

The McGraw-Hill Companies

2Q 2012 Earnings Call July 26, 2012

PRESENTERS

Harold McGraw III
Chairman, President and CEO

Jack Callahan
Executive Vice President and CFO

Chip Merritt
Vice President, Investor Relations

Comparison of Adjusted Information to U.S. GAAP Information

This presentation includes adjusted financial information. This information is provided to enable investors to make meaningful comparisons of the Company's operating performance between periods and to view the Company's business from the same perspective as management's.

The earnings release dated July 26, 2012 contains exhibits that reconcile the differences between the non-GAAP measures and comparable financial measures calculated in accordance with U.S. GAAP. As noted in the Form 10-Q filed for the period ending June 30, 2012, The McGraw-Hill Companies, Inc. has classified its Broadcasting Group as a discontinued operation resulting in revisions to its June 30, 2011 consolidated balance sheet.

“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 level of merger and acquisition activity in the U.S. and abroad;
- the level of funding in the education market;
- School Education Group's level of success in adoptions and open territories;
- enrollment and demographic trends;
- the strength of School Education Group's testing market, Higher Education, Professional and International's publishing markets and the impact of technology on them;
- 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 tax-free spin-off 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 spin-off, and the ability of each business to operate as an independent entity upon completion of the spin-off. We caution readers not to place undue reliance on forward-looking statements.

2

The McGraw-Hill Companies

Harold McGraw III
Chairman, President
and Chief Executive Officer

The McGraw-Hill Companies

3

McGraw-Hill

Q2 2012: Record Adjusted EPS

Growth and Value Plan: On Track for Separation by Year-End

McGraw-Hill Financial: Delivering Continued Growth

McGraw-Hill Education: Cost Savings Drive YOY Improvement

4

Record 2nd Quarter Adjusted EPS

The McGraw-Hill Companies

(\$ in millions)	2Q 2012	2Q 2011	Change
Revenue	\$1,547	\$1,557	(1%)
Adj. Operating Profit	\$407	\$358	+14%
Adj. Diluted EPS*	\$0.85	\$0.68	+25%

* From continuing operations

Note: 2Q'12 adjusted results exclude \$42 million of one-time Growth & Value Plan expenses

• Drivers of second quarter profitability:

- Revenue growth at Commodities & Commercial and S&P Capital IQ / S&P Indices drove increased operating profit
- Cost reduction efforts contributed to margin expansion
- Share count reduction amplified EPS growth

5

McGraw-Hill

Q2 2012: Record Adjusted EPS

Growth and Value Plan: On Track for Separation by Year-End

McGraw-Hill Financial: Delivering Continued Growth

McGraw-Hill Education: Cost Savings Drive YOY Improvement

6

Growth and Value Plan: Significant Actions to Facilitate Separation

- Key management in place at McGraw-Hill Education including Buzz Waterhouse, president and CEO, and Pat Milano, CFO and chief administrative officer
- Form 10 filed
- Consolidated cost reductions accelerated in 2Q, with adjusted expenses decreasing 5% vs. 2Q 2011 and consolidated margins expanding
- Remain on track to deliver at least \$100 million in cost savings, on a run-rate basis, by year-end

7

Growth and Value Plan: Investing for Growth

- **Launched S&P Dow Jones Indices**

- Combination of two iconic brands will drive innovative, index-based solutions for global investors
- Joint venture should deliver annual revenue in 2013 of approximately \$500 million with highly attractive margins

**S&P DOW JONES
INDICES**

- **Acquired Credit Market Analysis Limited**

- Leading provider of clear, reliable OTC credit pricing and related information that adds another foundational benchmark capability to the portfolio

cma 

- **Acquisition of Coalition Development Ltd. announced**

- Provides high-end analytics, mainly to global investment banks



8

McGraw-Hill

Q2 2012: Record Adjusted EPS

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McGraw-Hill Financial: Delivering Continued Growth

