

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

Excerpt of Prepared Remarks
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Harold McGraw III

Chairman, President and CEO
The McGraw-Hill Companies

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

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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.

To access the accompanying slides online, go to:

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

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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.