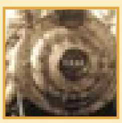
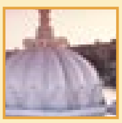
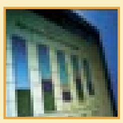
Moody's Corporation

Annual Report 2005

Preserving Trust and Pursuing Innovation for Continued Growth



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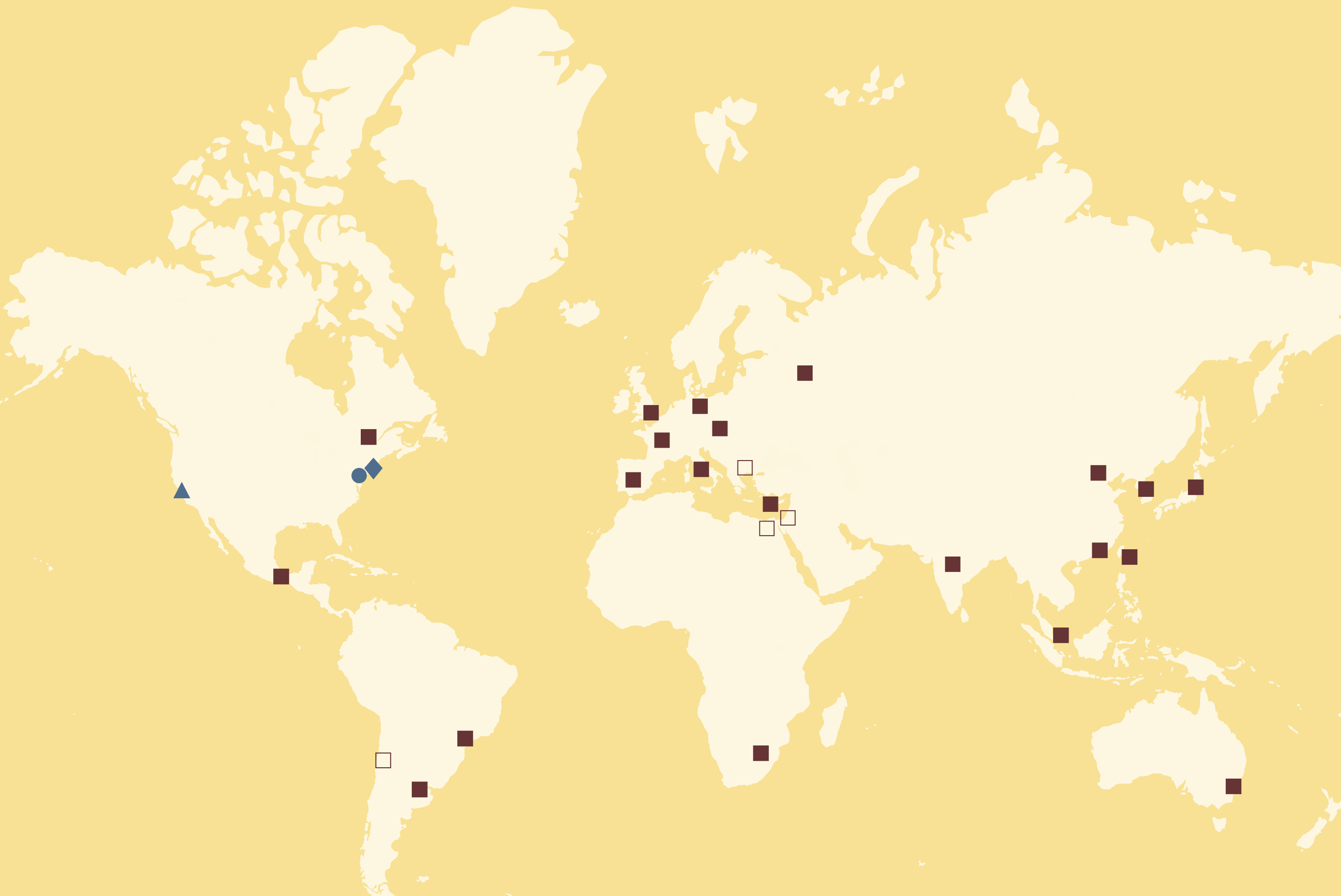


Headquarters

- ◆ Moody's Corporation/ Moody's Investors Service
- ▲ Moody's KMV
- ● Moody's Economy.com

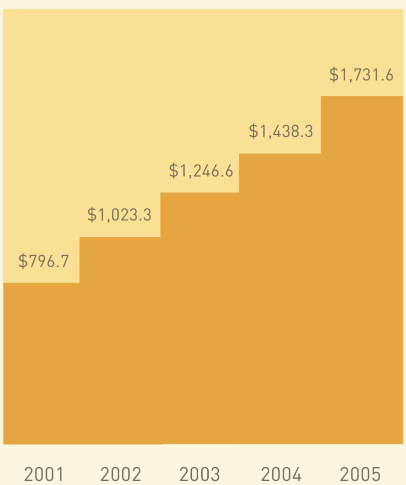
Worldwide Locations

- ■ Offices
- □ Affiliates

:: FINANCIAL HIGHLIGHTS ::

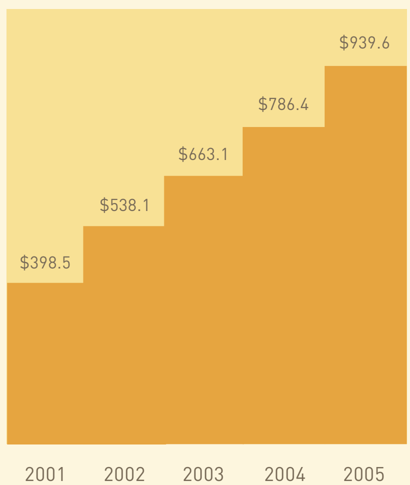
Revenue

($ Millions)

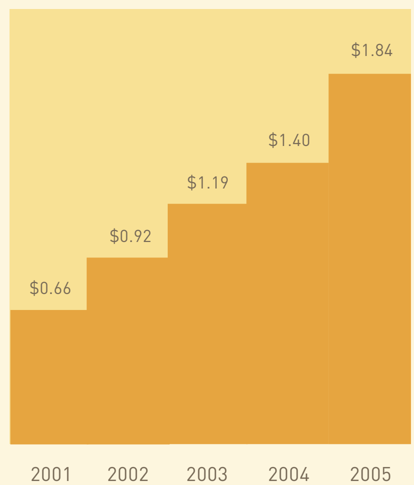


Operating Income

($ Millions)



Diluted EPS[1]



(1) Prior year earnings per share have been adjusted to reflect the May 2005 2-for-1 stock split.

	2005	2004	2003	2002	2001
Amounts in millions except per share data					
Operations					
Revenue	**$1,731.6**	$1,438.3	$1,246.6	$1,023.3	$796.7
Operating Income	**$ 939.6**	$ 786.4	$ 663.1	$ 538.1	$398.5
Net Income[1]	**$ 560.8**	$ 425.1	$ 363.9	$ 288.9	$212.2
Diluted EPS[1][2]	**$ 1.84**	$ 1.40	$ 1.19	$ 0.92	$ 0.66
Balance Sheets					
Total Assets[3]	**$1,457.2**	$1,389.3	$ 959.9	$ 633.7	$505.4
Long-Term Debt[4]	**$ 300.0**	$ —	$ 300.0	$ 300.0	$300.0
Equity Transactions					
Cost of Share Repurchases[5]	**$ 691.7**	$ 221.3	$ 171.7	$ 369.9	$267.6
Dividends Paid	**$ 60.3**	$ 44.7	$ 26.8	$ 27.8	$ 28.3

Moody's financial highlights should be read in conjunction with the Management's Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements and notes thereto contained elsewhere in this annual report.

(1) Net income and diluted EPS for 2003 include a $7.9 million after-tax gain related to an insurance recovery.

(2) Prior year earnings per share have been adjusted to reflect the May 2005 2-for-1 stock split.

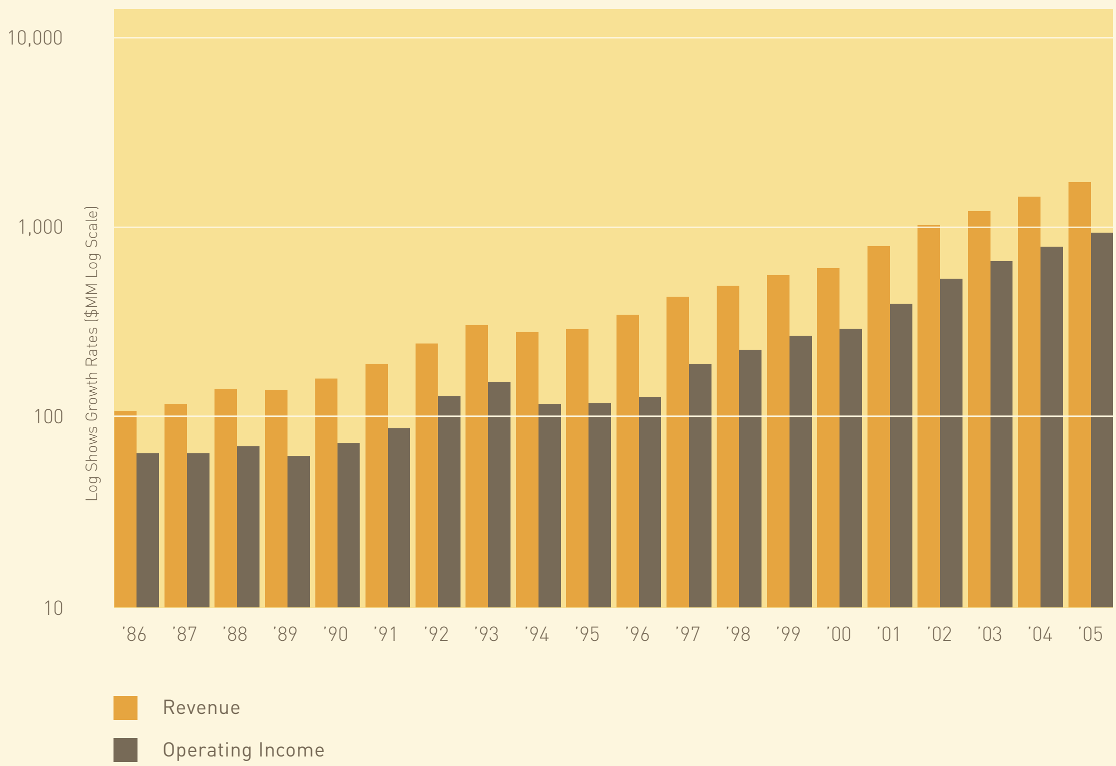
(3) Certain prior year amounts have been reclassified to conform to the current presentation.