McGraw-Hill Education: Cost Savings Drive YOY Improvement

9

Pro forma McGraw-Hill Financial

McGraw-Hill Financial (pro forma)

(\$ in millions)	2Q 2012	2Q 2011	Change
Revenue	\$1,073	\$1,020	+5%
Adj. Operating Profit	\$394	\$360	+9%
Adj. Operating Margin*	36.7%	35.3%	140 bps

NOTE: The pro forma results are informational and are not intended to represent what the results for the new McGraw-Hill Financial would have been had the spin-off occurred for the quarterly period ended June 30, 2012

* Excludes corporate expense

• 2Q highlights:

- All three segments within McGraw-Hill Financial delivered revenue growth
- Cost reductions added to operating profit

10

Pro forma McGraw-Hill Financial

McGraw-Hill Financial (pro forma)

(\$ in millions)	2Q 2012	2Q 2011	Change
Domestic Revenue	\$642	\$600	+7%
International Revenue	\$431	\$420	+3%
Total McGraw-Hill Financial	\$1,073	\$1,020	5%
International % of total	40%	41%	

NOTE: The pro forma results are informational and are not intended to represent what the results for the new McGraw-Hill Financial would have been had the spin-off occurred for the quarterly period ended June 30, 2012

• Standard & Poor's Ratings segment was the most international

- 46% of 2Q revenue was from sales outside the U.S.

11

Standard & Poor's Ratings

Standard & Poor's Ratings

(\$ in millions)	2Q 2012	2Q 2011	Change
Revenue	\$483	\$480	+1%
Segment Operating Profit	\$208	\$213	(2%)
Segment Operating Margin	43.0%	44.3%	(130) bps

• 2Q highlights:

- Transaction revenue grew 4% to \$203 million
- U.S. debt issuance increased while European debt issuance retracted meaningfully as a result of the European debt crisis
- Operating margin, while down year-over-year, improved versus 1Q 2012

12

**STANDARD
& POOR'S**
RATINGS SERVICES

Standard & Poor's Ratings: Domestic Growth Outpaces European Weakness

Standard & Poor's Ratings Revenue

(\$ in millions)	2Q 2012	2Q 2011	Change
Non-transaction	\$280	\$284	(2%)
Transaction	\$203	\$196	+4%

(\$ in millions)	2Q 2012	2Q 2011	Change
International	\$220	\$234	(6%)
Domestic	\$263	\$246	+7%

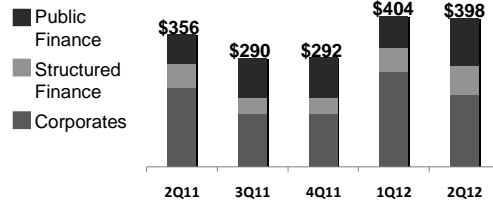
13

Global Debt Issuance: Diverging Global Markets

United States

11% increase year-over-year in 2Q

(issuance, \$ in billions)

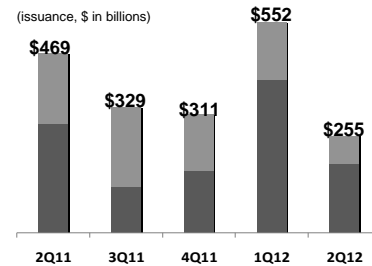


Note: Excludes sovereign issuance

Europe

45% decrease year-over-year in 2Q

(issuance, \$ in billions)



Standard & Poor's Ratings Outlook: Long-Term Growth with Volatility

Secular Drivers of Growth

- Huge pipeline of maturing global corporate debt will need to be refinanced over the next several years
- European corporate financing is shifting from bank loans to public debt markets
- Structured finance market slowly recovering

Volatile Headwinds

- European financial crisis
- Risk aversion among investors
- Sovereign debt levels
- Pending government regulations create uncertainty for all market participants

