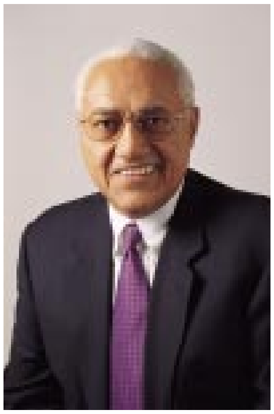
Moody's Corporation

ANNUAL REPORT 2000

NYSE:MCO....S&P 500 INDEX....MOODY'S EXPANDS GLOBALLY...

Chairman's Message



Clifford L. Alexander, Jr.

When Moody's Corporation began trading in October 2000 as a separate entity, it provided our company the opportunity to display our values to a broader audience. Moody's has sustained a pristine reputation for the objectivity of its ratings, but other characteristics of today's Moody's are less well known.

This is a company that:

- values its customers and continually seeks more positive interactions with them.
- aggressively seeks new business opportunities consistent with ethical standards and with our overall business objectives.
- recognizes the solemnity of the obligations flowing from the responsibility for conducting ratings in the public sector.
- recognizes what a small world we live in and continually seeks understanding of the variations in needs of customers outside the United States.
- recognizes that as an independently traded company, its methods of communication must become more sophisticated and comprehensive.
- is investor friendly and will openly communicate with its shareholders both large and small.
- seeks and cherishes new investors.
- understands the need for a dynamic corporation to be regarded as a good corporate citizen by many constituencies.

This is a place where:

- present and future shareholders will always be at the top of our agenda.
- people are treated professionally and according to what they know and not whom they know.
- analysts are highly trained and objective; people move up due to their skills and not their race, sex or color.
- new ideas on how to conduct business are openly communicated and welcomed.

We appreciate your interest in our company.

Sincerely,

Clifford L. Alexander, Jr.

Financial Highlights

Unaudited

Amounts in millions, except per share data	**2000**	1999	1998	1997	1996
Operations (1)					
Revenue	**$ 602.3**	$ 564.2	$ 495.5	$ 423.1	$ 349.7
Operating Income	**$ 288.5**	$ 270.4	$ 221.3	$ 184.2	$ 126.6
Net Income	**$ 158.5**	$ 150.5	$ 132.0	$ 122.4	$ 73.1
Diluted Earnings Per Share	**$ 0.97**	$ 0.92	$ 0.77	$ 0.71	$ 0.43
Pro-Forma Diluted Earnings Per Share (2)	**$ 0.91**	$ 0.84	$ 0.64	$ 0.52	$ 0.34
Balance Sheet (1)					
Total Assets	**$ 398.3**	$ 274.8	$ 296.2	$ 260.5	$ 264.4
Long Term Debt (3)	**$ 300.0**	–	–	–	–
Equity Transactions (3)					
Cost of Share Repurchases	**$ 71.8**	–	–	–	–
Dividends Paid	**$ 7.2**	–	–	–	–

(1) Amounts presented exclude operating results and one-time gains related to Moody's Financial Information Services division, which was divested in 1998, and also exclude the cumulative effect of an accounting change in 1997.

(2) Pro-forma diluted earnings per share is further adjusted to include interest expense on $300 million of debt (and to exclude any interest income), and to reflect the 2000 tax rate of 44.2%, for all periods presented.

(3) Amounts reported are for the period subsequent to the September 30, 2000 separation from The Dun & Bradstreet Corporation.

Dear Shareholders

John Rutherfurd, Jr.

During 2000, Moody's celebrated its one-hundredth anniversary. We thank all our customers – issuers, investors, and financial intermediaries – for giving us the opportunity to serve you and to build our franchise. We also thank all the people who have contributed their expertise, professionalism and dedication to Moody's success over the last century. Our first century created a great company for our customers, our shareholders and our employees. As public capital markets continue to develop, both globally and in breadth of financial products, Moody's will increase the number of our customers and the range of our services. Extending our brand will create additional value. We will reward our shareholders. We will provide attractive professional opportunities and compensation to our employees in an inclusive workplace. Moody's will be an even greater company in our second century.

During 2000, Moody's also became an independent public company, separating from The Dun & Bradstreet Corporation ("D&B"). In last year's D&B annual report, Cliff Alexander, then Chairman and Chief Executive Officer of D&B and now Moody's Chairman, said, "We firmly believe that the actions we are taking will unlock significant value for the shareholders of The Dun & Bradstreet Corporation." Under Cliff's leadership, the separation of Moody's and D&B did create very significant value for our shareholders.

Now we look forward to creating greater value. As a separate company, Moody's can better deploy its resources, including its significant cash flow, to expand its business and generate value. With the separation, we took three additional actions to increase shareholder value:

1. Granted stock options to all Moody's employees.
Offering additional equity incentives directly tied to our financial performance should greatly improve our ability to hire, retain, and motivate key employees in the competitive financial services labor market.

2. Instituted a share repurchase program of up to $250 million.
We plan to complete this program by the end of 2001.

3. Established independent access to the capital markets.
We raised capital through a $300 million private placement to finance the debt allocated to Moody's at the spin-off and

provide a portion of the funding for our share repurchase program. Our access to the capital markets provides the ability to raise capital for activities that will further increase shareholder value, such as acquisitions, joint ventures, and further share repurchases.

2000 Results

During 2000, Moody's also made good progress in pursuing its growth strategies, despite difficult conditions in the United States. This progress is demonstrated in our financial results. Moody's full-year revenue was $602.3 million in 2000, an increase of about 7% from $564.2 million in 1999. We maintained our 48% operating margins, and full-year operating income of $288.5 million in 2000 was up almost 7% from $270.4 million in 1999. Earnings per share comparisons were affected both by Moody's financing costs in the fourth quarter of 2000 and by a gain in 1999 related to the disposition of Moody's Print Manuals business. Our pro-forma earnings per share of 91 cents increased 8% for the year. In 2000, Moody's again demonstrated very strong cash generation. Moody's had $304 million of earnings before interest, taxes, depreciation and amortization ("EBITDA"). After investments in operating working capital, capital expenditures, capitalized software, and acquisitions, pre-tax operating cash flow reached $270 million, 94% of operating income.

During 2000, Moody's produced record revenues, stable operating margins and strong cash flow. Our 2000 results also demonstrate our ability to capitalize on three long-term global economic and capital markets trends, which will also drive our future results.

1. Worldwide economic growth
Economic growth provides opportunities for profitable investment because investment financed by debt drives Moody's revenues.

2. The growth of global public capital markets
Public capital markets can supply credit-sensitive capital less expensively than banks. Debt sold in public capital markets usually require ratings, which drives Moody's revenues.

3. The growth of global structured finance
Structured finance enables companies to sell assets which they generate in their business into the public capital markets. These sales can accelerate cash flow and increase return on assets and return on equity. In the case of regulated financial institutions, structured finance also enables them to reduce their required regulatory capital, allowing pursuit of additional earnings opportunities. Structured finance securities usually require ratings, which drives Moody's revenues.

Moody's global expansion produced impressive results in 2000. International revenue was $173.4 million in 2000 compared to $140.8 million in 1999, an increase of 23%. Moody's revenue grew almost 30% in Europe in 2000, with double-digit growth in all business lines. In Japan, our revenue grew over 20% despite the economic environment, based on strong growth in structured finance and increased corporate rating relationships.

Moody's also experienced strong growth in global structured finance during 2000. Structured finance ratings revenue of $199.2 million in 2000 grew more than 15% over 1999 revenue of $172.4 million. Structured finance now represents about one-third of Moody's total business.

Moody's also had success in our two non-ratings businesses. Credit research revenues grew over 15% based on subscriber growth, mainly outside the

United States, and strong demand for research products delivered via the Internet. Moody's Risk Management Services (MRMS) business had a particularly strong year in 2000. Moody's existing business was successfully integrated with a financial software products company acquired in January 2000. Revenue increased more than 100% or $12.4 million in 2000.

Of course, in 2000 Moody's was also exposed to difficult interest rate conditions in the United States. The U.S. fixed income markets faced their toughest year since 1994, which was the last time the Federal Reserve tightened monetary policy for an extended period. As a result, United States ratings revenue declined 1% in 2000 compared to the prior year. Nevertheless, by capitalizing on longer-term opportunities, Moody's was able to achieve almost 7% revenue growth despite the difficult U.S. interest rate environment. That represents excellent performance and demonstrates the great underlying strength of the Moody's franchise.

Strategies for Growth

We intend to continue our record of strong performance by pursuing our key strategies for growth: to continue our global expansion, to introduce new products, and to extend the very strong Moody's brand.

Global Expansion

Between 1994 and 2000, the compound annual growth rate of securities sold across international borders was over 23%. We have aggressively pursued the opportunity to rate and to provide credit research on these securities. To date, our international growth strategy has paid off; international revenues have grown from $63 million in 1996 to $173 million in 2000.

Our main focus for growth will be Europe, which will be the most important competitive arena in the ratings business. We expect that a significant portion of European financing needs currently met by banks will move to the public capital markets and be rated. Each year since 1997, Moody's has assigned first-time ratings to about 100 European corporations. Moody's estimates that there are still 1,500 unrated European institutions with revenues of over 1 billion euros; they are good prospects to issue public debt and create a strong pipeline for continued growth in Moody's European ratings.

New Products

Moody's will also continue to grow from successful introduction of new products. Over the last few years, we have had

....REWARD OUR SHAREHOLDERS.....GROWTH IN EUROPE.......

great success with our ratings of collateralized debt obligations, or CDOs, and ratings of syndicated bank loans. In addition, we are now providing rank order ratings of borrowers' financial strength within a particular country, expanding our research business, and introducing risk-consulting products. Our Rating Assessment Service enables an issuer contemplating an important transaction to obtain an advance definitive rating judgment, reducing uncertainty about market acceptance. Our CDO collateral monitoring service provides holders of CDO portfolios with important information about the underlying assets contained in those portfolios. Moody's has client relationships with 4,500 of the world's largest corporations; we will continue to emphasize development of new rating, research and consulting products to extend these relationships.

Extending the Moody's Brand
We continue to identify opportunities to expand our well-known and accepted brand. Our main effort to date has been through MRMS, which provides software, credit education and credit risk assessments used by banks and other financial institutions in their commercial lending and portfolio management. We expect to grow MRMS revenues from $23 million in 2000 to $50 million by 2003. We seek further brand extension by providing services to improve investors' performance and risk-adjusted performance, focusing both on credit risk and market risk, and on single securities and portfolios.

Our Goals
Moody's goal is to provide the most accurate, comprehensive, and useful assessments of risk to all participants in credit-sensitive markets: issuers, intermediaries and investors. We intend to be the best rating agency, as perceived by our customers, in all major capital markets. We also intend to develop our positions in important developing economies. We will extend the Moody's brand.

Our goal is also to provide an attractive value proposition to our shareholders. On a long-term basis, our financial performance targets for our core rating business are low-teens growth in revenue and operating income, stable margins at the 48% level that we have historically exhibited, and mid-teens earnings per share growth. Our brand extension activities will, over a medium term of three to five years, provide additional earnings. We will return excess cash flow to our shareholders by way of dividends and share repurchases.

Finally, Moody's seeks to be a superior place to work. Hiring, retaining and rewarding our outstanding professionals worldwide is critical to our success. We aspire to provide challenging and satisfying professional activities, a reasonable balance between work and other commitments, compensation that rewards performance and is aligned with shareholder interests, and an inclusive work environment.

Moody's has had a great hundred years since our founding. We will create an even greater company in our second century.

John Rutherfurd, Jr.

John Rutherfurd, Jr.
President and Chief Executive Officer
March 15, 2001

As Moody's enters a second century of growth, powerful forces continue to drive the expansion of the world's capital markets and thus demand for the objective, reliable credit risk opinions that have been our stock-in-trade for 100 years.

Today, capital markets worldwide account for over $40 trillion of debt issued by governments, corporations, financial institutions, and other borrowers. These borrowers increasingly seek capital in the public bond market, rather than relying on funding from banks and other financial intermediaries.

Moreover, financial institutions are securitizing assets to improve return on assets and return on equity, as well as to more efficiently manage regulatory capital.

These trends – coupled with a worldwide shift toward deregulation and open markets – are fueling growth in both the volume and complexity of fixed-income securities. As capital markets expand worldwide, **Moody's presence becomes ever more global.**

At the same time, advances in information technology – from the telephone to the desk-top PC to the Internet – facilitate the speed and volume of financial transactions by bringing together borrowers and lenders who reside on different continents, speak different languages, and live in markedly different cultures. In this context, there is a clear need for a common, easily understood means of comparing the risks of a growing number of investment opportunities.

In addition, a robust and sustained global economic environment fuels yet more demand for financing the growth prospects of corporations and governments worldwide.

The European Monetary Union provides a clear illustration of the impact of these trends on Moody's business environment. By eliminating foreign exchange risk among member countries, the union facilitates cross-border borrowing and investment. It also propels Europe into the first rank of financial markets and creates immediate, broad-based need for credit ratings that help borrowers access a deeper funding base and assist investors in the evaluation of their exposures.

Borrowers, eager to finance their growth from new sources, see benefits in diversifying their funding base. But their lack of recognition in these new markets presents the need for an efficient mechanism through which their business prospects and financial capacity can be communicated.

Investors, as the providers of capital, face a greatly expanded range of investment options. This expansion provides diversification opportunities that bring the potential for higher returns. But the proliferation of complex investment alternatives requires that investors more carefully weigh risks and rewards.

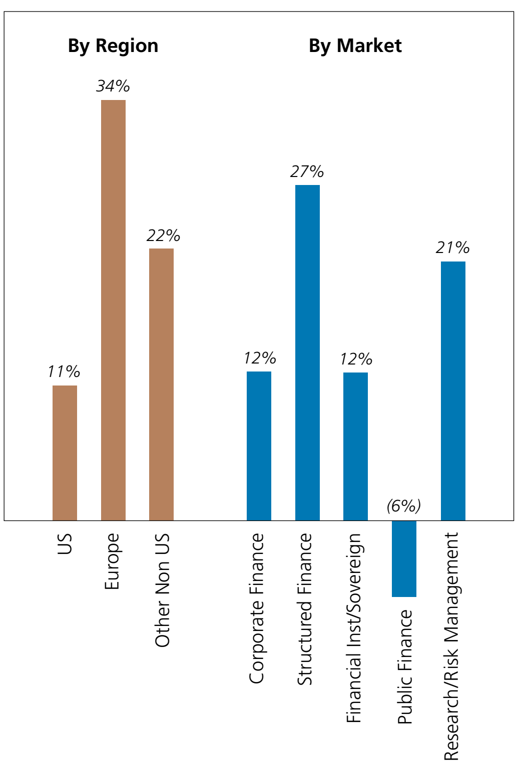
As a result, there is rapidly growing demand for Moody's services among borrowers and investors alike. Particularly in regions where capital markets are expanding swiftly, like Europe, and in sectors characterized by capital market innovation, such as structured finance, Moody's global reach and broad scope bring considerable value to these customers.

...15 GLOBAL OFFICES.....EXPANDING CAPITAL MARKETS......

Moody's expanding global presence

Revenue growth

compound annual growth rates, 1996-2000



As a consequence, since 1996 **Moody's revenue growth** has been driven by high double-digit increases outside the US and in the global securitization market.

Disintermediation, information technology, deregulation, and securitization are powerful forces on capital market development and are expected to persist in the decades ahead. In this environment, Moody's is prepared for a second century of growth in its increasingly diverse, and consistently successful business.

Our Business

Meeting increasing demand for capital market access and credit risk assessments

As the global leader in credit risk ratings and research, Moody's is uniquely positioned to assist both borrowers and investors in the capital formation process. Our business model is simple. We provide the parties in capital market transactions with tools that optimize their financing and investment opportunities. Here's how it works.

Providing access to capital markets

Issuers of debt and the bankers that place securities with investors need credible ways to present their investment opportunities to the market. Our issuer clients tell us that they want transparency and responsiveness from their rating agency. They need authoritative, objective opinions about their financial condition that can be communicated to a global investor base. We deliver on these demands.

Transparency

We work closely with the management of rated credits to ensure that we have a full understanding of their financial, operational, and strategic plans. We provide feedback to explain the rationale for our ratings and alert borrowers to the potential rating implications of developments in their environment. Transparency of the ratings process is supported by issuer conferences, special reports on our rating methodology and analytical practices, and a variety of on-going communications, including meetings with management, site visits, and periodic newsletters targeted specifically to the interests of debt issuers.

Credibility with investors

As objective expressions of credit quality, Moody's ratings meet issuers' needs for credible third-party assessments that enhance the marketability of their securities. Our research relationships with investors around the world promote extensive use of our ratings by stimulating an appreciation for the accuracy and reliability of our opinions.

Helping investors price risk

On the buy-side of the markets, institutional investors tell us that they need broad rating coverage to facilitate comparisons globally, a track record of accurate judgments, and a strong professional service relationship that provides insightful research delivered in a timely manner. We continue to meet these needs, too.