(4) At December 31, 2004, the notes payable scheduled to mature in September 2005 were classified as a current liability.

(5) The cost of share repurchases does not reflect net proceeds from employee stock plans or related tax benefits.

:: 2005 AT A GLANCE ::

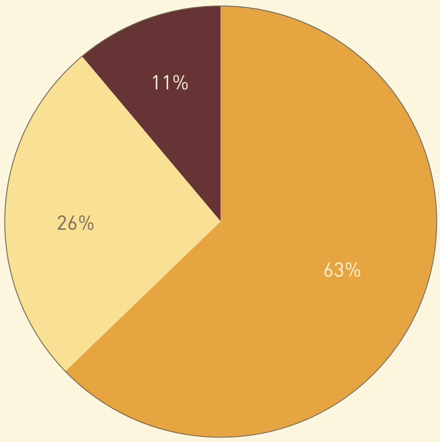
Consistent History of Growth



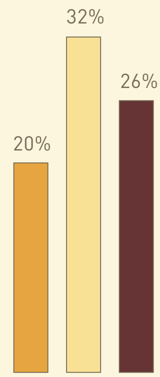
Revenue and operating income for 1998 and prior years exclude FIS, which was divested in 1998.

Revenue by Region

2005 Total Revenue $1,732 Million



Compound Annual Growth Rate 2000–2005



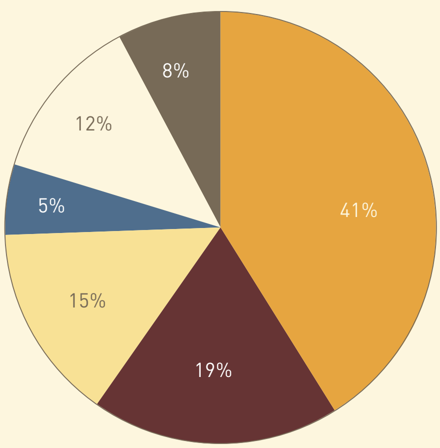
United States

Europe

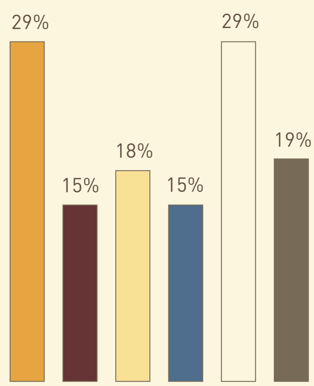
Other International

Revenue by Product

2005 Total Revenue $1,732 Million



Compound Annual Growth Rate 2000–2005



Structured Finance

Corporate Finance

Financial Institutions & Sovereign Risk

Public Finance

Research

Moody's KMV*

*The 2000–2005 revenue CAGR for MKMV is on a pro forma basis, assuming that KMV had been owned by Moody's in 2000. Revenue for 2000 consists of reported legacy Moody's Risk Management Services GAAP revenue of $23.0 million and KMV revenue of $31.9 million.

Raymond W. McDaniel, Jr.
Chairman and Chief Executive Officer

Dear Shareholders:

I am pleased to report to you that in 2005 Moody's achieved a year of strong financial performance and solid business execution. It was a year of management transition as John Rutherfurd, Moody's Chief Executive Officer since we became an independent public company in 2000, retired in April. In the markets, the steady rise of short-term U.S. interest rates was not accompanied by similar increases in long-term U.S. interest rates or credit spreads. The stable long-term rate environment, together with the persistently robust U.S. housing market, made for positive conditions that more than offset a decline in U.S. speculative-grade bond issuance and the consequences of sluggish economic growth in Europe. Our financial results exceeded our long-term targets, underscoring the diversity of fixed-income markets and our ability to capitalize on a range of opportunities. It is a credit to our management and professional staff that Moody's was able to increase revenue in each of our business lines and geographic reporting segments despite uneven activity in various market sub-segments.

During 2005 we pursued several important initiatives designed to assure the company's ongoing success. We expanded Moody's geographic presence in both developed and developing markets, and we are poised for further geographic expansion in 2006. We also emphasized new product development, expanding the range of data and analytical tools we offer customers to manage credit risk. We sustained our efforts to extend Moody's services and brand to more customer segments by acquiring Economy.com, which we renamed Moody's Economy.com. Finally, we continued to communicate in an open and constructive manner with global policymakers and regulatory authorities on the role and function of credit ratings in capital markets worldwide.

GROWTH IN REVENUE AND PROFIT

For 2005, Moody's growth exceeded our long-term targets of 12½% average annual growth in operating income and 15% average annual growth in diluted earnings per share.

- **Revenue** totaled $1,732 million, an increase of 20% from 2004's $1,438 million.
- **Operating income** of $940 million was up 20% from $786 million in 2004.
- **Net income** reached $561 million, growing 32% from $425 million in 2004.
- **Diluted earnings per share** were $1.84, an increase of 31% from 2004's $1.40.[1]

(1) Earnings per share for 2005 included a $0.10 charge related to stock options and other stock-based compensation, a $0.03 net reduction in tax reserves related to legacy tax exposures assumed by Moody's in connection with its separation from The Dun & Bradstreet Corporation in 2000, and a $0.02 charge for the settlement of sales tax matters related to Moody's operations in Japan from 2000 through June 30, 2005. Earnings per share for 2004 included a $0.05 charge related to stock options and other stock-based compensation and legacy tax charges of $0.09 per share.

Moody's revenue growth in 2005 was broad-based, with all business lines and geographic reporting segments achieving growth. Total ratings revenue grew 21% over 2004 and was greater than our 13% growth rate in the prior year.

Ratings revenue growth was led by global structured finance at 30%. Our U.S. residential and home equity securitization ratings unit achieved unexpectedly strong results, supplemented by strong growth in U.S. credit derivatives and global commercial mortgage-backed securities ratings. As in 2004, U.S. structured finance was the largest dollar contributor to Moody's revenue growth.

Geographically, revenue from our ratings business outside the U.S. grew 22% over 2004, and was above our 2004 growth rate of 14%. International ratings growth included a 70 basis point contribution from foreign currency exchange rates, down from the 450 basis points of growth attributable to exchange rates in 2004. Europe led international ratings revenue growth in incremental dollar contribution, at $66 million, while Asia led international percentage growth at better than 25%, with important growth in new ratings mandates overcoming mixed issuance conditions.

Moody's research business maintained its historically strong track record. Global research revenue grew at a 24% rate, down from the extraordinary growth rate of 33% in 2004. Demand for independent, authoritative analysis of credit risk remained vigorous, while new products aimed at meeting customer needs for data and credit analysis tools continue to be important sources of growth.

Results at Moody's KMV, our quantitative credit risk analytics business, were mixed. Revenue growth of 10% over 2004 was below our 2004 growth rate of 14%. However, slower growth in sales of risk analysis products was supplemented by growth in other areas, such as professional services.

PRESERVING TRUST AND PURSUING INNOVATION FOR CONTINUED GROWTH

We believe that Moody's equity is an efficient vehicle for investing in the growth of credit markets worldwide, particularly the public debt capital markets. In our view, opportunities in these markets remain attractive and can support long-term revenue growth, on average, at double-digit rates. Two obvious questions in exploring the basis of these expectations are *why* do we believe the opportunities remain attractive, and *what* are Moody's strategies to capture these opportunities? I will briefly highlight some of the specific strategies and initiatives Moody's is pursuing, and the text that accompanies this letter examines our growth philosophy and key initiatives in greater detail. First, however, I wish to address these important questions briefly at a more fundamental level.

If one considers the "raw materials" that support our business, two stand out: the proliferation of credit risk-sensitive instruments in the global marketplace, and the market's trust in and reliance upon Moody's. It is not venturesome to predict that forces such as the globalization and disintermediation of financial markets, together with advances in information and

Moody's is committed to reinforcing among all relevant stakeholders a sense of trust in the accuracy, independence and reliability of Moody's products and services, and our stewardship of the business.

financial technology, will drive continued growth in the supply and diversity of credit instruments.

That leaves trust. Moody's is committed to reinforcing among all relevant stakeholders—debt issuers, the investment community, employees, governmental authorities and shareholders—a sense of trust in the accuracy, independence and reliability of Moody's products and services, and our stewardship of the business. To do this, we must keep pace with innovations in dynamic global financial markets, deliver products and services that sustain Moody's relevance, and enhance the perception that Moody's helps facilitate the fairness and efficiency of credit markets worldwide. In every country in which we operate, we must be perceived as a national asset, meaning a company that contributes to the growth and stability of financial markets by offering the highest quality credit analysis and research.

Our operating, financial and regulatory strategies must, in essence, be *strategies of trust* that flow from the talent of our employees and the culture of our company. Talent in analyzing credit risk is the essential ingredient for competing in our industry, serving markets, and developing products and services that meet the ever-increasing expectations for our business. When combined with our commitment to transparency in what we do and how we do it, talent and culture form a basis for trust in Moody's that will be deserved and durable.

Operating Strategy. Our core operating strategy is to position Moody's to take advantage of growth in credit markets driven by globalization, disintermediation and financial technology.

- **Globalization and disintermediation** of financial markets introduce new borrowers and investors to each other. Moody's independent and authoritative credit opinions, research and analytical tools serve as important catalysts for creating efficiency in this capital formation process.
- **The adoption of structured finance technology** in credit markets globally increases the range of financial options for debt issuers, permitting less creditworthy borrowers to issue high-quality securities. Moody's plays an essential role in assessing the risks and protections associated with these complex transactions and communicating this information to the investment community.

Our actions to capitalize on these forces include:

- **Geographic expansion** into important developing markets such as China, India, Russia and Central Europe, which increases global awareness of Moody's and extends the benefits of our services to a wider community.

- **Continued development of new products**—including data, credit risk analysis tools and market-level economic information—that enable users to better interpret our opinions and apply them to their day-to-day decision-making. This supports broader utility of Moody's capabilities and facilitates deeper market understanding of risk.

Moody's has the global scale, brand recognition and reputation to take prudent advantage of these opportunities.

Financial Strategy. Moody's management has consistently emphasized our commitment to returning excess capital to our owners through share repurchases and a modest dividend. Last year we strengthened this commitment by adding a systematic component to our share repurchases to complement our opportunistic repurchase activity. During 2005, we repurchased 13.5 million shares at an average cost of slightly more than $51 per share. The total net accretive impact of these repurchases was approximately two cents per share, which at today's price/earnings ratio represents roughly $186 million of shareholder value. Since our separation from The Dun & Bradstreet Corporation in 2000, Moody's has repurchased 66.4 million shares at a total cost of $1.8 billion, about half of which has been used to offset employee stock option exercises. We recently raised our annual dividend to 28 cents per share beginning in 2006, an increase of 27%. In May of 2005 we also completed a two-for-one stock split. We have been gratified by the performance of the stock following the split and the announcement of the systematic repurchase program.

