

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2013

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 1-1023



**McGraw Hill Financial, Inc.**

(Exact name of registrant as specified in its charter)

New York

13-1026995

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

1221 Avenue of the Americas, New York, New York

10020

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: 212-512-2000

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES  NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES  NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "small reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer     Accelerated filer     Non-accelerated filer     Smaller reporting company  
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES  NO

On July 19, 2013 there were 275.2 million shares of common stock (par value \$1.00 per share) outstanding.

**McGraw Hill Financial, Inc.**

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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders of McGraw Hill Financial, Inc.

We have reviewed the consolidated balance sheet of McGraw Hill Financial, Inc. as of June 30, 2013 , the related consolidated statements of income and consolidated statements of comprehensive income for the three-month and six-month periods ended June 30, 2013 and 2012, the related consolidated statements of cash flows for the six-month periods ended June 30, 2013 and 2012, and the related consolidated statement of equity for the six-month period ended June 30, 2013. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet McGraw Hill Financial, Inc. as of December 31, 2012, and the related consolidated statements of income, comprehensive income, equity, and cash flows for the year then ended, not presented herein, and in our report dated February 28, 2013, we expressed an unqualified opinion on those consolidated financial statements.

*/s/ ERNST & YOUNG LLP*

New York, New York  
July 25, 2013

## PART I — FINANCIAL INFORMATION

Item 1. Financial Statements**McGraw Hill Financial, Inc.****Consolidated Statements of Income**  
(Unaudited)

(in millions, except per share amounts)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
<b>Revenue</b>	\$ 1,250	\$ 1,072	\$ 2,431	\$ 2,108
<b>Expenses:</b>				
Operating-related expenses	397	351	771	713
Selling and general expenses	382	379	876	740
Depreciation	22	23	45	45
Amortization of intangibles	13	11	25	20
Total expenses	814	764	1,717	1,518
<b>Operating profit</b>	436	308	714	590
Interest expense, net	16	21	31	42
<b>Income from continuing operations before taxes on income</b>	420	287	683	548
Provision for taxes on income	147	107	236	205
<b>Income from continuing operations</b>	273	180	447	343
<b>Discontinued operations, net of tax:</b>				
Income (loss) from discontinued operations	4	40	(27)	4
Gain on sale of discontinued operations (includes \$(75) accumulated other comprehensive income reclassifications for foreign currency translation adjustment)	—	—	612	—
Discontinued operations, net	4	40	585	4
<b>Net income</b>	277	220	1,032	347
Less: net income from continuing operations attributable to noncontrolling interests	(23)	(3)	(44)	(8)
Less: net (income) loss from discontinued operations attributable to noncontrolling interests	—	(1)	1	—
<b>Net income attributable to McGraw Hill Financial, Inc.</b>	<u>\$ 254</u>	<u>\$ 216</u>	<u>\$ 989</u>	<u>\$ 339</u>
<b>Amounts attributable to McGraw Hill Financial, Inc. common shareholders:</b>				
Income from continuing operations	\$ 250	\$ 177	\$ 403	\$ 335
Income from discontinued operations	4	39	586	4
Net income	<u>\$ 254</u>	<u>\$ 216</u>	<u>\$ 989</u>	<u>\$ 339</u>
<b>Earnings per share attributable to McGraw Hill Financial, Inc. common shareholders:</b>				
Income from continuing operations:				
Basic	\$ 0.91	\$ 0.63	\$ 1.45	\$ 1.20
Diluted	\$ 0.90	\$ 0.62	\$ 1.43	\$ 1.18
Income from discontinued operations:				
Basic	\$ 0.01	\$ 0.14	\$ 2.11	\$ 0.02
Diluted	\$ 0.01	\$ 0.14	\$ 2.08	\$ 0.01
Net income:				
Basic	\$ 0.93	\$ 0.77	\$ 3.57	\$ 1.22
Diluted	\$ 0.91	\$ 0.76	\$ 3.52	\$ 1.19
<b>Average number of common shares outstanding:</b>				
Basic	274.3	279.7	277.4	278.9

Diluted	278.3	285.3	281.3	284.5
Dividend declared per common share	\$ 0.28	\$ 0.255	\$ 0.56	\$ 0.51

See accompanying notes to the unaudited consolidated financial statements.

**McGraw Hill Financial, Inc.**  
**Consolidated Statements of Comprehensive Income**  
(Unaudited)

(in millions)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Net income	\$ 277	\$ 220	\$ 1,032	\$ 347
Other comprehensive income:				
Foreign currency translation adjustment	(23)	(42)	44	(25)
Income tax effect	4	5	(3)	6
	(19)	(37)	41	(19)
Pension and other postretirement benefit plans	(37)	21	(34)	28
Income tax effect	9	(8)	6	(10)
	(28)	13	(28)	18
Unrealized (loss) gain on investments and forward exchange contracts	(1)	(3)	7	(2)
Income tax effect	—	1	(4)	1
	(1)	(2)	3	(1)
Comprehensive income	229	194	1,048	345
Less: comprehensive income (loss) attributable to nonredeemable noncontrolling interests	(2)	2	(5)	(5)
Less: comprehensive income attributable to redeemable noncontrolling interests	(20)	—	(38)	—
Comprehensive income attributable to McGraw Hill Financial, Inc.	\$ 207	\$ 196	\$ 1,005	\$ 340

See accompanying notes to the unaudited consolidated financial statements.

**McGraw Hill Financial, Inc.****Consolidated Balance Sheets**

(in millions)	June 30, 2013	December 31, 2012
	(Unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash and equivalents	\$ 1,900	\$ 760
Accounts receivable, net of allowance for doubtful accounts: 2013 - \$50; 2012 - \$54	957	954
Deferred income taxes	131	117
Prepaid and other current assets	119	128
Assets held for sale	—	1,940
Total current assets	3,107	3,899
Property and equipment, net of accumulated depreciation: 2013 - \$636; 2012 - \$772	340	368
Goodwill	1,432	1,438
Other intangible assets, net	1,037	1,081
Other non-current assets	244	266
Total assets	\$ 6,160	\$ 7,052
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 227	\$ 249
Accrued compensation and contributions to retirement plans	310	453
Short-term debt	—	457
Income taxes currently payable	177	158
Unearned revenue	1,284	1,229
Other current liabilities	397	457
Liabilities held for sale	—	664
Total current liabilities	2,395	3,667
Long-term debt	799	799
Pension and other post-retirement benefits	511	529
Other non-current liabilities	374	407
Total liabilities	4,079	5,402
Commitments and contingencies (Note 11)		
Redeemable noncontrolling interest (Note 7)	810	810
Equity:		
Common stock	412	412
Additional paid-in capital	342	492
Retained income	7,348	6,525
Accumulated other comprehensive loss	(501)	(517)
Less: common stock in treasury	(6,378)	(6,145)
Total equity — controlling interests	1,223	767
Total equity — noncontrolling interests	48	73
Total equity	1,271	840
Total liabilities and equity	\$ 6,160	\$ 7,052

See accompanying notes to the unaudited consolidated financial statements.

**McGraw Hill Financial, Inc.**  
**Consolidated Statements of Cash Flows**  
(Unaudited)

(in millions)	Six Months Ended June 30,	
	2013	2012
<b>Operating Activities:</b>		
Net income	\$ 1,032	\$ 347
Less: discontinued operations, net	585	4
Net income from continuing operations	447	343
Adjustments to reconcile net income from continuing operations to cash provided by operating activities from continuing operations:		
Depreciation (including amortization of technology projects)	45	45
Amortization of intangibles	25	20
Provision for losses on accounts receivable	14	9
Deferred income taxes	4	3
Stock-based compensation	47	40
Other	9	18
Changes in operating assets and liabilities, net of effect of acquisitions and dispositions:		
Accounts receivable	(11)	(48)
Prepaid and other current assets	(9)	(3)
Accounts payable and accrued expenses	(193)	(205)
Unearned revenue	71	(3)
Other current liabilities	(40)	(64)
Net change in prepaid/accrued income taxes	(166)	94
Net change in other assets and liabilities	(17)	(30)
Cash provided by operating activities from continuing operations	226	219
<b>Investing Activities:</b>		
Capital expenditures	(43)	(36)
Acquisitions, net of cash acquired	—	(148)
Changes in short-term investments	—	26
Cash used for investing activities from continuing operations	(43)	(158)
<b>Financing Activities:</b>		
Repayments of short-term debt, net	(457)	—
Dividends paid to shareholders	(156)	(145)
Dividends and other payments paid to noncontrolling interests	(38)	(6)
Contingent consideration payment	(12)	—
Repurchase of treasury shares	(500)	—
Exercise of stock options	107	134
Excess tax benefits from share-based payments	12	7
Cash used for financing activities from continuing operations	(1,044)	(10)
Effect of exchange rate changes on cash from continuing operations	(36)	(5)
Cash (used for) provided by continuing operations	(897)	46
<b>Discontinued Operations:</b>		
Cash used for operating activities	(98)	(64)
Cash provided by (used for) investing activities	2,159	(85)
Cash used for financing activities	(25)	(5)
Effect of exchange rate changes on cash	1	—
Effect of change in cash and equivalents	—	10
Cash provided by (used for) discontinued operations	2,037	(144)
Net change in cash and equivalents	1,140	(98)
Cash and equivalents at beginning of period	760	835

Cash and equivalents at end of period	\$	<u>1,900</u>	\$	<u>737</u>
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See accompanying notes to the unaudited consolidated financial statements.

**McGraw Hill Financial, Inc.**  
**Consolidated Statement of Equity**  
(Unaudited)

(in millions)	Common Stock \$1 par	Additional Paid-in Capital	Retained Income	Accumulated Other Comprehensive Loss	Less: Treasury Stock	Total MHP Equity	Noncontrolling Interests	Total Equity
Balance as of December 31, 2012	\$ 412	\$ 492	\$ 6,525	\$ (517)	\$ 6,145	\$ 767	\$ 73	\$ 840
Comprehensive income <sup>1</sup>			989	16		1,005	5	1,010
Dividends			(159)			(159)	(6)	(165)
Noncontrolling interest adjustments <sup>2</sup>						—	(21)	(21)
Share repurchases		(65)			435	(500)		(500)
Employee stock plans, net of tax benefit		(85)			(202)	117		117
Change in redemption value of redeemable noncontrolling interest			6			6		6
Other			(13)			(13)	(3)	(16)
Balance as of June 30, 2013	<u>\$ 412</u>	<u>\$ 342</u>	<u>\$ 7,348</u>	<u>\$ (501)</u>	<u>\$ 6,378</u>	<u>\$ 1,223</u>	<u>\$ 48</u>	<u>\$ 1,271</u>

<sup>1</sup> Excludes \$38 million attributable to redeemable noncontrolling interest.

<sup>2</sup> Relates to the write-off of noncontrolling interests related to discontinued operations.

See accompanying notes to the consolidated financial statements.

**McGraw Hill Financial, Inc.**

**Notes to the Consolidated Financial Statements**  
(Unaudited)

**1. Nature of Operations and Basis of Presentation**

McGraw Hill Financial, Inc. (together with its consolidated subsidiaries, "McGraw Hill Financial," the "Company," "we," "us" or "our") is a leading content and analytics provider serving the capital, commodities and commercial markets. The capital markets include asset managers, banks, exchanges, issuers and financial advisors; the commodities markets include producers, traders and intermediaries within energy, metals, and agriculture; and the commercial markets include professionals and corporate executives within automotive, construction, aerospace and defense and marketing / research information services.

Our operations consist of four reportable segments: Standard & Poor's Ratings ("S&P Ratings"), S&P Capital IQ, S&P Dow Jones Indices ("S&P DJ Indices") and Commodities & Commercial Markets ("C&C").

- S&P Ratings is a provider of credit ratings, offering investors and market participants with information and independent ratings benchmarks.
- S&P Capital IQ is a global provider of digital and traditional financial research and analytical tools, which integrate cross-asset analytics and desktop services.
- S&P DJ Indices is a global leading index provider that maintains a wide variety of valuation and index benchmarks for investment advisors, wealth managers and institutional investors.
- C&C consists of business-to-business companies specializing in commodities and commercial markets that deliver their customers access to high-value information, data, analytic services and pricing benchmarks.

We completed the sale of our McGraw-Hill Education business ("MHE") on March 22, 2013 and, accordingly, the results of operations of MHE have been reclassified to reflect the business as a discontinued operation for the three and six months ended June 30, 2013 and 2012. The assets and liabilities of MHE have been removed from the consolidated balance sheet as of June 30, 2013 and classified as held for sale as of December 31, 2012. See Note 2 — *Acquisitions and Divestitures* for further discussion.

The accompanying unaudited financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. Therefore, the financial statements included herein should be read in conjunction with the financial statements and notes included in our Form 10-K, as amended, for the year ended December 31, 2012 (our "Form 10-K").

In the opinion of management all normal recurring adjustments considered necessary for a fair statement of the results of the interim periods have been included. The operating results for the three and six months ended June 30, 2013 are not necessarily indicative of the results that may be expected for the full year. Certain prior-year amounts have been reclassified to conform to the current presentation.

Our critical accounting estimates are disclosed in Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, in our Form 10-K. On an ongoing basis, we evaluate our estimates and assumptions, including those related to revenue recognition, allowance for doubtful accounts, valuation of long-lived assets, goodwill and other intangible assets, pension plans, incentive and stock-based compensation, income taxes, contingencies and redeemable noncontrolling interests. Since the date of our Form 10-K, there have been no material changes to our critical accounting policies and estimates.