Global rating coverage

Currently, Moody's ratings cover an estimated $30 trillion of debt securities globally. That includes ratings of some 85,000 corporate and government securities issued by over 6,000 borrowers, 68,000 public finance obligations in the US municipal bond market, and nearly 15,000 structured transactions.

Peerless track record for rating accuracy

Moody's **Annual Default Studies** demonstrate the accuracy of our rating judgments. The research proves empirically that Moody's rating system works – in every decade going back to 1920, the higher the rating from Moody's, the lower the incidence of default and credit loss.

To sustain that track record, we have a diverse group of talented analysts, supported by the latest in technology and research tools, and we maintain a rating committee process that ensures a high quality product.

Comparability

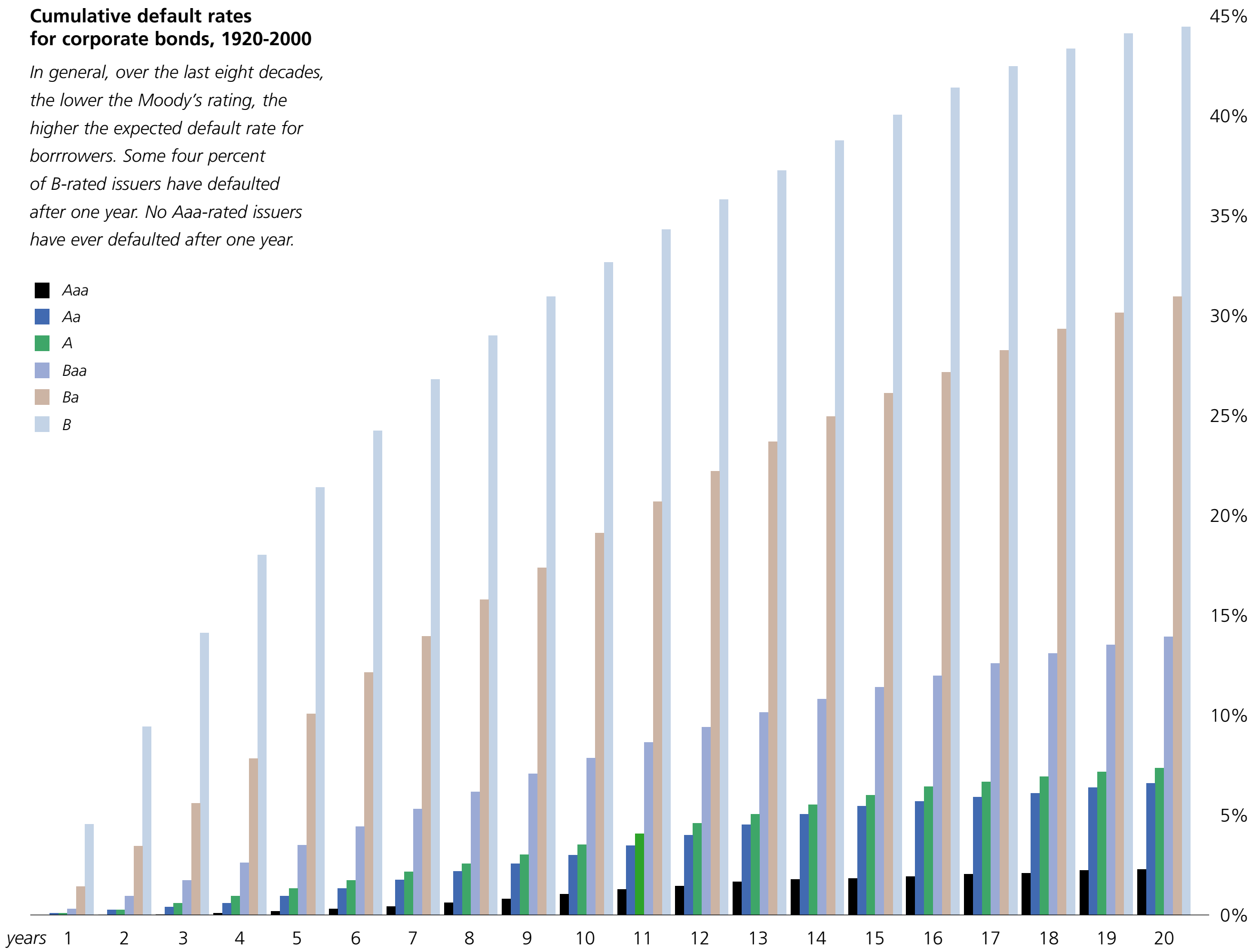
Moody's ratings are designed to afford comparisons of credit quality across a wide range of borrowers. We organize our analytical processes to achieve this through a variety of means, with emphasis on the global, multi-industry perspective of our rating committees. As a result, Moody's rating scale helps investors make relative judgments in their evaluation of a growing set of investment alternatives.

Timely, consultative research services

Moody's ratings are monitored continuously. Every day, we alert market participants to changes or confirmations of our opinions. We publish research reports on individual borrowers, specific securities, industry sectors, and market developments.

Cumulative default rates for corporate bonds, 1920-2000

In general, over the last eight decades, the lower the Moody's rating, the higher the expected default rate for borrrowers. Some four percent of B-rated issuers have defaulted after one year. No Aaa-rated issuers have ever defaulted after one year.



Using the Internet, we provide clients with convenient desktop access to a complete archive of our research – some 400,000 individual reports going back more than 10 years. And, we offer direct access to Moody's analysts by phone, in person, and through teleconferences and seminars.

Independent surveys consistently rank Moody's ratings and research as the most highly regarded by investors across nearly every market sector and region. In the most recent survey by *Institutional Investor*, Moody's was named the "Top Rating Agency."

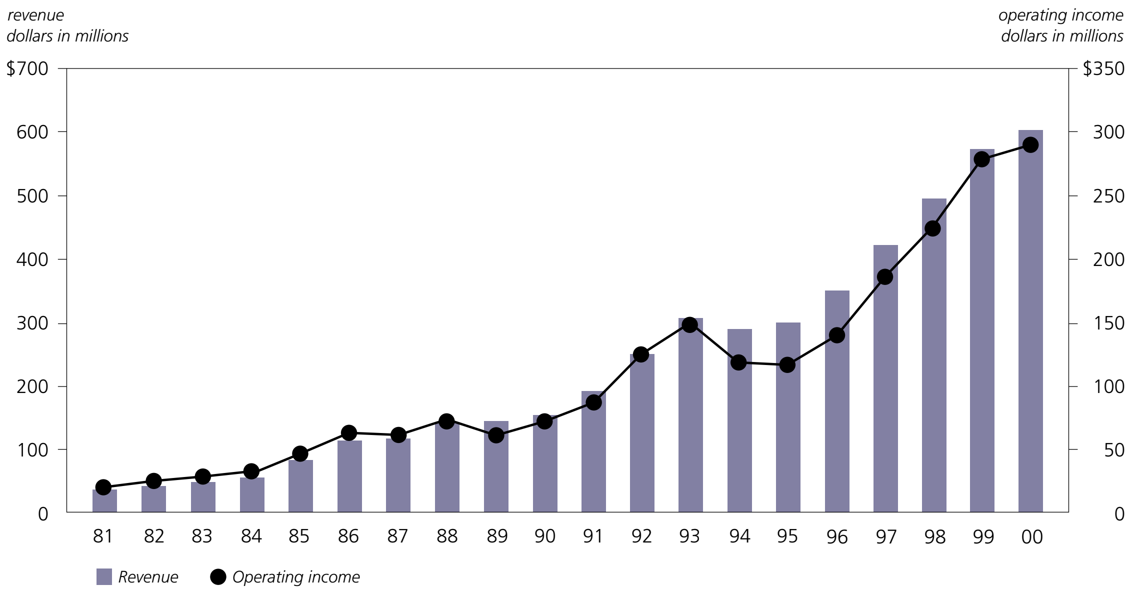
On both sides of capital markets transactions – for borrowers and investors alike – Moody's plays an indispensable role in facilitating the debt issuance and placement process. It is this critical role that helps to ensure Moody's full participation in the continued growth of capital markets worldwide.

Our Results

Financial performance reflects strategic direction

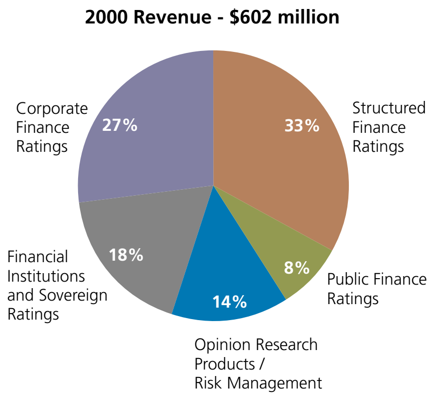
Consistently strong growth

Moody's revenues and operating income have been characterized by high rates of growth. What's more, that **growth has been achieved with a degree of stability** that is unusual among rapidly growing companies.



Since 1981, Moody's has increased both revenue and operating income by an average of 17% annually. In addition, our growth has been markedly consistent from year to year. Annual increases in revenue were registered in 19 of the last 20 years; operating income grew in 16 of the last 20 years. This combination of strength and consistency reflects both robust demand for our products and success in implementing our strategies.

....CONSISTENT REVENUE GROWTH.....DIVERSIFIED REVENUE.......

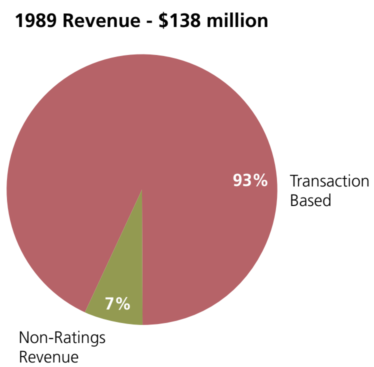


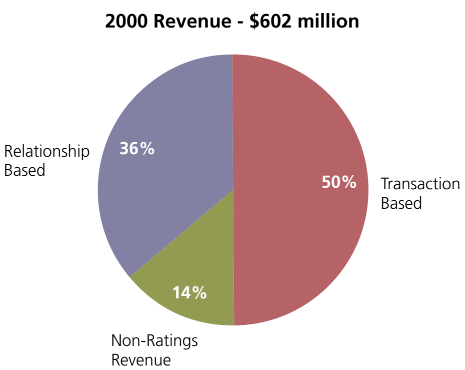
Diversified revenue

As our revenue has grown, it has become **increasingly diversified** across lines of business and geography.

Of our five principal business segments, no area accounted for more than one-third of total revenue last year. As the asset securitization markets have grown, structured finance has become our largest business, followed closely by corporate finance.

Geographically, a majority of Moody's revenues are generated in the United States. However, our most important growth is being realized outside the US. Europe, for example, has become a major source of revenue as monetary union drives the creation of a pan-European capital market. Of Moody's total revenues in 2000, 29% were from non-US sources, a significant increase from the 18% share just three years earlier.





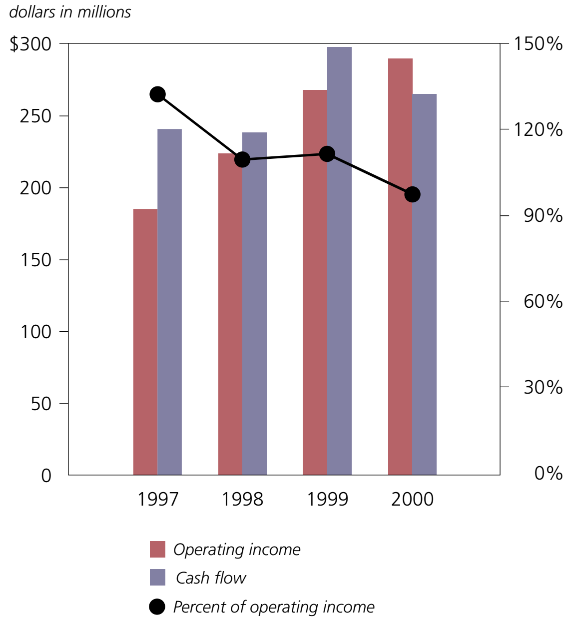
Managing volatility

To address volatility in fixed-income securities issuance, Moody's has in recent years emphasized annual fee arrangements over transaction-based pricing. Together with business line and geographic diversification, this **relationship-based pricing for our largest clients affords greater stability of revenues** in the rating business. Fully 50% of our revenues are now generated from sources other than rating fees on individual bond issues – up sharply from 7% a decade ago. Relationship-based rating fees now represent over one-third of Moody's total revenue, while research sales and other non-rating businesses account for almost 15% of the total.

.......REDUCED SENSITIVITY TO CAPITAL MARKET VOLATILITY.....

Putting free cash flow to work

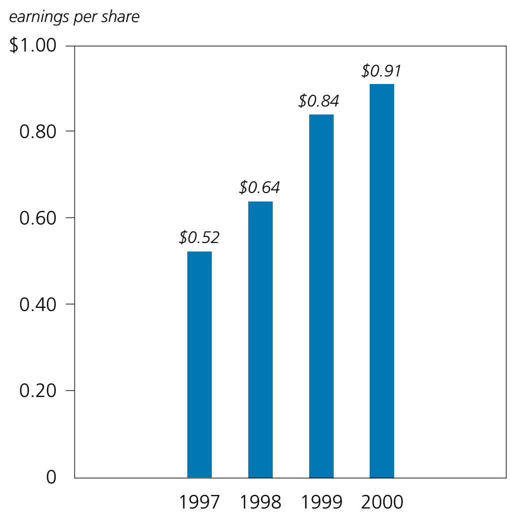
Moody's generates **substantial cash flow from operations.** Historically, all of this free cash flow – over $1 billion of pre-tax operating cash flow for the 1997 to 2000 period – was distributed to our parent company. Now as an independent company, Moody's Corporation has direct control over this considerable cash generation. It will be used to finance the important strategic initiatives that we believe will deliver more revenue and operating income growth and to fund our stock repurchase program which returns excess capital to our shareholders.



Pre-tax operating cash flow. Includes cost of acquisition in 2000. Excludes Financial Information Services (FIS), divested in 1998.

Growing earnings per share

A variety of financial measures underscore Moody's success in capitalizing on the health of our core markets through careful execution of well-conceived strategies. That success is perhaps most evident in our **steady improvements in pro-forma earnings per share,** which have grown by 75% since 1997.



Pro-forma to include interest expense on $300 million of debt (and to exclude any interest income), and to reflect the 2000 tax rate of 44.2% for all periods presented. Also excludes amounts related to FIS, which was divested in 1998, and the cumulative effect of an accounting change in 1997.

.....SIGNIFICANT CASH FLOW.....SOLID EPS GROWTH......

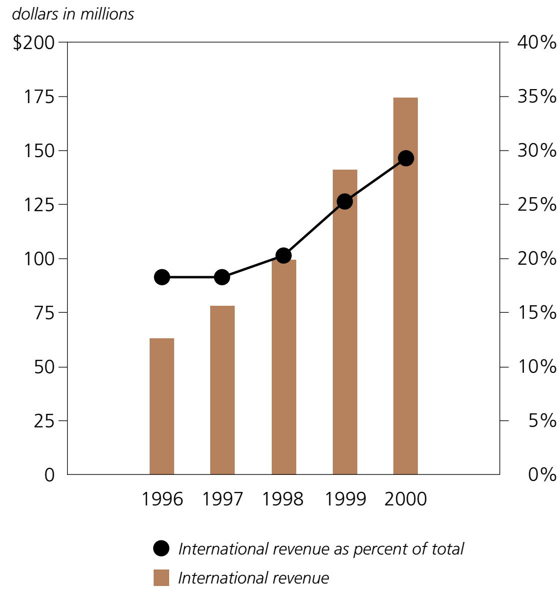
Our Strategies

Moody's strategic direction is based on three key objectives:

- Seize growth opportunities that flow from the worldwide expansion of capital markets
- Build upon our position of market leadership through new product development
- Achieve further growth through brand extensions

Seizing global opportunities

Global economic growth and capital markets evolution are creating important opportunities for Moody's. As economic development, market liberalization, and disintermediation of financing sources create **greater flows of capital in public markets,** Moody's role in facilitating borrowers' and investors' activities in those markets becomes more established and valuable.

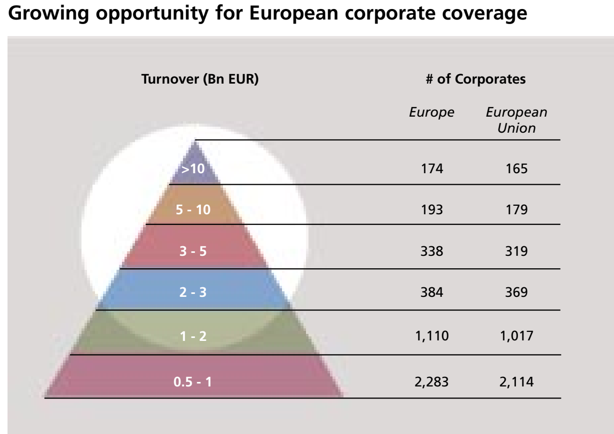


Europe

Monetary union in Europe has stimulated the creation of a European bond market and motivates governments, financial institutions, and corporations alike to strive for greater efficiency in their financial operations. Private companies seek capital market financing in lieu of bank borrowing, and financial institutions securitize assets to improve their returns and better manage their regulatory capital. Both initiatives create more demand for Moody's services.