Our business should continue to produce significant free cash flow, allowing us to maintain substantial share repurchase levels to support growth in earnings per share at rates higher than growth in operating income, while funding appropriate investments in the business. We will also be able to pursue selective acquisitions and investments where our expertise can be used to expand into adjacent businesses. Recognizing that our shareholders can diversify within their own investment portfolios, our intention is to remain conservative in evaluating acquisitions, and otherwise to return excess capital to our owners.

Regulatory Strategy. Legislative and regulatory reviews of credit rating agencies continued in 2005. Moody's actively participated in these processes, including adopting a Code of Professional Conduct modeled on a code of conduct proposed by global securities regulators.

The regulatory process was marked by fresh actions by U.S. and international authorities regarding oversight of the ratings industry:

- **The U.S. Securities and Exchange Commission** proposed a rule in April 2005 for the recognition of credit rating agencies operating in the U.S. as Nationally Recognized Statistical Rating Organizations (NRSROs). The proposed rule outlines recognition criteria, which, if met, would permit use of a firm's credit ratings in certain guidelines and regulations governing investments in credit-sensitive instruments. The proposed rule is expected to be considered further in the first half of 2006.
- **The Sub-Committee on Capital Markets, Insurance and Government Sponsored Enterprises of the U.S. House of Representatives** began considering a bill for oversight of the ratings industry. The stated objectives of the legislation

are to increase competition, transparency and accountability of credit rating agencies operating in the U.S. Moody's supports these objectives, although we have communicated with members of Congress about unintended, potentially adverse consequences related to technical elements of the bill. Additionally, further Congressional hearings examining the credit ratings industry are scheduled for 2006.

- **The European Commission** has recommended a "wait and see" approach with respect to the need for additional legislation directed at credit rating agencies. The Commission's decision was made in light of, among other things, adoption by each major rating agency, including Moody's, of a code of conduct modeled on the code of conduct developed by global securities regulators in late 2004.

The principal concerns of both U.S. and international authorities are the levels of independence, transparency and compliance with regulatory expectations practiced by major rating agencies. In June 2005, Moody's adopted its Code of Professional Conduct in response to the model international code. We also announced our intention to report annually on our implementation of our Code of Professional Conduct for review by relevant authorities and market participants. When combined with Moody's ongoing efforts to enhance the transparency of our rating practices through broader publication of analytical methodologies and measurements of our performance, we believe that Moody's has responded appropriately to regulatory interests and concerns. We continue to seek mechanisms and opportunities to enhance our communications with regulators, and to satisfy authorities that the position of trust occupied by Moody's and the industry is well placed and well serves global capital markets.

OUR COMMITMENTS TO CUSTOMERS, SHAREHOLDERS AND OTHER STAKEHOLDERS

My earlier comments about preserving trust while pursuing innovation address basic building blocks for meeting the expectations of Moody's stakeholders worldwide. In doing so, our goal is to remain the leading authority on credit risk in the global capital markets. In so far as we meet those expectations, Moody's stands very well positioned to continue to reward the faith—the trust—that our shareholders have placed in us.

In closing, and in reflecting on my first year as Moody's Chief Executive Officer, I can do no better than to repeat the commitment in our shareholder letter of last year: *most importantly, we remain committed to upholding the independence and integrity of our business*. We will preserve what Moody's has built over the last hundred years and we will prepare for what must be built in the years to come for Moody's to continue its track record of professional and financial success.

Raymond W. McDaniel, Jr.
Chairman and Chief Executive Officer

SINCE OUR FOUNDING IN THE U.S. MORE THAN A CENTURY AGO, BOND ISSUERS AND INVESTORS ACROSS THE GLOBE HAVE COME TO DEPEND ON MOODY'S OPINIONS AND ANALYSIS. THE THREE SUBSIDIARIES OF MOODY'S CORPORATION ARE HEADQUARTERED IN NEW YORK, NY (MOODY'S INVESTORS SERVICE), SAN FRANCISCO, CA (MOODY'S KMV) AND WEST CHESTER, PA (MOODY'S ECONOMY.COM).

Moody's is one of the world's most respected sources of independent opinion and analysis about credit risk, helping set a common global standard for comparing debt instruments.

The above statement should be familiar to Moody's long-term stakeholders and other regular readers of our Annual Reports. The words bear repeating, however, because they speak to the fundamental ideas driving our strategy, key business initiatives and future direction.

It is appropriate to start with the concept of "independent opinion and analysis." In recent years, legislative and regulatory scrutiny of financial services firms has focused on whether investment analysis is truly independent or whether its integrity is tainted by conflicts of interest or otherwise compromised. With respect to credit rating agencies, and Moody's in particular, the examinations have been reassuring. Nonetheless, the growing reliance on our opinions and analyses highlights the importance of assuring integrity into the future. Moody's must be increasingly rigorous and transparent in demonstrating our independence and managing potential conflicts. We have responded with a variety of actions, including adopting a Code of Professional Conduct for all rating agency employees (in addition to the corporation's existing Business Code of Conduct), establishing an office of Ratings Compliance, strengthening our credit policy function, and publishing more comprehensive and transparent rating methodologies so that users of our ratings can better understand the basis of our opinions.

Independent opinion and analysis is only one side of the coin, however. To be "one of the most respected sources" of such opinion, Moody's analysis must meet or exceed expectations for quality, including the predictive power and clarity of our analytical tools and credit ratings. This requires Moody's analysis to keep pace with a constantly innovating marketplace for credit instruments, as visibly demonstrated, for example, by the continued advances in asset securitization. Moreover, we must develop analytical tools that improve the ability of market participants to understand, interpret and react to

Worldwide, issuance of rated public securities has risen at a compound annual rate of 22% over the last five years.

Moody's opinions. By meeting demands of multiple parties, including debt issuers, the investment community and regulatory officials, such tools represent important sources of future growth for Moody's.

Lastly, Moody's must meet demand for authoritative credit analysis in all significant credit markets worldwide. We often discuss this in terms of international expansion focused on emerging centers of capital formation and distribution. Importantly, however, our emphasis on expansion is not limited to our desire to be relevant in new markets offering new opportunities—although it certainly includes that desire—but also applies to our desire to continue to serve established markets with comprehensive and consistent opinions. Issuers, investors and, increasingly, regulators demand a common standard for comparing debt instruments. We understand that the utility and comparability of our opinions, even in established markets, depends critically on our knowledge and judgment about issuers from emerging financial centers and about their domestic markets.

Independence. Performance. Transparency. Innovation. Global Coverage. These are the watchwords by which stakeholders judge Moody's. Our overriding goal is to sustain Moody's success into the future by continuing to contribute to the efficiency, fairness and transparency of credit markets worldwide. By doing so, we expect to realize commercial opportunities that will allow Moody's, on average, to meet long-term annual growth targets of low-teens percent growth in revenue and operating income and mid-teens percent growth in earnings per share for a number of years to come. In this Annual Report to Shareholders, we discuss important opportunities around the world, illustrating our growth themes with practical examples of our efforts and introducing some areas of research and development that may further enhance our future prospects.

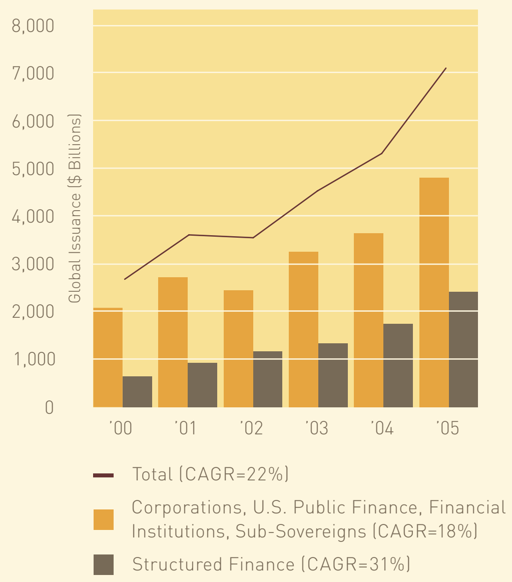
We conclude with a summary of our financial strategy and regulatory efforts. Moody's financial strategy is designed to support the company's ability to execute on operating strategies, while returning capital to shareholders efficiently and systematically. We believe that this approach, in combination with the operational, regulatory and compliance efforts summarized in this Annual Report, appropriately prioritizes and integrates the initiatives necessary to meet the expectations of all Moody's stakeholders.

We expect that readers will use our performance against all of these criteria to judge Moody's continued prospects for sustainable growth.

Benefiting from Growth in the Capital Markets

Moody's operating strategy centers on positioning the company's ratings, research and quantitative analytics businesses to benefit from anticipated growth and innovation in global financial markets. In a broad sense, the process of debt capital formation—which typically begins with bilateral transactions, such as loans, and evolves into domestic and cross-border markets for fixed income securities of increasing complexity—should drive the volume of credit-sensitive instruments and the need for expertise and independent credit judgments. Worldwide, issuance of rated public securities has risen at a compound annual rate of 22% over the last five years, a period of generally favorable conditions for debt. Despite inevitable cyclical swings, we believe that growth of the global markets will continue to create new opportunities for Moody's for a number of years to come.

Growth in Global Issuance of Rated Debt



Below we discuss the key forces that have driven this growth and which we believe will persist.

Globalization and Integration of Financial Markets

Capital and credit markets that once functioned primarily as domestic, self-contained systems are becoming increasingly international and interdependent. The most important forces driving this integration include the elimination of currency and capital controls, allowing the free flow of capital across borders; deregulation of financial markets; and advances in information technology. These trends bring

We expect that corporations and other borrowers seeking to diversify their sources of funding and raise capital efficiently will increasingly turn to the public debt markets to fulfill at least a portion of their needs.

lenders and investors together with unfamiliar borrowers and debt issuers, expanding demand for independent, authoritative opinion and analysis on which to base investment decisions. Experience in capital markets worldwide has shown that Moody's credit ratings, analytical tools and research respond to this demand.

Disintermediation

Global economic growth will continue to increase demand for capital. Through the process of disintermediation, borrowers tap public securities markets, while investment vehicles such as mutual funds and pension funds better enable households to invest in capital market instruments. These shifts increase the volume of and capacity for debt issued in the public capital markets, including the flow of new obligations for which ratings are sought. In addition, we expect that corporations and other borrowers seeking to diversify their sources of funding and raise capital efficiently will increasingly turn to the public debt markets to fulfill at least a portion of their needs. Together, these forces should increase disintermediation and contribute to Moody's growth.

Increased Adoption of Structured Finance

In the last 20 years, structured finance has grown from a relatively narrow niche to become a prominent fixture of many fixed-income markets. It has become both a key source of financial innovation and one of the fastest-growing segments of the global capital markets. Structured finance is Moody's largest ratings business and has been the fastest-growing over the last five years.

