The McGraw-Hill Companies 3rd Quarter 2011 Earnings Conference Call

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Senior Vice President, Investor Relations The McGraw-Hill Companies

Thank you and good day to our worldwide audience. We thank everyone for joining us this morning at The McGraw-Hill Companies' third quarter 2011 earnings call. I'm Donald Rubin, senior vice president of Investor Relations at The McGraw-Hill Companies.

This morning we issued a news release with our results. We trust you have all had a chance to review the release. If you need a copy of the release and financial schedules, they can be downloaded at www.mcgraw-hill.com.

In today's earnings release and during the conference call, we are providing adjusted financial information 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 contains exhibits that reconcile the differences between the non-GAAP measures and comparable financial measures calculated in accordance with U.S. GAAP.

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 Patti Rockenwagner in our New York office at (212) 512-3533 subsequent to this call.

Now, I'd like to turn the call over to Harold McGraw III, our Chairman, President and CEO of The McGraw-Hill Companies. Terry?

Harold McGraw III

Chairman, President and CEO The McGraw-Hill Companies

Thank you, Don. Good morning everyone and welcome to today's third quarter conference call.

With me today are Jack Callahan, our chief financial officer, and Lou Eccleston, president of McGraw-Hill Financial. Lou is joining us today to review the results in the new McGraw-Hill Financial segment, and steps he is taking to streamline that structure and create value-added solutions for future growth.

Also, in future meetings, we'll continue to include senior managers so that you can hear directly from them. Certainly, we'll have Doug Peterson, the recently appointed President of Standard & Poor's; Glenn Goldberg, president of Information & Media; and other senior managers to address key aspects of our operations.

This morning, Jack and I will review third quarter results, and the outlook for the balance of the year. We also will be providing an update on our Growth and Value Plan, including a cost reduction target, our accelerated share repurchase program, and the sale of our Broadcasting business.

On balance, our business performed well in the third quarter and this is despite some challenging market conditions.

- We benefited from strong double-digit revenue and profit growth at McGraw-Hill Financial and we are pleased with the solid performance by our Information & Media segment where revenue grew by nearly 12% on a continuing basis.
- Standard & Poor's Ratings and McGraw-Hill Education both experienced significant headwinds, which affected our overall performance in the third quarter.
- For Standard & Poor's Ratings, the challenge was market volatility and a sharp decline in the new-issue market.
- For McGraw-Hill Education, the challenge was the decline in an elementary-high school market marked by low purchasing for state new adoption instructional materials.

And here, despite these challenges, earnings per share from continuing operations in the third quarter was \$1.21, the same on an adjusted basis as last year. Revenue declined slightly to \$1.9 billion in the third quarter compared to \$2.0 billion last year. Earnings per diluted share on an adjusted basis for the first nine months increased by 6.4% to \$2.27 and revenue grew by 3.3% to \$4.7 billion.

Uncertainty in global credit markets and the ongoing challenges in education make us a bit cautious about the near-term outlook. But despite market volatility, we expect to finish the year well and within our current 2011 guidance of \$2.81 to \$2.86 per diluted earnings per share from continuing operations. That compares to adjusted earnings per share of \$2.68 in 2010.

Our results also highlight the logic of the recent announcement to separate The McGraw-Hill Companies into two public companies as part of our Growth and Value Plan.

On this slide is a snapshot of the financial performance in the third quarter and year-to-date of what will become our Markets company. For the third quarter, these businesses produced revenue of \$970.7 million, a 7.7% increase from the prior year and operating profit of \$333 million, a 7.6% increase on an adjusted basis. On a year-to-date basis, the businesses in McGraw-Hill Markets produced revenue of \$2.9 billion, 11.7% more than the prior period, and operating profit of \$1.1 billion, a 12.1% increase from the comparable 2010 adjusted results. And these strong results do not reflect the benefits we will also be able capture when these businesses are combined into one streamlined operating company.

Now, let's look at our segment results in more detail.

McGraw-Hill Financial

We will start with McGraw-Hill Financial which, under the direction of Lou Eccleston, produced the strongest quarterly revenue and operating profit growth of the year in the third quarter.