To date, Moody's has rated more than 800 European companies – a 50% increase in five years. As the share of corporate financing provided by banks continues to decline, Moody's **rating coverage will grow** with more companies seeking access to the bond markets.

Growing opportunity for European corporate coverage



There are approximately 1,500 unrated institutions with annual revenues of at least €1 billion.

Source: Bureau van Dijk 1999; Boston Consulting Group, Inc.

Similarly, the volume of structured transactions has risen sharply, reflecting the growing need of financial institutions to securitize assets and investor demand for highly rated securities. The complexity of these instruments increases the relevance of Moody's ratings to both sides of the transaction: originators seek ratings that will enhance the marketability of their securities while investors rely on our detailed analyses to better understand the risks. During 2000, asset-backed issuance in Europe increased 33%, issuance of collateralized debt obligations went up by 117%, and the number of asset-backed commercial paper programs rose by 160%.

We have taken a number of steps to meet the needs of these new European clients:

- As we increase our staff in London, Frankfurt, Paris, Madrid, and Milan, we continue to emphasize the need for a staff of European nationals with mastery of regional business, culture, and language.
- A more localized management structure in the region ensures efficient decision-making and better service for our European client base.
- Established partnerships with various entities throughout the region achieve better connections to the local business communities. For example, our affiliation with Czech Rating Agency – our sixth global joint venture over the past two years – will solidify Moody's relationships with many Eastern European entities as they seek market access through the regional financial center in Prague.
- Expanded research on European issuers, and special studies and industry analyses, provide specific focus on issues pertinent to the European markets.

Asia-Pacific

While the after-effects of the Asian crisis of the late '90s dampen bond market isssuance, Moody's is positioned to take advantage of the flow of infrastructure finance initiatives related to economic development. In Singapore, Australia, China, and Hong Kong, privatization and deregulation are driving restructuring of the power, transportation, energy, and telecommunications sectors. As the leading rating agency for Asian project finance transactions, our rating coverage in the region has grown by 21% over the past year.

For the third year in a row, Moody's has been named Asia's leading rating agency in a poll conducted by *Finance Asia.* Survey respondents cited Moody's for the excellence of our research and the influence of our opinions.

Japan

In 1985, Moody's first office outside the US opened in Tokyo, as Japanese capital surpluses were being invested in Eurobonds. Having established a leadership position in rating cross-border securities, we have since turned our attention to Japan's sizable domestic bond market.

A variety of factors have led to an increasing awareness of credit risk and thus greater demand for ratings in Japan. Key among these are the change in the nature of capital formation, the beginnings of disintermediation in the financial system, increasing reliance on market discipline, and use of consolidated accounting.

A number of other positive influences on the evolution of Japanese financial markets appear to be well underway. These include a rising awareness of shareholder value, the sale of cross-shareholdings, regulatory reform, continued expansion of the structured finance sector by banks, and a decentralization of governmental authority.

These developments create several opportunities for Moody's, most notably:

- A rise in the volume of rated securities, new business development, and increased demand for ratings on managed funds, bank loans, project financings, and debt issued by regional and local governments.

- Expansion of ratings in new sectors such as structured finance as reform takes hold in Japan's financial markets.

United States

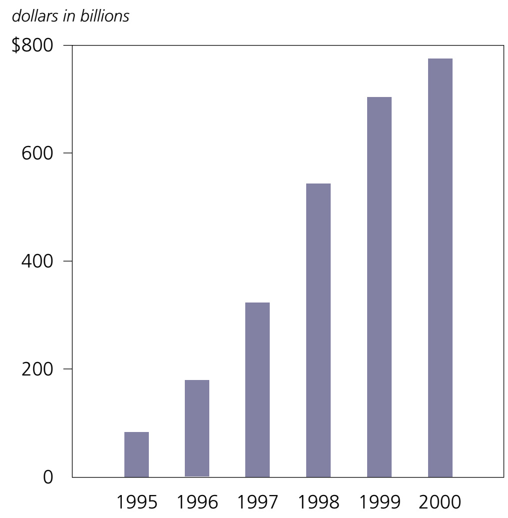
Last year, rising interest rates and the consequent impact on borrowing costs in the tax-exempt and corporate bond markets proved challenging to market participants. Credit concerns stemming from rising bond default rates in the second half of the year squeezed most lower-grade corporate credits out of the bond market.

Looking ahead, Moody's expects cyclical recovery in issuance of investment-grade bonds, thanks in part to lower interest rates along with a shift from short-term financing in 2000 toward longer-term issuance in 2001. Despite the adverse market conditions, Moody's achieved important accomplishments such as:

Expansion of syndicated loan ratings

In 2000, **Moody's ratings covered over $775 billion** of syndicated bank loan facilities. That was up from less than $50 billion of rated loans in 1995, when Moody's pioneered the use of ratings in the syndicated loan market. Our bank loan ratings boost secondary market liquidity, which enables loan trading to take on more of the characteristics of the fixed-income securities market.

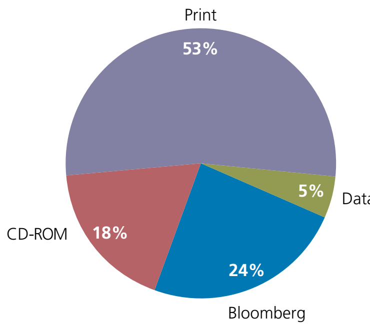
Growing volume of rated syndicated loans



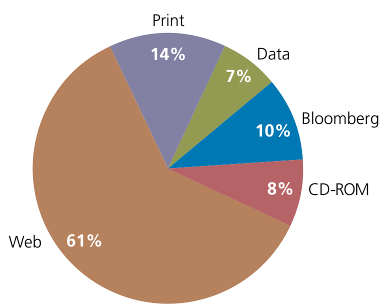
Increased Web-based delivery of research

The Internet has become an important driver of growth for Moody's research revenue. Since the introduction of research delivery capabilities using the World Wide Web, US-based subscription revenue has grown by over 35%, and the percentage of clients who access our research via the Web exceeds 60%. This technology has enabled Moody's to improve the efficiency and timeliness of our research and to offer greater utility to our clients. Moreover, as fewer clients utilize hard-copy research, we are able to realize production cost savings that further enhance the profitability of our research business.

January 1998



January 2001



Latin America/Canada

Elsewhere in the Americas, Moody's also launched a number of important initiatives last year.

- A new rating system now provides Moody's with significant prospects for growth in Latin America. National Scale Ratings were first introduced in Brazil in 1999 to provide country-specific measures of creditworthiness. In developing markets, these ratings are proving valuable as an orientation to the rating process for borrowers that rely on an exclusively domestic funding base. Investors find that the national system provides better differentiation among credits in countries where low sovereign ratings create compression under Moody's global rating scale.

- Moody's established an office in Mexico City in September 2000, receiving regulatory approval from Mexico's *Comisión Nacional Bancaria y de Valores* to rate all types of securities and managed funds using the national scale rating system. This governmental approval encourages issuers and fund managers in the country's fast-growing market to apply for Moody's ratings and to use our research to guide their investment decisions.

- In early 2000, Moody's acquired a partnership interest in *Clasificadora de Riesgo Humphreys Limitada*, a Chilean rating agency.

- In Canada, from our Toronto office, Moody's has expanded activities in structured finance and project finance to meet growing demands for credit analysis and ratings in this growing market.

...INTERNET DRIVES GROWTH....EXPANSION IN LATIN AMERICA....

Product development

Moody's has a successful track record of developing new products to meet the evolving needs of customers. Deep relationships with our client base of borrowers and investors enable us to uncover new customer needs at an early stage. Just as importantly, those relationships confer product placement capabilities that help us to readily achieve penetration of new products into our various customer sets.

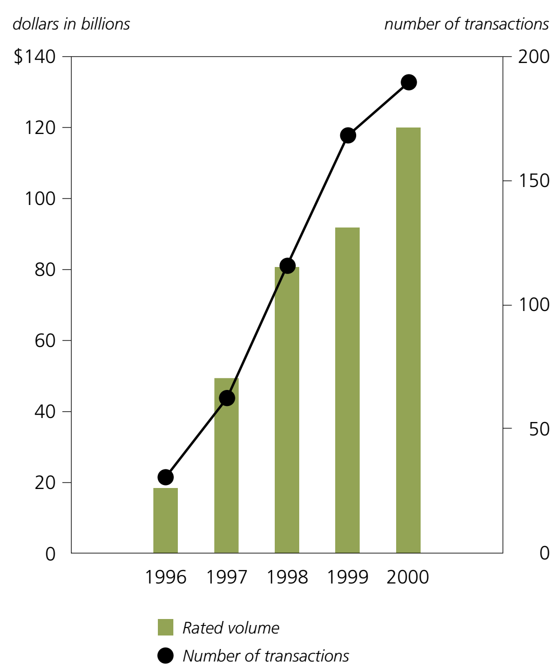
We anticipate continued development of our product offerings across all areas of the business, including new rating initiatives, extensions of our research services, and consulting activities that leverage our expertise. Just as we have effectively used the Internet to enhance our research clients' interactions with Moody's, we will continue to utilize technology in order to capitalize on and enhance our formidable market position.

Here are some of our most recent initiatives:

Rating Assessment Service (RAS)
This consulting service is designed to provide clients with a definitive rating under hypothetical scenarios. By giving clients a precise answer as to how a specific proposal will affect their rating, Moody's assists management, boards of directors, and investment bankers in evaluating the merits of strategic alternatives. RAS offers a confidential, formal assessment that can inform plans for mergers or acquisitions, divestitures, leveraged or management buyouts, and other types of transactions. RAS establishes a new revenue stream that utilizes existing analytic resources and deepens client relationships by promoting dialogue between Moody's and rated issuers.

Portfolio Monitoring for Collateralized Debt Obligations (CDOs)
Growth in the CDO market has created a need among investors for better tools to analyze these types of transactions. Monitoring the specific collateral in these securities often entails reviewing thousands of documents – a task that is impractical for most investors to perform independently. To meet this need, we are launching an enhanced portfolio monitoring service as a complement to Moody's well-respected analysis and leading market share in this asset class. The service will provide investors with detailed research, including data from Moody's proprietary quantitative risk scoring and

Global CDO growth



SUCCESSFUL TRACK RECORD OF NEW PRODUCTS

default databases. We believe that the breadth and quality of our information are unique in this market. By expanding our relevance in the $300 billion CDO market, Moody's will continue to solidify and profit from our leadership position.

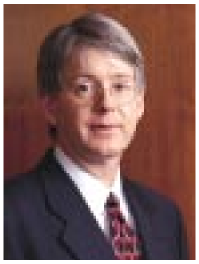
Content Licensing

The emergence of credit-related commerce via the Internet has spurred interest in the distribution of Moody's ratings and research through new electronic channels. In response, we have launched a product to license distribution rights for portions of our content. Strategic repackaging of our intellectual property allows us to expand relationships with traditional clients and tap new markets, including on-line bond trading exchanges, web portals, and financial information vendors. Generating well over $1 million of new revenue in the first year, this initiative reflects the importance of Moody's content to our e-commerce partners, as well as our ability to use the Internet to make Moody's ratings available to new audiences.

Brand extension: the $20 trillion bank loan market

Moody's reputation and brand identity are highly valuable assets. A key strategy is to leverage our position as a leading brand in financial services for new business development. We are committed to uncovering and seizing opportunities to which we can bring our name recognition, credibility, and authority to quickly and efficiently establish leading market positions in high growth businesses.

At present, our most important brand extension activity is being pursued by Moody's Risk Management Services (MRMS). By providing tools for risk assessments on small and medium size companies, MRMS extends Moody's authority as an evaluator of credit quality beyond our traditional core in the bond markets and into the $20 trillion bank loan market. Moreover, MRMS is adapting modern quantitative techniques to the measurement of credit risk across companies of all sizes. In so doing, Moody's seeks to become the only full-service provider able to meet the complete range of credit evaluation needs for the institutional lending and investment communities.



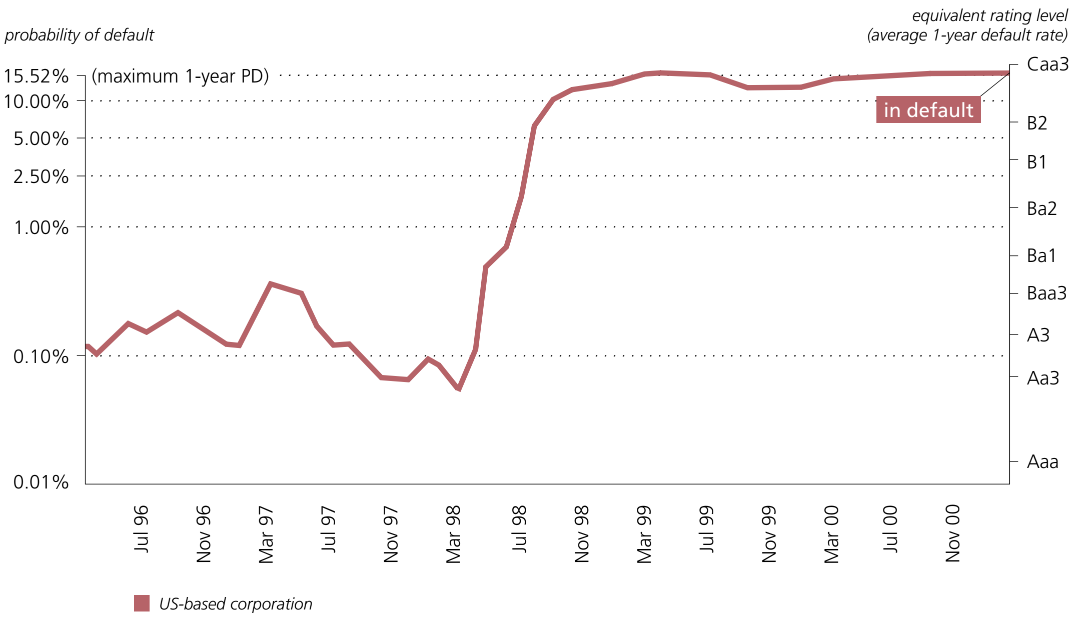
Andrew E. Kimball
Managing Director,
Risk Management Services

A technology-driven outgrowth of the traditional rating business, MRMS provides a suite of tools for the analysis and management of credit risk. These include financial analysis software, quantitative risk assessment models, credit training programs, and credit risk management consulting. Used extensively by lenders worldwide, MRMS products support the evaluation of counterparty exposures on a credit-by-credit and portfolio basis.

Moody's Financial Analyst™ enables lenders to readily identify important issues for further study when examining the credit risk profile of a given borrower. During 2000, Moody's leadership position in this arena was bolstered by the acquisition of the software products group of Crowe Chizek & Company, LLP. As a result, Moody's more than doubled its share in the commercial bank market for financial analysis and statistical spreadsheet software.

MOODY'S IS EXPANDING ITS BRAND.

Monthly 1-year probability of default history



This timeline of credit risk for a large US-based company was generated by Moody's RiskCalc™ model, which uses equity market, financial statement, and other data. The company shown defaulted on its bank loans in late 2000.

Last year, we also introduced the first of our *RiskCalc*™ models, which **provide estimates of the probability of default (PD)** for publicly traded as well as privately held companies. Driven by publicly available information and user-controlled inputs, *RiskCalc* incorporates advanced statistical methods to provide timely and objective assessments of credit quality.

The first *RiskCalc* models covering North American public and private firms were released to an enthusiastic audience of commercial bankers. In addition, a core group of quantitatively-oriented bond investors were among the early adopters of the *RiskCalc* technology, providing early confirmation of Moody's brand extension strategy. Additional *RiskCalc* models are being developed specifically for regional markets in Europe and Asia, as well as models designed for specific industry sectors such as financial institutions.

At the closing bell ceremony at the New York Stock Exchange, which was broadcast live on CNN worldwide, are: John Rutherfurd, Jr., Cliff Alexander, Jr., NYSE Chairman Dick Grasso, NYSE President Bill Johnston, Stephany Bushweller, William Thompson, Arlene Issacs-Lowe, Joe Grohotolski, Renee Reisel Tack, Prasanna Venkatesh, Joseph Sicuranza, Carina Benedetti, Sonia Park, and Marc de Tracy.

Our People

As a service business, we depend on the skills of a highly specialized professional staff. To assure our global leadership, Moody's must attract, develop, and retain professionals of the highest caliber. Their skills, their commitment, and their integrity are the foundation of our long-term success.

Credit skills are at a premium in the fast-growing markets we serve. Moody's responds to this challenge by developing a culture of collaboration, interdisciplinary analysis, and intellectual stimulation. Associates at Moody's understand and welcome the opportunity to work closely with peers from around the world, who bring the perspective of many cultures. Accordingly, we aspire to maintain a diverse team that includes an expansive range of backgrounds and experience.

In addition, we have implemented other practices that emphasize Moody's core values. We believe that associates engaged in a challenging profession achieve greater satisfaction and productivity when they also participate fully in a range of family and personal activities. To this end, we support our people with flexible work arrangements that respect their needs and encourage a healthy balance between their professional and personal lives.