In developed markets, investors' understanding and acceptance of structured finance have risen steadily with the growth and development of securitization. Faced with a shortage of corporate investment opportunities among the highest quality credits, investors have been drawn to the securitization market in increasing numbers. This demand has been met by burgeoning supply.

To diversify their funding sources and reduce the cost of capital, corporations and other borrowers—including those of lower credit quality—turn to structured financing techniques. Moreover, financial institutions increasingly rely on securitization for balance sheet management, while

In Western Europe forces such as disintermediation, geographic enlargement and increased adoption of structured finance will continue to create new growth opportunities for Moody's. To serve issuers and investors in this region, Moody's maintains offices in France, Germany, Italy, Spain and the UK.

IN CENTRAL AND EASTERN EUROPE robust economic expansion coupled with growth in the domestic and cross-border capital markets is generating new demand for independent credit ratings. Moody's presence in these markets continues to grow with the expansion of our operations in Russia and the Czech Republic.

intermediaries use structured finance to deliver innovation that meets the needs of both investors and borrowers in markets worldwide.

In developing markets, we believe that structured finance will generally follow a life cycle that parallels its growth in developed markets. Markets with adequate legal and regulatory controls should, over time, see more adoption of structured finance as market participants seek the same advantages that securitization has afforded issuers and investors in developed markets. As enabling legislation permits securitization in more jurisdictions worldwide, issuance is expected to begin with established securitized asset classes, such as residential and commercial mortgage-backed securities. As both awareness and confidence of investors and issuers in these markets grow, the mix of asset classes and structures is likely to evolve in breadth and complexity.

Product Development

Moody's is focused on growth opportunities in both our existing business lines and in areas adjacent to our present business. As noted above, Moody's ratings business benefits from financial innovation, as issuers and intermediaries seek our ratings on newly developed securities. After working with market participants to understand newly created structures and securities, Moody's independently develops rating approaches to assess the credit risk relative to other instruments rated by Moody's. In structured finance, for example, securities backed by asset classes that have never before been securitized are introduced in both developed and developing markets each year. In the early 1990s the number of different asset classes securitized was less than twenty. Currently, the types of assets backing structured finance transactions number well over one hundred. As advances in the structured finance markets continue, Moody's remains poised to leverage this innovation into increased new rating opportunities.

Moody's has also benefited from significant growth in the volume of rated syndicated bank loans in the U.S. and, to a lesser extent, in Europe. Much of this growth has occurred in the speculative grade market. Strong performance of this asset class, as evidenced by relatively low losses and reasonable returns, has drawn new pools of capital to both the primary and secondary markets. In particular, the development of the institutional segment of the market has brought new liquidity from mutual funds, life insurance companies and investment vehicles such as collateralized loan obligations (CLOs). These investors now own more than half of all syndicated loans outstanding, and many follow investment criteria that include ratings for internal governance purposes, as well as for the secondary trading of loan instruments. Over the next several years, Moody's expects the demand for rated syndicated loans to grow. Well-developed distribution of LBO- and merger and acquisition-related financing by major intermediaries, as well as the refinancing of existing credit facilities, should continue to meet strong demand from investors.

In response to investor desire for greater insight into the elements of credit risk in the high-yield bond market, Moody's will introduce loss given default ratings (LGDs) for speculative-grade corporate issuers and their debt. These ratings will be rolled out by industry. Moody's will also publish probability of default ratings (PDRs) for high-yield issuers. These new ratings categories will reveal more information about the key components of Moody's current bond ratings, which address expected loss (a combination of probability of default and loss given default). The LGD and PDR ratings respond to the market's interest in disaggregating the components of credit risk.

Additionally, with rising investor concerns regarding bondholder protection, Moody's will expand its covenant research to help investors assess the credit impact of balance sheet change, whether attributable to event risk or business deterioration.

Our most successful new non-credit ratings products involve commercializing existing analytical models, tools and data sets used by Moody's analysts. Market participants find these new products particularly useful because they provide insight into the thought processes underlying Moody's credit ratings.

Following are a few of our important new product initiatives:

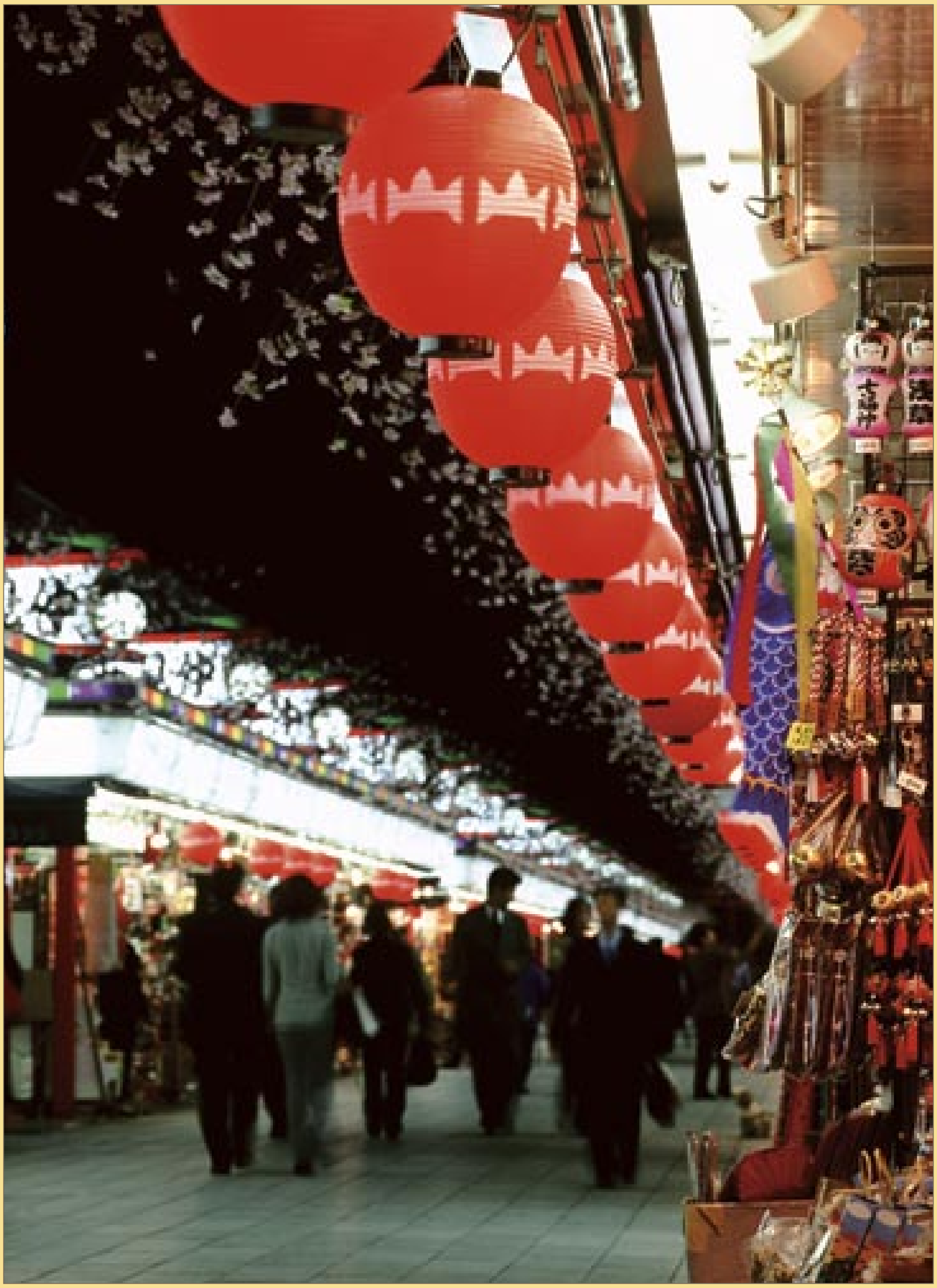
Moody's Financial Metrics

Moody's Financial Metrics (MFM) is an Internet-based platform that enables customers to query the publicly available financial information used by Moody's analysts in the ratings process. Using MFM, subscribers can analyze a range of Moody's ratings, financial analyses and research to make peer-group comparisons and to conduct advanced credit research. To date, a global banking module has been launched and modules for insurance companies and corporate issuers are in development. By placing the data evaluated by Moody's analysts directly at our customers' fingertips, MFM promotes more informed and productive discussion between Moody's and market participants. Moreover, by providing access to financial statement information and statistical ratios as defined in Moody's analytical methodologies, MFM serves our objective of building more transparency into our rating process for investors and issuers alike.

Structured Finance Analytical Models and CDO Enhanced Monitoring Service

Moody's continues to develop data and analytic products that introduce clients to some of the wide variety of tools used by Moody's analysts in rating and monitoring structured finance instruments. Many of these tools are now available through a single Structured Finance Analytical Model web page, including: ABSROM™, the model Moody's uses to rate a range of European asset-backed securities; Moody's Mortgage Metrics, the platform used to estimate pool-level risk and credit enhancement levels for pools of residential mortgages; and CDOROM™, a simulation model used by Moody's analysts to assess the expected loss of certain credit derivative instruments. Other structured finance models include CDOEdge™, the structuring and modeling platform used by Moody's analysts to rate and monitor more than 700 U.S. CDOs;

IN INDIA AND SOUTHEAST ASIA demand for Moody's ratings, research and credit training is climbing as the capital markets expand. Our newest enterprise—an office in Mumbai—opened in 2005 and accompanies our existing affiliation with the Indian rating agency, ICRA. This office, plus our regional operations in financial centers such as Singapore and Hong Kong, is making it possible for us to bring international expertise to the growing range of new debt issuers.



MOODY'S JAPAN, WHICH OPENED IN 1985, WAS MOODY'S FIRST OFFICE OUTSIDE THE U.S. JAPAN'S IMPROVING ECONOMY AND FINANCIAL REFORMS, AS WELL AS ITS EXPANDING AND DIVERSIFYING CREDIT MARKETS, SHOULD DRIVE CONTINUED GROWTH IN ISSUANCE OF RATED INSTRUMENTS FOR A NUMBER OF YEARS TO COME.

and Moody's Commercial Mortgage Metrics, a quantitative tool for assessing the credit risk of individual commercial mortgage loans.

In addition, Servicer Quality (SQ) ratings were introduced to the asset-backed securities market in 2005. SQ ratings are Moody's assessment of a servicer's ability to prevent or mitigate losses in a securitization transaction based on those factors under the servicer's control. SQ ratings consider the operational and financial stability of the servicer as well as its ability to respond to changing market conditions. Moody's has been providing SQ ratings to the residential mortgage-backed securities (RMBS) market since 2001. We believe that SQ ratings for servicers of asset-backed securities will represent a solid long-term opportunity for Moody's.