As we have mentioned before, establishing McGraw-Hill Financial was the first step towards the Growth and Value Plan and the organization is fully in line with the Growth and Value Plan's primary purpose, which is to unlock value for shareholders by harnessing the power of great brands, leading-edge technology, and first rate intellectual capital. In its short life, McGraw-Hill Financial has established an impressive track record.

Simply put, McGraw-Hill Financial represents a more effective way to monetize our considerable intellectual capital and proprietary data and analytics. As such it serves investment bankers, commodity traders, lenders, broker/dealers, and others in the way they want and need to be served.

But at this point, let me ask Lou to review the results and give us a little bit of the outlook for McGraw-Hill Financial. Lou?

Lou Eccleston

President, McGraw-Hill Financial The McGraw-Hill Companies

Thank you, Terry.

As Terry said, we had an excellent quarter, delivering an 18.4% increase in revenue and a 31.2% increase in operating profit. Revenue for the quarter was \$348.5 million and operating profit reached \$112.6 million. Our operating margin was 32.3%. Year-to-date revenue topped \$1 billion for the period, showing a year-over-year increase of 16% while operating profit increased by 27.6% for the same period to \$306.7 million. The operating margin for the nine month period was also up, to 30.5%.

McGraw-Hill Financial's strongest quarterly performance to date reflects the successful execution of our innovative operating model which Terry referred to. This allowed us to successfully integrate our businesses, capitalize quickly on market opportunities, and further benefit from market dynamics such as the continued growth of ETF products that are based on various S&P Indices.

Market volatility during the third quarter contributed to a more than 30% increase in S&P Indices' revenue. The average daily trading volume of major exchange-based derivative contracts based on S&P Indices soared by 58.5%. Assets under management in ETFs that are linked to our indices grew by 6.8% to nearly \$280 billion. ETF providers introduced 11 new products based on S&P Indices in the third quarter, bringing the number of ETFs trading on S&P Indices to 359. S&P Indices, overall, accounted for approximately 25% of McGraw-Hill Financial's revenue.

Also significantly contributing to our successful quarter was the accelerated sales and market share growth of S&P Capital IQ and the Global Credit Portal which, along with the integration of TheMarkets.com, helped drive a 15.6% increase in subscription revenue. Subscriptions tend to provide stable and predictable revenue streams and that amounted to \$251.8 million in the third quarter. Overall for McGraw-Hill Financial, subscriptions accounted for more than 72% of our third quarter revenue.

We continued building out the S&P Capital IQ platform to include more content and analytics from across all of McGraw-Hill Financial, and we continued expanding globally, ending the third quarter with more than 3,800 clients, which is nearly an 18% increase from a year earlier.

In addition to our platforms, Enterprise Solutions' continued expanding its integrated coverage across McGraw-Hill Financial's proprietary data sets as well as adding third-party data and information. That led to strong year-over-year sales growth for Enterprise Solutions.

In summary, the expectation that was expressed on the second quarter call that McGraw-Hill Financial would in fact continue on a solid growth trajectory is bearing out, and we do anticipate a strong 2011 finish.

Now, importantly, this slide demonstrates what we can achieve when we maximize the capabilities of our entire portfolio of assets through an operating model that allows us to leverage infrastructure, and more quickly and effectively combine assets to create new solutions. That allows us to create solutions that offer high-value, differentiated offerings. This model reflects a disciplined approach to technology and data infrastructure. At the foundation of this is what you see at the bottom of the slide. This allows for faster, more prolific and innovative packaging of products, services, content, and analytics across asset classes and for a broad range of customers.

Let me give you an example. Leveraging this global and flexible infrastructure has led us to quickly launch localized versions of the Global Credit Portal in Russia, China, and Japan, all in the last 8 months. Providing solutions with local data sets and in local languages has driven new sales and faster growth, and without requiring significant new investment.