**2. Acquisitions and Divestitures**

**Acquisitions**

During the six months ended June 30, 2013, we did not complete any acquisitions.

In June of 2013 we made a voluntary open offer to purchase up to an additional 22.23% of the total equity shares outstanding in CRISIL Limited, our majority owned Indian credit rating agency within our S&P Ratings segment. Full acceptance of the offer would increase our total stake in CRISIL to 75% from 52.77%.

As part of CRISIL's acquisition of Coalition Development Ltd. in July of 2012 we made a contingent purchase price payment in the first half of 2013 for \$12 million that has been reflected in the consolidated statement of cash flows as a financing activity.

During the six months ended June 30, 2012 , we completed the following acquisitions:

- On June 29, 2012, we closed our transaction with CME Group, Inc. ("CME Group") and CME Group Index Services LLC ("CGIS"), a joint venture between CME Group and Dow Jones & Company, Inc., to form a new company, S&P Dow Jones Indices LLC.
- On June 29, 2012, we acquired Credit Market Analysis Limited ("CMA") from the CME Group. CMA provides independent data concerning over-the-counter markets. CMA's data and technology will enhance our capability to provide pricing and related over-the-counter information. CMA was integrated into our S&P Capital IQ segment.
- On April 3, 2012 we completed the acquisition of QuantHouse, an independent global provider of end-to-end systematic low latency market data solutions. QuantHouse was integrated into our S&P Capital IQ segment. The acquisition allows us to offer unique real-time monitors, derived data sets and analytics as well as the ability to package and resell this data as part of a core solution.
- On February 8, 2012, we completed the acquisition of R<sup>2</sup> Technologies ("R<sup>2</sup>"). R<sup>2</sup> provides advanced risk and scenario-based analytics to traders, portfolio and risk managers for pricing, hedging and capital management across asset classes. R<sup>2</sup> was integrated into our S&P Capital IQ segment.

None of these acquisitions were material either individually or in the aggregate, including the pro forma impact on earnings.

### **Divestitures**

On July 24, 2013, we announced a definitive agreement to sell Aviation Week within our C&C segment to Penton, a privately held business information company. We expect this transaction will close following the receipt of regulatory approvals and completion of customary closing conditions.

On November 26, 2012, we entered into a definitive agreement to sell MHE to investment funds affiliated with Apollo Global Management, LLC and on March 22, 2013, we completed the sale for a purchase price of \$2.4 billion in cash. We recorded an after-tax gain on the sale of \$612 million , which is included in discontinued operations, net in the consolidated statement of income for the six months ended June 30, 2013 . We have used a portion of the after-tax proceeds from the sale to pay down short-term debt, in part driven by the special dividend paid in 2012, and to continue share repurchases. We will also continue to use a portion of the after-tax proceeds to make selective acquisitions and investments.

In connection with the sale, we have entered into transition service agreements designed to ensure and facilitate the orderly transfer of MHE's business operations to the buyer. Under the terms of these agreements, we will provide various services to MHE for an expected period of three to twelve months from the date of the sale.

The key components of income from discontinued operations for the periods ended June 30 consist of the following:

(in millions)	Three Months		Six Months	
	2013	2012	2013	2012
Revenue	\$ —	\$ 474	\$ 268	\$ 769
Expenses	(2)	417	312	774
Operating income (loss)	2	57	(44)	(5)
Interest expense (income), net	—	—	1	(1)
Income (loss) before taxes on income (loss)	2	57	(45)	(4)
(Benefit) provision for taxes on income (loss) <sup>1</sup>	(2)	17	(18)	(8)
<b>Income (loss) from discontinued operations, net of tax</b>	<b>4</b>	<b>40</b>	<b>(27)</b>	<b>4</b>
Pre-tax gain on sale from discontinued operations	—	—	920	—
Provision for taxes on income	—	—	308	—
<b>Gain on sale of discontinued operations, net of tax</b>	<b>—</b>	<b>—</b>	<b>612</b>	<b>—</b>
<b>Discontinued operations, net</b>	<b>4</b>	<b>40</b>	<b>585</b>	<b>4</b>
Less: net (loss) income attributable to noncontrolling interests	—	(1)	1	—
<b>Income from discontinued operations attributable to McGraw Hill Financial, Inc. common shareholders</b>	<b>\$ 4</b>	<b>\$ 39</b>	<b>\$ 586</b>	<b>\$ 4</b>

<sup>1</sup> Benefit for taxes on income for the three months ended June 30, 2013 includes certain adjustments to the discontinued operations provision recorded for the three months ended March 31, 2013.

The components of assets and liabilities classified as held for sale in the consolidated balance sheet consist of the following:

(in millions)	December 31, 2012
Accounts receivable, net	\$ 333
Property and equipment, net	122
Goodwill	469
Other intangible assets, net	156
Inventories, net	235
Prepublication costs	304
Other assets	321
Assets held for sale	\$ 1,940
Accounts payable and accrued expenses	\$ 123
Unearned revenue	192
Other liabilities	349
Liabilities held for sale	\$ 664

We did not complete any divestitures during the six months ended June 30, 2012 .

### 3. Income Taxes

For the three and six months ended June 30, 2013 , the effective tax rate for continuing operations was 35.0% and 34.5% , respectively, and for the three and six months ended June 30, 2012 , the effective tax rate for continuing operations was 37.4% . The reduction in the effective tax rate from the prior-year periods was primarily due to the partnership structure of the S&P Dow Jones Indices LLC and legal settlements as discussed in Note 11 — *Commitments and Contingencies* .

At the end of each interim period, we estimate the annual effective tax rate and apply that rate to our ordinary quarterly earnings. The tax expense or benefit related to significant, unusual or extraordinary items that will be separately reported or reported net of their related tax effect, and are individually computed, are recognized in the interim period in which those items occur. In addition, the effect of changes in enacted tax laws or rates or tax status is recognized in the interim period in which the change occurs.

As of June 30, 2013 and December 31, 2012 , the total amount of federal, state and local, and foreign unrecognized tax benefits was \$78 million and \$74 million , respectively, exclusive of interest and penalties. We recognize accrued interest and penalties related to unrecognized tax benefits in interest expense and operating-related expense, respectively. In addition to the unrecognized tax benefits, as of June 30, 2013 and

December 31, 2012 , we had \$19 million and \$14 million , respectively, of accrued interest and penalties associated with uncertain tax positions.

#### 4. Debt

(in millions)	June 30, 2013	December 31, 2012
5.9% Senior Notes, due 2017 <sup>1</sup>	\$ 400	\$ 400
6.55% Senior Notes, due 2037 <sup>2</sup>	399	399
Commercial paper	—	457
Total debt	799	1,256
Less: short-term debt including current maturities	—	457
Long-term debt	\$ 799	\$ 799

<sup>1</sup> Interest payments are due semiannually on April 15 and October 15, and, as of June 30, 2013 , the unamortized debt discount is \$0.4 million .

<sup>2</sup> Interest payments are due semiannually on May 15 and November 15, and, as of June 30, 2013 , the unamortized debt discount is \$1.3 million .

The fair value of our long-term debt borrowings was \$0.8 billion as of June 30, 2013 and \$ 0.9 billion as of December 31, 2012 and was estimated based on Level 1 fair value measures, specifically quoted market prices.

Currently, we have the ability to borrow a total of \$1.0 billion through our commercial paper program, which is supported by our credit facility described below. As of June 30, 2013, there were no commercial paper borrowings outstanding. In connection with the special dividend in the amount of \$2.50 per share on our common stock we utilized our commercial paper program in December of 2012 and as a result, commercial paper borrowings outstanding as of December 31, 2012 totaled \$457 million with an average interest rate and term of 0.48% and 28 days.

On June 19, 2013, we entered into a \$1.0 billion four-year credit agreement (our “credit facility”) that will terminate on June 19, 2017. This credit facility replaced our \$1.2 billion three-year credit facility that was scheduled to terminate on July 30, 2013. The previous credit facility was canceled after the new credit facility became effective. There were no outstanding borrowings under the previous credit facility when it was replaced.

We pay a commitment fee of 20 to 45 basis points for our credit facility, depending on our indebtedness to cash flow ratio, whether or not amounts have been borrowed and currently pay a commitment fee of 25 basis points. The interest rate on borrowings under our credit facility is, at our option, calculated using rates that are primarily based on either the prevailing London Inter-Bank Offer Rate, the prime rate determined by the administrative agent or the Federal funds rate. For certain borrowings under this credit facility there is also a spread based on our credit rating added to the applicable rate.

Our credit facility contains certain covenants. The only financial covenant requires that our indebtedness to cash flow ratio, as defined in our credit facility, is not greater than 3.25 to 1, and this covenant level has never been exceeded.

## **5. Employee Benefits**

We maintain a number of active defined contribution retirement plans for our employees. The majority of our defined benefit plans are frozen. As a result, no new employees will be permitted to enter these plans and no additional benefits for current participants in the frozen plans will be accrued.

We also have supplemental benefit plans that provide senior management with supplemental retirement, disability and death benefits. Certain supplemental retirement benefits are based on final monthly earnings. In addition, we sponsor voluntary 401(k) plans under which we may match employee contributions up to certain levels of compensation as well as profit-sharing plans under which we contribute a percentage of eligible employees' compensation to the employees' accounts.

We also provide certain medical, dental and life insurance benefits for active and retired employees and eligible dependents. The medical and dental plans and supplemental life insurance plan are contributory, while the basic life insurance plan is noncontributory. We currently do not prefund any of these plans.

We recognize the funded status of our defined benefit retirement and postretirement plans in the consolidated balance sheets, with a corresponding adjustment to accumulated other comprehensive income, net of taxes. The amounts in accumulated other comprehensive income represent net unrecognized actuarial losses and unrecognized prior service costs. These amounts will be subsequently recognized as net periodic pension cost pursuant to our accounting policy for amortizing such amounts.

In the first six months of 2013, we contributed \$15 million to our retirement plans and expect to make additional required contributions of approximately \$8 million to our retirement plans during the remainder of the year. We may elect to make additional non-required contributions depending on investment performance and the pension plan status in the second half of 2013.

## **6. Stock-Based Compensation**

We issue stock-based incentive awards to our eligible employees and Directors under the 2002 Employee Stock Incentive Plan and a Director Deferred Stock Ownership Plan. No further awards may be granted under the 1993 Employee Stock Incentive Plan and any remaining outstanding options under the 1993 Employee Stock Incentive Plan expired in the first quarter of 2013. The 2002 Employee Stock Incentive Plan permits the granting of nonqualified stock options, stock appreciation rights, performance stock, restricted stock and other stock-based awards.

Stock-based compensation for the periods ended June 30 is as follows:

(in millions)	Three Months		Six Months	
	2013	2012	2013	2012
Stock option expense	\$ 4	\$ 2	\$ 6	\$ 7
Restricted stock and unit awards expense	22	21	41	33
Total stock-based compensation expense	\$ 26	\$ 23	\$ 47	\$ 40

As of June 30, 2013 and December 31, 2012, we issued 3.0 million and 8.4 million common shares, respectively, upon exercise of certain stock options outstanding.

## 7. Equity

### Stock Repurchases

In 2011, the Board of Directors approved a stock repurchase program authorizing the purchase of up to 50.0 million shares (the “2011 Repurchase Program”), which was approximately 17% of the total shares of our outstanding common stock at that time. Share repurchases for the periods ended June 30 were as follows:

(in millions, except average price)	Three Months		Six Months	
	2013	2012	2013	2012
Total number of shares purchased <sup>1</sup>	1.4	0.1	8.6	0.9
Total cash utilized	\$ —	\$ —	\$ 500	\$ —

<sup>1</sup> 2013 and 2012 include shares received as part of our accelerated share repurchase agreements described in more detail below.

Our purchased shares may be used for general corporate purposes, including the issuance of shares for stock compensation plans and to offset the dilutive effect of the exercise of employee stock options. As of June 30, 2013, 8.3 million shares remained available under the 2011 Repurchase Program. The 2011 Repurchase Program has no expiration date and purchases under this program may be made from time to time on the open market and in private transactions, depending on market conditions.

### Accelerated Share Repurchase Program

We entered into an accelerated share repurchase (“ASR”) agreement with a financial institution on March 25, 2013 to initiate share repurchases aggregating \$500 million. The ASR agreement was structured as a capped ASR agreement in which we paid \$500 million and received an initial delivery of approximately 7.2 million shares during the three months ended March 31, 2013, with an additional 1.4 million shares received on April 1, 2013, in the aggregate, representing the minimum number of shares of our common stock to be repurchased based on a calculation using a specific capped price per share. The total number of shares ultimately purchased was determined based on the volume weighted-average share price (“VWAP”), minus a discount, of our common stock from March 25, 2013 through July 22, 2013. On July 25, 2013 we will receive a final incremental delivery of 0.7 million shares determined using a VWAP of \$53.7995 bringing the total amount of shares received to 9.3 million.

In December of 2011 we entered into two separate ASR agreements with a financial institution to initiate share repurchases aggregating \$500 million. The first ASR agreement was structured as an uncapped ASR agreement for the repurchase of \$250 million of shares at a per share price equal to the VWAP of our common stock between December 7, 2011 and February 22, 2012. We purchased and received approximately 5 million and 0.8 million shares in December 2011 and February 2012, respectively, under the agreement. The second agreement was structured as a capped agreement for the repurchase of \$250 million of shares where we purchased and received 5 million and 0.1 million shares in December 2011 and April 2012, respectively.