Finally, in the growing CDO area, Moody's CDO Enhanced Monitoring Service (EMS) now provides monthly performance updates and information on underlying collateral for nearly 700 CDOs. By providing uniform measures of CDO performance, EMS enables customers to make simultaneous comparisons across hundreds of securities in the rated CDO universe. The detailed reports also enable market participants to see links between collateral quality and ratings categories, adding transparency to the rating process.

Market Implied Ratings

Moody's Market Implied Ratings (MIR) represents a combination of data and research based on empirical comparison of Moody's ratings with other sources of opinion about credit risk. By comparing actual ratings with those implied by bond prices, credit default swap spreads and accounting ratios, users are better able to apply Moody's ratings to their portfolio governance and investment management activities. With important applications for bond investors, credit analysts, risk managers, and hedge funds, the MIR initiative has been well received by the market, and sales nearly doubled in 2005. In 2006, we are extending MIR's capabilities to include equity-implied ratings based on the industry-standard Expected Default Frequency (EDF) measures produced by Moody's KMV.

Public Finance Data and Analytical Tool Set

Our U.S. Public Finance ratings unit has developed a broad set of data and analytical tools:

- In 2005, we launched the Public Finance Monitoring System (PFMS), a web-based data management and reporting system for our analysts. The financial, debt and related information entered in PFMS is used by analysts to calculate key ratios, to generate reports and to prepare for rating committees.
- PFMS system data also feeds our Municipal Financial Ratio Analysis (MFRA) product, a centralized repository of standardized credit statistics on more than 30,000 issuers. MFRA provides numerous ratios and data points on each issuer, and has become a standard tool for investors, issuers and underwriters in the U.S. municipal bond market.

- MFRA statistics in turn power a third tool, Moody's Quantitative Ratings Estimator, QRATE. QRATE allows market participants to estimate the credit quality of unrated borrowers and to analyze how different financial scenarios might affect existing ratings. In addition, QRATE helps our analysts to more quickly identify ratings outliers, corroborating the conclusions of our fundamental analysis and improving allocation of Moody's analytical resources.

Together, these utilities increase our analytical efficiency, provide value-adding data tools to customers, and improve the market's understanding of Moody's rating methodologies and ratings criteria by increasing transparency.

Moody's KMV

At Moody's KMV, we continue to develop new products and enhance our existing offerings. Product development focuses on improved analytics, new regulatory compliance services and local language software and data sets for geographic markets our models do not currently cover.

With our benchmark Estimated Default Frequency (EDF) measures, Moody's KMV is the market leader in providing statistically derived estimates of default probabilities for public and private companies. Our research in the field continues to improve the accuracy of our estimates, and Moody's KMV expects to release a new generation of enhanced EDFs to customers later this year.

To help customers respond to Basel II bank regulatory requirements, Moody's KMV is developing additional credit scoring tools. By modifying the inputs and the weighting of various model drivers, customers can generate scores that reflect their organizations' credit orientation and risk management policies. When compared to Moody's KMV's EDF measures, customer-generated output can be judged against market standard measures for internal and regulatory validation.

Moody's KMV has identified new regional opportunities, including in the important German, Swiss and Nordic markets, where specific demand for enhanced credit risk solutions has emerged. We expect to release new RiskCalc® models in these markets, adding to a software suite that now covers more than 20 countries. In addition, we are translating our RiskAnalyst™ system into Mandarin and developing local language analysis templates and internal rating tools for Italy, Israel, France and Turkey.

Finally, during 2006, Moody's KMV will introduce a "Next Generation" version of our flagship PortfolioManager™ product. This product will cover an expanded set of asset classes and include enhanced analytics and improved functionality for users, which should drive continued adoption by financial institutions around the world.

Research and Development

As part of Moody's ongoing new product efforts, we have a number of potential new offerings in early stages of development. For example, we are studying new product opportunities that respond to the growth in the hedge fund industry. Moody's is working with a number of financial

Independence. Performance. Transparency. Innovation. Global Coverage. These are the watchwords by which stakeholders judge Moody's.

institutions to extend our existing ratings framework to cover loans backed by hedge fund portfolios. This would enable banks to glean deeper insight into the credit risk associated with these loans, enhancing their management of the funding process. We are also developing a methodology to assess hedge funds' operational characteristics. These ratings would help investors better understand the implications of a hedge fund's relationship with its auditor, administrator and prime broker; the fund's valuation process; its accounting controls; and the backgrounds of key personnel.

In addition, Moody's Equity Buy-Side Initiative is an effort to extend the reach of Moody's credit research to new customers in equity portfolio management and equity analysis. This project seeks to facilitate the use of Moody's analytical insights by institutional investors in the equity market, providing these investors with a unique and useful complement to the equity analysts' typical focus on earnings and relative value. To date, this effort has focused on establishing Moody's relevance among a small number of large and influential investment management firms and hedge funds. As our product and customer service model evolve, we intend to extend this initiative to a broader set of prospective customers.

Expanding into New Geographies

Moody's was founded in the U.S. in 1900. We opened our first overseas office in Japan in 1985, and have since expanded our network of offices to 22 countries around the world. As the map in this Annual Report illustrates, Moody's currently has offices in most of the world's major financial centers.

Growth in the global debt capital markets will likely continue to create new opportunities for Moody's for many years. To capitalize on these opportunities, Moody's must continue our efforts to locate operations in growing economies and in financial centers with the greatest current or potential capital market activity. The nature and pace of our participation in various international markets must follow two paths of market development: first, growing domestic capital markets—including, for example, Korea, China, India and Russia—and, second, growing cross-border participation by issuers and investors in both developed and developing markets. Moody's has chosen to pursue these opportunities both via affiliations with reputable local market partners and by establishing independent Moody's offices. In several markets we have chosen to do both in order to respond to issuers' desire for coordinated analysis and assignment of global and domestic (national scale) ratings. For example, in 2005 we

IN LATIN AMERICA DOMESTIC AND CROSS-BORDER DEBT ISSUANCE IS GROWING WITH PENSION REFORM, STABILIZING ECONOMIES, AND ISSUANCE INITIATIVES AIMED AT REDUCING FOREIGN CURRENCY EXPOSURE. IN RESPONSE, MOODY'S IS GROWING ITS OPERATIONS IN MEXICO AND BRAZIL, THE REGION'S LARGEST ECONOMIES, AS WELL AS IN ARGENTINA.

Growth in the global debt capital markets will likely continue to create new opportunities for Moody's for many years. To capitalize on these opportunities, Moody's must continue our efforts to locate operations in growing economies and in financial centers with the greatest current or potential capital market activity.

established offices in Korea, India and Russia alongside our joint ventures in these countries.

Moody's international expansion through new acquisitions and investments also continued. Early in 2006, Moody's acquired CRA Rating Agency (CRA), the Czech Republic's sole domestic credit rating agency, and renamed it "Moody's Central Europe." Moody's Central Europe provides domestic market ratings for issuers in the Czech Republic, Slovakia and Hungary. The acquisition of CRA also strengthened Moody's presence in Central Europe's growing cross-border financial market. In late 2005, we also increased our ownership in Midroog Limited, an Israeli rating agency, to 40% from the initial 10% investment Moody's made in 2003. Given that the Israeli domestic credit markets have grown significantly in recent years, we expect to benefit through Midroog from the continued development of this market.

We are making appropriate investments to ensure that we are positioned to play an important role as regional and domestic markets develop. In addition to cultivating ties in these business communities, Moody's can serve to facilitate awareness about credit risk, credit analysis, and the constructive role that independent credit opinions can play.

Among these regional opportunities, we believe that the domestic markets of China, India, and Russia have significant intermediate and long-term potential for Moody's.

China

With its high savings rate and position as the world's fastest-growing large economy, China offers attractive opportunities for the development of fixed-income securities markets and for Moody's quantitative analytics, rating and research services over the medium to long term. Change is already evident in the growth of the short-term debt market. We also expect that longer-term corporate and structured finance securities will assume more prominence alongside the already large bank loan market, in part as the anticipated restructuring and recapitalization of the banking system proceeds.

To serve the Chinese market, Moody's has established a wholly-owned office in Beijing and is exploring additional, complementary alternatives to best provide its services locally.

India

The Indian economy has enjoyed robust growth in recent years, driven by a growing service sector and supported by a relatively well-developed banking and finance system. To date, an active domestic capital market has provided the majority of India's non-bank funding, but large corporations and banks are increasingly turning to the global capital markets for their financing needs. As with China, Moody's believes that further development of India's domestic market and increased use of cross-border financing will stimulate demand for authoritative credit analysis, ratings, research and training.

Moody's entered the domestic Indian credit market in 1999 by investing in ICRA Limited, the country's second largest credit rating agency. Since then, we have increased our ownership stake in ICRA to 29%. In 2005, Moody's also established an office in Mumbai to serve the growing number of Indian companies that issue debt in the global market and to deepen our cooperation with ICRA in serving India's domestic capital market.

Russia

Russia's robust economic performance and enhanced access to international capital markets have been accompanied by an improved, though still developing, credit culture. As a result, credit ratings are becoming more prominent and a more commonly accepted means of evaluating the credit risk of Russian companies.

Dominated by the energy and banking sectors, international bond issuance from Russia has grown dramatically over the past few years and is expected to expand to a wider range of industries.

Moody's participation in the Russian credit markets began in 2001, when we entered into a strategic cooperation agreement with Interfax Rating Agency, a subsidiary of Interfax, one of Russia's leading independent news agencies. Moody's purchased majority control in 2004, at which time the agency was renamed Moody's Interfax Rating Agency. In 2005, we also established a Moody's office in Moscow to coordinate domestic and cross-border market services for Eastern Europe.

Financial Strategy

Moody's is committed to using our strong cash flow to create value for shareholders. We do this by investing in growing areas of our business, making selective acquisitions of related businesses, and returning excess capital to shareholders. As we describe earlier in this Annual Report, Moody's has generated significant growth by adding resources to existing offices, by expanding our network of offices and business affiliations, and by developing new products. Investing in the business for growth will remain our first priority for use of capital.

Our emphasis on expansion is not limited to our desire to be relevant in new markets offering new opportunities, but also applies to our desire to continue to serve established markets with comprehensive and consistent opinions.

We also seek to acquire companies whose businesses are complementary to Moody's; for example, companies that create and provide proprietary analysis or data to better inform financial and investment decisions. Our business development team continually studies potential acquisitions with the clear understanding that acquisitions must not only meet appropriate growth and profitability hurdles, but that business extensions must fit logically into the context of our core capabilities. Importantly, we recognize that Moody's shareholders can achieve diversification independently, so the business and financial rationales for any acquisition must be compelling.