Another great example is the creation of S&P Indices Fundamental Data Package, which applies S&P Indices' unique and widely accepted index-level aggregation methodology. That is then nourished by Compustat and Capital IQ fundamental data. This solution offers more than 100 index-level statistics focused on income statements, balance sheets, and trading data items. With the launch of this package, Capital IQ and Compustat become the global fundamental data source for all published statistics on S&P Indices.

The success of our efforts, and the implementation of this new operating model underscores the business logic and economic incentive to unlock value behind the creation McGraw Hill Markets. As we grow, we will build economies of scale that allow us to leverage and maximize the value of content and analytics across all of our different businesses in Markets. That will allow us to create innovative new solutions that help investors face the new challenges of today's volatile and changing market landscape.

Thank you, and now back to Terry.

Harold McGraw III

Chairman, President and CEO The McGraw-Hill Companies

Well, very exciting, and obviously much more to come. Thank you, Lou.

Standard & Poor's

Let's now look at the performance of Standard & Poor's Ratings.

In anticipation of market volatility, we have over the years diversified the S&P business by building a durable non-transaction revenue stream and expanding internationally. We benefited from that strategy again in the third quarter.

With non-transaction revenue growing by 9.5% and international revenue increasing by 9.1%, Standard & Poor's Ratings was largely able to offset a 19.5% decline in transaction revenue in the third quarter. That's why Standard & Poor's revenue decreased by only 1.8% in this period despite market volatility and a steep decline in global new-issue volume for investment-grade and high-yield bonds. New-issue dollar volume in the U.S. high-yield market dropped by 68% in the third quarter. Investment-grade dollar volume declined by 36%. European corporate issuance was down by nearly 60% and high-yield issuance fell by more than 76%. Obviously, these are not good issuance numbers, after some very strong issuance in the first half of this year.

But we also made good on our promise to rein in costs in the second half of the year. Excluding a \$7.3 million pre-tax gain on the sale of certain equity interests in India last year, expenses grew by only 1.4% in the third quarter. That's compared to a 19.3% increase in the first half of 2011. That tight grip on costs helped hold the decline in operating profit in the third quarter to 6.1% compared to the adjusted results for the same period last year. We will continue to keep a tight grip on costs in the fourth quarter.

Uncertainty and volatility will continue to be factors for the balance of the year, but there also is a positive demand for investment-grade corporate debt.

- Refinancing will continue to contribute to volume in the fourth quarter
- Bank lending will continue to be constrained, which will benefit bond issuance
- Structured finance will continue to be soft
- The bank loan ratings market still looks very promising
- But spreads remain wide and that will be a key factor in any fourth quarter pick up in new-issue volume.

Now, let me update you on legal and regulatory matters.

Since our last report, the number of lawsuits that have been dismissed outright has grown to 23. Nine have been voluntarily withdrawn, and seven dismissals by lower courts have now been affirmed by higher courts.

Yesterday, the previous dismissal of two stock drop lawsuits was affirmed by the U.S. Second Circuit Court of Appeals. The decision concerns the Gearren and Sullivan ERISA lawsuits brought against McGraw-Hill, our Board of Directors, and several executives. The Court of Appeals ruled that the facts alleged by the plaintiffs, even if proven, were insufficient to establish a cause of action.

Another motion to dismiss a case against Standard & Poor's was granted last month by a federal court in Ohio. The lawsuit had been initiated by the Ohio Attorney General's office in 2009 on behalf of Ohio pension funds in connection with structured finance securities rated by Standard & Poor's. The court held that the complaint failed to demonstrate the existence of any legal duty by S&P to the Ohio funds, or any actionable misrepresentation in S&P's publication of ratings opinions concerning the securities.

Last week, we resolved a lawsuit brought by the Connecticut Attorney General's Office in 2008 in connection with S&P's ratings regarding public finance bonds. Under the settlement agreement, S&P does not admit any liability or violation of law. S&P will give the state a credit against future ratings fees and make a presentation at no charge on municipal bonds to Connecticut officials. We look forward to continuing to provide transparent ratings on public bonds issued by the State of Connecticut as well as any other public debt issuers.