### Redeemable Noncontrolling Interests

The agreement with the minority partners of our S&P Dow Jones Indices LLC established in June of 2012 contains redemption features whereby interests held by minority partners are redeemable either (i) at the option of the holder or (ii) upon the occurrence of an event that is not solely within our control. Specifically, under the terms of the operating agreement of S&P Dow Jones Indices LLC, after December 31, 2017, CME Group, Inc. (“CME Group”) and CME Group Index Services LLC (“CGIS”) will have the right at any time to sell, and we are obligated to buy, at least 20% of their share in S&P Dow Jones Indices LLC. In addition, in the event there is a change of control of the Company, for the 15 days following a change in control, CME Group and CGIS will have the right to put their interest to us at the then fair value of CME Group's and CGIS' minority interest.

If interests were to be redeemed under this agreement, we would generally be required to purchase the interest at fair value on the date of redemption. This interest is presented on the consolidated balance sheets outside of equity under the caption “Redeemable noncontrolling interest” with an initial value based on fair value for the portion attributable to the net assets we acquired, and based on our historical cost for the portion attributable to our S&P Index business. We adjust the redeemable noncontrolling interest each reporting period to its estimated redemption value, but never less than its initial fair value, considering a combination of an income and market valuation approach. Our income and market valuation approaches may incorporate Level 3 fair value measures for instances when observable inputs are not available, including assumptions related to expected future net cash flows, long-term growth rates, the timing and nature of tax attributes, and the redemption features. Any adjustments to the redemption value will impact retained income.

Noncontrolling interests that do not contain such redemption features are presented in equity.

Changes to redeemable noncontrolling interest during the six months ended June 30, 2013 were as follows:

(in millions)	
Redeemable noncontrolling interest as of December 31, 2012	\$ 810
Net income attributable to noncontrolling interest	38
Distributions to noncontrolling interest	(32)
Redemption value adjustment	(6)
Redeemable noncontrolling interest as of June 30, 2013	<u>\$ 810</u>

## 8. Earnings Per Share

Basic earnings per common share (“EPS”) is computed by dividing net income attributable to the common shareholders of the Company by the weighted-average number of common shares outstanding. Diluted EPS is computed in the same manner as basic EPS, except the number of shares is increased to include additional common shares that would have been outstanding if potential common shares with a dilutive effect had been issued. Potential common shares consist primarily of stock options, restricted stock and restricted stock units calculated using the treasury stock method.

The calculation for basic and diluted EPS for the periods ended June 30 is as follows:

(in millions, except per share amounts)	Three Months		Six Months	
	2013	2012	2013	2012
<b>Amounts attributable to McGraw Hill Financial, Inc. common shareholders:</b>				
Income from continuing operations	\$ 250	\$ 177	\$ 403	\$ 335
Income from discontinued operations	4	39	586	4
Net income attributable to the Company	<u>\$ 254</u>	<u>\$ 216</u>	<u>\$ 989</u>	<u>\$ 339</u>
Basic weighted-average number of common shares outstanding	274.3	279.7	277.4	278.9
Effect of stock options and other dilutive securities	4.0	5.6	3.9	5.6
Diluted weighted-average number of common shares outstanding	<u>278.3</u>	<u>285.3</u>	<u>281.3</u>	<u>284.5</u>
<b>Earnings per share attributable to McGraw Hill Financial, Inc. common shareholders:</b>				
Income from continuing operations:				
Basic	\$ 0.91	\$ 0.63	\$ 1.45	\$ 1.20
Diluted	\$ 0.90	\$ 0.62	\$ 1.43	\$ 1.18
Income from discontinued operations:				
Basic	\$ 0.01	\$ 0.14	\$ 2.11	\$ 0.02
Diluted	\$ 0.01	\$ 0.14	\$ 2.08	\$ 0.01
Net income:				
Basic	\$ 0.93	\$ 0.77	\$ 3.57	\$ 1.22
Diluted	\$ 0.91	\$ 0.76	\$ 3.52	\$ 1.19

Restricted performance shares outstanding of 2.3 million and 1.4 million as of June 30, 2013 and 2012, respectively, were not included in the computation of diluted EPS because the necessary vesting conditions had not been met.

The effect of the potential exercise of stock options is excluded from the computation of diluted EPS when the average market price of our common stock is lower than the exercise price of the related option during the period because the effect would have been antidilutive. For the three months ended June 30, 2013 and 2012, the number of stock options excluded from the computation was 2.7 million and 3.8 million, respectively, and 2.8 million and 4.0 million for the six months ended June 30, 2013 and 2012, respectively.

## 9. Restructuring

As part of our Growth and Value Plan that we began in September of 2011, we have initiated various restructuring plans as we identified opportunities for cost savings through workforce reductions and created a flatter and more agile organization. The plans that are currently active with a remaining liability are further described below. The charges for each restructuring plan are classified as selling and general expenses within the consolidated statements of income and the reserves are included in other current liabilities in the consolidated balance sheets.

In certain circumstances, reserves are no longer needed because of efficiencies in carrying out the plans or because employees previously identified for separation resigned from the Company and did not receive severance or were reassigned due to circumstances not foreseen when the original plans were initiated. In these cases, we reverse reserves through the consolidated statements of income when it is determined they are no longer needed.

As part of the definitive agreement to sell MHE to investment funds affiliated with Apollo Global Management, LLC, described further in Note 2 — *Acquisitions and Divestitures*, we have retained MHE's restructuring liabilities. Therefore, the remaining reserves described below include MHE's restructuring liability, however, the initial charge associated with the reserve has been bifurcated between continuing and discontinued operations.

*2012 Restructuring Plan*

During 2012 we recorded a pre-tax restructuring charge of \$ 68 million , consisting primarily of employee severance costs related to a company-wide workforce reduction of approximately 670 positions. This charge consisted of \$15 million for S&P Ratings, \$19 million for S&P Capital IQ, \$1 million for S&P DJ Indices, \$12 million for C&C and \$21 million for our corporate headquarters. The total reserve recorded, including MHE, was \$107 million .

For the three and six months ended June 30, 2013 , we have reduced the reserve by \$ 22 million and \$46 million , respectively, primarily relating to cash payments for employee severance costs. The remaining reserve as of June 30, 2013 is \$ 46 million and primarily consists of \$10 million for S&P Ratings, \$7 million for S&P Capital IQ, \$4 million for C&C, \$8 million for our corporate headquarters and \$15 million for MHE.

*2011 Restructuring Plan*

During the fourth quarter of 2011 we recorded a pre-tax restructuring charge of \$32 million , consisting primarily of facility exit costs and employee severance costs related to a company-wide workforce reduction of approximately 250 positions. This charge consisted of \$9 million for S&P Ratings, \$6 million for C&C and \$17 million for our corporate headquarters. The total reserve recorded, including MHE, was \$66 million . In the second quarter of 2012 we recorded an additional pre-tax restructuring charge of \$5 million primarily for employee severance costs as part of the Growth and Value Plan.

For the three months ended June 30, 2013 and 2012, we have reduced the reserve by \$3 million and \$12 million , respectively, primarily relating to cash payments for employee severance costs. For the six months ended June 30, 2013 and 2012, we have reduced the reserve by \$8 million and \$30 million , respectively. The remaining reserve as of June 30, 2013 is \$12 million , primarily relating to MHE and our corporate headquarters.

**10. Segment and Related Information**

We have four reportable segments: S&P Ratings, S&P Capital IQ, S&P DJ Indices and C&C. The Executive Committee, consisting of our principal corporate executives, is our chief operating decision-maker and evaluates performance of our segments and allocates resources based primarily on operating profit. Segment operating profit does not include unallocated expense or interest expense, which are centrally managed costs. A summary of operating results by segment for the periods ended June 30 is as follows:

Three Months (in millions)	2013		2012	
	Revenue	Operating Profit	Revenue	Operating Profit
S&P Ratings	\$ 599	\$ 277	\$ 483	\$ 208
S&P Capital IQ	287	55	277	58
S&P DJ Indices	123	80	89	42
C&C	259	83	240	71
Intersegment elimination <sup>1</sup>	(18)	—	(17)	—
Total operating segments	1,250	495	1,072	379
Unallocated expense <sup>2</sup>	—	(59)	—	(71)
Total	\$ 1,250	\$ 436	\$ 1,072	\$ 308

Six Months (in millions)	2013		2012	
	Revenue	Operating Profit	Revenue	Operating Profit
S&P Ratings	\$ 1,161	\$ 536	\$ 949	\$ 394
S&P Capital IQ	575	111	551	120
S&P DJ Indices	238	147	168	87
C&C	496	145	474	135
Intersegment elimination <sup>1</sup>	(39)	—	(34)	—
Total operating segments	2,431	939	2,108	736
Unallocated expense <sup>2</sup>	—	(225)	—	(146)
Total	\$ 2,431	\$ 714	\$ 2,108	\$ 590

<sup>1</sup> Revenue for S&P Ratings and expenses for S&P Capital IQ include an intersegment royalty charged to S&P Capital IQ for the rights to use and distribute content and data developed by S&P Ratings.

<sup>2</sup> Includes Growth and Value Plan costs of \$ 10 million and \$ 54 million for the three and six months ended June 30, 2013 , respectively and \$ 24 million and \$ 53 million for the three and six months ended June 30, 2012 , respectively. Also includes pre-tax legal settlements of approximately \$77 million for the six months ended June 30, 2013 .

See Note 2 — *Acquisitions and Divestitures* and Note 9 — *Restructuring* for additional actions that impacted the segment operating results.

## 11. Commitments and Contingencies

### Rental Expense and Lease Obligations

As of June 30, 2013 , the remaining deferred gain related to our sale-leaseback transaction with Rock-McGraw, Inc. was \$116 million , as \$4 million and \$7 million was amortized during the three and six months ended June 30, 2013 . Interest expense associated with this operating lease for the three and six months ended June 30, 2013 was \$1 million and \$3 million , respectively.

### Related Party Agreements

In June of 2012 we entered into a new license agreement (the "License Agreement") with the holder of S&P Dow Jones Indices LLC noncontrolling interest, CME Group, which replaced the 2005 license agreement between S&P DJ Indices and CME Group. Under the terms of the License Agreement, S&P Dow Jones Indices LLC receives a share of the profits from the trading and clearing of CME Group's equity index products. During the three and six months ended June 30, 2013 , S&P Dow Jones Indices LLC earned \$13 million and \$24 million , respectively, of revenue under the terms of the License Agreement. The entire amount of this revenue is included in our consolidated statement of income, and the portion related to the 27% noncontrolling interest is removed in net income attributable to noncontrolling interests.

### Legal Matters

The following amends the disclosure in Note 13 — *Commitments and Contingencies* to the consolidated financial statements of our Form 10-K.

- In connection with the *Reese v. Bahash* litigation, on March 28, 2013, the plaintiff filed a motion seeking to be relieved from the judgment dismissing the case and for leave to file an amended complaint. On April 25, 2013, the Company filed its opposition to that motion. The motion is now fully briefed.
- In connection with the DOJ lawsuit, the Company and S&P filed a motion to dismiss the complaint on April 22, 2013. The Court issued an order denying the motion to dismiss on July 16, 2013.
- In connection with the numerous state-court actions that have been brought against the Company and S&P by the attorneys general of various states and the District of Columbia, the Company and S&P have removed most of the actions to federal court and filed a motion before the United States Judicial Panel on Multidistrict Litigation ("JPML") to consolidate and transfer those removed actions to one federal court for all pretrial proceedings. On June 6, 2013, the JPML granted S&P's motion with respect to the state actions then before it and ordered those actions be consolidated before the United States District Court for the Southern District of New York. The Company expects that any similar actions subsequently filed by other state attorneys general will be similarly consolidated in the Southern District of New York upon S&P's request. The

states have moved to have the cases remanded to state court. The Court will hear argument on motions by the states to remand to state court on October 4, 2013.

We believe that the claims asserted and/or contemplated in the proceedings described in Note 13 — *Commitments and Contingencies* to the consolidated financial statements of our Form 10-K, as amended above, have no basis and they will be vigorously defended by the Company and/or the subsidiaries involved.

In view of the inherent difficulty of predicting the outcome of legal matters, particularly where the claimants seek very large or indeterminate damages, or where the cases present novel legal theories, involve a large number of parties or are in early stages of discovery, we cannot state with confidence what the eventual outcome of the pending matters described in Note 13 — *Commitments and Contingencies* to the consolidated financial statements of our Form 10-K will be, what the timing of the ultimate resolution of these matters will be or what the eventual loss, fines, penalties or impact related to each pending matter may be. We believe, based on our current knowledge, the outcome of the legal actions, proceedings and investigations currently pending should not have a material adverse effect to our financial position, results of operations or cash flows.

Additionally, in April 2013 we settled certain subprime litigation cases. Included in selling and general expenses in our consolidated statement of income for the six months ended June 30, 2013 is a pre-tax amount of approximately \$77 million for these settlements. These cases were dismissed under the terms of the settlements.

#### *Updates to our Legal and Regulatory Environment*

Our commodities business is subject to the potential for increased regulation in the U.S. and abroad. On October 5, 2012, the International Organization of Securities Commissions ("IOSCO") issued its final report to the G-20, including Principles for Oil Price Reporting Agencies ("PRA"), which sets out principles IOSCO states are intended to enhance the reliability of oil price assessments that are referenced in derivative contracts subject to regulation by IOSCO members. On January 9, 2013, IOSCO held a meeting with the Price Reporting Organizations to discuss implementation of the Principles for Oil Price Reporting Agencies. At the meeting, Platts was able to obtain clarification from IOSCO on its expectations for voluntary implementation of the Principles by Platts. Platts has begun voluntary implementation of the IOSCO Oil Price Reporting Principles and does not believe the Principles will have a significant negative impact on its ongoing business operations.