Standard & Poor's Ratings: Continued Progress on Litigation Front

- **Update:**

- 29 cases now dismissed outright (two in 2Q 2012)
- 7 dismissals by lower courts have been affirmed by higher courts
- The highest court in New York affirmed the dismissal of the Oddo litigation
- 10 cases have been voluntarily withdrawn
- Several dozen cases remain outstanding

- **We continue to believe that the legal risk of pending litigation remains low**

16

Regulations Continue to Evolve

- **CRA3**

- Mandatory rotation on structured finance products, or on a subset of those constituting resecuritizations
- New EU-wide liability standard enabling investors who purchased investments to sue a credit rating agency that breached the EU regulations intentionally or through gross negligence

- **Dodd-Frank**

- Implementing modifications of U.S. regulations to remove any reference to, or requirement of, reliance on credit ratings

- **Franken Amendment**

- Report and recommendation by the SEC on feasibility of establishing an organization that will assign which NRSRO will provide the initial rating on new structured finance products

17

S&P Capital IQ / S&P Indices

S&P Capital IQ / S&P Indices

(formerly McGraw-Hill Financial segment)

(\$ in millions)	2Q 2012	2Q 2011	Change
Revenue	\$366	\$333	+10%
Adj. Segment Op Profit	\$115	\$98	+17%
Adj. Segment Op Margin	31.4%	29.3%	210 bps

• 2Q highlights:

- Both S&P Capital IQ and S&P Indices contributed to revenue growth
- Subscriptions account for 74% of total segment revenue, the same as the prior year
- International revenue increased 12% to \$115 million, representing 31% of total segment revenue

18

S&P Capital IQ

S&P Capital IQ

(\$ in millions)	2Q 2012	2Q 2011	Change
Revenue	\$277	\$253	+9%

• 2Q highlights:

- Solid growth at both Desktop Solutions and Enterprise Solutions
- Subscriber growth continues to drive the business with double digit increases year-over-year
- Acquisition of Credit Market Analysis Limited (CMA) will bolster asset-class coverage of OTC securities
- Improved capabilities for measuring counterparty risk implemented within the S&P Capital IQ platform

19

**S&P
CAPITAL IQ**

S&P Indices

S&P Indices

(\$ in millions)	2Q 2012	2Q 2011	Change
Revenue	\$89	\$80	+12%

•2Q highlights:

- Realized growth in trading volume of exchange-traded derivatives as well as in assets under management for both mutual funds and ETFs
- Assets under management in exchange-traded funds linked to S&P Indices grew 7% year-over-year to \$349 billion
- 11 new ETFs were launched bringing the total to 430 ETFs linked to S&P indices

**S&P DOW JONES
INDICES**

20

**S&P DOW JONES
INDICES**
A TRUSTED FOUNDATION OF INVESTING
FOR GENERATIONS TO COME

The future of investing rests on trust. Two of the most trusted names in the index business have joined together to form the world's largest index provider—the new S&P Dow Jones Indices—created by The McGraw-Hill Companies and CME Group. This new entity:

- Enjoys the ability to measure and rank the world's markets by calculating 850,000 indices daily in the basis of 575 ETFs, which together capture \$137 billion in investor assets
- Oversees \$1.5 trillion in index-related investments
- Serves as the measure of investment performance for \$8 trillion in assets managed by corporations, governments and public investors

The new entity has the talent and capital to actively explore far-reaching ideas and bring them to market in partnership with investment and securities industry veterans. From its flagship, the S&P 500® and Dow Jones Industrial Average®, to thousands of indices across various asset classes, investors now have new flexibility in managing portfolios to meet any objective.

S&P DOW JONES INDICES IS HERE
A trusted foundation of investing for generations to come.
FIND OUT MORE. Visit www.spdji.com

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INDICES**

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21

S&P Dow Jones Indices

Approximately \$1.5 trillion
directly linked to our indices

Over 400 financial institutions
use our indices to build or
price funds, swaps, notes,
options, forwards, and futures

S&P DOW JONES INDICES

Over 1,600 subscribers
utilize our data, 43% from
outside the U.S.