Competitive compensation is central to our staffing strategy. As a newly public corporation, Moody's is committed to using equity ownership to motivate and reward our associates. By firmly aligning the interests of employees and shareowners in the success of the firm, Moody's will create an extensive community of stakeholders that is empowered to maintain and expand Moody's franchise.

By concentrating on meeting these needs of associates, we strive to deliver the best work product from our highly talented and dedicated team. To promote such excellence, Moody's seeks to maintain the vibrant and creative environment that accounts for our historical success and assures our bright future.

Moody's Corporation

Financial Review

This discussion and analysis of financial condition and results of operations should be read in conjunction with the Moody's Corporation consolidated financial statements and notes thereto included elsewhere in this Annual Report.

The Company

Except where otherwise indicated, the terms “Moody’s” or "the Company" refer to Moody’s Corporation and its wholly owned subsidiaries. The Company is a leading global credit rating, research and risk analysis firm in terms of market position, revenue, income and a number of other relevant statistical standards. The Company publishes rating opinions on a broad range of credit obligations. These include various corporate and governmental obligations, structured finance securities and commercial paper programs, issued in domestic and international markets. Moody’s also assigns ratings to issuers of securities, insurance company obligations, bank loans, derivative products, bank deposits and other bank debt and managed funds.

Closely integrated with its ratings services, Moody’s provides research services that are utilized by institutional investors and other credit professionals. Organized according to industry and market segment, these research services cover investment grade and speculative grade corporate bonds, the global banking sector, municipal bonds, and mortgage- and asset-backed securities, in cross-border and domestic markets worldwide.

Moody’s Risk Management Services, Inc., a wholly owned subsidiary of Moody’s ("Moody’s Risk Management Services”), develops and distributes credit risk assessment software used by banks and other financial institutions in their portfolio management, commercial lending and other activities. Moody’s Risk Management Services also provides modeling tools, analytics, credit education materials, seminars, computer-based lending simulations and other products and services.

Factors Affecting Comparability

On September 30, 2000 (the "Distribution Date"), The Dun & Bradstreet Corporation ("Old D&B") separated into two independent, publicly traded companies – Moody’s Corporation and The New D&B Corporation ("New D&B"). The separation was accomplished through a tax-free distribution to the shareholders of Old D&B of all of the shares of common stock of a newly formed, wholly owned subsidiary, New D&B, which comprised the business of Old D&B’s Dun & Bradstreet operating company ("the D&B Business"). The remaining business of Old D&B consisted solely of the business of providing ratings and related research and risk management services ("the Moody’s Business") and was renamed "Moody's Corporation". Old D&B’s common stock became Moody’s common stock, and shares of common stock of Old D&B represent a continuing interest in the Moody’s Business. The financial statements of Moody’s have been restated to reflect the recapitalization described above.

In general, pursuant to the terms of the Distribution Agreement, entered into at the Distribution Date, all of the assets and liabilities of the D&B Business were allocated to New D&B and all of the assets and liabilities of the Moody's Business were allocated to Moody's. The net indebtedness of Old D&B at the Distribution Date was allocated equally between the parties, before giving effect to certain adjustments.

The consolidated financial statements of Moody’s Corporation reflect the financial position, results of operations, and cash flows of Moody's as if it were a separate entity for all periods presented. The financial statements include allocations of certain Old D&B corporate headquarters assets and liabilities that were transferred from Old D&B at the Distribution Date, as well as allocations of certain expenses for employee benefits, centralized services and corporate overhead (see Note 1 to the consolidated financial statements). The expense allocations were based on utilization of specific services or, where such an estimate could not be determined, based on Moody's revenue in proportion to Old D&B's total revenue. Management believes that these allocations are reasonable. However, the costs of these services and benefits charged to Moody's are not necessarily indicative of the costs that would have been incurred if Moody's had performed or obtained these services as a separate entity.

Operating Segments

Moody's operates primarily in one reportable business segment: ratings, which accounts for approximately 86% of the Company's total revenue. The ratings segment is composed of four ratings groups: corporate finance, structured finance, financial institutions and sovereigns, and public finance. Given the dominance of the ratings segment to Moody's overall results, the Company does not separately measure and report operating income for the ratings business. Rather, revenue is the predominant measure utilized by senior management for assessing performance and for the allocation of resources, and operating income is evaluated for Moody's as a whole. Moody's also reports revenue separately for two geographic areas: U.S. and international.

Results of Operations

Year Ended December 31, 2000 Compared with Year Ended December 31, 1999

Moody's revenue was $602.3 million in 2000, an increase of $38.1 million or 6.8% from $564.2 million in 1999. The increase reflected modest growth in ratings revenue, with strong gains in global structured finance ratings, partially offset by the impact of declines in several sectors of the U.S. market. Other revenue reflected strong growth over 1999 in Moody's Risk Management Services, primarily related to the acquisition of a financial software products company in January 2000. It also reflected double-digit growth in research products revenue, driven by international expansion, new product introductions, and growth in demand for products delivered via the Internet.

Moody's ratings revenue was $519.6 million in 2000, an increase of 3.5% from $502.2 million in 1999. Strong growth in global structured finance and international corporate finance was partially offset by the effects of a decline in securities issuance in the U.S. capital markets.

Structured finance ratings revenue of $199.2 million in 2000 grew 15.5% over 1999 revenue of $172.4 million. The increase in 2000 revenue was principally the result of strong growth in the asset-backed and derivatives markets in the U.S., Europe and Japan. Moody's revenue from ratings of credit derivatives grew by 12% in 2000, as the number of collateralized debt obligations that Moody's rated increased by 14%.

Revenue from corporate ratings was $162.7 million in 2000 compared with $165.5 million in 1999, a decline of 1.7%. Revenue from high yield ratings declined in 2000, as the number of issues during the year was 55% lower than in 1999. This revenue decline was substantially offset by revenue from new European issuers and double-digit growth in bank loan ratings.

Revenue from financial institution and sovereign ratings was $111.6 million in 2000, an increase of 6.5% over $104.8 million in 1999. Growth in 2000 reflected 21% volume growth in international bond and medium-term note issuance, somewhat offset by negative effects of a decline in U.S. debt issuance and U.S. industry consolidation in this sector.

Public finance ratings revenue declined 22.5% to $46.1 million in 2000, from $59.5 million in 1999. The decrease was principally the result of a 16% decline in the number of U.S. municipal bonds issued in 2000 compared to 1999.

Other revenue increased 33.4% to $82.7 million in 2000, reflecting double-digit growth in research products revenue due to strong demand for products delivered via the Internet and increased international sales. In addition, revenue for Moody's Risk Management Services more than doubled compared to 1999, primarily due to the acquisition of a financial software products company in January 2000.

Revenue in the United States was $428.9 million in 2000, an increase of 1.3% over $423.4 million in 1999. Ratings revenue declined 1% in 2000 compared to the prior year, as the effects of lower issuance levels in the core corporate and public finance sectors were substantially offset by strong growth in asset-backed finance, credit derivatives and bank loan ratings. Double-digit revenue growth was achieved in risk management services and research products.

Moody's international revenue was $173.4 million in 2000 versus $140.8 million in 1999, an increase of 23.2%. This performance was principally driven by strong growth in ratings of international structured finance securities, particularly in Europe and Japan, and an increased number of European corporate issuers. Strong growth was achieved in international research products revenue, reflecting new products and geographic expansion, and in risk management services revenue.

2000 operating expenses of $189.6 million grew 3.3% from $183.6 million in 1999. The increase reflected higher compensation and related expenses due to an increase in the number of analysts, particularly in Europe and in worldwide structured finance. This growth was partially offset by cost containment efforts in light of low revenue growth in the U.S. and lower production and delivery costs due to conversion of research products to Internet delivery. Selling, general and administrative expenses of $107.6 million in 2000 were up 10.7% compared to $97.2 million in 1999. This increase was principally due to higher compensation and related costs to support international business expansion, increased corporate overhead costs resulting from becoming a separate public company and higher sales related costs in the Risk Management Services business. Depreciation and amortization expense increased from $13.0 million in 1999 to $16.6 million in 2000. This increase principally reflected amortization of goodwill and other intangible assets related to the previously-mentioned acquisition.

Moody's operating income of $288.5 million in 2000 was up 6.7% from $270.4 million in 1999. Non-operating expense of $4.5 million in 2000 principally reflected interest expense related to Moody's private debt placement that was completed in the fourth quarter, offset in part by interest income on invested cash. Non-operating income of $8.5 million in 1999 principally reflected a $9.2 million gain related to the 1998 sale of the Company's Financial Information Services business ("FIS").

Moody's effective tax rate was 44.2% for both 2000 and 1999.

Reported net income was $158.5 million in 2000 compared with $155.6 million in 1999, an increase of 1.9%. Basic and diluted earnings per share for 2000 were $0.98 and $0.97, respectively, compared to $0.96 and $0.95, respectively, in 1999. Excluding the 1999 gain related to the sale of FIS, and including interest expense on the private debt placement for both periods (but excluding any interest income), diluted earnings per share would have been $0.91 in 2000 compared with $0.84 in 1999, an increase of 8.3%.

Year Ended December 31, 1999 Compared with Year Ended December 31, 1998

Moody's revenue was $564.2 million in 1999, an increase of 9.8% from $513.9 million in 1998. Revenue in 1998 included $18.4 million related to FIS, which was sold in July 1998. Excluding FIS, Moody's 1999 revenue grew 13.9% from $495.5 million in 1998. The strong revenue performance reflected double-digit growth in ratings revenue, fueled by continued expansion of European capital markets and growth in several sectors of the U.S. market. Moody's 1999 revenue also reflected double-digit growth in research products, driven by international expansion and new product introductions.

Moody's ratings revenue was $502.2 million in 1999, an increase of 13.7% from $441.5 million in 1998. This growth was principally driven by ratings of corporate bonds, structured products and commercial paper. International ratings revenue growth was especially strong, as the introduction of the euro and a significant increase in merger-related financing drove significant growth in European capital markets. These revenue gains were partially offset by the effects of volume declines in the U.S. high yield and municipal markets, compared to strong performance in these markets in 1998.

Structured finance ratings revenue of $172.4 million in 1999 grew 20.6% over 1998 revenue of $143.0 million. The increase in 1999 revenue was principally the result of strong growth in the asset-backed and derivatives markets in the U.S., Europe and Japan. Moody's revenue from ratings of credit derivatives grew by more than 40% in 1999, as U.S. issuance volumes surged to record levels.

Revenue from corporate ratings was $165.5 million in 1999 compared with $143.6 million in 1998, an increase of 15.3%. The revenue growth was principally driven by strong international issuance volumes. Bank loan ratings activity expanded significantly in 1999 as Moody's rated more than $300 billion of new loans, an increase of 50% over 1998. Revenue from high yield ratings declined in 1999, as issuance during the year was approximately 32% lower than 1998's record level.

Revenue from financial institution and sovereign ratings was $104.8 million in 1999, an increase of 16.3% over $90.1 million in 1998. The increase principally reflected higher debt issuance in and expanded coverage of the global banking sector.

Public finance ratings revenue declined 8.2% to $59.5 million in 1999 from $64.8 million in 1998. The decrease was principally the result of lower municipal debt issuance in 1999 following 1998's near-record level.

Revenue in the United States was $423.4 million in 1999, an increase of 2.5% over $413.0 million in 1998. Excluding the 1998 revenue of FIS, United States revenue increased 7.1% in 1999, from $395.3 million in 1998. This increase was principally the result of gains in structured finance, commercial paper and bank loan ratings, partially offset by the effects of volume declines in the high yield and municipal markets.

Moody's international revenue was $140.8 million in 1999 versus $100.9 million in 1998, an increase of 39.5%. Excluding the 1998 revenue of FIS, international revenue increased 40.5% in 1999 from $100.2 million in 1998. This performance was principally driven by growth in European capital markets, where the introduction of the euro and a significant increase in merger-related financing drove strong debt issuance. Strong growth was also achieved in ratings of international asset-backed securities, particularly in Europe and Japan.

1999 operating expenses of $183.6 million grew $6.3 million, or 3.6%, from $177.3 million in 1998. Excluding 1998 operating expense of $8.5 million related to FIS, 1999 operating expense increased by $14.8 million, or 8.8%. The increase principally reflected higher compensation and related expenses due to an increase in the number of analysts, particularly in Europe and the structured finance business. Selling, general and administrative expenses of $97.2 million in 1999 were up $1.5 million compared to $95.7 million in 1998. Excluding $4.6 million of 1998 selling, general and administrative expenses related to FIS, 1999 expense grew by $6.1 million, or 6.7%. This increase was principally due to higher compensation and related costs. Depreciation and amortization expense was $13.0 million in 1999, a decrease of $2.4 million from 1998. Excluding FIS depreciation and amortization expense of $1.1 million in 1998, the 1999 expense declined by $1.3 million. This reflected lower levels of capital spending in 1998 and 1999 versus prior years, partly as a result of declining technology costs.

Moody's operating income of $270.4 million in 1999 was up 19.9% from $225.5 million in 1998. Excluding 1998 operating income related to FIS of $4.2 million, 1999 operating income grew 22.2% from $221.3 million in 1998.

Non-operating income, net was $8.5 million in 1999 and $12.4 million in 1998. Non-operating income included pre-tax gains related to the sale of FIS of $9.2 million in 1999 and $12.6 million in 1998.

Moody's effective tax rate was 44.2% for 1999, compared with an effective tax rate of 40.3% in 1998. This increase resulted from an increase in the percentage of Moody's income allocable to states with high income tax rates and refinements of certain estimates.

As a result of the foregoing, Moody's reported net income of $155.6 million in 1999 versus $142.0 million in 1998, an increase of 9.6%. Basic and diluted earnings per share in 1999 were $0.96 and $0.95, respectively, compared with basic and diluted earnings per share of $0.84 and $0.83, respectively, in 1998. Moody's net income included after-tax gains related to the sale of FIS of $5.1 million ($0.03 per basic and diluted share) in 1999 and $7.5 million ($0.04 per basic and diluted share) in 1998. Excluding these gains, Moody's 1999 net income increased 11.9% over 1998.

Year Ended December 31, 1998 Compared with Year Ended December 31, 1997

Moody's reported revenue of $513.9 million in 1998 was up 12.4% compared with $457.4 million in 1997. Excluding FIS revenue of $18.4 million in 1998 and $34.3 million in 1997, Moody's revenue of $495.5 million in 1998 grew 17.1% from $423.1 million in 1997. This increase was principally due to strong ratings revenue growth in corporate and municipal bonds, structured finance and commercial paper. Revenue from research products also achieved double-digit growth in 1998, driven by new products and continued international expansion.

Moody's ratings revenue was $441.5 million in 1998, an increase of 16.2% compared with $379.9 million in 1997. The increase was principally driven by growth in issuance of corporate and municipal bonds, structured products and commercial paper.

Revenue from corporate ratings was $143.6 million in 1998, up 12.5% from $127.7 million in 1997. High yield bond issuance in 1998 reached a record high for the second consecutive year, growing approximately 23% over 1997. Investment grade issuance volumes also increased in 1998, in part the result of a favorable interest rate environment.

Structured finance ratings revenue was $143.0 million in 1998 and $104.1 million in 1997, an increase of 37.4%. This increase was principally the result of strength in the mortgage-backed and credit derivatives markets in the United States and Europe. Issuance of commercial mortgage-backed securities increased by approximately 75% to $80 billion in 1998. In addition, the number of ratings of credit derivatives rose 73% over the prior year.

Revenue from financial institutions and sovereign ratings of $90.1 million in 1998 was flat compared to 1997. Revenue growth was negatively affected by consolidations in the financial services industry.

Public finance ratings revenue increased 11.7% to $64.8 million in 1998, compared with $58.0 million in 1997. This increase was principally the result of near-record U.S. municipal bond issuance in 1998, as lower interest rates fueled an increase of more than 50% in refinancings.

Revenue in the United States increased by 9.2% to $413.0 million in 1998, compared with $378.3 million in 1997. Excluding FIS revenue of $17.7 million in 1998 and $33.0 million in 1997, United States revenue of $395.3 million in 1998 grew 14.5% compared with $345.3 million in 1997. This increase resulted principally from growth in ratings of corporate and municipal bonds, structured products and commercial paper.

International revenue was $100.9 million in 1998 and $79.1 million in 1997, an increase of 27.6%. Excluding FIS revenue of $0.7 million in 1998 and $1.3 million in 1997, international revenue of $100.2 million in 1998 grew 28.8% compared with $77.8 million in 1997. The strong growth reflected gains in European corporate bonds, broader coverage of banks in Europe and Asia, and record international structured finance issuance volumes. Research products revenue also showed strong double-digit growth, driven by new products and customers.