Our 2005 acquisition of Economy.com, renamed Moody's Economy.com, is illustrative. Moody's Economy.com is a leading independent provider of economic, financial, country, and industry research designed to meet the diverse planning and information needs of businesses, governments, and investment professionals worldwide. At the time of the acquisition, Economy.com was already well respected for its high-quality and independent analysis. The business model aligns very well with Moody's analytical role, while Moody's brand and global reach will expand the awareness of and customer base for Moody's Economy.com's services.

Our approach for deploying remaining excess capital will continue to focus on systematic and opportunistic share repurchases and a growing dividend. During 2005 Moody's bought back 13.5 million shares, roughly equivalent to 4½% of our shares outstanding at the start of the year, at a total cost of $692 million. We completed an existing $600 million share repurchase authorization, and Moody's Board of Directors authorized a new $1 billion share repurchase program. In addition, we returned $60 million to shareholders in the form of dividends.

Regulatory and Compliance Strategy

As discussed in our Letter to Shareholders, the ongoing scrutiny of credit rating agencies by elected officials and regulators around the world has created new challenges for Moody's. Moody's has actively participated in discussions with these authorities. Our objective has been to better understand regulatory concerns and priorities as well as to provide greater insight into Moody's policies and practices. We intend to continue to work constructively with all interested authorities to assist them in their work.

Effectively managing global regulatory affairs requires that Moody's develop, implement and demonstrate appropriate policies and compliance standards to meet regulatory expectations. These challenges particularly affect our credit ratings business. Consequently, we are concentrating significant resources and effort on establishing processes and infrastructure that will position us to respond to new reporting and compliance requirements as the credit rating industry responds to heightened expectations and additional oversight.

During 2005, for example, we created a new functional area at Moody's, the Office of Global Regulatory Affairs and Compliance. This function has responsibility for overseeing communication with regulatory authorities around the world, developing and implementing policies and processes within Moody's to respond to regulations, and establishing a compliance monitoring and oversight function for Moody's professional practice of credit ratings and research.

Also during 2005, Moody's enacted several significant rating compliance policies and published these for public review. Moody's Code of Professional Conduct, modeled after a code of conduct designed by international regulatory authorities, was published in June 2005. It seeks to enhance market understanding and confidence in our credit ratings by setting out:

- Moody's commitment to maintaining the quality and integrity of the rating process;
- The policies and controls to ensure that we maintain our independence and properly manage potential conflicts of interest; and
- Moody's responsibilities to investors and issuers.

Moody's Code of Professional Conduct, as well as our corporate Code of Business Conduct, is available for review on Moody's website www.moodys.com.

IN CHINA THE EMERGENCE OF THE DEBT SECURITIES MARKETS ALONGSIDE THE LARGE BANK CREDIT MARKET IS FUELING DEMAND FOR RATINGS AND TOOLS FOR CREDIT ANALYSIS. MOODY'S ESTABLISHED AN OFFICE IN BEIJING IN 2001 TO RESPOND TO CHINA'S GROWING CREDIT NEEDS.

Moody's Senior Management

Moody's Corporation Senior Management

Front Row:
Raymond W. McDaniel, Jr.
Linda S. Huber

Back Row:
Jeanne Dering
John J. Goggins
Joseph (Jay) McCabe

Moody's Investors Service and Moody's KMV Senior Management

Left to Right:
Christopher T. Mahoney
Andrew Huddart
Chester V. A. Murray
Brian Clarkson

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Management's Discussion and Analysis of Financial Condition and Results of Operations

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.

This Management's Discussion and Analysis of Financial Condition and Results of Operations contains Forward-Looking Statements. See "Forward-Looking Statements" on page 56 and "Risk Factors" commencing on page 53 for a discussion of uncertainties, risks and other factors associated with these statements.

THE COMPANY

Except where otherwise indicated, the terms "Moody's" and the "Company" refer to Moody's Corporation and its subsidiaries. Moody's is a provider of (i) credit ratings, research and analysis covering fixed income securities, other debt instruments and the entities that issue such instruments in the global capital markets, and credit training services and (ii) quantitative credit risk assessment products and services and credit processing software for banks, corporations and investors in credit-sensitive assets. Moody's operates in two reportable segments: Moody's Investors Service and Moody's KMV.

Moody's Investors Service publishes rating opinions on a broad range of credit obligors and credit obligations issued in domestic and international markets, including various corporate and governmental obligations, structured finance securities and commercial paper programs. It also publishes investor-oriented credit research, including in-depth research on major debt issuers, industry studies, special comments and credit opinion handbooks.

The Moody's KMV business develops and distributes quantitative credit risk assessment products and services and credit processing software for banks, corporations and investors in credit-sensitive assets.

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 credit risk management services (the

"Moody's Business") and was renamed "Moody's Corporation". The method by which Old D&B distributed to its shareholders its shares of New D&B stock is hereinafter referred to as the "2000 Distribution".

CRITICAL ACCOUNTING ESTIMATES

Moody's discussion and analysis of its financial condition and results of operations are based on the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires Moody's to make estimates and judgments that affect reported amounts of assets and liabilities and related disclosures of contingent assets and liabilities at the dates of the financial statements and revenue and expenses during the reporting periods. These estimates are based on historical experience and on other assumptions that are believed to be reasonable under the circumstances. On an ongoing basis, Moody's evaluates its estimates, including those related to revenue recognition, accounts receivable allowances, contingencies, goodwill and intangible assets, pension and other post-retirement benefits and stock-based compensation. Actual results may differ from these estimates under different assumptions or conditions. The following accounting estimates are considered critical because they are particularly dependent on management's judgment about matters that are uncertain at the time the accounting estimates are made and changes to those estimates could have a material impact on the Company's consolidated results of operations or financial condition.

Revenue Recognition

In recognizing revenue related to ratings, Moody's uses judgments to allocate billed revenue between ratings and the future monitoring of ratings in cases where the Company does not charge ongoing monitoring fees for a particular issuer. These judgments are not dependent on the outcome of future uncertainties, but rather relate to allocating revenue across accounting periods. In such cases, the Company defers portions of rating fees that it estimates will be attributed to future monitoring activities and recognizes the deferred revenue ratably over the estimated monitoring periods.

The portion of the revenue to be deferred is based upon a number of factors, including the fair market value of the monitoring services charged for similar securities or issuers. The estimated monitoring period over which the deferred revenue will be recognized is determined based on factors such as the lives of the rated securities. Currently, the estimated monitoring periods range from one year to ten years. At December 31, 2005 and 2004, deferred revenue included approximately $35 million and $30 million, respectively, related to such deferred monitoring fees.

Additionally, in the case of commercial mortgage-backed securities, issuers can elect to pay the monitoring fees upfront. These fees are deferred and recognized over the future monitoring period which is determined based on factors such as the lives of the rated securities. Currently, the estimated monitoring period is 26 years. At December 31, 2005 and 2004, deferred revenue related to commercial mortgage-backed securities was approximately $50 million and $37 million, respectively.

Moody's estimates revenue for ratings of commercial paper for which, in addition to a fixed annual monitoring fee, issuers are billed quarterly based on amounts outstanding. Related revenue is accrued each quarter based on estimated amounts outstanding and is billed subsequently when actual data is available. The estimate is determined based on the issuers' most recent reported quarterly data. At December 31, 2005 and 2004, accounts receivable included approximately $31 million and $29 million, respectively, related to accrued commercial paper revenue. Historically, the Company has not had material differences between the estimated revenue and the actual billings.

Accounts Receivable Allowance

Moody's records as reductions of revenue provisions for estimated future adjustments to customer billings based on historical experience and current conditions. Such provisions are reflected as additions to the accounts receivable allowance. Adjustments to and write-offs of accounts receivable are charged against the allowance. Moody's evaluates its accounts receivable by reviewing and assessing historical collection and adjustment experience and the current status of customer accounts. Moody's also considers the economic environment of the customers, both from an industry and geographic perspective, in evaluating the need for allowances. Based on its reviews, Moody's establishes or adjusts allowances, as considered appropriate. This process involves a high degree of judgment and estimation and could involve significant dollar amounts. Accordingly, Moody's results of operations can be affected by adjustments to the allowance. Management believes that the allowance for uncollectible accounts is adequate to cover anticipated adjustments and write-offs under current conditions. However, significant changes in any of the above-noted factors, or actual write-offs or adjustments that differ from the estimated amounts, could result in allowances that are greater or less than Moody's estimates. In each of 2005 and 2004, the Company adjusted its provision rates and its allowances to reflect its current estimate of the appropriate level of accounts receivable allowance.

Contingencies

Accounting for contingencies, including those matters described in the "Contingencies" section of this Management's Discussion and Analysis, is highly subjective and requires the use of judgments and estimates in assessing their magnitude and likely outcome. In many cases, the outcomes of such matters will be determined by third parties, including governmental or judicial bodies. The provisions made in the consolidated financial statements, as well as the related disclosures, represent management's best estimates of the then current status of such matters and their potential outcome based on a review of the facts and in consultation with outside legal counsel where deemed appropriate. The Company regularly reviews contingencies and as additional information becomes available may, in the future, adjust the provisions made in respect thereof. Since the potential exposure on many of these matters is material, and it is possible that these matters could be resolved in amounts that are greater than the Company has reserved, their resolution could have a material adverse effect on Moody's future reported results and financial position. In addition, potential cash outlays related to the resolution of these exposures could be material.

For the years ended December 31, 2005 and 2004, the provision for income taxes reflected credits of $8.8 million and charges of $30.0 million due to changes in the Company's reserves, respectively, for legacy income tax exposures that were assumed by Moody's in connection with its separation from Old D&B in October 2000. These tax matters are discussed under "Legacy Tax Matters" below.

Goodwill and Other Intangible Assets

Moody's evaluates its goodwill for impairment annually or more frequently if impairment indicators arise in accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets". Moody's also reviewed the MKMV trade secret for impairment which was reclassified as a finite-lived asset beginning in December 2005. The evaluation of the carrying value of goodwill and the MKMV trade secret requires that the Company make important assumptions and judgments about future operating results and cash flows as well as terminal values and discount rates. In estimating future operating results and cash flows, Moody's considers internal budgets and strategic plans, expected long-term growth rates, and the effects of external factors and market conditions. If actual future operating results and cash flows or external conditions differ from the Company's judgments, or if changes in assumed terminal values or discount rates are made, an impairment charge may be necessary to reduce the carrying value of goodwill and the MKMV trade secret, which charge could be material to the Company's financial position and results of operations. Amortizable intangible assets are reviewed for recoverability whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Pension and Other Post-Retirement Benefits

The expenses, assets, liabilities and obligations that Moody's reports for pension and other post-retirement benefits are dependent on many assumptions concerning the outcome of future events and circumstances. These assumptions include the following:

- future compensation increases, based on the Company's long-term actual experience and future outlook
- long-term return on pension plan assets, based on historical portfolio results and the expected future average annual return for each major asset class within the plan's portfolio (which is principally comprised of equity and fixed-income investments)

- future healthcare cost trends, based on historical market data, near-term outlooks and assessments of likely long-term trends
- discount rates, based on current yields on high-grade corporate long-term bonds

The discount rate selected to measure the present value of the Company's benefit obligations as of December 31, 2005 was derived using a cash flow matching method whereby the Company compares the plans' projected payment obligations by year with the corresponding yield on the Citibank Pension Discount Curve. The cash flows are then discounted to their present value and an overall discount rate is determined.