In July of 2013 Platts reaffirmed its commitment to aligning its operations to the IOSCO Principles for Oil Price Reporting Agencies and to applying those principles to its price reporting in the other commodity markets in which it publishes price assessments that underlie financial derivatives contracts. The announcement followed IOSCO's publication on July 17, 2013 of its "Principles for Financial Benchmarks," which stated that it "expects the oil PRAs to continue to implement and comply with the PRA principles."

On May 14, 2013, representatives from the European Commission (DG Competition, the EC's antitrust office) commenced an unannounced inspection of Platts' offices at Canary Wharf in London which lasted until May 19, 2013 in conjunction with the potential anticompetitive conduct (in particular, in the crude oil, refined oil products and biofuels markets) relating to Platts' Market On Close price assessment process. No allegations have been made against Platts at this time. There have also been several civil actions filed in the U.S. relating to potential anticompetitive behavior by market participants relating to the Platts price assessment process, none of which have named Platts as a defendant.

## **12. Recent Accounting Standards**

In March of 2013, the Financial Accounting Standards Board ("FASB") issued amended guidance that resolves the diversity in practice for the accounting for the cumulative translation adjustment upon derecognition of certain subsidiaries or groups of assets within a foreign entity. The amended guidance requires that when a parent entity ceases to have a controlling financial interest in a subsidiary or group of assets within a foreign entity, the parent is required to release any related cumulative translation adjustment into net income in instances when a sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. Additionally, the amended guidance clarifies that the sale of an investment in a foreign entity includes both (1) events that result in the loss of a controlling financial interest in a foreign entity and (2) events that result in an acquirer obtaining control of an acquiree in which it held an equity interest immediately before the acquisition date. In these instances, an entity is required to release the cumulative translation adjustment into net income. We will adopt the FASB's amended guidance during the three months ended March 31, 2014. We do not expect the adoption of the guidance to have a significant impact on our financial position, results of operations or cash flows.

In February of 2013, the FASB issued amended guidance expanding the disclosure requirements for amounts reclassified out of accumulated other comprehensive income. The amendments require an entity to present, either on the face of the statement where net income is presented or in the notes to its financial statements, details of significant items reclassified in their entirety out of

accumulated other comprehensive income and identification of the respective line items effecting net income for instances when reclassification is required under U.S. GAAP. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income in the same reporting period, an entity will be required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. The amendments do not change the current requirements for reporting net income or other comprehensive income in financial statements. However, the amendments require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by type. The amendments were effective on January 1, 2013 and have been incorporated into this quarterly report on Form 10-Q. Adoption of this guidance did not have a significant impact on our financial position, results of operations or cash flows.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Unaudited)

The following Management's Discussion and Analysis ("MD&A") provides a narrative of the results of operations and financial condition of McGraw Hill Financial, Inc. (together with its consolidated subsidiaries, "McGraw Hill Financial," the "Company," "we," "us" or "our") for the three and six months ended June 30, 2013. The MD&A should be read in conjunction with the consolidated financial statements, accompanying notes and MD&A included in our Form 10-K, as amended, for the year ended December 31, 2012 (our "Form 10-K"), which have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The MD&A includes the following sections:

- Overview
- Results of Operations — Comparing the Three and Six Months Ended June 30, 2013 and 2012
- Liquidity and Capital Resources
- Reconciliation of Non-GAAP Financial Information
- Critical Accounting Estimates
- Recently Adopted Accounting Standards
- Forward-Looking Statements

### **OVERVIEW**

We are a leading content and analytics provider serving the capital, commodities and commercial markets. The capital markets include asset managers, banks, exchanges, issuers and financial advisors; the commodities markets include producers, traders and intermediaries within energy, metals, and agriculture; and the commercial markets include professionals and corporate executives within automotive, construction, aerospace and defense and marketing / research information services. Our operations now consist of four reportable segments: Standard & Poor's Ratings ("S&P Ratings"), S&P Capital IQ, S&P Dow Jones Indices ("S&P DJ Indices") and Commodities & Commercial Markets ("C&C").

- S&P Ratings is a provider of credit ratings, offering investors and market participants with information and independent ratings benchmarks.
- S&P Capital IQ is a global provider of digital and traditional financial research and analytical tools, which integrate cross-asset analytics and desktop services.
- S&P DJ Indices is a global index provider that maintains a wide variety of valuation and index benchmarks for investment advisors, wealth managers and institutional investors.
- C&C consists of business-to-business companies specializing in commodities and commercial markets that deliver their customers access to high-value information, data, analytic services and pricing benchmarks.

On July 24, 2013, we announced a definitive agreement to sell Aviation Week within our C&C segment to Penton, a privately held business information company. We expect this transaction will close following the receipt of regulatory approvals and completion of customary closing conditions.

On November 26, 2012, we entered into a definitive agreement to sell McGraw-Hill Education ("MHE") to investment funds affiliated with Apollo Global Management, LLC and on March 22, 2013, we completed the sale for a purchase price of \$2.4 billion in cash. We recorded an after-tax gain on the sale of \$612 million, which is included in income from discontinued operations, net of tax in the consolidated statement of income for the six months ended June 30, 2013. We have used a portion of the after-tax proceeds from the sale to pay down short-term debt, in part driven by the special dividend paid in 2012, and to continue share repurchases. We will also continue to use a portion of the after-tax proceeds to make selective acquisitions and investments.

In connection with the sale, we have entered into transition service agreements designed to ensure and facilitate the orderly transfer of MHE's business operations to the buyer. Under the terms of these agreements, we will provide various services to MHE for an expected period of three to twelve months from the date of the sale.

The completion of the sale also marked the completion of our Growth and Value Plan that we began in September of 2011. Costs related to this plan have diminished in the second quarter as we incurred \$10 million primarily related to professional fees. We expect Growth and Value Plan spend to be minimal going forward. Cost incurred during the six months ended June 30, 2013 have been \$54 million and during the three and six

months ended June 30, 2012 have been \$42 million and \$75 million , respectively. All costs for the six months ended June 30, 2013 are recorded in continuing operations, whereas \$39 million and \$68 million of

the costs for the three and six months ended June 30, 2012 , respectively are recorded in continuing operations. Specifically, for the six months ended June 30, 2013 , the costs primarily related to \$31 million of professional fees and \$19 million of charges associated with our outsourcing initiatives, mainly for the write-down of certain fixed assets. For the three and six months ended June 30, 2012 , the costs primarily related to professional fees, transaction costs for our S&P Dow Jones Indices LLC joint venture, severance charges, and for the six months, an \$8 million charge reducing our lease commitments.

Total costs incurred since the Growth and Value Plan was announced in September of 2011 have been \$351 million , of which \$290 million have been recorded in continuing operations and \$61 million have been recorded in discontinued operations. These are costs that have been necessary to enable separation, reduce our cost structure, accelerate growth and increase shareholder value.

Key results for the periods ended June 30 are as follows:

(in millions, except per share amounts)	Three Months			Six Months		
	2013	2012	% Change <sup>1</sup>	2013	2012	% Change <sup>1</sup>
Revenue	\$ 1,250	\$ 1,072	17%	\$ 2,431	\$ 2,108	15%
Operating profit	\$ 436	\$ 308	42%	\$ 714	\$ 590	21%
Operating margin %	35%	29%		29%	28%	
Diluted earnings per share from continuing operations	\$ 0.90	\$ 0.62	46%	\$ 1.43	\$ 1.18	22%
N/M - not meaningful						

<sup>1</sup> Percentages in the following exhibits within the MD&A are calculated off the whole number, not the disclosed rounded number in the table.

*S&P Ratings* — Revenue and operating profit for the quarter increased 24% and 34% , respectively, and for the first six months increased 22% and 36% , respectively. Revenue growth was driven by strong high-yield and investment-grade debt issuance as borrowers took advantage of low interest rates to refinance existing debt and to a lesser extent, fund M&A and capital expenditures. Increases in U.S. bank loan ratings and structured finance revenues also contributed to the increase. Operating profit increased compared to 2012 primarily due to the increases in revenue, partially offset by higher incentive costs due to financial performance, higher personnel costs and the impact of CRISIL's acquisition of Coalition Development Ltd. in July of 2012.

*S&P Capital IQ* — Revenue increased 3% and 4% for the quarter and first six months, respectively, while operating profit decreased 6% and 8% for the quarter and first six months, respectively. The revenue increase was primarily attributable to growth at Capital IQ driven by market share gains and increased contract values for existing accounts; and increases in our subscription base for RatingsXpress®. Operating profit was impacted by the 2012 acquisitions of QuantHouse and Credit Market Analysis Limited, particularly due to growth in headcount and increased cost of sales for exchange fees incurred by QuantHouse. Also impacting operating profit were higher personnel costs and increased costs to further develop our content and purchase new data sets.

*S&P DJ Indices* — Revenue and operating profit for the quarter increased 39% and 92% , respectively, and for the first six months increased 42% and 68% , respectively. The revenue increases were primarily due to revenue from our S&P Dow Jones Indices LLC joint venture. Excluding revenue from the joint venture, revenue increased 6% and 7% for the quarter and first six months, respectively, primarily due to higher average levels of assets under management for ETF products and higher exchange traded derivative volume. Operating profit increased compared to 2012 primarily due to the increases in revenue, partially offset by expenses for our joint venture, additional personnel costs, higher incentive costs and higher data fees.

*C&C* — Revenue and operating profit for the quarter increased 8% and 16% , respectively, and for the first six month increased 5% and 8% , respectively. The revenue increase was primarily driven by continued demand for Platts' proprietary content as annualized contract values increased, strong demand at J.D. Power and Associates ("JDPA") in the Asia-Pacific region for consulting and proprietary engagements, and strong advertising revenue at Aviation Week from the biennial Paris Air Show. This was partially offset by declines at McGraw-Hill Construction. Operating profit was impacted by additional headcount and other operating costs to support business growth at Platts and by investments in global growth initiatives in key JDPA markets and industry sectors.

**RESULTS OF OPERATIONS — COMPARING THE THREE AND SIX MONTHS ENDED JUNE 30, 2013 AND 2012**
**Consolidated Review**

(in millions)	Three Months			Six Months		
	2013	2012	% Change	2013	2012	% Change
<b>Revenue</b>	\$ 1,250	\$ 1,072	17%	\$ 2,431	\$ 2,108	15%
<b>Total Expenses:</b>						
Operating-related expenses	397	351	13%	771	713	8%
Selling and general expenses	382	379	1%	876	740	18%
Depreciation and amortization	35	34	1%	70	65	9%
Total expenses	814	764	6%	1,717	1,518	13%
<b>Operating profit</b>	436	308	42%	714	590	21%
Interest expense, net	16	21	(24)%	31	42	(26)%
Provision for taxes on income	147	107	37%	236	205	15%
<b>Income from continuing operations</b>	273	180	52%	447	343	30%
<b>Discontinued operations, net</b>	4	40	(91)%	585	4	N/M
Less: net income from continuing operations attributable to noncontrolling interests	(23)	(3)	N/M	(44)	(8)	N/M
Less: net (income) loss from discontinued operations attributable to noncontrolling interests	—	(1)	N/M	1	—	N/M
<b>Net income attributable to McGraw Hill Financial, Inc.</b>	\$ 254	\$ 216	18%	\$ 989	\$ 339	N/M

N/M - not meaningful

**Revenue**

The following table provides consolidated revenue information for the periods ended June 30 :

(in millions)	Three Months			Six Months		
	2013	2012	% Change	2013	2012	% Change
Subscription / Non-transaction revenue	\$ 741	\$ 680	9%	\$ 1,460	\$ 1,348	8%
Non-subscription / Transaction revenue	\$ 509	\$ 392	30%	\$ 971	\$ 760	28%
Domestic revenue	\$ 750	\$ 648	16%	\$ 1,461	\$ 1,267	15%
International revenue	\$ 500	\$ 424	18%	\$ 970	\$ 841	15%

*Three Months*

Revenue increased \$178 million or 17% as compared to the second quarter of 2012 .

Subscription / non-transaction revenue increased primarily due to growth in non-issuance related revenue for corporate ratings, primarily for entity credit ratings and annual fees, continued demand for Platts' proprietary content and growth at Capital IQ driven by market share gains and increased contract values for existing accounts. Non-subscription / transaction revenue increased primarily due to strong high-yield and investment grade corporate bond issuance in the U.S. and Europe, revenue from our S&P Dow Jones Indices LLC joint venture, increased U.S. bank loan ratings resulting from a favorable interest rate environment, strong growth in structured finance and revenue from CRISIL's acquisition of Coalition Development Ltd. in July of 2012. See "Segment Review" below for further information.

Foreign exchange rates had an unfavorable impact of \$4 million on revenue for the second quarter. This impact refers to constant currency comparisons estimated by re-calculating current year results of foreign operations using the average exchange rate from the prior year.

*Six Months*

Revenue increased \$323 million or 15% as compared to the first half of 2012 due to similar reasons as noted above. See “Segment Review” below for further information.

Foreign exchange rates had an unfavorable impact of \$7 million on revenue for the first half of 2013.