Operating expenses of $177.3 million were 12.2% higher than $158.0 million in 1997. Excluding FIS in both years, operating expenses of $168.8 million in 1998 were 18.5% higher than $142.5 million in 1997. The expense growth primarily reflected higher compensation expenses due to an increase in the number of rating analysts and increased expenses for travel and outside professional services, all to support revenue growth. Selling, general and administrative expenses of $95.7 million in 1998 were $2.5 million higher than $93.2 million in 1997. Excluding FIS in both years, selling, general and administrative expenses of $91.1 million in 1998 were $8.3 million, or 10.0%, higher than $82.8 million in 1997. The increase principally reflected higher compensation costs, staffing growth in support functions, and costs related to new customer support systems. Depreciation and amortization expense of $15.4 million in 1998 was $0.8 million lower than $16.2 million in 1997. Excluding FIS in both years, 1998 depreciation and amortization expense of $14.3 million was $0.7 million higher than $13.6 million in 1997.

Operating income was $225.5 million in 1998 compared to $190.0 million in 1997, an increase of 18.7%. Excluding the results of FIS, operating income was $221.3 million in 1998 and $184.2 million in 1997, an increase of 20.1%.

Moody's reported non-operating income of $12.4 million in 1998 and $0.2 million in 1997. 1998 non-operating income included a pre-tax gain of $12.6 million on the sale of FIS.

Moody's effective tax rate was 40.3% for 1998, compared with an effective tax rate of 33.7% in 1997. This increase resulted from a number of factors, including an increase in the percentage of Moody's income allocable to states with high income tax rates and refinements of certain estimates.

As a result of the foregoing, Moody's reported net income of $142.0 million in 1998 and $105.9 million in 1997, an increase of 34.1%. Earnings per share were $0.84 basic and $0.83 diluted for 1998, compared to $0.62 basic and $0.61 diluted in 1997. 1998 results included the $7.5 million after-tax gain on the sale of FIS ($0.04 per basic and diluted share). 1997 results included a one-time, non-cash charge of $20.3 million after-tax ($0.12 per basic and diluted share) for the cumulative effect of an accounting change related to revenue recognition.

Market Risk

Moody's maintains operations in 14 countries outside of the United States, and approximately 25% of its expenses are incurred in currencies other than the U.S. dollar. Over 90% of Moody's revenues for the year ended December 31, 2000 were billed and collected in U.S. dollars. As such, the Company is exposed to market risk from changes in foreign exchange rates.

As of December 31, 2000, approximately 11% of Moody's assets were located outside the U.S. Of Moody's aggregate cash and cash equivalents of $119.1 million at December 31, 2000, approximately $26 million was located outside the United States (with $18 million in England), making the Company susceptible to fluctuations in foreign exchange rates. Changes in the value of these currencies relative to the U.S. dollar are charged or credited to the cumulative translation adjustment in shareholders' equity.

The Company also invests in short-term certificates of deposit and commercial paper. Market risk associated with these investments is considered insignificant.

The Company has not engaged in foreign currency hedging transactions nor does the Company have any derivative financial instruments. However, going forward, the Company will assess the need to enter into hedging transactions to limit its risk due to fluctuations in exchange rates.

Liquidity and Capital Resources

Net cash provided by operating activities was $67.6 million, $197.7 million, and $167.6 million for the years ended December 31, 2000, 1999, and 1998, respectively. The decrease in 2000 compared to 1999 was primarily due to a payment of approximately $175 million, representing Moody's 50% share, in connection with an amended tax return filed by Old D&B on May 12, 2000. In addition, payments in 2000 for incentive compensation were higher than in 1999. The increase in accounts receivable in 2000 reflected strong growth in fourth quarter billings. The 1999 increase compared to 1998 principally reflected the net income growth discussed above. In addition, faster collections of receivables due in part to new systems and processes resulted in a reduction in accounts receivable at December 31, 1999 compared with December 31, 1998, despite a significant increase in revenue for the year.

Net cash (used in) provided by investing activities was ($33.6) million, ($12.0) million and $13.1 million for the years ended December 31, 2000, 1999 and 1998, respectively. The increase in cash used from 1999 to 2000 was principally due to the acquisition of a financial software products company in January 2000 for $17.4 million, as well as increased spending on computer equipment and software development. The 1998 figure included proceeds of $26.5 million from the sale of FIS. Capital expenditures were $14.4 million in 2000, $12.9 million in 1999 and $12.4 million in 1998. Capital expenditures principally include investments in purchasing, developing and upgrading computer hardware, software and systems, and in improvements to owned and leased office facilities. Currently, Moody's has no material commitments for capital expenditures.

Net cash provided by (used in) financing activities was $81.6 million, ($186.4) million and ($182.0) million for the years ended December 31, 2000, 1999 and 1998, respectively. The 1999 and 1998 amounts represent net distributions to Old D&B in each year. The 2000 amount includes the proceeds from the private debt placement that was completed in the fourth quarter and from employee stock plans, partially offset by share repurchases, dividend payments and distributions made to Old D&B through the Distribution Date.

Pursuant to the Distribution Agreement, Moody's was allocated $195.5 million of debt at September 30, 2000. Moody's funded this debt with borrowings under a $160 million unsecured bank revolving credit facility and a bank bridge line of credit. On October 3, 2000 the Company issued $300 million of notes in a private placement. The private placement notes have a five-year term and bear interest at an annual rate of 7.61%, payable semi-annually. The cash proceeds from the private placement were used in part to repay the outstanding balance on the revolving credit facility and to repay the bridge line of credit.

The revolving credit facility, which was undrawn as of December 31, 2000, consists of an $80 million 5-year facility and an $80 million 364-day facility. Interest rates on borrowings under the facility are based on prevailing short-term rates at the time of such borrowings.

Moody's existing balances of cash, cash generated from operations and debt capacity are expected to be sufficient to fund Moody's operating needs, service debt and pay dividends over the next year.

Share Repurchase Program

In October 2000, the Board of Directors of Moody's Corporation authorized a share repurchase program of up to $250 million of Moody's common stock. The program includes both special share repurchases and systematic repurchases of Moody's common stock to offset the dilutive effect of share issuances under the Company's employee benefit arrangements. During the fourth quarter of 2000, the Company repurchased 2.8 million shares of its common stock pursuant to this program, at a total cost of approximately $71.8 million.

Contingencies

Moody's is involved in legal proceedings of a nature considered normal to its business. In the opinion of management, although the outcome of such legal proceedings cannot be predicted with certainty, the ultimate liability of Moody's in connection with such legal proceedings will not have a material effect on Moody's results of operations, cash flows or financial position.

In addition, Moody's has certain other contingencies discussed below.

Tax Matters

Pursuant to the Distribution Agreement, New D&B and Moody's have agreed to each be financially responsible for 50% of any potential liabilities that may arise with respect to the reviews described below, to the extent such potential liabilities are not directly attributable to their respective business operations.

Old D&B and its predecessors entered into global tax planning initiatives in the normal course of business, principally through tax-free restructurings of both their foreign and domestic operations. These initiatives are subject to normal review by tax authorities. It is possible that additional liabilities may be proposed by tax authorities as a result of these reviews and that some of the reviews could be resolved unfavorably. At this time, Moody's management is unable to predict the extent of such reviews, the outcome thereof or whether the resolution of these matters could materially affect Moody's results of operations, cash flows or financial position.

The IRS has completed its review of the utilization of certain capital losses generated during 1989 and 1990. On June 26, 2000, the IRS, as part of its audit process, issued a formal assessment with respect to the utilization of these capital losses and Old D&B responded by filing a petition for a refund in the U.S. District Court on September 21, 2000, after the payments described below were made.

On May 12, 2000, an amended tax return was filed for the 1989 and 1990 tax periods, which reflects $561.6 million of tax and interest due. Old D&B paid the IRS approximately $349.3 million of this amount on May 12, 2000. IMS Health has informed Old D&B that it paid to the IRS approximately $212.3 million on May 17, 2000. The payments were made to the IRS to stop further interest from accruing. Notwithstanding the filing and payment, New D&B is contesting the IRS's formal assessment and would also contest the assessment of amounts, if any, in excess of the amounts paid. Moody's had previously accrued its anticipated share of the probable liability arising from the utilization of these capital losses. See Note 14 to the consolidated financial statements, Contingencies, for additional information.

Information Resources, Inc.

On July 29, 1996, Information Resources, Inc. ("IRI") filed a complaint in the United States District Court for the Southern District of New York, naming as defendants the corporation then known as "The Dun & Bradstreet Corporation" and, as discussed below, now known as "R.H. Donnelley Corporation"("Donnelley"), A.C. Nielsen Company (a subsidiary of ACNielsen Corporation) and IMS International, Inc. (a subsidiary of the company then known as Cognizant Corporation). At the time of the filing of the complaint, each of the other defendants was a wholly owned subsidiary of Donnelley.

The complaint alleges various violations of United States antitrust laws, including purported violations of Sections 1 and 2 of the Sherman Act. The complaint also alleges a claim of tortious interference with a contract and a claim of tortious interference with a prospective business relationship. These claims relate to the acquisition by defendants of Survey Research Group Limited ("SRG"). IRI alleges SRG violated an alleged agreement with IRI when it agreed to be acquired by the defendants and that the defendants induced SRG to breach that agreement.

IRI's complaint alleges damages in excess of $350 million, which amount IRI asked to be trebled under antitrust laws. IRI also seeks punitive damages of an unspecified amount.

Under the terms of the Distribution Agreement, as a condition to the Distribution, New D&B undertook to be jointly and severally liable with Moody's for Old D&B's obligations to Donnelley under the distribution agreement pursuant to which the 1998 Distribution was effected, including any liabilities arising under the Indemnity and Joint Defense Agreement. However, as between themselves, each of New D&B and Moody's will be responsible for 50% of any payments to be made with respect to the IRI action pursuant to such 1998 distribution agreement, including legal fees or expenses related thereto.

Management is unable to predict at this time the final outcome of the IRI action or whether the resolution of this matter could materially affect Moody's results of operations, cash flows or financial position. As such, no amount in respect of this matter has been accrued in the financial statements of the Company. See Note 14 to the consolidated financial statements, Contingencies, for additional information.

Dividends

Moody's, as a subsidiary of Old D&B, did not pay dividends directly to Old D&B shareholders. The payment and level of cash dividends by Moody's since the Distribution and going forward will be subject to the discretion of the Moody's Board of Directors. In the fourth quarter of 2000, the Company paid a quarterly dividend of 4.5 cents per share of Moody's common stock. In December 2000, the Company's Board of Directors declared a first quarter 2001 dividend of 4.5 cents per share, payable on March 10, 2001 to shareholders of record on February 26, 2001.

Common Stock Information

The Distribution was completed on September 30, 2000. Accordingly, as of October 3, 2000 the Company's common stock began trading on the New York Stock Exchange under the symbol "MCO". The table below indicates the high and low sales price of the Company's common stock and the dividends paid for the period from October 3, 2000 (the start of regular way trading of Moody's common stock) through December 31, 2000. The number of registered shareholders of record at January 31, 2001 was 8,332.

	Price Per Share		Dividends Paid
	High	Low	Per share
Period from October 3, 2000 Through December 31, 2000	$28.88	$22.63	$0.045

Forward-Looking Statements

Certain statements contained in this Annual Report are forward-looking statements and are based on future expectations, plans and prospects for Moody's business and operations that involve a number of risks and uncertainties. The forward-looking statements are made as of the date of this Annual Report, and management disclaims any duty to update or revise such statements on a going-forward basis, whether as a result of subsequent developments, changed expectations or otherwise. In connection with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, the Company is identifying certain factors that could cause actual results to differ, perhaps materially, from those indicated by these forward-looking statements. Those factors include, but are not limited to, changes in the volume of debt securities issued in domestic and/or global capital markets; changes in interest rates and other volatility in the financial markets; possible loss of market share through competition; introduction of competing products or technologies by other companies; pricing pressures from competitors and/or customers; the potential emergence of government-sponsored credit rating agencies; proposed U.S., foreign, state and local legislation and regulations, including those relating to nationally recognized statistical rating organizations; the possible loss of key employees to investment or commercial banks or elsewhere and related compensation cost pressures; the outcome of any review by controlling tax authorities of the Company's global tax planning initiatives; the uncertainty regarding market acceptance and revenue generating opportunities for Web-based research products; and other risk factors as discussed in The New D&B Corporation Form 10 (Amendment No. 2) filed on September 11, 2000 with the Securities and Exchange Commission and in other filings made by the Company from time to time with the Securities and Exchange Commission.

Report of Independent Accountants

To the Shareholders and the Board of Directors of Moody's Corporation

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, shareholders' equity and cash flows present fairly, in all material respects, the financial position of Moody's Corporation and its subsidiaries at December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

New York, New York
February 5, 2001

Statement of Management Responsibility for Financial Statements

To the Shareholders of Moody's Corporation

Management has prepared and is responsible for the consolidated financial statements and related information that appears on pages 29-45. The consolidated financial statements, which include amounts based on the estimates of management, have been prepared in conformity with accounting principles generally accepted in the United States of America. Other financial information in this Annual Report is consistent with that in the consolidated financial statements.

Management believes that the Company's internal control systems provide reasonable assurance at reasonable cost that assets are safeguarded against loss from unauthorized use or disposition, and that the financial records are reliable for preparing financial statements and maintaining accountability for assets. These systems are augmented by written policies, an organizational structure providing division of responsibilities and careful selection and training of qualified financial personnel.

The independent accountants are engaged to conduct an audit of and render an opinion on the financial statements in accordance with generally accepted auditing standards. These standards include an assessment of the systems of internal controls and tests of transactions to the extent considered necessary by them to support their opinion.

The Board of Directors, through its Audit Committee, consisting solely of outside directors of the Company, is responsible for reviewing and monitoring the Company's financial reporting and accounting practices.

PricewaterhouseCoopers LLP has full and free access to the Audit Committee and meets with it regularly, with and without management.

John Rutherfurd, Jr.

John Rutherfurd, Jr.
President and Chief Executive Officer

Jeanne M. Dering

Jeanne M. Dering
Senior Vice President and Chief Financial Officer

amounts in millions, except per share data	**2000**	1999	1998
	Year Ended December 31,		
Revenue	**$602.3**	$564.2	$513.9
Expenses			
Operating expenses	**189.6**	183.6	177.3
Selling, general and administrative expenses	**107.6**	97.2	95.7
Depreciation and amortization	**16.6**	13.0	15.4
Operating Income	**288.5**	270.4	225.5
Gain on sale of business	–	9.2	12.6
Interest expense, net	**(3.6)**	–	–
Other non-operating expense, net	**(0.9)**	(0.7)	(0.2)
Non-operating (expense) income, net	**(4.5)**	8.5	12.4
Income before provision for income taxes	**284.0**	278.9	237.9
Provision for income taxes	**125.5**	123.3	95.9
Net Income	**$158.5**	$155.6	$142.0
Earnings Per Share			
Basic	**$ 0.98**	$ 0.96	$ 0.84
Diluted	**$ 0.97**	$ 0.95	$ 0.83
Weighted Average Shares Outstanding			
Basic	**161.7**	162.3	169.5
Diluted	**163.0**	164.3	171.7

The accompanying notes are an integral part of the consolidated financial statements.

dollar amounts in millions, except per share data	*December 31,* 2000	1999
Assets		
Current Assets:		
Cash and cash equivalents	**$ 119.1**	$ 3.4
Accounts receivable, net of allowances of $24.4 in 2000 and $24.5 in 1999	**101.0**	84.4
Other current assets	**57.5**	84.9
Total Current Assets	**277.6**	172.7
Property and equipment, net	**43.4**	43.3
Prepaid pension costs	**53.8**	49.7
Intangible assets, net	**13.7**	2.2
Other assets	**9.8**	6.9
Total Assets	**$ 398.3**	$ 274.8
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts payable and accrued liabilities	**$ 135.4**	$ 275.1
Deferred revenue	**117.7**	100.4
Total Current Liabilities	**253.1**	375.5
Notes payable	**300.0**	–
Other liabilities	**127.7**	122.4
Total Liabilities	**680.8**	497.9
Commitments and contingencies (Notes 13 and 14)		
Shareholders' Equity:		
Preferred stock, par value $ .01 per share; 10,000,000 shares authorized; no shares issued and outstanding	**–**	–
Series common stock, par value $ .01 per share; 10,000,000 shares authorized; no shares issued and outstanding	**–**	–
Common stock, par value $ .01 per share; 400,000,000 shares authorized; 171,451,136 shares issued and outstanding at December 31, 2000 and 1999	**1.7**	1.7
Capital surplus	**7.9**	–
Accumulated deficit	**(223.2)**	(222.4)
Treasury stock, at cost, 11,040,266 and 10,627,327 shares of common stock at December 31, 2000 and 1999, respectively	**(67.0)**	–
Cumulative translation adjustment	**(1.9)**	(2.4)
Total Shareholders' Equity	**(282.5)**	(223.1)
Total Liabilities and Shareholders' Equity	**$ 398.3**	$ 274.8

The accompanying notes are an integral part of the consolidated financial statements.