Moody's major assumptions vary by plan and assumptions used are set forth in Note 10 to the consolidated financial statements. In determining these assumptions, the Company consults with outside actuaries and other advisors as deemed appropriate. While the Company believes that the assumptions used in its calculations are reasonable, differences in actual experience or changes in assumptions could have a significant effect on the expenses, assets and liabilities related to the Company's pension and other post-retirement benefits. When actual plan experience differs from the assumptions used, actuarial gains or losses arise which are amortized over the estimated future working life of the plan participants. Total unrecognized actuarial losses for pension plans as of December 31, 2005 were $52.8 million and the Company expects to recognize approximately $3.3 million of such losses in the Company's 2006 net periodic pension expense.

Differences between the expected long-term rate of return assumption and actual experience could also affect the net periodic pension expense. The Company recognizes these differences over five years. As of December 31, 2005, the Company has unrecognized plan asset gains of $0.4 million and the recognition of such gains is not expected to have a material impact on future net periodic pension expense.

The table below shows the estimated effect that a one percentage-point decrease in each of these assumptions will have on Moody's 2006 operating income (dollars in millions). These effects have been calculated using the Company's current projections of 2006 assets, liabilities, obligations and expenses related to pension and other post-retirement plans, which could change as updated data becomes available.

	Assumption Used for 2006	Estimated Impact on 2006 Operating Income (Decrease)/ Increase
Discount Rate*	5.60%/5.45%	$(4.4)
Weighted Average Assumed Compensation Growth Rate	4.00%	$ 1.6
Assumed Long-Term Rate of Return on Pension Assets	8.35%	$(1.0)

*Discount rates of 5.60% and 5.45% are used for pension plans and other post-retirement plans, respectively.

A one percentage-point increase in assumed healthcare cost trend rates would not have affected 2006 operating income. Based on current projections, the Company estimates that expenses related to pension and post-retirement plans will be approximately $14.7 million in 2006 compared with $12.3 million (excluding a $3.2 million settlement loss) in 2005. The expected expense increase in 2006 reflects the effects of lower discount rates, normal growth in plan liabilities, the amendment to the Company's healthcare plan to increase Moody's share of future costs, higher compensation for the Supplemental Executive Benefit Plan participants, as well as amortization of actuarial losses.

Stock-Based Compensation

On January 1, 2003, the Company adopted, on a prospective basis, the fair value method of accounting for stock-based compensation under the provisions of SFAS No. 123, "Accounting for Stock-Based Compensation", as amended by SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure—an Amendment of FASB Statement No. 123". Therefore, employee stock options granted on and after January 1, 2003 are being expensed by the Company over the current four-year option vesting period (or sooner if employees are at or near retirement eligibility), based on the estimated fair value of the option award on the date of grant. The estimated fair value is calculated based on a Black-Scholes option pricing model using assumptions and estimates that the Company believes are reasonable. Some of the assumptions and estimates, such as share price volatility and expected option holding period, are based in part on Moody's experience during the period since becoming a public company, which is limited. The use of different assumptions and estimates in the Black-Scholes option pricing model could produce materially different estimated fair values for option awards and related expense.

An increase in the following assumptions would have had the following estimated effect on operating income in 2005 (dollars in millions):

	Assumption Used	Amount of Increase in Assumption	Estimated Impact on Operating Income in 2005 (Decrease)/ Increase
Expected Dividend Yield			
2003 grants	0.41%	0.10%	$ 0.4
2004 grants	0.46%		
2005 grants	0.52%		
Expected Share Price Volatility			
2003 and 2004 grants	30%	5%	$(4.5)
2005 grants	23%		
Expected Option Holding Period			
2003 and 2004 grants	5.0 years	1.0 year	$(4.1)
2005 grants	6.0 years		

Other Estimates

In addition, there are other accounting estimates within Moody's consolidated financial statements, including recoverability of deferred tax assets, anticipated dividend distributions from non-U.S. subsidiaries and valuation of investments in affiliates. Management believes the current assumptions and other considerations used to estimate amounts reflected in Moody's consolidated financial statements are appropriate. However, if actual experience differs from the assumptions and other considerations used in estimating amounts reflected in Moody's consolidated financial statements, the resulting changes could have a material adverse effect on Moody's consolidated results of operations or financial condition.

See Note 2 to the consolidated financial statements for further information on key accounting policies that impact Moody's.

OPERATING SEGMENTS

Moody's Investors Service consists of four rating groups—structured finance, corporate finance, financial institutions and sovereign risk, and public finance—that generate revenue principally from the assignment of credit ratings on issuers and issues of fixed-income obligations in the debt markets, and research, which primarily generates revenue from the sale of investor-oriented credit research, principally produced by the rating groups. Given the dominance of Moody's Investors Service to Moody's overall results, the Company does not separately measure or report corporate expenses, nor are such expenses allocated between the Company's business segments. Accordingly, all corporate expenses are included in operating income of the Moody's Investors Service segment and none have been allocated to the Moody's KMV segment.

The Moody's KMV business develops and distributes quantitative credit risk assessment products and services and credit processing software for banks, corporations and investors in credit-sensitive assets.

In February 2005, Moody's Board of Directors declared a two-for-one stock split to be effected as a special stock distribution of one share of common stock for each share of the Company's common stock outstanding, subject to stockholder approval of a charter amendment to increase the Company's authorized common shares from 400 million shares to 1 billion shares. At the Company's Annual Meeting on April 26, 2005, Moody's stockholders approved the charter amendment. As a result, stockholders of record as of the close of business on May 4, 2005 received one additional share of common stock for each share of the Company's common stock held on that date (the "Stock Split"). Such additional shares were distributed on May 18, 2005. All prior period share and per share information has been restated to reflect the Stock Split.

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

RESULTS OF OPERATIONS

Year Ended December 31, 2005 Compared With Year Ended December 31, 2004

Total Company Results

Moody's revenue for 2005 was $1,731.6 million, an increase of $293.3 million or 20.4% from $1,438.3 million during 2004. Moody's achieved strong revenue growth in several business sectors, including global structured finance, financial institutions and research, international corporate finance and U.S. public finance.

Revenue in the United States was $1,085.4 million for 2005, an increase of $174.2 million or 19.1% from $911.2 million in 2004. Approximately 85% of the U.S. growth was driven by structured finance and research, reflecting strong issuance across all structured asset classes and continued demand for core research products. U.S. financial institutions, public finance and corporate finance contributed to year-to-year growth as well.

Moody's international revenue was $646.2 million in 2005, an increase of $119.1 million or 22.6% from $527.1 million in 2004. International ratings revenue grew approximately $86 million versus the prior year, with approximately 77% of the growth related to Europe of which financial institutions contributed approximately $31 million of revenue growth primarily due to increased issuance and new ratings relationships. European structured finance, research and corporate finance contributed to growth as well. Favorable foreign currency translation accounted for approximately $7 million of reported international revenue growth.

Moody's operating, selling, general and administrative expenses of $756.8 million in 2005 were $139.0 million or 22.5% greater than $617.8 million in 2004. Compensation and benefits continue to be Moody's largest expense, accounting for more than 70% of total expenses in 2005 and 2004. Moody's increased its overall staffing by approximately 390 people or about 16% during 2005. This increase includes approximately 100 people due to the acquisition of Economy.com in November 2005 and hiring to support business growth mainly in the U.S. and European ratings businesses. The table below shows Moody's staffing at year-end 2005 compared with year-end 2004.

	December 31, 2005			December 31, 2004		
	United States	International	Total	United States	International	Total
Moody's Investors Service	1,617	867	2,484	1,364	716	2,080
Moody's KMV	303	74	377	329	68	397
Total	1,920	941	2,861	1,693	784	2,477

Operating expenses were $452.9 million in 2005, an increase of $77.5 million or 20.6% from $375.4 million in 2004. The largest contributor to this increase was growth in compensation and benefits expense of $62.7 million, reflecting compensation increases, increased staffing, higher stock-based compensation expense and $3.2 million for the settlement of certain pension obligations. Moody's global staffing reflected the acquisition of Economy.com in November 2005 and hiring primarily in the U.S. and European ratings businesses to support business growth. Stock-based compensation expense increased $18.7 million year-to-year. As more fully discussed in Note 2 to the consolidated financial statements, the Company adopted the fair value method provisions of SFAS No. 123 prospectively beginning on January 1, 2003. The year-to-year increase in expense reflects the phasing in of expense over the current four-year equity plan vesting period as annual equity grants are made, the effects of a higher share price on the value of the 2005 equity grants versus 2004, and additional expense recorded in the first quarter of 2005 related to the accelerated expensing of equity grants for employees at or near retirement eligibility. Outside service fees increased by approximately $7 million of which approximately $6 million relates to information technology investment spending.

Selling, general and administrative expenses were $303.9 million in 2005, an increase of $61.5 million or 25.4% from $242.4 million in 2004. Year-to-year expense increases included growth in compensation and benefits of $29.4 million, reflecting compensation increases, increased staffing in finance and technology support functions and $8.3 million related to stock-based compensation as discussed above. Additionally, as a result of a tax audit by Japanese taxing authorities that was completed in the second quarter of 2005, expenses for 2005 included a charge of $9.4 million for the settlement of sales tax matters related to Moody's operations in Japan from 2000 through June 30, 2005. Outside service fees increased by approximately $6 million of which approximately $3 million relates to information technology investment spending and about $2 million relates to legal fees.

Operating income of $939.6 million in 2005 rose $153.2 million or 19.5% from $786.4 million in 2004. Favorable foreign currency translation contributed approximately $6 million to operating income growth. Moody's operating margin for 2005 was 54.3% compared to 54.7% in 2004.

Moody's reported $4.9 million of interest and other non-operating expense, net in 2005 compared with $15.1 million in 2004. Interest expense was $21.0 million in 2005 and $23.0 million in 2004. The amounts included $20.9 million and $22.8 million of interest expense on Moody's $300 million of notes payable for 2005 and 2004, respectively. Interest income was $26.0 million in 2005 compared to $6.8 million in 2004. The increase was due to a higher average investment balance as well as an increase in the weighted average yield. Foreign exchange (losses)/gains were ($8.2) million and $1.9 million in 2005 and 2004, respectively. The year-over-year change was primarily due to the appreciation of the U.S. dollar versus the British pound and the euro.

