's important for you to know the many changes that have taken place at S&P and what's in store going forward.

To begin, let me say that we have taken to heart the lessons learned from the financial crisis and made extensive changes that reinforce the integrity, independence and performance of our ratings. We brought in new leadership, instituted new governance and enhanced our risk management.

Long before the financial crisis, we had in place policies and procedures to manage potential conflicts of interest, including:

- A separation of analytic and commercial activities and a ban on analysts from participating in fee negotiations.
- And analyst compensation has never been based on the volume of securities they rate or the type of ratings they give out.

Since 2008, we have taken many steps to enhance our ability to provide independent, high-quality ratings. They can be summarized under four headings:

- First, we reinforced our analytical independence by rotating the analysts assigned to a particular issuer and by enhancing analyst training on issuer interactions.
- Second, we updated our methodologies and models. We reassessed the principles underlying the way we rate all debt. Based on what we learned, we changed the way we rate almost every type of security that was affected by the financial crisis. For all mortgage-related securities, we significantly increased the credit enhancement required to achieve a AAA rating and, in general, have made it more difficult for securities to achieve high ratings. We also strengthened our risk management by instituting a Model Validation Process independent of any commercial consideration and we brought in a new chief risk officer.

- Third, we enhanced our global connectivity on interpreting and responding to credit conditions. Specifically, we established what we call Credit Conditions Committees around the world to identify and monitor risks to the interconnected global credit systems across all asset classes.
- Lastly, we bolstered our governance, compliance and risk functions. We strengthened our governance structure to meet the requirements of the newly instituted regulatory regimes in the U.S., Europe and rest of the world. In doing so, we increased staffing across all independent control functions.

All told, S&P invested approximately \$400 million in the systems, governance, analytics and the methodologies we use to rate securities.

One topic that we have given a great deal of thought to is our business model, in which the issuer pays for the rating. Along with many others, we have studied the different model options. We believe the issuer pay model is not just best for our business, but also best for the market. It is the only business model that provides a level playing field in terms of disclosure. And transparency is critical to well-functioning markets. Anyone can go to our Web site and see how we rate a company, country or security free of charge. That's not the case with the subscriber model, which allows only those who pay to see a rating and promotes selective disclosure.

We have learned many valuable lessons from the regrettable fact that we did not anticipate the 34 percent collapse in U.S. housing prices and we continue to find ways to improve our ratings and our business.

Toward that end, three months after I joined S&P we created a new organizational structure to enable us to better focus on three priorities to drive growth and consistency around the globe.

- The first is *ratings excellence*. We strive to differentiate S&P by being the premier source of global benchmarks and research that help our customers identify, measure and manage credit risk.
- The second is *service excellence*. We are sharpening our focus on investors and other market participants by enhancing the way we serve and respond to them.
- And lastly, we are *delivering with discipline*. We are executing with operational excellence through the efficient use of our resources and an even stronger commitment to quality, control and compliance.

To support these three priorities, we realigned several areas and brought in new leadership to strengthen the management team.

- These include Don Howard, who joined us last June as S&P's chief risk officer. Don brings years of risk management experience from a wide variety of financial institutions around the globe.
- To improve our thought leadership and macroeconomic forecasting, we welcomed Paul Sheard as S&P's chief global economist. Paul is an internationally known economist, thinker, and author.
- To strengthen the management oversight of our analytical units, we appointed Paul Coughlin as head of global analytics to ensure that we have common policies, processes and platforms around the world. In addition, Paul assumed worldwide responsibility for our structured finance business.

As we look forward, we see an even greater role for independent rating agencies to sustain global economic growth. Banks are deleveraging and rebuilding their balance sheets while also complying with new regulatory requirements. That means the debt capital markets are going to have to provide more of the funding for public and private sector growth. Emerging market countries are developing credit cultures in order to finance schools, roads, energy and hospitals where our ratings facilitate access to

more investors. And the outlook for both new issuance and refinancing is positive. Overall, these are favorable trends for the global economy and for our business.