amounts in millions	*Year Ended December 31,* **2000**	1999	1998
Cash flows from operating activities			
Net income	**$ 158.5**	$ 155.6	$ 142.0
Reconciliation of net income to net cash provided by operating activites:			
Depreciation and amortization	**16.6**	13.0	15.4
Deferred income taxes	**(2.3)**	7.3	(6.8)
Loss on disposal of property and equipment	**0.3**	–	0.3
Gain on sale of business	**–**	(9.2)	(12.6)
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	**(14.6)**	13.7	(4.0)
Decrease (increase) in other current assets	**28.3**	(4.6)	(28.5)
Increase in prepaid pension costs	**(4.1)**	(1.9)	(1.5)
Decrease (increase) in other assets	**0.9**	(2.0)	(0.4)
(Decrease) increase in accounts payable and accrued liabilities	**(138.6)**	20.7	56.8
Increase in deferred revenue	**16.2**	14.3	20.9
Increase (decrease) in other liabilities	**6.4**	(9.2)	(14.0)
Net cash provided by operating activities	**67.6**	197.7	167.6
Cash flows from investing activities			
Net additions to property and equipment	**(12.3)**	(11.4)	(11.3)
Net additions to computer software	**(2.1)**	(1.5)	(1.1)
Acquisition of business	**(17.4)**	–	(1.5)
Proceeds from sale of business	–	–	26.5
Other	**(1.8)**	0.9	0.5
Net cash (used in) provided by investing activities	**(33.6)**	(12.0)	13.1
Cash flows from financing activities			
Proceeds from issuance of notes	**300.0**	–	–
Net proceeds from stock plans	**12.7**	–	–
Cost of treasury shares repurchased	**(71.8)**	–	–
Payment of dividends	**(7.2)**	–	–
Net distributions to Old D&B	**(152.1)**	(186.4)	(182.0)
Net cash provided by (used in) financing activities	**81.6**	(186.4)	(182.0)
Effect of exchange rate changes on cash	**0.1**	0.1	0.1
Increase (decrease) in cash and cash equivalents	**115.7**	(0.6)	(1.2)
Cash and cash equivalents, beginning of year	**3.4**	4.0	5.2
Cash and cash equivalents, end of year	**$119.1**	$ 3.4	$ 4.0

The accompanying notes are an integral part of the consolidated financial statements.

amounts in millions	Common Stock Shares	Common Stock Amount	Capital Surplus	Accumulated Deficit	Cumulative Translation Adjustment	Treasury Stock Shares	Treasury Stock Amount	Total Shareholders' Equity	Comprehensive Income
Balance at January 1, 1998	171.5	$1.7	$ –	($151.6)	($3.0)	(17.8)	$ –	($152.9)	
Net income				142.0				142.0	$ 142.0
Currency translation adjustment					0.3			0.3	0.3
Net change in Old D&B treasury stock						11.4	–	–	
Net distributions to Old D&B				(182.0)				(182.0)	
Comprehensive income									142.3
Balance at December 31, 1998	171.5	1.7	–	(191.6)	(2.7)	(6.4)	–	(192.6)	
Net income				155.6				155.6	155.6
Currency translation adjustment					0.3			0.3	0.3
Net change in Old D&B treasury stock						(4.2)	–	–	
Net distributions to Old D&B				(186.4)				(186.4)	
Comprehensive income									155.9
Balance at December 31, 1999	171.5	1.7	–	(222.4)	(2.4)	(10.6)	–	(223.1)	
Net income				158.5				158.5	158.5
Dividends paid				(7.2)				(7.2)	
Net proceeds from stock plans			12.7					12.7	
Net change in Old D&B treasury stock prior to the Distribution Date						1.6	–	–	
Net treasury stock activity after the Distribution Date			(4.8)			(2.0)	(67.0)	(71.8)	
Currency translation adjustment					0.5			0.5	0.5
Net distributions to Old D&B				(152.1)				(152.1)	
Comprehensive income									$ 159.0
Balance at December 31, 2000	171.5	$1.7	$7.9	($223.2)	($1.9)	(11.0)	($67.0)	($282.5)	

The accompanying notes are an integral part of the consolidated financial statements.

tabular amounts in millions, except per share data

Note 1 Description of Business and Basis of Presentation

Moody's Corporation ("Moody's" or "the Company"), a global credit rating, research and risk analysis firm, publishes credit opinions, research and ratings on fixed-income securities, issuers of securities and other credit obligations. The Company publishes rating opinions on a broad range of credit obligations issued in domestic and international markets, including various corporate and governmental obligations, structured finance securities and commercial paper programs. The Company also publishes investor-oriented credit research including in-depth research on major issuers, industry studies, special comments and credit opinion handbooks. Moody's Risk Management Services develops and distributes credit risk assessment software used by banks and other financial institutions in their portfolio management, commercial lending and other activities. It also provides modeling tools, analytics, credit education materials, seminars, computer-based lending simulations and other products and services.

The Company operated as part of The Dun & Bradstreet Corporation ("Old D&B") until September 30, 2000 (the "Distribution Date"), when Old D&B separated into two publicly traded companies - Moody's Corporation and The New D&B Corporation ("New D&B"). At that time, Old D&B distributed to its shareholders shares of New D&B stock. New D&B comprised the business of Old D&B's Dun & Bradstreet operating company ("the D&B Business"). The remaining business of Old D&B consisted solely of the business of providing ratings and related research and risk management services ("the Moody's Business") and was renamed "Moody's Corporation". The method by which Old D&B distributed its shares is hereinafter referred to as "the Distribution".

For purposes of governing certain ongoing relationships between the Company and New D&B after the Distribution and to provide for an orderly transition, the Company and New D&B entered into various agreements including a Distribution Agreement, Tax Allocation Agreement, Employee Benefits Agreement, Shared Transaction Services Agreement, Insurance and Risk Management Services Agreement, Data Services Agreement and Transition Services Agreement.

Pursuant to the terms of the Distribution Agreement, the Company retained all of the assets and liabilities related to the Moody's Business and New D&B retained all of the assets and liabilities related to the D&B Business. Prior to the Distribution Date, Old D&B provided certain centralized services to the Company, the cost of which was allocated to the Company. Management believes these allocations were reasonable; however, the costs of these services are not necessarily indicative of the costs that would have been incurred if the Company had performed or provided these services as a separate entity. These allocations, included in the consolidated statements of operations, were $13.3 million, $17.2 million and $16.4 million for 2000, 1999 and 1998, respectively. The consolidated financial statements reflect the financial position, results of operations, and cash flows of the Company as if it were a separate entity for all periods presented.

Note 2 Summary of Significant Accounting Policies

Basis of Consolidation

The consolidated financial statements include those of Moody's Corporation and its wholly owned subsidiaries. The effects of all intercompany transactions have been eliminated. Investments for which the Company does not have the ability to exercise significant influence over operating and financial policies are carried at cost. Investments in companies over which the Company has significant influence but not a controlling interest are carried on an equity basis. At December 31, 2000 and 1999, investments carried at cost or on an equity basis were not significant.

Cash and Cash Equivalents

Cash equivalents principally consist of certificates of deposit and commercial paper with maturity periods of three months or less when purchased. Interest income on cash and cash equivalents was $2.2 million for the year ended December 31, 2000.

Property and Equipment

Property and equipment are stated at cost and are depreciated over their estimated useful lives, using the straight-line method. Expenditures for maintenance and repairs that do not extend the economic useful life of the related assets are charged to expense as incurred. Gains and losses on disposals of property and equipment are reflected in the consolidated statements of operations.

Computer Software

Costs for the development of computer software that will be sold, leased or otherwise marketed are capitalized when technological feasibility has been established. Such costs, which are included in other assets on the consolidated balance sheets, primarily relate to the development of credit risk assessment software to be licensed to customers. These costs, which generally consist of professional services provided by third parties and compensation costs of employees that develop the software, are amortized on a straight-line basis over a period of three years, and are reported at the lower of unamortized cost or net realizable value.

The Company capitalizes costs related to software developed or obtained for internal use in accordance with Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use". These assets, included in property and equipment in the consolidated balance sheets, relate to the Company's accounting, product delivery and other systems. Such costs generally consist of the direct costs of third party license fees, professional services provided by third parties and employee compensation, in each case incurred either during the application stage or in connection with upgrades and enhancements that increase functionality. Costs incurred during the preliminary project stage of development as well as maintenance costs are expensed as incurred.

Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the undiscounted expected future cash flows are lower than the carrying amount of the asset, a loss is recognized for the difference between the carrying amount and the fair value of the asset.

Intangible Assets

Goodwill of $8.5 million and $2.0 million at December 31, 2000 and 1999, respectively, net of accumulated amortization of $3.2 million and $1.7 million, respectively, represents the excess of the purchase price over the fair value of identifiable net assets of acquired businesses and is being amortized on a straight-line basis over seven to ten years. Other intangible assets, which arose through acquisitions of businesses, of $5.2 million, net of accumulated amortization of $0.9 million at December 31, 2000, are being amortized over their estimated useful lives, generally five to seven years. The net amount of other intangible assets was insignificant at December 31, 1999.

At each balance sheet date, the Company reviews the recoverability of goodwill and intangible assets based on estimated undiscounted future cash flows from operating activities compared with the carrying value, and recognizes any impairment on the basis of such comparison. For the years ended December 31, 2000 and 1999, no impairments were recognized.

Revenue Recognition

The Company recognizes ratings revenue as services are provided and research products revenue over the subscription period, which is principally over one year. Revenue from risk management software product sales is generally recognized at the time the product is shipped to customers, as the Company's obligations are complete. Amounts billed in advance of providing the related products or services are credited to deferred revenue and reflected in revenue when earned. The Company recognizes revenue in accordance with Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB 101"). As such, revenue is recognized when an agreement exists, the services have been provided and accepted by the customer, fees are determinable, and the collection of resulting receivables is considered probable.

Foreign Currency Translation

For all operations outside the United States where the Company has designated the local currency as the functional currency, assets and liabilities are translated into U.S. dollars using end of year exchange rates, and revenue and expenses are translated using average exchange rates for the year. For these operations, currency translation adjustments are accumulated in a separate component of shareholders' equity. Realized transaction gains and losses are recognized in other non-operating expense, net. Transaction losses were $0.9 million, $0.7 million and $0.2 million in 2000, 1999 and 1998, respectively.

Comprehensive Income

Comprehensive income represents the change in net assets of a business enterprise during a period due to transactions and other events and circumstances from non-owner sources. Comprehensive income includes net income adjusted for the change in foreign currency translation adjustment. The required disclosures have been included in the consolidated statements of shareholders' equity. The net effect of income taxes on comprehensive income was not significant.

Income Taxes

The Company accounts for income taxes under the liability method in accordance with Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes." Prior to the Distribution, the Company was included in the federal and certain state income tax returns of Old D&B. The provision for income taxes for each of the years ended December 31, 2000, 1999 and 1998 has been calculated on a separate-company basis. Income taxes paid by Old D&B on behalf of the Company through September 30, 2000 have been included in the consolidated statements of shareholders' equity as net distributions to Old D&B.

Fair Value of Financial Instruments

The Company's financial instruments include cash, cash equivalents and trade receivables and payables, all of which are short-term in nature and, accordingly, approximate fair value. At December 31, 2000, using prevailing interest rates for debt with similar maturity dates, the fair value of the Company's notes payable approximated the carrying value of $300 million. See Note 10, Indebtedness.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentration of credit risk consist principally of cash and cash equivalents and trade receivables.

Cash equivalents consist of investments in high quality investment grade securities in the United States as well as outside the United States. By policy, the Company limits the amount it can invest with any one issuer.

Credit is extended to customers based on an evaluation of their financial condition. No customer accounted for 10% or more of accounts receivable at December 31, 2000 or 1999.

tabular amounts in millions, except per share data

Earnings Per Share of Common Stock

In accordance with SFAS No. 128, "Earnings per Share", basic earnings per share are calculated based on the weighted average number of shares of common stock outstanding during the reporting period. Diluted earnings per share are calculated giving effect to all potentially dilutive common shares, assuming that such shares were outstanding during the reporting period.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates. Estimates are used in, but not limited to, accounts receivable allowances, employee benefit plans, taxes, contingencies and depreciation and amortization rates for property and equipment, goodwill, other intangible assets and computer software.

Reclassifications

Certain prior-year amounts have been reclassified to conform to the current year presentation.

Recently Issued Accounting Pronouncements

In March 2000, the Financial Accounting Standards Board issued Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation, an interpretation of APB Opinion No. 25" ("FIN No. 44"). The interpretation provides guidance for certain issues relating to stock compensation involving employees that arose in applying APB Opinion No. 25. Among other things, this interpretation clarifies (a) the definition of an employee for purposes of applying APB Opinion No. 25, (b) the criteria for determining whether a plan qualifies as a noncompensatory plan, (c) the accounting consequence of various modifications to the terms of a previously fixed stock option or award, and (d) the accounting for an exchange of stock compensation awards in a business combination. The provisions of FIN No. 44 are effective July 1, 2000, except for the provisions regarding modifications to fixed stock options or awards that reduce the exercise price of an award, which apply to modifications made after December 15, 1998. Provisions regarding modifications to fixed stock options or awards to add reload features apply to modifications made after January 12, 2000. The effect of adopting FIN No. 44 did not have a material impact on the Company's financial statements.

In December 1999, the staff of the SEC issued SAB 101, which summarizes the staff's interpretations of the application of generally accepted accounting principles to revenue recognition. The staff provided this guidance due in part to the large number of revenue recognition issues that it has encountered in registrant filings. In June 2000, SAB 101B,"Amendment: Revenue Recognition in Financial Statements", was issued, which deferred the effective date of SAB 101 until the fourth fiscal quarter of 2000. The effect of adopting SAB 101 did not have a material impact on the Company's financial statements.

In June 1998, the Financial Accounting Standards Board issued SFAS No.133, "Accounting for Derivative Instruments and Hedging Activities", which was subsequently amended by SFAS No. 138. This statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires recognition of all derivatives as either assets or liabilities on the balance sheet and measurement of those instruments at fair value. If certain conditions are met, a derivative may be designated specifically as: (a) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment (a fair value hedge); (b) a hedge of the exposure to variable cash flows of a forecasted transaction (a cash flow hedge); or (c) a hedge of the foreign currency exposure of a net investment in a foreign operation, an unrecognized firm commitment, an available-for-sale security or a foreign currency denominated forecasted transaction. The provisions of SFAS No. 133 are effective for all fiscal quarters of all fiscal years beginning after June 15, 2000. Moody's currently does not engage in any transactions that would be impacted by the adoption of SFAS No. 133.

Note 3 Reconciliation of Weighted Average Shares

Below is a reconciliation of basic weighted average shares outstanding to diluted weighted average shares outstanding:

	2000	1999	1998
Weighted average number of shares – Basic	**161.7**	162.3	169.5
Dilutive effect of shares issuable under stock option, restricted stock and performance share plans	**1.3**	2.0	2.2
Weighted average number of shares - Diluted	**163.0**	164.3	171.7

Options to purchase 8.0 million, 3.0 million and 3.4 million shares of common stock were outstanding at December 31, 2000, 1999 and 1998, respectively, but were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of the Company's common stock.

Note 4 Sale of Business

In July 1998, Moody's sold its Financial Information Services business ("FIS"), which was engaged in the publishing of historical financial information. Moody's received $26.5 million at the sale date and recorded a pre-tax gain of $12.6 million. During the third quarter of 1999, certain agreements related to the sale of FIS expired or were completed. As a result, estimated liabilities established at the time of the divestiture in connection with these agreements, determined to be no longer required, were adjusted. These adjustments resulted in a pre-tax gain of $9.2 million.

The consolidated statement of operations for the year ended December 31, 1998 includes revenue of $18.4 million and operating income of $4.2 million related to the operation of the FIS business through the sale date.

Note 5 Property and Equipment, Net

Property and equipment, net consisted of:

		December 31,	
	Useful Lives	**2000**	1999
Land, building and building improvements	7-40 yrs	**$ 24.1**	$ 22.1
Office and computer equipment	3-5 yrs	**38.4**	35.0
Office furniture and fixtures	10 yrs	**14.2**	13.1
Internal-use computer software	3-5 yrs	**10.1**	7.5
Leasehold improvements	*	**28.6**	27.9
		115.4	105.6
Less: accumulated depreciation and amortization		**(72.0)**	(62.3)
		$ 43.4	$ 43.3

* shorter of the term of the lease or the estimated useful life of the improvement

The consolidated statements of operations reflect depreciation and amortization expense related to the assets above of $11.6 million, $11.4 million and $13.4 million for the years ended December 31, 2000, 1999 and 1998, respectively.

Note 6 Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities included the following significant components:

	December 31,	
	2000	1999
Accounts payable	**$ 3.4**	$ 3.2
Accrued income taxes (see Notes 9 and 14)	**16.5**	174.0
Accrued compensation and benefits	**68.9**	71.9
Other	**46.6**	26.0
	$135.4	$275.1

Note 7 Pension and Postretirement Benefits

Prior to the Distribution, substantially all U.S. employees of the Company were eligible to participate in Old D&B's defined benefit pension plans. Old D&B also provided certain health-care and life insurance benefits for U.S. retired employees of the Company. The Company accounted for its participation in these plans as multi-employer plans. Accordingly, the Company recorded pension and post-retirement benefit costs as allocated by Old D&B, through the Distribution Date. The amounts of these allocations were insignificant for the years ended December 31, 2000, 1999 and 1998.