In New Mexico, a federal court denied our motion to dismiss a complaint alleging violations of that state's securities law in connection with ratings issued on certain mortgage pass-through certificates. We have not received the court's rationale for its decision, but are prepared to demonstrate in later proceedings that the complaint lacks factual as well as legal merit.

In Australia, we are involved in a trial before a judge with a plaintiff looking to recover losses stemming from an investment in a Constant Proportion Debt Obligation. We have pointed out to the court that the plaintiffs were not permitted to purchase the instruments under their own mandates and they did not know or attempt to understand what a rating meant when they made the investment. The trial is scheduled to last through the end of the year and the court may not issue a ruling until next spring.

As we announced, we received a Wells Notice on September 22 from the SEC, notifying us that the staff is considering recommending that the Commission institute a civil proceeding against Standard & Poor's. The issue involves the rating in 2007 of a single collateralized debt obligation, a CDO known as Delphinus.

Informed observers know that a Wells Notice is neither a formal allegation nor a finding of wrongdoing. It allows S&P the opportunity to address the issues raised by the Staff before it decides whether or not to make a recommendation to the Commission or before a decision is reached by the SEC. We have been cooperating with the Commission in this matter and will continue to do so. We have seen some speculation about the situation in the media, but we are not in a position to set that record straight at this time.

In the CalPERS case, the court is scheduled to hear concluding arguments on October 28 on whether CalPERS has met its burden under California law to move this case to the next stage.

We are keeping pace with the changing regulatory landscape.

We expect to successfully complete the registration process in Europe in the next few weeks.

You may have also read in the media about plans to launch a new European rating agency. We welcome competition because the market benefits from a diversity of opinions on credit risk that are independent, transparent and comparable across asset classes and geographies. We believe our ultimate success will be based on the value investors derive from the ratings and research produced by our 1,300 analysts worldwide.

On September 30, the SEC staff issued a report on its examination of each of the Nationally Recognized Statistical Rating Agencies as mandated by Dodd-Frank. The report highlights several areas for improvement, but also recognizes the many changes we have made in recent years. The key point: no material regulatory deficiency was found.

McGraw-Hill Information & Media

Now, let's look at Information & Media.

This segment's revenue from continuing operations increased by nearly 12% to \$228.5 million in the third quarter. Operating profit was \$51.3 million, a 17.1% increase from last year. The operating margin for the third quarter was 22.4%. For the nine-month period, segment revenue increased by 11.4% and operating profit increased nearly 18% to \$139 million with an operating margin of 21.1%. These figures reflect the reclassification of the Broadcasting Group as a discontinued operation as a result of its pending sale.

Information & Media includes Platts, which had a 25% increase in revenue in the third quarter. The increase includes contributions from the recent acquisitions of BENTEK and Steel Business Briefing earlier in the year. In the third quarter, Platts accounted for almost 50% of the segment's \$228.5 million in revenue.

Volatility in global energy prices continues to generate demand for Platts' news and pricing assessments that play a vital role in energy and commodity markets.

Platts continues to expand its suite of price assessments—again, we're talking some 8,500 price assessments and benchmarks daily. In the third quarter, it added weekly assessments of five polymers imported into Brazil and key to the manufacturing of film and plastics in Latin America. Brazil is a rapidly growing player in the global petrochemical market. In the changing world of commodities, the assessments reflect the open-market, spot value of the polymers delivered to key ports in Brazil. That change represents an important growth opportunity for Platts because as markets become more sophisticated, there is a new demand for the price discovery that Platts is well positioned to deliver.

J.D. Power and Associates also had solid results in the third quarter. Two keys to this growth: increased demand for J.D. Power's benchmark research data on the U.S. automotive market and expansion of the firm's global business, especially in China.

That wraps up our look at the businesses that would comprise McGraw-Hill Markets. That would be a 7.7% increase in revenue in the third quarter and operating profit of 7.6%, and year-to-date, an 11.7% increase in revenue and 12.1% in operating profit.

McGraw-Hill Education

Now, let's look at McGraw-Hill Education.

School Education Group

As you know, the third quarter is the biggest revenue quarter for the el-hi instructional materials market. That's true this year, too, but unfortunately for the industry it proved to be a weaker quarter than originally projected. Across the country, school districts postponed or limited purchasing, citing tight budgets and concerns that further budget cuts might be coming.