YTD through April 2012, more
than 650 million options and
futures contracts traded were
based on our indices

22

Commodities & Commercial

Commodities & Commercial

(formerly Information & Media segment)

(\$ in millions)	2Q 2012	2Q 2011	Change
Revenue*	\$241	\$222	+9%
Segment Op. Profit*	\$71	\$49	+45%
Segment Op. Margin*	29.5%	22.0%	750 bps

• 2Q highlights:

- Platts and J.D. Power drove 2Q revenue growth
- Strong top-line growth was accompanied by tight expense control
- International revenue grew 16% and represented 40% of total segment revenue

23

*Note: Revenue and operating profit for 2Q 2011 is based on continuing operations and reflects the reclassification of the Broadcasting Group as a discontinued operation

Commodities

Commodities

(\$ in millions)	2Q 2012	2Q 2011	Change
Revenue	\$121	\$101	+19%

• 2Q Highlights:

- Growth in petroleum product subscriptions continued to drive revenue growth
- Acquisitions of Steel Business Briefing Group and BENTEK adding meaningful cross-selling opportunities.
- Increased trading activity of futures contracts utilizing Platts' pricing

24



Commercial

Commercial

(\$ in millions)	2Q 2012	2Q 2011	Change
Revenue	\$120	\$121	(1%)

• 2Q highlights:

- J.D. Power's revenue growth was offset by modest declines in remainder of portfolio
- J.D. Power's syndicated reports, Power Information Network® (PIN), and Ad Claims all contributed to the revenue growth of this franchise

25



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26

McGraw-Hill Education

McGraw-Hill Education

(\$ in millions)	2Q 2012	2Q 2011	Change
Revenue	\$474	\$537	(12%)
Segment Op. Profit	\$57	\$42	+36%
Segment Op. Margin	12.1%	7.9%	420 bps

•2Q highlights:

- Revenue decreased largely driven by U.S. K–12
- Despite revenue challenges, operating profit was up meaningfully due to a rigorous focus on cost reductions
- Deferred revenue increased approximately \$50 million year-over-year as digital sales become more pronounced

27



McGraw-Hill Education: Higher Education, Professional and International Group

(\$ in millions)	2Q 2012	2Q 2011	Change
HPI Revenue	\$241	\$245	(2%)

• 2Q highlights:

- Revenue growth at Higher Education was offset by declines at International
- Higher Education now has 1.4 million digital users, an increase of 40%
- Connect, a homework management product, grew by 65%

28



McGraw-Hill Education: School Education Group

(\$ in millions)	2Q 2012	2Q 2011	Change
SEG Revenue	\$233	\$292	(20%)

• 2Q highlights:

- K–12 revenue was down due to weak state funding with 2012 expected to be the lowest funding year in a decade
- In April, the Smarter Balanced Assessment Consortium (SBAC) selected our testing business to develop the first set of test items for the new Common Core Assessments

29

Summary

- Off to a strong start
- McGraw-Hill Financial should continue to deliver solid top- and bottom-line growth
- McGraw-Hill Education will focus on becoming a stand-alone company with appropriate cost structure
- Primary focus will remain delivering on the Growth and Value Plan
- 2012 will be remembered as an important inflection point in the Company's history

30

The McGraw-Hill Companies

Jack Callahan
Executive Vice President
and Chief Financial Officer

The McGraw-Hill Companies

31

Cost Reduction Drives Margin Expansion

McGraw-Hill Consolidated

(dollars in millions)	2Q 2012	2Q 2011	Change
Total revenue	\$1,547	\$1,557	(1%)
Adjusted expenses*	\$1,140	\$1,199	(5%)
Adjusted operating profit	\$407	\$358	+14%
Adjusted operating margin	26.3%	23.0%	330 bps