Subsequent to the Distribution, Moody's assumed responsibility for pension and postretirement benefits relating to its active employees. Responsibility for the Company's retirees and vested terminated employees prior to the Distribution will remain with New D&B. An allocation of assets and liabilities related to active employees' benefits has been included in the financial statements.

A summary of the activity related to the benefit plans for the period from the Distribution Date through December 31, 2000, as well as the status of the plans at December 31, 2000, is as follows:

	Pension Plans	Other Post-retirement Plans
Change in benefit obligation		
Projected benefit obligation at October 1, 2000	$(30.9)	$(3.2)
Service cost	(1.1)	(0.1)
Interest cost	(0.6)	—
Actuarial (gain) loss	1.4	(0.1)
Projected benefit obligation at December 31, 2000	$(31.2)	$(3.4)
Change in plan assets		
Fair value of plan assets at October 1, 2000	$ 88.0	$ —
Actual return on plan assets	(3.5)	—
Fair value of plan assets at December 31, 2000	$ 84.5	$ —
Reconciliation of funded status to total amount recognized		
Funded status of the plan	$ 53.3	$(3.4)
Unrecognized actuarial (gain)/loss	(3.0)	0.1
Prior service cost	0.7	—
Net amount recognized	$ 51.0	$(3.3)
Amounts recognized in the consolidated balance sheet		
Prepaid pension cost	$53.8	$ —
Pension and postretirement benefits liability	(2.8)	(3.3)
Net amount recognized	$51.0	$(3.3)
Components of net periodic (income) expense, from October 1, 2000 through December 31, 2000		
Service cost	$ 1.1	$ 0.1
Interest cost	0.6	—
Expected return on plan assets	(2.1)	—
Net periodic (income) expense	$ (0.4)	$ 0.1

tabular amounts in millions, except per share data

The following assumptions were used in determining the benefit obligation and net periodic pension (income) expense for the period from the Distribution Date through December 31, 2000:

	Pension Plans	Other Postretirement Plans
Weighted average discount rate	7.50%	7.50%
Rate of increase in future compensation	3.91%	—
Expected return on plan assets	9.75%	—

For postretirement benefit plan measurement purposes, a 6.5% annual rate of increase in the per capita cost of covered healthcare benefits was assumed for 2001. The rate was assumed to decrease gradually to 5.0% through 2021 and remain at that level thereafter. Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one percentage point change in the assumed health care cost trend rates would have the following effects:

	One Percentage-Point Increase	One Percentage-Point Decrease
Effect on benefit obligation at end of period	$ 0.3	$ (0.3)
Effect on total service and interest costs	—	—

Profit Participation Plan

Moody's has a profit participation plan (the "Plan") covering substantially all U.S. employees. The Plan provides for an employee salary deferral contribution and Moody's contributions. Employees may contribute up to 16% of their pay. Moody's contributes an amount equal to 50% of employee contributions, with Moody's contribution limited to 3% of the employee's pay. Moody's also makes contributions to the plan if certain objectives are met, based on the Company's financial performance. Prior to the Distribution, employees of Moody's participated in the profit participation plan of Old D&B and the Company accounted for its participation in that plan as a multi-employer plan. Moody's recognized expense associated with these plans of $3.5 million, $2.8 million and $2.6 million in 2000, 1999 and 1998, respectively.

Note 8 Stock Options

Prior to the Distribution, certain employees of Moody's received grants of Old D&B stock options under Old D&B's 1998 Key Employees' Stock Option Plan (the "Plan"). At the Distribution Date, all unexercised Old D&B stock options held by Moody's employees were converted into separately exercisable options to acquire Moody's common stock, and separately exercisable options to acquire New D&B common stock, such that each option had the same ratio of the exercise price per option to the market value per share, the same aggregate difference between market value and exercise price, and the same vesting provisions, option periods and other terms and conditions applicable prior to the Distribution. Old D&B stock options held by employees and retirees of Old D&B were converted in the same manner. Immediately after the Distribution, the Plan was amended and adopted by the Company.

Under the Plan, 16,500,000 shares of the Company's common stock were reserved for issuance. The Plan provides that options are exercisable not later than ten years from the grant date. The vesting period for awards under the Plan is determined by the Board of Directors at the date of the grant and generally ranges from one to five years. Options may not be granted at less than the fair market value of the Company's common stock at the date of grant. For incentive stock options granted to a shareholder of more than 10% of the Company's outstanding stock, the exercise price per share cannot be less than 110% of the fair market value of the Company's common stock at the date of grant.

Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123") requires that companies with stock-based compensation plans either recognize compensation expense based on the fair value of options granted or continue to apply Accounting Principles Board Opinion No. 25 ("APB No. 25") and related interpretations and disclose pro-forma net income and earnings per share assuming that the fair value method had been applied. Moody's has chosen to continue applying APB No. 25 and related interpretations in accounting for its plans. Accordingly, no compensation cost has been recognized for the fixed stock option plans. Had compensation cost for Moody's stock option plans been determined based on the fair value at the grant dates for awards under those plans, consistent with the method required by SFAS No. 123, Moody's net income and pro-forma earnings per share would have been reduced to the pro-forma amounts shown below:

	Year Ended December 31,		
	2000	1999	1998
Net income:			
As reported	**$158.5**	$155.6	$142.0
Pro-forma	**$151.8**	$153.2	$139.8
Basic earnings per share of common stock:			
As reported	**$ 0.98**	$ 0.96	$ 0.84
Pro-forma	**$ 0.94**	$ 0.94	$ 0.82
Diluted earnings per share of common stock:			
As reported	**$ 0.97**	$ 0.95	$ 0.83
Pro-forma	**$ 0.93**	$ 0.93	$ 0.81

The pro-forma disclosures shown above are not representative of the effects on net income and earnings per share in future years.

The pro-forma net income and earnings per share amounts prior to the September 30, 2000 Distribution relate to the fair value of the Old D&B options held by Moody's employees. Pro-forma amounts subsequent to the Distribution relate to Moody's options held by Moody's employees and New D&B employees and retirees, and reflect an increase in fair value due to changes in assumptions for Moody's stock options. Post-distribution, such increase is reflected in income immediately for vested options and spread over the remaining vesting period for converted unvested options. 2000 pro-forma net income above includes $2.4 million relating to New D&B employees and retirees.

The weighted average fair value of Moody's options granted after the Distribution Date in 2000 was $8.20. The weighted average fair value of Old D&B options granted prior to the Distribution Date in 2000, 1999 and 1998 was $8.66, $8.78 and $7.13, respectively.

The fair value of stock options used to compute the pro-forma net income disclosures is the estimated present value at grant date using the Black-Scholes option-pricing model, with the following weighted average assumptions:

Changes in stock options for the three years ended December 31, 2000 are summarized below:

	Number Outstanding	Weighted Average Exercise Price
Options outstanding, December 31, 1997	3.5	$ 24.14
Exercised	(0.1)	21.56
Surrendered or retired	(0.1)	24.39
Options outstanding, June 30, 1998	3.3	24.29
Options converted, July 1, 1998	3.5	22.92
Granted	1.3	32.72
Exercised	(0.2)	20.45
Surrendered or retired	(0.2)	26.55
Options outstanding, December 31, 1998	4.4	25.87
Granted	1.2	29.22
Exercised	(0.4)	20.56
Surrendered or retired	(0.1)	30.63
Options outstanding, December 31, 1999	5.1	26.98
Granted	0.4	28.53
Exercised	(0.2)	22.37
Surrendered or retired	(0.5)	29.40
Options outstanding, September 30, 2000	4.8	17.99
Options converted, October 1, 2000	14.8	19.94
Granted	5.5	27.87
Exercised	(0.6)	15.36
Surrendered or retired	(0.4)	23.13
Options outstanding, December 31, 2000	19.3	$ 22.30

Option activity for the period from December 31, 1997 through September 30, 2000 reflects Old D&B options that were held by employees of Moody's. The options converted at October 1, 2000 reflect the conversion of all Old D&B options, including both those held by employees of Moody's and those held by employees and retirees of New D&B, into separately exercisable options to purchase common stock of Moody's as described above. At October 1, 2000, 4.8 million Moody's options were held by employees of Moody's and 10.0 million were held by employees and retirees of New D&B. At December 31, 2000, 10.2 million Moody's options were held by employees of Moody's and 9.1 million were held by employees and retirees of New D&B.

	After 2000 Distribution	Conversion at 2000 Distribution	Prior to 2000 Distribution	1999	After 1998 Distribution	Conversion at 1998 Distribution	Prior to 1998 Distribution
Expected dividend yield	0.72%	0.72%	2.40%	2.40%	2.75%	2.75%	3.3%
Expected stock volatility	25%	25%	30%	30%	20%	20%	20%
Risk-free interest rate	5.94%	5.79%	6.69%	6.41%	5.38%	5.42%	5.53%
Expected holding period	4.5 yrs	3.0 yrs	5.0 yrs	5.0 yrs	6.0 yrs	2.3 yrs	4.5 yrs

tabular amounts in millions, except per share data

The following table summarizes information about stock options outstanding at December 31, 2000:

	Range of Exercise Prices		
	$13.63-$19.94	$21.42-$28.13	Total
Options outstanding			
Number outstanding	6.0	13.3	19.3
Average remaining contractual life in years	5.1	8.6	
Weighted average exercise price	$16.30	$25.00	
Options exercisable			
Number exercisable	5.4	1.5	6.9
Weighted average exercise price	$16.06	$21.55	

Under the Plan, key employees of the Company may be granted shares of common stock based on the achievement of two-year revenue growth goals or other operating objectives. At the end of the performance period, Company performance at target will yield the targeted amount of shares, whereas Company performance above or below target will yield larger or smaller share awards, respectively. As a result of the Distribution, a portion of the awards will be paid in cash. The Company recorded compensation expense of $4.6 million, $11.5 million and $5.0 million in 2000, 1999 and 1998, respectively, relating to such share grants.

Note 9 Income Taxes

Components of the Company's income tax provision are as follows:

	Year Ended December 31,		
	2000	1999	1998
Current:			
Federal	**$ 81.7**	$ 77.8	$ 66.1
State and local	**42.7**	36.6	36.2
Non U.S.	**3.6**	1.6	0.4
Total current	**128.0**	116.0	102.7
Deferred:			
Federal	**(1.6)**	4.8	(4.2)
State and local	**(0.9)**	2.6	(2.6)
Non U.S.	**–**	(0.1)	–
Total deferred	**(2.5)**	7.3	(6.8)
Provision for income taxes	**$125.5**	$123.3	$ 95.9

A reconciliation of the U.S. federal statutory tax rate to the Company's effective tax rate on income before provision for income taxes is as follows:

	Year Ended December 31,		
	2000	1999	1998
U.S. statutory tax rate	**35.0%**	35.0%	35.0%
State and local taxes, net of federal tax benefit	**9.5**	9.2	9.3
Recognition of ordinary losses	**–**	–	(4.4)
Foreign operations	**(0.1)**	(0.1)	(0.3)
Other	**(0.2)**	0.1	0.7
Effective tax rate	**44.2%**	44.2%	40.3%

Income taxes paid prior to the Distribution were $188.6 million, $116.0 million and $113.3 million in 2000, 1999 and 1998, respectively, principally through distributions to Old D&B. Income taxes paid in 2000 subsequent to the Distribution were $17.4 million.

The components of deferred tax amounts are as follows:

	December 31,	
	2000	1999
Deferred tax assets:		
Current:		
Allowances	**$ 11.5**	$ 13.1
Accrued compensation and benefits	**4.1**	4.2
Other accrued liabilities	**3.7**	0.9
Other	**0.1**	0.3
Total current	**19.4**	18.5
Non-current:		
Depreciation and amortization	**3.8**	2.3
Accrued compensation and benefits	**3.4**	3.3
Other accrued liabilities	**5.3**	2.6
Total non-current	**12.5**	8.2
Total deferred tax assets	**31.9**	26.7
Deferred tax liabilities, non-current:		
Pension plans	**(24.5)**	(22.5)
Amortization	**(1.5)**	(0.8)
Other	**(0.5)**	–
Total deferred tax liabilities	**(26.5)**	(23.3)
Net deferred tax asset	**$ 5.4**	$ 3.4

Included in other current assets are prepaid taxes of $28.5 million and $62.0 million and current deferred tax assets of $19.4 million and $18.5 million at December 31, 2000 and 1999, respectively. Non-current deferred tax liabilities of $26.5 million and $23.3 million at December 31, 2000 and 1999, respectively, are reported net of non-current deferred tax assets of $12.5 million and $8.2 million at December 31, 2000 and 1999, respectively, and are included in other liabilities. Management has determined, based on the Company's history of prior and current levels of operating earnings, that no valuation allowance for deferred tax assets should be provided as of December 31, 2000 and 1999.

At December 31, 2000, undistributed earnings of non-U.S. subsidiaries aggregated $29.8 million. Deferred tax liabilities have not been recognized for these undistributed earnings because it is management's intention to reinvest such undistributed earnings outside the U.S. If all undistributed earnings were remitted to the U.S., the amount of incremental U.S. Federal and foreign income taxes payable, net of foreign tax credits, would be $1.6 million.

Note 10 Indebtedness

Pursuant to the Distribution Agreement, Moody's was allocated $195.5 million of debt at September 30, 2000. Moody's funded this debt with borrowings under a $160 million unsecured bank revolving credit facility and a bank bridge line of credit.

On October 3, 2000 the Company issued $300 million of notes payable (the "Notes") in a private placement. The Notes have a five-year term and bear interest at an annual rate of 7.61%, payable semi-annually. No interest had been paid as of December 31, 2000. Accrued interest on the Notes at December 31, 2000 was $5.6 million. The cash proceeds from the Notes were used in part to repay the outstanding balance on the revolving credit facility and to repay the bridge line of credit.

The revolving credit facility (the"Facility"), which was undrawn as of December 31, 2000, consists of an $80 million 5-year facility, which expires in September 2005 and an $80 million 364-day facility, which expires in September 2001. Interest on outstanding borrowings is payable monthly at rates of interest that are based on prevailing short-term interest rates at the time of such borrowings. Interest paid under the Facility for the year ended December 31, 2000 was $0.1 million.

The Notes and the Facility contain covenants that, among other things, restrict the ability of the Company and its subsidiaries, without the approval of the lenders, to engage in mergers, consolidations, asset sales and sale-leaseback transactions or to incur liens, and require the Company to maintain certain financial ratios.

Note 11 Acquisition

On January 27, 2000, the Company acquired the net assets of a financial software products company for $17.4 million in cash. The acquisition was accounted for using the purchase method of accounting for business combinations from the date of acquisition. The purchase price was allocated based on estimated fair values at the date of acquisition, which resulted in acquired goodwill and other intangibles, including customer relationships and covenants not to compete, and capitalized software aggregating $16.6 million. These amounts are being amortized on a straight-line basis over three to seven years.

Note 12 Capital Stock

Authorized Capital Stock

The total number of shares of all classes of stock that the Company has authority to issue under its Restated Certificate of Incorporation is 420,000,000 shares with a par value of $.01, of which 400,000,000 shares represent shares of common stock, 10,000,000 shares represent shares of preferred stock and 10,000,000 shares represent shares of series common stock. The preferred stock and series common stock can be issued with varying terms, as determined by the Board of Directors.

Rights Agreement

The Company has a Rights Agreement designed to protect shareholders of the Company in the event of unsolicited offers to acquire the Company and coercive takeover tactics which, in the opinion of the Board of Directors, could impair its ability to represent shareholder interests. Under the Rights Agreement, each share of common stock has a right that trades with the stock until the right becomes exercisable. Each right entitles the registered holder to purchase 1/1000 of a share of a series A junior participating preferred stock, par value $.01 per share, at a price of $100 per 1/1000 of a share, subject to adjustment. The rights will generally not be exercisable until a person or group ("Acquiring Person") acquires beneficial ownership of, or commences a tender offer or exchange offer that would result in such person or group having beneficial ownership of, 15% or more of the outstanding common stock.

In the event that any person or group becomes an Acquiring Person, each right will thereafter entitle its holder (other than the Acquiring Person) to receive, upon exercise and payment, shares of stock having a market value equal to two times the exercise price in the form of the Company's common stock or, where appropriate, the Acquiring Person's common stock. The Company may redeem the rights, which expire in June 2008, for $.01 per right, under certain circumstances.

Share Repurchase Program

On October 18, 2000, the Board of Directors of the Company authorized a share repurchase program of up to $250 million of Moody's common stock. The program includes both special share repurchases and systematic repurchases of common stock to offset the dilutive effect of share issuances under the Company's employee benefit arrangements. Through December 31, 2000 the total number of shares repurchased under the program was 2.8 million, at a total cost of $71.8 million.

tabular amounts in millions, except per share data

Dividends

In the fourth quarter of 2000, the Company paid a quarterly dividend of 4.5 cents per share of Moody's common stock. In December 2000, the Company's Board of Directors declared a first quarter 2001 dividend of 4.5 cents per share, payable on March 10, 2001 to shareholders of record on February 26, 2001.