We don't have industry data for September yet, but the latest Association of American Publishers' report shows that overall sales in the el-hi market were down by 15.6% through August. Open territory sales were down by 4.6%, while adoption state sales declined by 24.5%. This last number should improve as additional orders from Texas are reported, but it also reflects lower purchasing levels than usual in many adoption states where ordering for the year is largely completed. We now estimate the total 2011 state new adoption market at approximately \$720 million, a decline of about 17% from last year.

The Texas situation for 2011 is key to understanding both the industry data and the third-quarter performance at McGraw-Hill School Education Group, where revenue of \$420.4 million represented a decrease of 21.4% from the prior-year quarter. As we've been saying for more than a year, Texas was the wild card in the 2011 market. The state had issued an adoption call for various subjects in K–12 language arts plus prekindergarten and supplemental science. However, there were months of debate about which subject categories, if any, would actually get funded.

Finally, late in June, a special session of the Texas legislature approved funding for all categories. It also enacted a new system for instructional materials purchasing. Under this system, each district receives an allotment, sort of like a block grant, based on its student population. The district can then decide which state adopted materials it wishes to buy; it can use the money for various other purposes; and it can save unspent funds for future needs.

The state's order processing site opened on August 8, and to date it appears that the allotment system will have a dampening effect on district implementation — that is, districts will spend less than they did under the old system when they typically bought a book per student in newly adopted subjects.

For McGraw-Hill, the funding uncertainty in Texas funding posed publishing questions. We developed Texas versions of programs in several call categories but decided to bypass the largest call, a K–5 language arts program. Producing a major print program with the required Texas-specific content would have meant a substantial investment in materials that could not be sold elsewhere if funding fell through.

Instead, we decided to make our big investment in a forward-looking product for the state's digital science call. Our CINCH Science is a comprehensive, cloud-based instructional system for grades 5–12. With all-digital content, it could easily be adapted for other markets — and in fact it is being rolled out more widely now. Fortunately funding was approved, and CINCH Science is leading its Texas competition by a wide margin. As a digital subscription product it will not produce the high first-year sales that print titles do, but on the other hand it will provide steady revenue recognition over the entire life of this adoption.

Cost considerations also accounted for our decision not to produce a customized print program for Florida's K–5 science adoption. In 2010 our School Education Group competed for 97% of total available dollars in the state new adoption market. We captured a share of about 30%. This year we're participating in approximately 75% of state new adoption opportunities. We expect to capture about 25% of the total available dollars and 33% of the available dollars in the markets where we're competing.

Although the third quarter is less significant in the testing market, we saw growth in custom contract revenue as well as new business and strong renewals for our Acuity formative assessment product.

Higher Education, Professional, and International Group

At the McGraw-Hill Higher Education, Professional and International Group, third quarter revenue was \$516.9 million, a decline of less than 1% from the prior year quarter.

We don't have official statistics yet, but regional surveys and other sources indicate that higher education enrollments for the current fall term have not matched the strong growth seen at the start of the last two academic years. In fact, enrollments are estimated to be flat with 2010 across the two-year and four-year colleges. Sharp enrollment declines have been reported in the for-profit postsecondary market where many schools are tightening their admissions policies in order to improve graduation rates and student outcomes as required under new federal guidelines.

Despite the enrollment picture, McGraw-Hill Higher Education saw net sales increase over the third quarter of last year for three of its four main product lines, including career education. We lost ground in only one, and that was in the humanities, social sciences, and languages product group which includes many textbooks for first-year courses.

We also saw double-digit growth for our higher education digital products. The response of instructors and students to Connect, which is our innovative homework management platform, and LearnSmart, our computer-adaptive tutorial system, has been very positive. Sales of these products are expected to increase during the fourth quarter as more and more students register to use them. We now have about 2.5 million registered users for our homework management products, and we expect that number to reach close to 3 million by year end.