**Total Expenses**

The following tables provide an analysis by segment of our operating-related expenses and selling and general expenses for the periods ended June 30 :

Three Months

(in millions)	2013		2012		% Change	
	Operating-related expenses	Selling and general expenses	Operating-related expenses	Selling and general expenses	Operating-related expenses	Selling and general expenses
S&P Ratings	\$ 198	\$ 113	\$ 158	\$ 106	25%	6%
S&P Capital IQ	121	98	107	98	13%	—%
S&P DJ Indices	16	24	18	28	(14)%	(13)%
C&C	81	90	87	77	(7)%	17%
Intersegment eliminations	(19)	—	(19)	2	(1)%	N/M
Total segments	397	325	351	311	13%	5%
Unallocated expense <sup>1</sup>	—	57	—	68	—%	(16)%
	<u>\$ 397</u>	<u>\$ 382</u>	<u>\$ 351</u>	<u>\$ 379</u>	13%	1%

N/M - not meaningful

<sup>1</sup> Includes expenses for our Growth and Value Plan, including costs related to the separation of MHE and other non-recurring costs, of \$10 million and \$24 million for the three months ended June 30, 2013 and 2012 , respectively.

*Operating-Related Expenses*

Operating-related expenses increased \$46 million or 13% as compared to the second quarter of 2012 , primarily driven by increased costs at S&P Ratings of \$40 million or 25% and S&P Capital IQ of \$14 million or 13% . At S&P Ratings the increases were primarily attributable to higher incentive costs as a result of higher performance in the quarter as compared to the prior year. At S&P Capital IQ these increases were primarily a result of additional costs related to the acquisition of Credit Market Analysis Limited in June 2012, additional staff increases, mainly in developing regions, and costs to further develop content and software.

Intersegment eliminations primarily relate to a royalty charged to S&P Capital IQ for the rights to use and distribute content and data developed by S&P Ratings.

*Selling and General Expenses*

Selling and general expenses increased slightly as Growth and Value Plan related costs, including transaction costs for our S&P Dow Jones Indices LLC joint venture, for the three months ended June 30, 2012 of \$39 million outweighed the \$10 million of costs incurred for the three months ended June 30, 2013 . Excluding these amounts, selling and general expenses increased \$32 million or 9% as compared to the second quarter of 2012 . This was primarily driven by increased costs at C&C of \$13 million or 17% , S&P DJ Indices of \$11 million or 79% and S&P Ratings of \$7 million or 6% . At C&C the increases were primarily attributable to additional headcount and other operating costs to support business growth at Platts. At S&P DJ Indices increased costs were primarily due to three months of expenses for our joint venture which was completed at the end of the second quarter of 2012. At S&P Ratings the increases were primarily attributable to higher costs associated with increased sales and costs related to CRISIL's acquisition of Coalition Development Ltd. in the prior year.

## Depreciation and Amortization

Depreciation and amortization increased slightly as compared to the second quarter of 2012 , primarily due to additional intangible asset amortization related to our acquisitions in 2012.

### Six Months

(in millions)	2013		2012		% Change	
	Operating-related expenses	Selling and general expenses	Operating-related expenses	Selling and general expenses	Operating-related expenses	Selling and general expenses
S&P Ratings	\$ 375	\$ 227	\$ 336	\$ 197	11%	15%
S&P Capital IQ	241	197	212	194	14%	2%
S&P DJ Indices <sup>1</sup>	33	53	37	42	(11)%	27%
C&C	160	179	166	163	(4)%	10%
Intersegment eliminations	(38)	—	(38)	4	(1)%	N/M
Total segments	771	656	713	600	8%	9%
Unallocated expense <sup>2</sup>	—	220	—	140	—%	57%
	<u>\$ 771</u>	<u>\$ 876</u>	<u>\$ 713</u>	<u>\$ 740</u>	8%	18%

N/M - not meaningful

<sup>1</sup> Selling and general expenses for the six months ended June 30, 2012 include transaction costs associated with our S&P Dow Jones Indices LLC joint venture.

<sup>2</sup> Includes expenses for our Growth and Value Plan, including costs related to the separation of MHE and other non-recurring costs, of \$54 million and \$53 million for the six months ended June 30, 2013 and 2012 , respectively. Amounts for 2013 also include pre-tax legal settlements of approximately \$77 million recorded in the first quarter of 2013 as discussed in more detail below.

### Operating-Related Expenses

Operating-related expenses increased \$58 million or 8% as compared to the first half of 2012 , primarily driven by increased costs at S&P Ratings of \$39 million or 11% and S&P Capital IQ of \$29 million or 14% . At S&P Ratings the increases were primarily attributable to higher incentive costs as a result of higher performance in the first half of 2013 as compared to the prior year. At S&P Capital IQ these increases were primarily a result of additional costs related to the acquisitions of QuantHouse and Credit Market Analysis Limited in 2012, additional staff increases, mainly in developing regions, and costs to further develop our content and purchase new data sets.

Intersegment eliminations primarily relate to a royalty charged to S&P Capital IQ for the rights to use and distribute content and data developed by S&P Ratings.

### Selling and General Expenses

Selling and general expenses increased due to Growth and Value Plan related costs of \$54 million and \$68 million for the six months ended June 30, 2013 and 2012 , respectively. These costs primarily include professional fees and charges associated with our outsourcing initiatives and 2012 also includes severance charges, a charge related to a reduction in our lease commitments and transaction costs for our S&P Dow Jones Indices LLC joint venture. Additionally, in April 2013 we settled certain subprime litigation cases. Included in selling and general expenses is a pre-tax amount of approximately \$77 million for these settlements.

Excluding these amounts, selling and general expenses increased \$73 million or 11% as compared to the first half of 2012 . This was primarily driven by increased costs at S&P DJ Indices of \$25 million or 92% , S&P Ratings of \$30 million or 15% and C&C of \$16 million or 10% . At S&P DJ Indices increased costs were primarily due to six months of expenses for our joint venture which was completed at the end of the second quarter of 2012. At S&P Ratings the increased costs were primarily due to higher costs associated with increased sales and additional incentive compensation, mainly due to higher financial performance and costs related to CRISIL's acquisition of Coalition Development Ltd. in the prior year. At C&C the increases were primarily attributable to additional headcount and other operating costs to support business growth at Platts.

### Depreciation and Amortization

Depreciation and amortization increased \$6 million or 9% as compared to the first half of 2012 , primarily due to additional intangible asset amortization related to our acquisitions in 2012.

### Operating Profit

We consider operating profit to be an important measure for evaluating our operating performance and we evaluate operating profit for each of the reportable business segments in which we operate. We internally manage our operations by reference to “segment operating profit” and resources are allocated primarily based on segment operating profit. Segment operating profit is defined as operating profit before allocated expenses, which are centrally managed costs and do not affect the operating results of our segments. Segment operating profit is one of the key metrics we use to evaluate operating performance. Segment operating profit is not, however, a measure of financial performance under U.S. GAAP, and may not be defined and calculated by other companies in the same manner.

The table below reconciles segment operating profit to total operating profit for the periods ended June 30 :

#### Three Months

(in millions)	2013	2012	% Change
S&P Ratings	\$ 277	\$ 208	34%
S&P Capital IQ	55	58	(6)%
S&P DJ Indices	80	42	92%
C&C	83	71	16%
Total segment operating profit	495	379	31%
Unallocated expense <sup>1</sup>	(59)	(71)	(17)%
Total operating profit	\$ 436	\$ 308	42%

<sup>1</sup> Includes non-recurring expenses for our Growth and Value Plan.

*Segment Operating Profit* — Increased \$116 million or 31% in the quarter as compared to the second quarter of 2012 . Segment operating profit margins were 40% and 35% for the second quarter of 2013 and 2012 , respectively. Substantial revenue growth at corporate ratings, structured finance and S&P Dow Jones Indices during the quarter were the primary drivers for the increase. See “Segment Review” below for further information.

*Unallocated Expense* — These expenses, included in selling and general expenses, mainly include the portion of corporate expenses not allocated to the segments, such as management and administration, legal, certain compensation and retiree benefits, and other expenses. Unallocated expense was impacted by Growth and Value Plan related costs of \$10 million and \$24 million for the three months ended June 30, 2013 and 2012 , respectively. Excluding these costs, unallocated expense in the quarter increased by \$2 million or 4% as compared to the second quarter of 2012 , which included severance charges incurred at our corporate headquarters offset by a curtailment gain due to a freeze of certain defined benefit retirement plan pension accruals for McGraw Hill Financial employees.

Foreign exchange rates had an immaterial impact on operating profit for the quarter.

**Six Months**

(in millions)	2013	2012	% Change
S&P Ratings	\$ 536	\$ 394	36%
S&P Capital IQ	111	120	(8)%
S&P DJ Indices	147	87	68%
C&C	145	135	8%
Total segment operating profit	939	736	28%
Unallocated expense <sup>1</sup>	(225)	(146)	54%
Total operating profit	\$ 714	\$ 590	21%

<sup>1</sup> Includes non-recurring expenses for our Growth and Value Plan and, for 2013, pre-tax legal settlements.

*Segment Operating Profit* — Increased \$203 million or 28% in the first half of 2013 as compared to the first half of 2012 . Segment operating profit margins were 39% and 35% for the first half of 2013 and 2012 , respectively. Substantial revenue growth at corporate ratings, structured finance and S&P Dow Jones Indices, and strong demand for Platts’ proprietary content were the primary drivers for the increase. See “Segment Review” below for further information.

*Unallocated Expense* — Unallocated expense was impacted by Growth and Value Plan related costs of \$54 million and \$53 million for the six months ended June 30, 2013 and 2012 . Unallocated expense for the first half of 2013 was also impacted by pre-tax legal settlements of approximately \$77 million. Excluding these costs, unallocated expense in the quarter decreased by \$1 million or 1% as compared to the first half of 2012 .

Foreign exchange rates had a favorable impact of \$7 million on operating profit for the first half of 2013. This impact refers to constant currency comparisons and the remeasurement of monetary assets and liabilities. Constant currency impacts are estimated by re-calculating current year results of foreign operations using the average exchange rate from the prior year. Remeasurement impacts are based on the variance between current-year and prior-year foreign exchange rate fluctuations on assets and liabilities denominated in currencies other than the individual businesses functional currency.

**Interest Expense, net**

Net interest expense decreased 24% and 26% as compared to the second quarter and first six months of 2012 , respectively, primarily driven by the maturity of our \$400 million, 5.375% Senior Notes on November 15, 2012.

**Provision for Income Taxes**

Our effective tax rate from continuing operations was 35.0% and 34.5% for the three and six months ended June 30, 2013 , respectively. For the three and six months ended June 30, 2012 our effective tax rate from continuing operations was 37.4% . The reduction in the effective tax rate from the prior year periods was primarily due to the partnership structure of the S&P Dow Jones Indices LLC joint venture and legal settlements.

**Income from Discontinued Operations**

Income from discontinued operations was \$4 million and \$585 million in the second quarter and first six months of 2013 , respectively, as compared to income from discontinued operations of \$40 million and \$4 million in the second quarter and first six months of 2012 , respectively. Income from discontinued operations for the first six months of 2013 includes the after-tax gain on sale of \$612 million .

**Segment Review****S&P Ratings**

Credit ratings are one of several tools that investors can use when making decisions about purchasing bonds and other fixed income investments. They are opinions about credit risk and our ratings express our opinion about the ability and willingness of an issuer, such as a corporation or state or city government, to meet its financial obligations in full and on time. Our credit ratings can also relate to the credit quality of an individual debt issue, such as a corporate or municipal bond, and the relative likelihood that the issuer may default.

S&P Ratings differentiates its revenue between transaction and non-transaction. Transaction revenue primarily includes fees associated with:

- ratings related to new issuance of corporate and government debt instruments, and structured finance debt instruments;
- bank loan ratings; and
- corporate credit estimates, which are intended, based on an abbreviated analysis, to provide an indication of our opinion regarding creditworthiness of a company which does not currently have an S&P Ratings credit rating.

Non-transaction revenue primarily includes fees for surveillance of a credit rating, annual fees for customer relationship-based pricing programs and fees for entity credit ratings.

The following table provides revenue and segment operating profit information for the periods ended June 30 :

(in millions)	Three Months			Six Months		
	2013	2012	% Change	2013	2012	% Change
<b>Revenue:</b>						
Transaction	\$ 287	\$ 203	41%	\$ 551	\$ 397	39%
Non-transaction	312	280	12%	610	552	10%
Total revenue	\$ 599	\$ 483	24%	\$ 1,161	\$ 949	22%
<b>% of total revenue:</b>						
Transaction	48%	42%		47%	42%	
Non-transaction	52%	58%		53%	58%	
Domestic revenue	\$ 323	\$ 263	23%	\$ 637	\$ 510	25%
International revenue	\$ 276	\$ 220	25%	\$ 524	\$ 439	19%
Operating profit	\$ 277	\$ 208	34%	\$ 536	\$ 394	36%
Operating margin %	46%	43%		46%	42%	

Foreign exchange rates had an immaterial impact on revenue and an unfavorable impact of \$3 million on operating profit for the quarter, and an unfavorable impact of \$5 million on revenue and a favorable impact of \$3 million on operating profit for the first six months of 2013.

## Revenue

### Three Months

Transaction revenue increased significantly in the second quarter of 2013 driven by strong high-yield and investment grade corporate bond issuance in the U.S. and Europe. During the second quarter of 2013, refinancing continued to be the main driver of activity. In addition, borrowers continued to be opportunistic and took advantage of lower interest rates, hedging against the risk of rising rates, especially as the Federal Reserve considers changes to current stimulus policies as a result of a strengthening economy. Market conditions slowed in the latter part of June, subsequent to the Federal Open Market Committee meeting.