Standard & Poor's has a long history of serving markets and investors. We trace our origins back to 1860 when Henry Varnum Poor published a book called "The History of Railroads and Canals in the United States." His goal was to help investors better understand the securities they were buying. While we always have to work through challenges, we see excellent opportunities in our business by continuing to serve markets and investors. We look forward to discussing these opportunities with you in the days ahead.

And with that, I will pass it back to Terry.

Harold McGraw III

Chairman, President and CEO
The McGraw-Hill Companies

Thanks Doug.

Doug, in your last point you're talking about some of the infrastructure. Between now and 2030 we are going to have to raise worldwide some \$70 trillion in infrastructure financing, which is largely going to be coming from the capital markets and bringing a lot of enhancements. So it is very exciting on that part.

Before we go to questions let me just make a few summary remarks:

- First, McGraw Hill Financial had a very strong year with 13% revenue growth and 32% growth in adjusted diluted earnings per share.
- Second, our new guidance demonstrates our expectation for continued growth in 2013.
- Third, we delivered tremendous value through the execution of the Growth and Value Plan, which included:
 - the sale of McGraw-Hill Education which should close in the first quarter,
 - the achievement of \$175 million of cost reductions,
 - the distribution of \$3.1 billion through share repurchases and dividends, and
 - the investment in numerous acquisitions to add to the future growth of the Company.

Simply put, 2012 was an outstanding year and we look forward to continuing that progress in 2013. As we head into 2013, we are confronted with new litigation. We will put the best people on the case and defend the interests of our customers and shareholders. Rest assured...we will vigorously defend against these erroneous claims.

Thank you.

To access the accompanying slides online, go to:

<http://investor.mcgraw-hill.com/phoenix.zhtml?c=96562&p=irol-EventDetails&EventId=4892269>

“Safe Harbor” Statement Under the Private Securities Litigation Reform Act of 1995

This presentation contains forward-looking statements, including without limitation statements relating to our businesses and our prospects, new products, sales, expenses, tax rates, cash flows, prepublication investments and operating and capital requirements that are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are intended to provide management’s current expectations or plans for our future operating and financial performance and are based on assumptions management believes are reasonable at the time they are made.

Forward-looking statements can be identified by the use of words such as “believe,” “expect,” “plan,” “estimate,” “project,” “target,” “anticipate,” “intend,” “may,” “will,” “continue” and other words of similar meaning in connection with a discussion of future operating or financial performance. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict; therefore, actual outcomes and results could differ materially from what is expected or forecasted. These risks and uncertainties include, among others:

- worldwide economic, financial, political and regulatory conditions;
- currency and foreign exchange volatility;
- the effect of competitive products and pricing;
- the level of success of new product development and global expansion;
- the level of future cash flows; the levels of capital and prepublication investments;
- income tax rates;
- restructuring charges;
- the health of debt and equity markets, including credit quality and spreads, the level of liquidity and future debt issuances;
- the level of interest rates and the strength of the capital markets in the U.S. and abroad;
- the demand and market for debt ratings, including collateralized debt obligations, residential and commercial mortgage and asset-backed securities and related asset classes;
- the state of the credit markets and their impact on Standard & Poor’s Ratings and the economy in general;
- the regulatory environment affecting Standard & Poor’s Ratings and our other businesses;
- the likely outcome and impact of litigation and investigations on our operations and financial condition;
- the level of merger and acquisition activity in the U.S. and abroad;
- continued investment by the construction, automotive, computer and aviation industries;
- the strength and performance of the domestic and international automotive markets;
- the volatility of the energy marketplace;
- and the contract value of public works, manufacturing and single-family unit construction.

In addition, there are certain risks and uncertainties relating to our previously announced Growth and Value Plan which contemplates a separation of our education business, including, but not limited to, the impact and possible disruption to our operations, the timing and certainty of completing the transaction, unanticipated developments that may delay or negatively impact the transaction, and the ability of each business to operate as an independent entity upon completion of the transaction. We caution readers not to place undue reliance on forward-looking statements.