In professional markets, combined print and e-book sales showed improvement over the prior year quarter, helped by the release of a new edition of *Harrison's Principles of Internal Medicine*. Revenue generated by our digital subscription products, such as AccessMedicine, grew at a double-digit rate.

And finally, our international markets achieved overall growth during the quarter as gains in the Middle East, Canada, and Europe offset lower results in Asia and Australia. Higher education performed

particularly well in the Middle East, where we developed and delivered numerous custom titles for Saudi Arabia.

That completes our review of the operations. Let me turn it over now to Jack Callahan, our chief financial officer, who will give us an update on the key financials. Jack?

Jack Callahan

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

Thank you, Terry. I do want to provide additional detail on our financial performance.

Financial Review

Let's start off with a summary of operating performance.

Overall, the performance of our two businesses was quite different in the quarter. Despite the significant decline in the global credit markets which directly impacts S&P Ratings, the Markets business had solid revenue and operating profit growth of approximately 8%. This demonstrates the strength and breadth of this business, and the benefits of acquisitions completed over the past 12 months. We are pleased with the early performance of these important additions to the Markets portfolio like BENTEK, Steel Business Briefing, and TheMarkets.com. Foreign exchange was also favorable, benefitting revenue by approximately \$15 million, or approximately 170 basis points.

On the other hand, as Terry just reviewed, the Education business, in the all important third quarter, was down approximately 11% in both revenue and operating profits. The decline in the top line was driven by the U.S. elementary-high school (el-hi) segment as the balance of the portfolio was largely flat.

On a year-to-date basis, the performance of Markets is even stronger with revenue and profit growth approximately 12% with margins close to 35%. Overall, this business is well positioned for future growth, especially as the global credit markets stabilize and return. Revenues in Education on a year-to-date basis are down approximately 8% and profit down approximately 18%, well below our incoming expectations for the year.

Corporate expense was \$41 million in the quarter and decreased by \$3.5 million from the prior year, primarily due to decreased incentive related compensation, essentially flat headcount, and tight cost controls. Year-to-date corporate expense was \$119 million, an increase of just over 1%. For the full year, we expect limited increase in corporate expense. We now anticipate growth in the low single digits versus 2010 adjusted corporate expense of \$164 million. As a reminder, the 2010 expense excludes the one-time charge of \$15.6 million related to subleasing excess space in the Company's New York facilities.

Consolidated adjusted operating profit was \$607 million, down 2% versus last year. For the full year, adjusted operating profit is approaching \$1.2 billion, up 4% from last year.

Net interest expense was \$18 million in Q3, a modest decline of \$1 million versus prior year.

Our effective tax rate was 36.3% in the third quarter, flat versus 2010. With the reclassification of Broadcasting into discontinued operations, our effective tax rate in both periods declined modestly by 10 basis points. We expect our full-year effective tax rate to remain in that range. After this call we will post to our Investor Relations Web site a reconciliation of our current reporting to previously reported results, which had Broadcasting as part of Information & Media.

Net income attributable to non-controlling interests increased to \$8.3 million, largely driven by the continuing strong performance of CRISIL.

Our diluted weighted average shares outstanding for the quarter was 303.6 million, a 5.6 million decrease from the prior year and a 5.5 million decrease from the second quarter. The decline is due primarily to our continuing share repurchase program, which more than offset equity related awards.

Now I will turn to cash flow. We continue to expect another year of strong cash flow. Before dividends, we expect to generate cash flow greater than \$1 billion. After dividends, free cash flow is now projected to be roughly \$750 million.

Turning to capital investments, we now expect prepublication investment to be approximately \$175 million versus \$151 million in 2010. Prepublication amortization for the full year is expected to be approximately \$205 million, a \$41 million decline from 2010, reflecting the recent reduced level of investment. Capital expenditures are now projected to be approximately \$125 million. This compares to \$115 million in 2010.

Turning now to capital allocation, we spent \$854 million on acquisitions and share repurchases in the first nine months: Almost \$200 million for acquisitions and \$655 million for share repurchases. The most notable acquisitions were BENTEK Energy and Steel Business Briefing Group. Both acquisitions added to Platts' growing platform, adding critical capability in the natural gas and iron ore markets. As I mentioned earlier, both businesses are performing well and are becoming appropriately integrated into the Platts business.