U.S. bank loan ratings drove higher transaction revenue in the quarter as well, resulting from a favorable interest rate environment. Strong growth in structured finance revenues was another key driver contributing to the growth in transaction revenue, specifically from increased issuance of U.S. collateralized loan obligations ("CLO") and U.S. commercial mortgage-backed securities ("CMBS").

Non-transaction revenue increased due to growth in non-issuance related revenue for corporate ratings, primarily for entity credit ratings and annual fees. Annual fees include surveillance fees and other customer relationship-based fees. Additionally, CRISIL's acquisition of Coalition Development Ltd. in July of 2012 had a favorable impact on non-transaction revenue. Non-transaction revenue includes an intersegment royalty charged to S&P Capital IQ for the rights to use and distribute content and data developed by S&P Ratings. Royalty revenue for the second quarter of 2013 and 2012 was \$18 million and \$17 million, respectively.

*Six Months*

Transaction and non-transaction revenue grew in the first half of 2013 for the reasons noted above for the quarter. Royalty revenue for the six months ended June 30, 2013 and 2012, was \$35 million and \$34 million, respectively.

While we expect global issuance to remain generally robust, interruptions in issuance could occur as markets contemplate possible interest rate increases. In addition, transaction revenue growth rates for the second half of 2013 as compared to the prior-year period will be impacted by the significant increases in high-yield and investment grade corporate bond issuance in the second half of 2012.

**Operating Profit**

Operating profit increased compared to the second quarter and first six months of 2012 due to the strong revenue growth for corporate ratings and structured finance as noted above. These increases were partially offset by increased expenses resulting from higher incentive costs due to improved financial performance, increased personnel costs and CRISIL's acquisition of Coalition Development Ltd. in July of 2012.

*Issuance Volumes*

We monitor issuance volumes as an indicator of trends in transaction revenue streams within S&P Ratings. Issuance volumes noted within the discussion that follows are based on the domicile of the issuer. Issuance volumes can be reported in two ways: by "domicile" which is based on where an issuer is located or where the assets associated with an issue are located, or based on "marketplace" which is where the bonds are sold. The following tables depict changes in issuance levels as compared to the prior year, based on Thomson Financial, Harrison Scott Publications, Dealogic and S&P Rating's internal estimates.

	Second Quarter Compared to Prior Year		Year-to-Date Compared to Prior Year	
	U.S.	Europe	U.S.	Europe
<b>Corporate Issuance</b>				
High-Yield Issuance	74%	165%	32%	110%
Investment Grade	18%	23%	15%	(12)%
Total New Issue Dollars — Corporate Issuance	31%	34%	19%	(4)%

- Corporate issuance in the U.S. for both the quarter and year-to-date was driven by strong high-yield and investment-grade debt issuance as borrowers took advantage of low interest rates to refinance existing debt and to a lesser extent, fund M&A and capital expenditures. High-yield issuance comparisons benefited from lower volumes in the second quarter and first six months of 2012.
- Corporate issuance in Europe was up in the quarter and down slightly year-to-date. The increase in the quarter was primarily driven by strong high-yield debt issuance, which was supported by short-term refinancing of leveraged buyouts, record low spreads, strong investor appetite and diversification of funding from banks. The year-to-date decrease reflects the weakness in investment grade issuance in the first quarter of 2013. However, comparative volumes were weak during the same period in 2012.

	Second Quarter Compared to Prior Year		Year-to-Date Compared to Prior Year	
	U.S.	Europe	U.S.	Europe
<b>Structured Finance</b>				
Asset-Backed Securities ("ABS")	(13)%	(35)%	(3)%	(22)%
Collateralized Debt Obligations ("CDO")	48%	*	131%	*
Commercial Mortgage-Backed Securities ("CMBS")	70%	***	139%	***
Residential Mortgage-Backed Securities ("RMBS")	154%	(63)%	143%	(73)%
Covered Bonds	**	36%	**	(28)%
Total New Issue Dollars — Structured Finance	20%	(2)%	46%	(32)%

\*Represents low issuance levels in 2013 and 2012.

\*\* Represents no activity in 2013 and 2012.

\*\*\*Represents low issuance levels in 2012.

- ABS issuance in the U.S. was down for both the quarter and year-to-date due to a decline in credit card, auto and student loan activity. Unfavorable spreads impacted both credit cards and auto volumes as issuers shifted more funding to the unsecured markets. Student loan activity was down due to a lower level of private market deals.
- Issuance was up in the U.S. CDO market for both the quarter and year-to-date. Strong CLO issuance in the quarter was driven by corporate loan activity which continued to benefit from strong credit performance and lower default rates as investors moved away from fixed rate products such as corporate bonds. European issuance in the CDO asset class for both the quarter and year-to-date was minimal due to economic uncertainty, however, issuance levels improved in 2013.
- CMBS issuance was up in the U.S. for both the quarter and year-to-date due to improving economic conditions and stabilizing delinquency rates with volume through the first six months reaching the highest level since 2007. European CMBS issuance was also up for both the quarter and year-to-date, although from a low 2012 base.
- RMBS volume in the quarter and year-to-date was up in the U.S., mostly driven by an increase in transactions containing prime loans. In the quarter, sales and home prices continued to rise, however, recent mortgage rate increases could slow new origination volume. Despite relatively strong market fundamentals in Europe, issuance was down reflecting issuers taking advantage of the Bank of England's Funding for Lending Scheme.
- Covered bond issuance (which are debt securities backed by mortgages or other high-quality assets that remain on the issuer's balance sheet) in Europe was up for the quarter due to favorable spreads, but down year-to-date due to the European Central Bank's Long Term Refinancing Offering, the drive for banks to increase deposit funding and the impact of lower mortgage production in many jurisdictions - all collectively reducing funding needs.

## S&P Capital IQ

S&P Capital IQ's portfolio of products brings together integrated data sets, indices, research, and analytic insights in an integrated desktop solution to serve multiple investor segments across the financial community. In addition, the segment has products that integrate its content for delivery to the financial market via web-based portals, data feeds, as well as through on-demand and customizable delivery tools. Specific products include:

- Capital IQ - a product suite that provides data, analytics and third-party research for global financial professionals;
- Global Credit Portal - a web-based solution that provides real-time credit research, market information and risk analytics, which includes RatingsDirect®;
- Global Data Solutions - combines high-quality, multi-asset class and market data to help capital market participants meet the new analytical, risk management, regulatory and front-to-back office operational requirement, which includes RatingsXpress®; and
- investment research products.

The following table provides revenue and segment operating profit information for the periods ended June 30 :

(in millions)	Three Months			Six Months		
	2013	2012	% Change	2013	2012	% Change
<b>Revenue:</b>						
Subscription revenue	\$ 260	\$ 251	4%	\$ 520	\$ 498	4%
Non-subscription revenue	27	26	2%	55	53	4%
<b>Total revenue</b>	<b>\$ 287</b>	<b>\$ 277</b>	<b>3%</b>	<b>\$ 575</b>	<b>\$ 551</b>	<b>4%</b>
Domestic revenue	\$ 190	\$ 182	4%	\$ 380	\$ 368	3%
International revenue	\$ 97	\$ 95	2%	\$ 195	\$ 183	7%
<b>Operating profit</b>	<b>\$ 55</b>	<b>\$ 58</b>	<b>(6)%</b>	<b>\$ 111</b>	<b>\$ 120</b>	<b>(8)%</b>
Operating margin %	19%	21%		19%	22%	

Foreign exchange rates had an immaterial impact on revenue and operating profit for the quarter, and an immaterial impact on revenue and a favorable impact of \$2 million on operating profit for the first six months of 2013.



## **Revenue**

### *Three Months*

Revenue grew compared to the second quarter of 2012, primarily due growth at Capital IQ, RatingsXpress® and the recent acquisition of Credit Market Analysis Limited. These increases were partially offset by an unfavorable impact related to the closure of several non-core businesses and declines in several of our investment research products. Revenue growth for RatingsDirect® within the Global Credit Portal increased slightly for the quarter as growth in contract values is up slightly as a result of positioning the product as a bundled credit solution.

The increase at Capital IQ was driven by market share gains and increased contract values for existing accounts as well as the launch of new product capabilities. The number of users on the desktop continues to show strong growth from the second quarter of 2012. Contract value growth continues to be driven by success in the corporate and investment management client segments. Increased contract values were primarily driven by new datasets and expanded coverage of existing datasets combined with improved functionality of the Capital IQ platform. Cancellations have decreased as compared to the second quarter of 2012 and have primarily resulted from continued consolidation in the financial industry and decreased headcount.

The subscription base for RatingsXpress® is growing due to new client relationships and expanded relationships within existing accounts as the number of customers have increased 9% in the second quarter of 2013 as compared to the second quarter of 2012. RatingsXpress® is benefiting from improvements made to the speed and timeliness through delivery on the Xpressfeed platform. Growth in contract values is also being driven by being able to sell bundled packages with other S&P Capital IQ data sets.

### *Six Months*

Revenue grew compared to the first six months of 2012 due to the factors noted above for the quarter.

## **Operating Profit**

Operating profit decreased as compared to the second quarter and first six months of 2012. The 2012 acquisitions of QuantHouse and Credit Market Analysis Limited contributed to the decrease, particularly due to growth in headcount and increased cost of sales for exchange fees incurred by QuantHouse. Also impacting operating profit were staff increases, primarily in developing regions, higher incentive costs, increased technology costs to support the growth in the employee base and costs to further develop our content and purchase new data sets. These costs were offset by lower expenses resulting from the closure of several non-core businesses as well as the increases in revenue as noted above.

## **S&P DJ Indices**

S&P DJ Indices is a global index provider that maintains a wide variety of investable and benchmark indices to meet an array of investor needs. S&P DJ Indices generates subscription revenue but primarily derives revenue from non-subscription products based on the S&P and Dow Jones Indices, specifically through fees on exchange traded funds ("ETFs"), mutual funds and insurance assets. Additionally, fees are generated through both over-the-counter derivative issuances as well as exchange traded derivatives.

S&P DJ Indices includes our transaction in June 2012 with CME Group, Inc. and CME Group Index Services LLC to form a new company, S&P Dow Jones Indices LLC. The combination of these businesses created the world's largest provider of financial market indices.

S&P DJ Indices generate revenue through investment vehicles such as:

- exchange traded funds, which are based on the S&P and Dow Jones Indices and generate revenue through fees based on assets and underlying funds;
- listed derivatives, which generate royalties based on trading volumes of derivatives contracts;
- index-related licensing fees, both fixed and variable, based on assets under management and notional values of over-the-counter derivatives; and
- data subscriptions, which support index fund management, portfolio analytics and research.

The following table provides revenue and segment operating profit information for the periods ended June 30 :

(in millions)	Three Months			Six Months		
	2013	2012	% Change	2013	2012	% Change
<b>Revenue:</b>						
Subscription revenue	\$ 26	\$ 19	40%	\$ 51	\$ 37	38%
Non-subscription revenue	97	70	38%	187	131	43%
Total revenue	\$ 123	\$ 89	39%	\$ 238	\$ 168	42%
<b>Domestic revenue</b>						
Domestic revenue	\$ 99	\$ 69	42%	\$ 187	\$ 129	46%
<b>International revenue</b>						
International revenue	\$ 24	\$ 20	25%	\$ 51	\$ 39	29%
<b>Operating profit</b>						
Operating profit	\$ 80	\$ 42	92%	\$ 147	\$ 87	68%
Less: net operating profit attributable to noncontrolling interests	20	—		38	—	
Net operating profit	\$ 60	\$ 42	43%	\$ 109	\$ 87	25%
Operating margin %	65%	47%		62%	52%	
Net operating margin %	48%	47%		46%	52%	

Foreign exchange rates had immaterial impacts on revenue and operating profit for the quarter and first six months of 2013.

## Revenue

### Three Months

Revenue at S&P DJ Indices increased 39% , primarily due to the S&P Dow Jones Indices LLC joint venture. Excluding revenue from the joint venture, S&P DJ Indices revenue increased 6% , primarily due to higher average levels of assets under management for ETF products and higher exchange traded derivative volume. Volumes for exchange-traded derivatives were up primarily for certain Chicago Board Options Exchange ("CBOE") products as market participants began hedging positions with equity prices at or near record levels.

Both domestic and international revenue increased over the prior-year period primarily due to the joint venture. Excluding this impact, domestic revenue still increased, however international decreased due to lower reported over-the-counter derivative trades in Europe.

9 new ETFs were launched during the second quarter of 2013 compared to 11 launched during the second quarter of 2012. Assets under management for ETFs rose 34% to \$546 billion in the second quarter of 2013 from \$408 billion in the second quarter of 2012. Assets under management for the second quarter of 2013 were higher than the record amount set in the first quarter of 2013 and S&P DJ Indices is the leading index provider for the ETF market with assets representing 29% of global ETF assets.

### Six Months

Revenue at S&P DJ Indices grew compared to the first six months of 2012 due to the factors noted above for the quarter.

## Operating Profit

Operating profit increased due to the increase in revenue as discussed above, partially offset by the impact of expenses for our S&P Dow Jones Indices LLC joint venture, additional personnel costs, higher incentive costs and higher data fees.

## Commodities & Commercial Markets

C&C consists of business-to-business companies specializing in the commodities and commercial markets that deliver their customers access to high-value information, data, analytic services and pricing benchmarks. C&C includes such brands as Platts, JDPA, McGraw-Hill Construction and Aviation Week.