* Includes corporate expenses

32

McGraw-Hill Financial and Education both Deliver Strong Profit Growth

McGraw-Hill Financial (pro forma)

(\$ in millions)	2Q 2012	2Q 2011	Change
Revenue	\$1,073	\$1,020	+5%
Pro forma Op. Profit*	\$394	\$360	+9%
Pro forma Op. Margin	36.7%	35.3%	140 bps

McGraw-Hill Education

(\$ in millions)	2Q 2012	2Q 2011	Change
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NOTE: The pro forma results are informational and are not intended to represent what the results for the new McGraw-Hill Financial would have been had the spin-off occurred for the quarterly period ended June 30, 2012

33

* Excludes corporate expense

EPS Growth Amplified by Reduction in Shares Outstanding

(dollars in millions)	2Q 2012	2Q 2011	Change
Adjusted operating income	\$407	\$358	+14%
Interest expense	\$20	\$20	+2%
Tax rate	36.3%	36.3%	NC
Less: Noncontrolling interests	(\$4)	(\$5)	(10%)
Adjusted net income	\$243	\$211	+15%
Adjusted diluted EPS	\$0.85	\$0.68	+25%
Shares outstanding (in millions)	285	309	(8%)

34

Free Cash Flow

(dollars in millions)	1H 2012	1H 2011
Cash provided by operating activities	\$155*	\$338
Investment in prepublication costs	(79)	(60)
Capital expenditures	(42)	(45)
Dividends paid to shareholders	(145)	(152)
Dividends paid to noncontrolling interests	(11)	(9)
Free cash flow	(\$122)	\$72

* NOTE: Operating cash impacted by a temporary acceleration of payments to vendors totaling approximately \$100 million due to a transition to a new accounting system and includes \$65 million of Growth and Value Plan cash outlays

35

Progress on \$100 Million Cost Savings Target

- Cost reductions accelerated in 2Q
- Total adjusted expenses declined 5%
- Pension plan realignment contributed to reduced expense run rate
- Additional restructuring actions expected in 2nd half of year as the two new operating companies are established
 - 15 work streams underway to drive separation and reduce costs
 - Changes to enterprise support services such as accounting, human resources, information technology, purchasing and real estate well underway

36

Update on One-time Costs to Support Separation

- Incurred one-time Growth and Value Plan costs of \$42 million in 2Q 2012 and \$75 million YTD
 - \$19 million for professional fees
 - \$15 million for deal fees
 - \$8 million for severance
- Anticipate for the remainder of the year approximately \$80 million in additional one-time separation expenses to implement the Growth and Value Plan
- Potential for additional restructuring costs of approximately \$65 million during 2012 as part of ongoing cost reduction initiatives

37

Form 10 Highlights for McGraw-Hill Education

- Issue up to \$600 million new debt
- Pay one-time dividend of up to \$500 million to McGraw-Hill Financial
- Ensure adequate liquidity to meet business needs
- Revolver to be established for cyclical cash requirements

38

Second-Half 2012 Actions

- **Plan to repurchase up to \$500 million of common stock in the second half of the year**
- **Consolidated full results of the S&P Dow Jones Indices joint venture**
 - 27% of joint venture income will be removed and recorded as “net income attributable to noncontrolling interests”
 - Balance sheet impact was already recognized in 2nd quarter

39

Outlook for Balance of Year

- Record first-half results bolster confidence; now expect to be near the high end of adjusted diluted EPS guidance of \$3.25 to \$3.35
- Cost reductions clearly impacted YTD earnings and will continue throughout the year
- On track to deliver at least \$100 million in cost reductions, on a run-rate basis, by year-end
- Continue to anticipate separation of McGraw-Hill Financial and McGraw-Hill Education by year-end
- Delivering Growth and Value Plan remains highest priority

40

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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

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No password required