We continue to actively repurchase shares. In Q3, we repurchased 9 million shares for \$355 million, a significant step up from the 4.4 million shares repurchased in Q2. Year-to-date, we repurchased 16.7 million shares for approximately \$655 million, averaging \$39.20 per share. \$19 million in share repurchases remained unsettled at quarter end. Looking forward, we are well positioned to meet our \$1 billion target for 2011, subject to market conditions.

As we approach the end of the year and prepare for the separation of the Markets and Education businesses in 2012, we are extremely well capitalized with cash and short-term investments at quarterend of approximately \$1.5 billion:

- Cash and short-term investments increased close to \$150 million from June 30, 2011.
- From year-end 2010, cash and short-term investments declined only slightly as share repurchases and acquisitions were largely funded from free cash flow. As I have previously indicated, we expected full year cash flow, post dividends, to be approximately \$750 million.
- Gross debt was comprised of approximately \$1.2 billion in long-term unsecured senior notes.
 No commercial paper is outstanding.

In closing, The McGraw-Hill Companies is on track for another year of growth in 2011. We expect to achieve full-year 2011 diluted earnings per share from continuing operations of \$2.81 to \$2.86. This implies fourth quarter earnings per share of \$0.54 to \$0.59, versus adjusted earnings per share of \$0.54 in the fourth quarter 2010.

Now let me turn it back over to Terry.

Harold McGraw III

Chairman, President and CEO The McGraw-Hill Companies

Okay. Thanks, Jack. That completes the review of our operations and our financial position and conditions.

Growth and Value Plan

Let me quickly make some comments about our Growth and Value Plan that we announced last month. It was the culmination of a strategic portfolio review that began in mid-year 2010, which resulted in a number of the acquisitions that Jack mentioned, especially in Platts; the divestiture of Broadcasting; and the creation of McGraw-Hill Financial. And it culminated into the Growth and Value Plan.

As you know, the centerpiece of our Growth and Value Plan is the creation of two strong public companies — McGraw-Hill Markets and McGraw-Hill Education via tax-free spin.

Separating global operations is a complex undertaking which we plan to complete by the end of next year at the latest. We have multiple work streams under way. We're making very good headway. We are pursuing this plan with a greater sense of urgency, so that we complete the work as quickly as possible.

We also are making significant headway in our extensive cost reduction program as we disaggregate shared services and establish two appropriately sized corporate centers. Based on our initial analysis, we are targeting at least \$100 million in cost reductions over the next 15 months.

We also entered into an agreement to sell our non-core Broadcasting Group to E.W. Scripps for \$212 million in cash. This move demonstrates our commitment to more sharply define and focus on our portfolio of core businesses.

We are working closely with Heidrick & Struggles in our search for a new CEO for the Education business and are pleased with the progress we are making.

To sum up, The McGraw-Hill Companies had a strong third quarter and first nine months of 2011. We are making progress to implement our Growth and Value Plan, and our results demonstrate the rationale for our decision to separate Markets and Education — two great businesses with divergent models. We are delivering significant capital to investors through share repurchases and dividends. We are on track for another year of growth, and expect our full-year earnings per diluted share from continuing operations will be in the \$2.81 to \$2.86 range.

Thank you very much.

To access the accompanying slides online, go to:

http://investor.mcgraw-hill.com/phoenix.zhtml?c=96562&p=irol-EventDetails&EventId=4214014

"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 CDOs, residential and commercial mortgage- and asset-backed securities and related asset classes;
- the state of the credit markets and their impact on S&P and the economy in general;
- the regulatory environment affecting S&P;
- the level of merger and acquisition activity in the U.S. and abroad;
- the level of funding in the education market;
- SEG's level of success in adoptions and open territories;
- enrollment and demographic trends;
- the strength of SEG's testing market, HPI's publishing markets and the impact of technology on them;
- continued investment by the construction, automotive, computer and aviation industries;
- the strength of the domestic and international advertising markets;
- 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.