The C&C business is driven by the need for high-value information and transparency in a variety of industries. Our commodities business serves producers, traders and intermediaries within energy, metals and agriculture markets. Our commercial business serves professionals and executives within automotive, construction, aerospace and defense and marketing / research services markets. C&C delivers premier content that is deeply embedded in customer workflows and decision making processes.

Commodities markets' revenue is generated primarily through the following sources:

- subscriptions to our real-time news and price information; end-of-day market data; newsletters and reports; and geospatial data and maps; and
- licensing of our price assessments to derivative exchanges and associated transactional fees.

Commercial markets' revenue is generated primarily from digital and print subscriptions for a variety of products, syndicated and proprietary research and consulting, advertising licensing and industry conferences.

The following table provides revenue and segment operating profit information for the periods ended June 30 :

(in millions)	Three Months			Six Months		
	2013	2012	% Change	2013	2012	% Change
<b>Revenue:</b>						
Commodities	\$ 137	\$ 120	14%	\$ 267	\$ 239	12%
Commercial	122	120	2%	229	235	(3)%
<b>Total revenue</b>	<b>\$ 259</b>	<b>\$ 240</b>	<b>8%</b>	<b>\$ 496</b>	<b>\$ 474</b>	<b>5%</b>
Subscription revenue	\$ 161	\$ 147	10%	\$ 318	\$ 295	8%
Non-subscription revenue	\$ 98	\$ 93	6%	\$ 178	\$ 179	(1)%
Domestic revenue	\$ 147	\$ 144	2%	\$ 278	\$ 280	(1)%
International revenue	\$ 112	\$ 96	17%	\$ 218	\$ 194	12%
Operating profit	\$ 83	\$ 71	16%	\$ 145	\$ 135	8%
Operating margin %	32%	30%		29%	28%	

Foreign exchange rates had an immaterial impact of on revenue and operating profit for the quarter and first six months of 2013.

## Revenue

### Three Months

Revenue at C&C increased due to continued demand for Platts' proprietary content as Platts' revenue grew by 14% with growth across all regions. This growth was mainly driven by strength in Platts' market data and price assessment products across all commodity sectors, led by petroleum with strength in market data for oil price assessments, shipping data and risk forward curve products. While petroleum is still the biggest driver, the revenue mix continues to become more diversified as other sectors showed positive growth in the quarter including, petrochemicals, natural gas, coal and metals and agriculture. The acquisition of Kingsman in the fourth quarter of 2012 has contributed to the growth in the agriculture sector. Annualized contract values for Platts' top 250 customers have increased 12% as compared to 2012 and those customers represent approximately 64% of Platts' total annualized contract value. Platts represents 53% of total C&C revenue.

Commercial revenue was up slightly in the quarter as increases at JDPA and Aviation Week offset revenue declines at McGraw-Hill Construction. JDPA had revenue growth due to strong demand in China for auto consulting engagements and strong demand in the Asia-Pacific region for additional tracking and proprietary engagements. This was partially offset by lower advertising license fees for U.S. automobile studies. International revenue at JDPA increased 29% for the quarter as compared to the second quarter of 2012. The Asia-Pacific region represents approximately 30% of the total revenue.

Aviation Week's revenue was up in the second quarter as a result of advertising revenue from the biennial Paris Air Show.

McGraw-Hill Construction's revenue for the second quarter was down primarily driven by declines in their subscription business, however customer retention improved over the comparable prior-year quarter.

### *Six Months*

In the first half of 2013, the C&C revenue increase was driven primarily by Platt's as noted above for the quarter. Partially offsetting this increase at Platt's were decreases in McGraw-Hill Construction as market contraction continued to impact revenue; however new products and enhancements continue to show growth.

### **Operating Profit**

Operating profit for the second quarter and first half of 2013 increased primarily due to higher revenue at Platts as noted above. However, at Platts, additional headcount and other operating costs to support business growth impacted operating profit. In addition, investments in global growth initiatives in key JDPA markets and industry sectors also impacted operating profit. Operating profit for the second quarter and first half of 2013 also benefited from the strong advertising sales as a result of the Paris Air Show.

## **LIQUIDITY AND CAPITAL RESOURCES**

We continue to maintain a strong financial position. Our primary source of funds for operations is cash from our businesses and our core businesses have been strong cash generators. Cash on hand, cash flows from operations and availability under our existing credit facility are expected to be sufficient to meet any additional operating and recurring cash needs into the foreseeable future. We use our cash for a variety of needs, including among others: ongoing investments in our businesses, strategic acquisitions, share repurchases, dividends, repayment of debt, capital expenditures and investment in our infrastructure.

### **Cash Flow Overview**

Cash and equivalents were \$1,900 million as of June 30, 2013, an increase of \$1,140 million from December 31, 2012, and consisted of domestic cash of \$899 million and cash held abroad of \$1,001 million. Typically, cash held outside the U.S. is anticipated to be utilized to fund international operations or to be reinvested outside of the U.S., as a significant portion of our opportunities for growth in the coming years is expected to be abroad. In the event funds from international operations are needed to fund operations in the U.S., we would be required to accrue for and pay taxes in the U.S. to repatriate these funds.

The following table provides cash flow information for the six months ended June 30:

(in millions)	2013	2012	% Change
Net cash (used for) provided by:			
Operating activities from continuing operations	\$ 226	\$ 219	3%
Investing activities from continuing operations	\$ (43)	\$ (158)	(73)%
Financing activities from continuing operations	\$ (1,044)	\$ (10)	N/M

In the first six months of 2013, free cash flow decreased to \$145 million compared to \$177 million in the first six months of 2012, a decrease of \$32 million. The decline was impacted by the timing of tax payments and legal settlements. Free cash flow is a non-GAAP financial measure and reflects our cash flow provided by operating activities less capital expenditures and dividends and other payments paid to noncontrolling interests. Capital expenditures include purchases of property and equipment and additions to technology projects. See "Reconciliation of Non-GAAP Financial Information" below for a reconciliation of cash flow provided by operating activities, the most directly comparable U.S. GAAP financial measure, to free cash flow.

### *Operating activities*

Cash provided by operating activities was \$226 million for the first six months of 2013 compared to cash provided by operating activities of \$219 million for the first six months of 2012, an increase of \$7 million. The increase is mainly due to higher operating results, an increase in unearned revenue due to higher billings at S&P Ratings and more favorable working capital comparisons, partially offset by the timing of our estimated tax payment, as it was made in the first quarter of 2013 as compared to the fourth quarter of 2012, and our legal settlements.

### *Investing activities*

Our cash outflows from investing activities are primarily for acquisitions and capital expenditures.

Cash used for investing activities decreased \$115 million to \$43 million for the first six months of 2013, primarily due to a lower amount of cash paid for acquisitions. Refer to Note 2 — *Acquisitions and Divestitures* to our unaudited consolidated financial statements for further information.

#### *Financing activities*

Our cash outflows from financing activities consist primarily of share repurchases, dividends to shareholders and repayments of short-term debt, while cash inflows are primarily proceeds from the exercise of stock options.

Cash used for financing activities was \$1,044 million in the first six months of 2013 compared to \$10 million in the first six months of 2012. The increase is primarily attributable to an increase in cash used for share repurchases and repayments of short-term debt in the first quarter of 2013.

On March 25, 2013, we entered into an accelerated share repurchase (“ASR”) agreement with a financial institution to initiate share repurchases aggregating \$500 million. The ASR agreement was structured as a capped ASR agreement in which we paid \$500 million and received an initial delivery of approximately 7.2 million shares during the three months ended March 31, 2013, with an additional 1.4 million shares received on April 1, 2013, in the aggregate, representing the minimum number of shares of our common stock to be repurchased based on a calculation using a specific capped price per share. We did not utilize any cash for share repurchases in the second quarter of 2013. However, on July 25, 2013 we will receive a final incremental delivery of 0.7 million shares from the conclusion of the ASR entered into on March 25, 2013 bringing the total amount of shares received to 9.3 million. See Note 7 — *Equity* to the consolidated financial statements of this quarterly report on Form 10-Q for further information.

#### **Additional Financing**

Currently, we have the ability to borrow a total of \$1.0 billion through our commercial paper program, which is supported by our credit facility described below. As of June 30, 2013, there were no commercial paper borrowings outstanding. In connection with the special dividend in the amount of \$2.50 per share on our common stock we utilized our commercial paper program in December of 2012 and as a result, commercial paper borrowings outstanding as of December 31, 2012 totaled \$457 million with an average interest rate and term of 0.48% and 28 days.

On June 19, 2013, we entered into a \$1.0 billion four-year credit agreement (our “credit facility”) that will terminate on June 19, 2017. This credit facility replaced our \$1.2 billion three-year credit facility that was scheduled to terminate on July 30, 2013. The previous credit facility was canceled after the new credit facility became effective. There were no outstanding borrowings under the previous credit facility when it was replaced.

We pay a commitment fee of 20 to 45 basis points for our credit facility, depending on our indebtedness to cash flow ratio, whether or not amounts have been borrowed and currently pay a commitment fee of 25 basis points. The interest rate on borrowings under our credit facility is, at our option, calculated using rates that are primarily based on either the prevailing London Inter-Bank Offer Rate, the prime rate determined by the administrative agent or the Federal funds rate. For certain borrowings under this credit facility there is also a spread based on our credit rating added to the applicable rate.

Our credit facility contains certain covenants. The only financial covenant requires that our indebtedness to cash flow ratio, as defined in our credit facility, is not greater than 3.25 to 1, and this covenant level has never been exceeded.

#### **Dividends**

On January 30, 2013, the Board of Directors approved an increase in the quarterly common stock dividend from \$0.255 per share to \$0.28 per share.

#### **RECONCILIATION OF NON-GAAP FINANCIAL INFORMATION**

Free cash flow is a non-GAAP financial measure and reflects our cash flow provided by operating activities less capital expenditures and dividends and other payments paid to noncontrolling interests. Capital expenditures include purchases of property and equipment and additions to technology projects. Our cash flow provided by operating activities is the most directly comparable U.S. GAAP financial measure to free cash flow.

We believe the presentation of free cash flow allows our investors to evaluate the cash generated from our underlying operations in a manner similar to the method used by management. We use free cash flow to conduct and evaluate our business because we

believe it typically presents a more conservative measure of cash flows since capital expenditures and dividends and other payments paid to noncontrolling interests are considered a necessary component of ongoing operations. Free cash flow is useful for management and investors because it allows management and investors to evaluate the cash available to us to service debt, make strategic acquisitions and investments, repurchase stock and fund ongoing operation and working capital needs.

The presentation of free cash flow is not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with U.S. GAAP. Free cash flow, as we calculate it, may not be comparable to similarly titled measures employed by other companies. The following table presents a reconciliation of our cash flow provided by operating activities to free cash flow for the six months ended June 30 :

(in millions)	2013	2012
Cash provided by operating activities	\$ 226	\$ 219
Capital expenditures	(43)	(36)
Dividends and other payments paid to noncontrolling interests	(38)	(6)
Free cash flow	\$ 145	\$ 177

### CRITICAL ACCOUNTING ESTIMATES

Our accounting policies are described in Note 1 — *Accounting Policies* to the consolidated financial statements in our Form 10-K. As discussed in Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, in our Form 10-K, we consider an accounting estimate to be critical if it required assumptions to be made that were uncertain at the time the estimate was made and changes in the estimate or different estimates could have a material effect on our results of operations. These critical estimates include those related to revenue recognition, allowance for doubtful accounts, valuation of long-lived assets, goodwill and other intangible assets, pension plans, incentive and stock-based compensation, income taxes, contingencies and redeemable non-controlling interests. We base our estimates on historical experience, current developments and on various other assumptions that we believe to be reasonable under these circumstances, the results of which form the basis for making judgments about carrying values of assets and liabilities that cannot readily be determined from other sources. There can be no assurance that actual results will not differ from those estimates. Since the date of our Form 10-K, there have been no changes to our critical accounting estimates.

### RECENT ACCOUNTING STANDARDS

In March of 2013, the Financial Accounting Standards Board ("FASB") issued amended guidance that resolves the diversity in practice for the accounting for the cumulative translation adjustment upon derecognition of certain subsidiaries or groups of assets within a foreign entity. The amended guidance requires that when a parent entity ceases to have a controlling financial interest in a subsidiary or group of assets within a foreign entity, the parent is required to release any related cumulative translation adjustment into net income in instances when a sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. Additionally, the amended guidance clarifies that the sale of an investment in a foreign entity includes both (1) events that result in the loss of a controlling financial interest in a foreign entity and (2) events that result in an acquirer obtaining control of an acquiree in which it held an equity interest immediately before the acquisition date. In these instances, an entity is required to release the cumulative translation adjustment into net income. We will adopt the FASB's amended guidance during the three months ended March 31, 2014. We do not expect the adoption of the guidance to have a significant impact on our financial position, results of operations or cash flows.

In February of 2013, the FASB issued amended guidance expanding the disclosure requirements for amounts reclassified out of accumulated other comprehensive income. The amendments require an entity to present, either on the face of the statement where net income is presented or in the notes to its financial statements, details of significant items reclassified in their entirety out of accumulated other comprehensive income and identification of the respective line items effecting net income for instances when reclassification is required under U.S. GAAP. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income in the same reporting period, an entity will be required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. The amendments do not change the current requirements for reporting net income or other comprehensive income in financial statements. However, the amendments require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by type. The amendments were effective on January 1, 2013 and have been incorporated into this quarterly report on Form 10-Q. Adoption of this guidance did not have a significant impact on our financial position, results of operations or cash flows.

## FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements, including without limitation statements relating to our businesses and our prospects, new products, sales, expenses, tax rates, cash flows, 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 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.

We caution readers not to place undue reliance on forward-looking statements.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no significant changes in our exposure to market risk during the six months ended June 30, 2013 from December 31, 2012. Our exposure to market risk includes changes in foreign exchange rates. We have operations in various foreign countries where the functional currency is primarily the local currency. For international operations that are determined to be extensions of the parent company, the U.S. dollar is the functional currency. We typically have naturally hedged positions in most countries from a local currency perspective with offsetting assets and liabilities. We estimate that a hypothetical 10% adverse movement in the foreign currency exchange rates would not be material to our financial position, statement of income or cash flows. As of June 30, 2013, we have entered into an immaterial amount of forward exchange contracts to hedge the effect of adverse fluctuations in foreign currency exchange rates. We have not entered into any derivative financial instruments for speculative purposes.

### Item 4. Controls and Procedures

#### **Disclosure Controls and Procedures**

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed with the Securities and Exchange Commission (“SEC”) is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), as appropriate, to allow timely decisions regarding required disclosure.

As of June 30, 2013, an evaluation was performed under the supervision and with the participation of management, including the CEO and CFO, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the U.S. Securities Exchange Act of 1934). Based on that evaluation, management, including the CEO and CFO, concluded that our disclosure controls and procedures were effective as of June 30, 2013.

#### **Changes in Internal Control over Financial Reporting**

There have been no changes in our internal control over financial reporting during the most recent quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

However, we initiated a number of outsourcing initiatives in 2012 relating to certain information technology, human resources, accounting and transaction processing processes. These initiatives are expected to be fully implemented throughout 2013. We do not believe that these initiatives have had an adverse effect on the internal control over financial reporting.

## PART II – OTHER INFORMATION

### Item 1. Legal Proceedings

The following amends the disclosure in Note 13 — *Commitments and Contingencies* to the consolidated financial statements of our Form 10-K, as amended for the year ended December 31, 2012 (our “Form 10-K”).

- In connection with the *Reese v. Bahash* litigation, on March 28, 2013, the plaintiff filed a motion seeking to be relieved from the judgment dismissing the case and for leave to file an amended complaint. On April 25, 2013, the Company filed its opposition to that motion. The motion is now fully briefed.
- In connection with the DOJ lawsuit, the Company and S&P filed a motion to dismiss the complaint on April 22, 2013. The Court issued an order denying the motion to dismiss on July 16, 2013.
- In connection with the numerous numerous state-court actions that have been brought against the Company and S&P by the attorneys general of various states and the District of Columbia, the Company and S&P have removed most of the actions to federal court and filed a motion before the United States Judicial Panel on Multidistrict Litigation (“JPML”) to consolidate and transfer those removed actions to one federal court for all pretrial proceedings. On June 6, 2013, the JPML granted S&P’s motion with respect to the state actions then before it and ordered those actions be consolidated before the United States District Court for the Southern District of New York. The Company expects that any similar actions subsequently filed by other state attorneys general will be similarly consolidated in the Southern District of New York upon S&P’s request. The states have moved to have the cases remanded to state court. The Court will hear argument on motions by the states to remand to state court on October 4, 2013.

We believe that the claims asserted and/or contemplated in the proceedings described in Note 13 — *Commitments and Contingencies* to the consolidated financial statements of our Form 10-K, as amended above, have no basis and they will be vigorously defended by the Company and/or the subsidiaries involved.

In view of the inherent difficulty of predicting the outcome of legal matters, particularly where the claimants seek very large or indeterminate damages, or where the cases present novel legal theories, involve a large number of parties or are in early stages of discovery, we cannot state with confidence what the eventual outcome of the pending matters described in Note 13 — *Commitments and Contingencies* to the consolidated financial statements of our Form 10-K will be, what the timing of the ultimate resolution of these matters will be or what the eventual loss, fines, penalties or impact related to each pending matter may be. We believe, based on our current knowledge, the outcome of the legal actions, proceedings and investigations currently pending should not have a material adverse effect on our financial position, results of operations or cash flows.

Additionally, in April 2013 we settled certain subprime litigation cases. Included in selling and general expenses in our consolidated statements of income for the six months ended June 30, 2013 is a pre-tax amount of approximately \$77 million for these settlements. These cases were dismissed under the terms of the settlements.

### Item 1a. Risk Factors

Our Form 10-K contains detailed cautionary statements which identify all known material risks, uncertainties and other factors that could cause our actual results to differ materially from historical or expected results. As we have completed the sale of McGraw-Hill Education on March 22, 2013 to investment funds affiliated with Apollo Global Management, LLC we have updated our associated risk factor in its entirety as set forth below in our Form 10-Q for the three months ended March 31, 2013. There have been no material changes to the other risk factors we have previously disclosed in Item 1a, *Risk Factors*, in our Form 10-K.

#### **Risks associated with the sale of McGraw-Hill Education**

- The sale has resulted in two separate independent companies each of which is a smaller, less diversified company than we currently were with a narrower business focus than we previously had. In addition, diversification of revenues, costs, and cash flows may diminish. As such, it is possible that the results of operations, cash flows, working capital and financing requirements of the two separate businesses may be subject to increased volatility.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On June 29, 2011, the Board of Directors approved a stock repurchase program authorizing the purchase of up to 50.0 million shares (the “2011 Repurchase Program”), which was approximately 17% of the total shares of our outstanding common stock at that time.

On March 25, 2013, we entered into an accelerated share repurchase (“ASR”) agreement with a financial institution to initiate share repurchases aggregating \$500 million . The ASR agreement was structured as a capped ASR agreement in which we paid \$500 million and received an initial delivery of approximately 7.2 million shares during the three months ended March 31, 2013, with an additional 1.4 million shares received on April 1, 2013, in the aggregate, representing the minimum number of shares of our common stock to be repurchased based on a calculation using a specific capped price per share. On July 25, 2013 we will receive a final incremental delivery of 0.7 million shares bringing the total amount of shares received to 9.3 million. See Note 7 — *Equity* to the consolidated financial statements of this quarterly report on Form 10-Q for further information.

As of June 30, 2013 , 8.3 million shares remained available under the 2011 Repurchase Program. After receiving the final 0.7 million shares related to the ASR on July 25, 2013, 7.6 million shares will remain available under the 2011 Repurchase Program.

Repurchased shares may be used for general corporate purposes, including the issuance of shares for stock compensation plans and to offset the dilutive effect of the exercise of employee stock options. The 2011 Repurchase Program has no expiration date and purchases under this program may be made from time to time on the open market and in private transactions, depending on market conditions.

The following table provides information on our purchases of our outstanding common stock during the second quarter of 2013 pursuant to the 2011 Repurchase Program (column c). In addition to these purchases, the number of shares in column (a) include: 1) shares of common stock that are tendered to us to satisfy our employees’ tax withholding obligations in connection with the vesting of awards of restricted shares (we repurchase such shares based on their fair market value on the vesting date), and 2) our shares deemed surrendered to us to pay the exercise price and to satisfy our employees’ tax withholding obligations in connection with the exercise of employee stock options. There were no other share repurchases during the quarter outside the repurchases noted below.

(amounts in millions, except per share price)

<b>Period</b>	<b>(a) Total Number of Shares Purchased</b>	<b>(b) Average Price Paid per Share <sup>1</sup></b>	<b>(c) Total Number of Shares Purchased as Part of Publicly Announced Programs</b>	<b>(d) Maximum Number of Shares that may yet be Purchased Under the Programs</b>
Apr. 1 — Apr. 30, 2013	1.4	\$ 47.73	1.4	8.3
May 1 — May 31, 2013	—	—	—	8.3
Jun. 1 — Jun. 30, 2013	—	—	—	8.3
<b>Total — Qtr</b>	<b>1.4</b>	<b>\$ 47.73</b>	<b>1.4</b>	<b>8.3</b>

<sup>1</sup> Average price per share information does not include the accelerated share repurchase transaction.

Item 6. Exhibits

- (3.1) Certificate of Amendment of the Certificate of Incorporation of Registrant, incorporated from Form 8-K of Registrant, dated May 1, 2013
- (3.2) Amendment of By-Laws of the Registrant, incorporated from Form 8-K of the Registrant, dated June 26, 2013
- (10.1) Four-Year Credit Agreement, dated as of June 19, 2013, among the Registrant, Standard & Poor's Financial Services LLC, the lenders therein, JP Morgan Chase Bank, N.A., as administrative agent, and Bank of America, N.A., as syndication agent, incorporated from Form 8-K of the Registrant, dated June 19, 2013
- (15) Letter on Unaudited Interim Financials
- (31.1) Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended
- (31.2) Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended
- (32) Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- (101.INS) XBRL Instance Document
- (101.SCH) XBRL Taxonomy Extension Schema
- (101.CAL) XBRL Taxonomy Extension Calculation Linkbase
- (101.LAB) XBRL Taxonomy Extension Label Linkbase
- (101.PRE) XBRL Taxonomy Extension Presentation Linkbase
- (101.DEF) XBRL Taxonomy Extension Definition Linkbase

**Signatures**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this quarterly report on Form 10-Q to be signed on its behalf by the undersigned, thereunto duly authorized.

McGraw Hill Financial, Inc.

\_\_\_\_\_  
Registrant

Date: July 25, 2013

By /s/ Jack F. Callahan, Jr.

Jack F. Callahan, Jr.

Executive Vice President and Chief Financial Officer

Date: July 25, 2013

By /s/ Kenneth M. Vittor

Kenneth M. Vittor

Executive Vice President and General Counsel

Date: July 25, 2013

By /s/ Emmanuel N. Korakis

Emmanuel N. Korakis

Senior Vice President and Corporate Controller

The Board of Directors and Shareholders of  
McGraw Hill Financial, Inc.

We are aware of the incorporation by reference in the following Registration Statements:

1. Registration Statement (Form S-3 No. 333-146981) pertaining to the Debt Securities of The McGraw-Hill Companies, Inc.,
2. Registration Statements (Form S-8 No. 33-49743, No. 333-30043 and No. 333-40502) pertaining to the 1993 Employee Stock Incentive Plan,
3. Registration Statements (Form S-8 No. 333-92224 and No. 333-116993) pertaining to the 2002 Stock Incentive Plan,
4. Registration Statement (Form S-8 No. 333-06871) pertaining to the Director Deferred Stock Ownership Plan,
5. Registration Statement (Form S-8 No. 33-50856) pertaining to The Savings Incentive Plan of McGraw-Hill, Inc. and its Subsidiaries, The Employee Retirement Account Plan of McGraw-Hill, Inc. and its Subsidiaries, The Standard & Poor's Savings Incentive Plan for Represented Employees, The Standard & Poor's Employee Retirement Account Plan for Represented Employees, The Employees' Investment Plan of McGraw-Hill Broadcasting Company, Inc. and its Subsidiaries,
6. Registration Statement (Form S-8 No. 333-126465) pertaining to The Savings Incentive Plan of The McGraw-Hill Companies, Inc. and its Subsidiaries, The Employee Retirement Account Plan of The McGraw-Hill Companies, Inc. and its Subsidiaries, The Standard & Poor's Savings Incentive Plan for Represented Employees, and The Standard & Poor's Employee Retirement Account Plan for Represented Employees,
7. Registration Statement (Form S-8 No. 333-157570) pertaining to The 401(k) Savings and Profit Sharing Plan of The McGraw-Hill Companies, Inc. and its Subsidiaries, and The Standard & Poor's 401(k) Savings and Profit Sharing Plan for Represented Employees,
8. Registration Statement (Form S-8 No. 333-167885) pertaining to The Amended and Restated 2002 Stock Incentive Plan, and
9. Registration Statement (Form S-8 No. 333-170902) pertaining to The 401(k) Savings and Profit Sharing Plan of The McGraw-Hill Companies, Inc. and its Subsidiaries, and The Standard & Poor's 401(k) Savings and Profit Sharing Plan for Represented Employees

of our report dated July 25, 2013 relating to the unaudited consolidated interim financial statements of McGraw Hill Financial, Inc., which are included in its Form 10-Q for the quarter ended June 30, 2013 .

*/s/ ERNST & YOUNG LLP*

New York, New York  
July 25, 2013

**Certification pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended**

I, Harold W. McGraw III, certify that:

1. I have reviewed this quarterly report on Form 10-Q of McGraw Hill Financial, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: July 25, 2013

*/s/ Harold W. McGraw III*

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Harold W. McGraw III

Chairman, President and Chief Executive Officer

**Certification pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended**

I, Jack F. Callahan, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of McGraw Hill Financial, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: July 25, 2013

*/s/ Jack F. Callahan, Jr.*

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Jack F. Callahan, Jr.

Executive Vice President and Chief Financial Officer

**Certifications pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, each of the undersigned officers of McGraw Hill Financial, Inc. (the "Company"), does hereby certify, to such officer's knowledge, that:

This quarterly report on Form 10-Q of the Company for the quarter ended June 30, 2013 fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and

The information contained in this quarterly report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: July 25, 2013

*/s/ Harold W. McGraw III*

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Harold W. McGraw III  
Chairman, President and  
Chief Executive Officer

Date: July 25, 2013

*/s/ Jack F. Callahan, Jr.*

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Jack F. Callahan, Jr.  
Executive Vice President and  
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.