Note 13 Lease Commmitments

Moody's has leased facilities, which are under operating leases that expire over the next ten years. Moody's also leases certain computer and other equipment under operating leases that expire over the next four years. Rent expense under operating leases for the years ended December 31, 2000, 1999 and 1998 was $7.1 million, $5.6 million, and $5.5 million, respectively. Rent expense for 2000, 1999 and 1998 is net of sublease rental income of $1.0 million, $1.0 million and $0.4 million, respectively, related to a facility utilized by FIS, which was sold in July 1998.

The approximate minimum rent for operating leases that have remaining noncancelable lease terms in excess of one year at December 31, 2000, net of sublease rental commitments of $1.0 million and $0.6 million in 2001 and 2002, respectively, are as follows:

Year Ended December 31,	
2001	$ 6.5
2002	6.4
2003	6.0
2004	5.1
2005	3.7
Thereafter	5.3
Total minimum lease payments	$ 33.0

Note 14 Contingencies

Moody's is involved in legal proceedings, claims and litigation arising in the ordinary course of business. Although the outcome of such matters cannot be predicted with certainty, in the opinion of management, the ultimate liability of the Company in connection with such matters will not have a material effect on the Company's financial position, results of operations or cash flows.

In addition, Moody's has certain other contingencies discussed below.

Information Resources, Inc.

On July 29, 1996, Information Resources, Inc. ("IRI") filed a complaint in the United States District Court for the Southern District of New York, naming as defendants the corporation then known as "The Dun & Bradstreet Corporation" and, as discussed below, now known as "R.H. Donnelley Corporation"("Donnelley"), A.C. Nielsen Company (a subsidiary of ACNielsen Corporation) and IMS International, Inc. (a subsidiary of the company then known as Cognizant Corporation). At the time of the filing of the complaint, each of the other defendants was a wholly owned subsidiary of Donnelley.

The complaint alleges various violations of United States antitrust laws, including purported violations of Sections 1 and 2 of the Sherman Act. The complaint also alleges a claim of tortious interference with a contract and a claim of tortious interference with a prospective business relationship. These claims relate to the acquisition by defendants of Survey Research Group Limited ("SRG"). IRI alleges SRG violated an alleged agreement with IRI when it agreed to be acquired by the defendants and that the defendants induced SRG to breach that agreement.

IRI's complaint alleges damages in excess of $350 million, which amount IRI asked to be trebled under antitrust laws. IRI also seeks punitive damages of an unspecified amount.

On October 15, 1996, defendants moved for an order dismissing all claims in the complaint. On May 6, 1997, the United States District Court for the Southern District of New York issued a decision dismissing IRI's claim of attempting monopolization in the United States, with leave to replead within 60 days. The Court denied the defendants' motion with respect to the remaining claims in the complaint. In June 1997, the defendants filed an answer denying the material allegations in IRI's complaint, and A.C. Nielsen Company filed a counterclaim alleging that IRI had made false and misleading statements about its services and commercial activities. On July 7, 1997, IRI filed an amended and restated complaint repleading its alleged claim of monopolization in the United States and realleging its other claims. By notice of motion dated August 18, 1997, the defendants moved for an order dismissing the amended claim.

Note 14 Contingencies (continued)

On December 1, 1997, the court denied the motion. On December 22, 1999, defendants filed a motion for partial summary judgement seeking to dismiss IRI's non-U.S. antitrust claims. On July 12, 2000, the court granted the motion dismissing claims of injury suffered from the activities in foreign markets where IRI operates through subsidiaries or companies owned by joint ventures or "relationships" with local companies. Discovery in this case is ongoing.

In November 1996, Donnelley completed a distribution to its shareholders (the "1996 Distribution") of the capital stock of ACNielsen Corporation ("ACNielsen") and Cognizant Corporation ("Cognizant"). On October 28, 1996, in connection with the 1996 Distribution, Cognizant, ACNielsen and Donnelley entered into an Indemnity and Joint Defense Agreement (the "Indemnity and Joint Defense Agreement") pursuant to which they have agreed (i) to certain arrangements allocating potential liabilities ("IRI Liabilities") that may arise out of or in connection with the IRI action and (ii) to conduct a joint defense of such action. In particular, the Indemnity and Joint Defense Agreement provides that ACNielsen will assume exclusive liability for IRI Liabilities up to a maximum amount to be calculated at such time such liabilities, if any, become payable (the "ACN Maximum Amount"), and that Donnelley and Cognizant will share liability equally for any amounts in excess of the ACN Maximum Amount. The ACN Maximum Amount will be determined by an investment banking firm as the maximum amount that ACNielsen is able to pay after giving effect to (i) any plan submitted by such investment bank that is designed to maximize the claims-paying ability of ACNielsen without impairing the investment banking firm's ability to deliver a viability opinion (but which will not require any action requiring shareholder approval), and (ii) payment of related fees and expenses. For these purposes, financial viability means the ability of ACNielsen, after giving effect to such plan, the payment of related fees and expenses and the payment of the ACN Maximum Amount, to pay its debts as they become due and to finance the current and anticipated operating and capital requirements of its business, as reconstituted by such plan, for two years from the date any such plan is expected to be implemented. On February 19, 2001 ACNeilsen announced that it had merged with VNU N.V. Pursuant to the Indemnity and Joint Defense Agreement, VNU is to be included with ACNielsen for purposes of determining the ACNielsen Maximum Amount, and VNU must assume ACNielsen's liabilities under that agreement.

In June 1998, Donnelley completed a distribution to its shareholders (the "1998 Distribution") of the capital stock of Old D&B and changed its name to R.H. Donnelley Corporation. In connection with the 1998 Distribution, Old D&B and Donnelley entered into an agreement whereby Old D&B has assumed all potential liabilities of Donnelley arising from the IRI action and agreed to indemnify Donnelley in connection with such potential liabilities.

During 1998, Cognizant separated into two companies, IMS Health Incorporated ("IMS Health") and Nielsen Media Research, Inc. ("NMR"). IMS Health and NMR are each jointly and severally liable for all Cognizant liabilities under the Indemnity and Joint Defense Agreement.

Under the terms of the Distribution Agreement, as a condition to the Distribution, New D&B undertook to be jointly and severally liable with Moody's for Old D&B's obligations to Donnelley under the distribution agreement pursuant to which the 1998 Distribution was effected, including any liabilities arising under the Indemnity and Joint Defense Agreement. However, as between themselves, each of New D&B and Moody's will be responsible for 50% of any payments to be made with respect to the IRI action pursuant to such 1998 distribution agreement, including legal fees or expenses related thereto.

Management is unable to predict at this time the final outcome of the IRI action or whether the resolution of this matter could materially affect Moody's results of operations, cash flows or financial position. As such, no amount in respect of this matter has been accrued in the financial statements of the Company.

Tax Matters

Pursuant to the Distribution Agreement, New D&B and Moody's have agreed to each be financially responsible for 50% of any potential liabilities that may arise with respect to the reviews described below, to the extent such potential liabilities are not directly attributable to their respective business operations.

Old D&B and its predecessors entered into global tax planning initiatives in the normal course of business, principally through tax-free restructurings of both their foreign and domestic operations. These initiatives are subject to normal review by tax authorities. It is possible that additional liabilities may be proposed by tax authorities as a result of these reviews and that some of the reviews could be resolved unfavorably. At this time, Moody's management is unable to predict the extent of such reviews, the outcome thereof or whether the resolution of these matters could materially affect Moody's results of operations, cash flows or financial position.

The IRS has completed its review of the utilization of certain capital losses generated during 1989 and 1990. On June 26, 2000, the IRS, as part of its audit process, issued a formal assessment with respect to the utilization of these capital losses and Old D&B responded by filing a petition for a refund in the U.S. District Court on September 21, 2000, after the payments described below were made.

On May 12, 2000, an amended tax return was filed for the 1989 and 1990 tax periods, which reflected $561.6 million of tax and interest due. Old D&B paid the IRS approximately $349.3 million of this amount on May 12, 2000. IMS Health informed Old D&B that it paid to the IRS approximately $212.3 million on May 17, 2000. The payments were made to the IRS to stop further interest from accruing. Notwithstanding the filing and payment, New D&B is contesting the IRS's formal assessment and would also contest the assessment of amounts, if any, in excess of the amounts paid. Moody's had previously accrued its anticipated share of the probable liability arising from the utilization of these capital losses.

Note 15 Segment Information

The Company reports segment information in accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." In accordance with SFAS No. 131, operating segments are defined as components of an enterprise for which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Company operates primarily in one reportable business segment: ratings, which accounts for approximately 86% of the Company's total revenue. Revenue related to research products and the risk management services business has been aggregated as "Other" for reporting purposes. Given the dominance of the ratings segment to Moody's overall results, the Company does not separately measure and report operating income for the ratings business. Rather, revenue is the predominant measure utilized by senior management for assessing performance and for the allocation of resources, and operating income is evaluated for the Company as a whole. In addition, assets are not allocated on a segment basis and are considered on a total company basis only.

The ratings segment comprises four major rating groups, each of which has similar economic and financial characteristics. They are corporate finance ratings, structured finance ratings, financial institutions and sovereign ratings and public finance ratings.

Revenue included in "Other" consists of research products revenue, generated from the sale of investor-oriented credit research, and risk management services revenue, generated from the sale of credit risk assessment software and related products and services. Also included in "Other" for 1998 are revenues related to the FIS business of $18.4 million, which was divested in July 1998.

The accounting principles underlying the revenue information reported for each segment are consistent with those described in the summary of significant accounting policies in Note 1. There are no intersegment sales and no single customer accounted for 10% or more of total revenue.

	Year Ended December 31,		
	2000	1999	1998
Revenue:			
Ratings			
Structured finance ratings	**$ 199.2**	$ 172.4	$ 143.0
Corporate finance ratings	**162.7**	165.5	143.6
Financial institutions and sovereign ratings	**111.6**	104.8	90.1
Public finance ratings	**46.1**	59.5	64.8
Total ratings revenue	**519.6**	502.2	441.5
Other	**82.7**	62.0	72.4
Total revenue	**$ 602.3**	$ 564.2	$ 513.9
Total expenses	**$ 313.8**	$ 293.8	$ 288.4
Gain on sale of business	**–**	9.2	12.6
Other non-operating expense, net	**(4.5)**	(0.7)	(0.2)
Income before provision for income taxes	**$ 284.0**	$ 278.9	$ 237.9

Revenue and long-lived asset information by geographic area as of and for the year ended December 31 is summarized below:

	2000	1999	1998
Revenue:			
United States	**$ 428.9**	$ 423.4	$ 413.0
International	**173.4**	140.8	100.9
Total	**$ 602.3**	$ 564.2	$ 513.9
Long-lived assets:			
United States	**$ 53.4**	$ 41.7	$ 43.4
International	**8.4**	6.6	5.6
Total	**$ 61.8**	$ 48.3	$ 49.0

International revenue is determined based on the country of domicile of the customer.

Note 16 Valuation and Qualifying Accounts

	Balance at Beginning of the Year	Additions Charged to Revenue	Write-offs	Balance at End of the Year
Allowances:				
Year ended December 31, 1998	($22.8)	($35.7)	$37.8	($20.7)
Year ended December 31, 1999	(20.7)	(40.3)	36.5	(24.5)
Year ended December 31, 2000	(24.5)	(29.3)	29.4	(24.4)

Allowances primarily represent adjustments to customer billings that are estimated when the related revenue is recognized.

Note 17 Quarterly Financial Data (Unaudited)

	Three Months Ended				
	March 31	June 30	September 30	December 31	Year
2000					
Revenue	$ 139.3	$149.4	$152.5	$161.1	$602.3
Operating income	63.8	74.8	72.9	77.0	288.5
Net income	35.9	41.7	40.5	40.4	158.5
Basic earnings per share	$ 0.22	$ 0.26	$ 0.25	$ 0.25	$ 0.98
Diluted earnings per share	$ 0.22	$ 0.26	$ 0.25	$ 0.25	$ 0.97
1999					
Revenue	$ 137.1	$147.4	$139.3	$140.4	$564.2
Operating income	63.0	71.9	66.6	68.9	270.4
Net income	35.2	40.0	42.2	38.2	155.6
Basic earnings per share	$ 0.22	$ 0.25	$ 0.26	$ 0.24	$ 0.96
Diluted earnings per share	$ 0.21	$ 0.24	$ 0.26	$ 0.24	$ 0.95

Basic and diluted earnings per share are computed independently for each of the periods presented. The number of weighted average shares outstanding changes as common shares are issued for employee benefit arrangements and other purposes or as shares are repurchased. Accordingly, the sum of the quarterly earnings per share data may not agree to the total for the year.

tabular amounts in millions, except per share data

Selected Financial Data

The Company's selected consolidated financial data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the Moody's Corporation consolidated financial statements and notes thereto. Certain of the selected financial data is derived from the unaudited consolidated financial statements of Moody's. In the opinion of management, these financial statements include all necessary adjustments for a fair presentation of such data in conformity with generally accepted accounting principles. The Company's consolidated financial statements are presented as if the Company were a separate entity for all periods presented. The financial data included herein may not necessarily reflect the results of operations and financial position of Moody's in the future or what they would have been had it been a separate entity.

Through September 30, 2000, Moody's expenses included allocations of costs from Old D&B for employee benefits, centralized services and other corporate overhead. Expenses related to these services have been allocated to Moody's based on utilization of specific services or, where such an estimate could not be determined, based on Moody's revenue in proportion to Old D&B's total revenue. Although Moody's management believes these allocations are reasonable, such allocated costs are not necessarily indicative of the actual costs that would have been incurred if Moody's had performed or obtained these services as a separate entity. The allocations included in expenses in the consolidated statements of operations were $13.3 million, $17.2 million, $16.4 million, $15.8 million and $16.9 million in 2000, 1999, 1998, 1997 and 1996, respectively.

dollar amounts in millions	**2000**	1999	1998	1997	1996
					(unaudited)
Results of Operations[1]					
Revenue	**$ 602.3**	$ 564.2	$ 513.9	$ 457.4	$ 385.3
Expenses	**313.8**	293.8	288.4	267.4	252.0
Operating income	**288.5**	270.4	225.5	190.0	133.3
Non-operating (expense) income, net[2]	**(4.5)**	8.5	12.4	0.2	(0.3)
Income before provision for income taxes	**284.0**	278.9	237.9	190.2	133.0
Provision for income taxes	**125.5**	123.3	95.9	64.0	56.0
Income before cumulative effect of accounting change	**158.5**	155.6	142.0	126.2	77.0
Cumulative effect of accounting change, net of income tax benefit [3]	**–**	–	–	(20.3)	–
Net income	**$ 158.5**	$ 155.6	$ 142.0	$ 105.9	$ 77.0
Earnings Per Share					
Basic	**$ 0.98**	$0.96	$0.84	$0.62	$ 0.45
Diluted	**$ 0.97**	$0.95	$0.83	$0.61	$ 0.45
Weighted Average Shares Outstanding					
Basic	**161.7**	162.3	169.5	170.8	170.0
Diluted	**163.0**	164.3	171.7	172.6	171.6
Balance Sheet Data[4]					
Total assets	**$ 398.3**	$ 274.8	$ 296.2	$ 266.5	$ 271.8
Long-term debt	**$ 300.0**	–	–	–	–
Shareholders' equity	**$ (282.5)**	$ (223.1)	$ (192.6)	$ (152.9)	$ (83.9)

(1) The results of operations above includes the following amounts related to the Financial Information Services ("FIS") business that was sold in July 1998: revenue of $18.4 million, $34.3 million and $35.6 million in 1998, 1997 and 1996, respectively, and operating income of $4.2 million, $5.8 million and $6.7 million in 1998, 1997 and 1996, respectively.

Included in non-operating (expense) income, net are pre-tax gains on the sale of FIS of $9.2 million in 1999 and $12.6 million in 1998.

(2) Non-operating (expense) income, net in 2000 includes $5.8 million of interest expense of which $5.6 million relates to the $300 million of notes payable outstanding at December 31, 2000. This amount was partially offset by $2.2 million of interest income on invested cash.

(3) Represents the impact of a change in revenue recognition policies whereby the Company began recognizing certain revenues over the service period, instead of as previously recognized, at the time of billing.

(4) The balance sheet data as of December 31, 1997 and 1996 is unaudited.

Directors & Officers

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President
Alexander & Associates, Inc.

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Former Chairman and Chief Executive Officer
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Mary Johnston Evans (1,2)
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Henry A. McKinnell, Jr. (1,2)
President and Chief Executive Officer
Pfizer Inc.

John Rutherfurd, Jr.
President and Chief Executive Officer

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Global Ratings & Research

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Online Shareholder Account Information:
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Form 10-K
The Company has filed its Annual Report on Form 10-K with the Securities and Exchange Commission.
A copy of the Form 10-K is available without charge upon request to the Corporate Communications Department at the Corporate Office above.

Common Stock Information
The Company's common stock (symbol MCO) is listed on the New York Stock Exchange.

Left to right: Raymond W. McDaniel, Debra J. Perry, Donald E. Noe, Jeanne M. Dering, and John Rutherfurd, Jr.

Moody's Corporation

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Designed by Page, Arbitrio & Resen   Printed in USA

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