Moody's effective tax rate was 40.0% in 2005 compared to 44.9% in 2004. The effective tax rates included $8.8 million in credits and $30.0 million in charges due to changes in reserves in 2005 and 2004, respectively, related to legacy income tax exposures that were assumed by Moody's in connection with its separation from Old D&B in October 2000 (see "Contingencies—Legacy Tax Matters", below). Additionally, Moody's recognized a tax benefit of $3.6 million in 2005 related to the repatriation of foreign earnings under the American Jobs Creation Act of 2004.

Net income was $560.8 million in 2005, an increase of $135.7 million or 31.9% from $425.1 million in 2004. Basic and diluted earnings per share for 2005 were $1.88 and $1.84, respectively, compared to basic and diluted earnings per share of $1.43 and $1.40, respectively, for 2004.

Segment Results

Moody's Investors Service Revenue at Moody's Investors Service for 2005 was $1,598.9 million, up $281.4 million or 21.4% from $1,317.5 million in 2004. Ratings revenue accounted for $239.8 million of growth with approximately 81% of that growth coming from global structured finance and European financial institutions. Good growth was achieved in a number of other ratings sectors as well as in research. Foreign currency translation accounted for approximately $7 million of reported revenue growth. Price increases also contributed to year-to-year growth in reported revenue.

Structured finance revenue was $715.4 million for 2005, an increase of $162.3 million or 29.3% from $553.1 million in 2004. Approximately $129 million of the increase was in the U.S., with the residential mortgage, collateralized debt and commercial mortgage sectors, contributing approximately 88% of this amount. Attractive mortgage products, such as low-adjustable-rate mortgages, as well as rising home prices and continued strength in the new housing market were key drivers in providing assets for residential mortgage securitizations. Demand for collateralized debt obligations increased as an ample supply of collateralized loan obligations and cash flow resecuritizations drove issuance higher. Global commercial mortgage-backed revenue was approximately $119 million, about 47% more than prior year, as record issuance drove revenue growth during the year. International structured finance revenue grew approximately $33 million year-to-year, with Europe contributing about $23 million.

Corporate finance revenue was $321.8 million for 2005, up $22.2 million or 7.4% from $299.6 million in 2004. Revenue increased modestly in the U.S., as declines in high yield revenue largely offset higher revenue from bank loan ratings due to issuance related growth, an increase in first time rated issuers and price increases related in part to Moody's Enhanced Analysis Initiative. High yield bond issuance declined approximately 31% as many issuers shifted to the leveraged loan markets for financing needs. Conversely, investment grade corporate debt issuance increased about 5% compared to 2004, as numerous large deals came to market in the transportation, energy and technology sectors. International corporate finance revenue increased approximately $18 million or about 19% due to new ratings mandates in Europe and Asia and increased investment grade corporate bond issuance. Price increases also contributed to year-to-year growth in global corporate finance revenue.

Revenue in the financial institutions and sovereign risk group was $254.6 million for 2005, an increase of $45.7 million or 21.9% from $208.9 million in 2004. In the U.S., revenue grew approximately $11 million, principally due to strength in issuance volume in insurance and a number of new rating assignments in the insurance, finance and securities sectors. Internationally, revenue grew approximately $35 million compared to the prior year period, primarily due to increased issuance and new ratings mandates in Europe. European issuance was particularly strong in the banking and insurance sectors. Price increases, in part related to Moody's Enhanced Analysis Initiative, also contributed to year-to-year growth in global financial institutions revenue.

Public finance revenue was $91.8 million for 2005, an increase of $9.6 million or 11.7% from $82.2 million for the same period in 2004. Dollar issuance in the municipal bond market was approximately $409 billion or about 14% more than the same period in 2004, as issuers took advantage of low longer-term interest rates and narrow spreads between long and short-term rates, which favored advance refinancings. Refinancings represented approximately 45% of total dollar issuance in 2005 as compared to approximately 36% during 2004.

Research revenue of $215.3 million for 2005 was $41.6 million or 23.9% higher than the $173.7 million reported in 2004. Revenue grew by approximately $19 million in the U.S. and about $22 million internationally with Europe accounting for approximately 76% of international growth. Research and analytics services accounted for approximately $26 million of global revenue growth primarily from credit research on corporate and financial institutions and the structured finance related business. Revenue growth from the licensing of Moody's information to institutional customers for internal use and redistribution was approximately $48 million, an increase of about $13 million, or approximately 37% from the prior year. Research revenue includes the results of Economy.com from November 17, 2005, the acquisition date. Foreign currency translation also contributed about $4 million to growth in international research revenue.

Moody's Investors Service operating, selling, general and administrative expenses, including corporate expenses, were $645.4 million in 2005, an increase of $127.4 million or 24.6% from $518.0 million in 2004. The largest contributor to this increase was growth in compensation and benefits of $86.8 million reflecting compensation increases, increased staffing primarily in the U.S. and European ratings businesses, higher stock-based compensation expense of $25.7 million and $3.2 million for the settlement of certain pension obligations. As a result of a tax audit by Japanese taxing authorities that was completed in the second quarter of 2005, expenses for 2005 included a charge of $9.4 million for the settlement of sales tax matters related to Moody's operations in Japan from 2000 through June 30, 2005. Outside service fees increased by approximately $13 million of which approximately $9 million relates to information technology investment spending and about $2 million relates to legal fees. Foreign currency translation contributed approximately $1 million to year-to-year growth in reported expenses.

Moody's Investors Service operating income of $934.9 million in 2005 was up $152.7 million or 19.5% from $782.2 million in 2004. Foreign currency translation contributed approximately $6 million to the year-to-year growth in operating income.

Moody's KMV Moody's KMV revenue of $132.7 million for 2005 was $11.9 million or 9.9% more than the same period in 2004. MKMV's revenue growth reflected increasing demand from risk products and credit decisioning software and software related consulting. Growth in subscriptions revenue related to credit risk assessment products grew approximately $6 million or about 6% compared to prior year, but was adversely affected by higher cancellation rates, due in part to bank consolidations. In 2005, international revenue accounted for approximately 56% of global revenue.

MKMV's operating, selling, general and administrative expenses were $111.4 million for 2005, an increase of $11.6 million or 11.6% from $99.8 million for 2004. This increase included $1.3 million related to stock-based compensation, as discussed above. The 2005 expense also included approximately $7 million related to severance costs, the write-off of capitalized software development and a liability for unpaid overtime due to certain employees. MKMV operating income was $4.7 million for 2005 compared with $4.2 million for 2004. Currency translation did not have a significant year-to-year impact on MKMV results.

Year Ended December 31, 2004 Compared With Year Ended December 31, 2003

Total Company Results

Moody's revenue for 2004 was $1,438.3 million, an increase of $191.7 million or 15.4% from $1,246.6 million for 2003. Moody's achieved strong revenue growth in a number of business sectors. U.S. structured finance was the largest contributor to year-over-year growth, primarily due to residential mortgage-backed and home equity loan securities. Research experienced robust growth in all geographies. U.S. corporate finance growth was primarily due to revenue related to the ratings of bank credit facilities and high yield issues. Global financial institutions contributed to growth as well, most notably in the U.S. insurance and real estate sectors and the U.S. and European banking sectors.

Revenue in the United States was $911.2 million for 2004, an increase of $115.9 million or 14.6% from $795.3 million for 2003. Approximately $51 million of this increase was due to growth in structured finance. The U.S. residential mortgage-backed and home equity sector was the largest contributor, driven by the favorable interest rate environment and a strong housing market. In addition, approximately $27 million of Moody's U.S. revenue growth was contributed by corporate finance, primarily reflecting strong activity in the ratings of bank credit facilities and high yield bonds. The U.S. research business unit contributed about $20 million of growth. The financial institutions and MKMV businesses contributed approximately $15 million and $8 million, respectively, to Moody's United States growth. Public finance revenue in the U.S. declined by approximately $5 million year-to-year, mainly due to a 6% decline in dollar issuance in the municipal bond market.

Moody's international revenue was $527.1 million in 2004, an increase of $75.8 million or 16.8% from $451.3 million in 2003. Foreign currency translation accounted for approximately $21 million of reported international revenue growth. Ratings revenue grew approximately $46 million, with about $27 million of that growth coming from structured finance. Europe contributed approximately 80% of the growth in international structured finance. Financial institutions and corporate finance contributed approximately $13 million and $6 million, respectively, to revenue growth. Research revenue growth of approximately $23 million was primarily in Europe. MKMV contributed approximately $6 million of revenue growth outside the U.S.

Moody's operating, selling, general and administrative expenses of $617.8 million in 2004 were $66.9 million or 12.1% greater than $550.9 million in 2003. Compensation and benefits continued to be Moody's largest expense, accounting for more than 70% of total expenses in 2004 and 2003. Moody's increased its overall staffing by more than 175 people, or 8%, during 2004 to support continued growth in the business. The table below shows Moody's staffing at year-end 2004 compared with year-end 2003.

	December 31, 2004			December 31, 2003		
	United States	International	Total	United States	International	Total
Moody's Investors Service	1,364	716	2,080	1,272	662	1,934
Moody's KMV	329	68	397	304	62	366
Total	1,693	784	2,477	1,576	724	2,300

Operating expenses were $375.4 million in 2004, an increase of $28.1 million or 8% from $347.3 million in 2003. The largest contributor to this increase was growth in compensation and benefits expense of $25 million, reflecting compensation increases, increased staffing and higher stock-based compensation expense. Moody's global staffing reflected hiring in the specialist teams that support Moody's Enhanced Analysis Initiative, in several of Moody's U.S. and international ratings businesses and at Moody's KMV. Stock-based compensation expense increased $12.3 million year-to-year. As more fully discussed in Note 2 to the consolidated financial statements, the Company adopted the fair value method provisions of SFAS No. 123 prospectively beginning on January 1, 2003. The year-to-year increase in expense principally reflected the phasing in of expense over the current four-year equity plan vesting period as annual equity grants are made, as well as the effect of a higher share price on the value of the 2004 equity grants.

Selling, general and administrative expenses were $242.4 million in 2004, an increase of $38.8 million or 19% from $203.6 million in 2003. Year-to-year expense increases included growth in compensation and benefits of $24 million, reflecting compensation increases, increased staffing and $4.7 million related to stock-based compensation as discussed above. Additional increases were due to higher rent and occupancy costs of approximately $4 million to support business expansion and higher professional services costs, including spending of approximately $5 million related to Sarbanes-Oxley compliance.

Operating income of $786.4 million in 2004 rose $123.3 million or 18.6% from $663.1 million in 2003. Foreign currency translation contributed approximately $6 million to operating income growth. Moody's operating margin for 2004 was 54.7% compared to 53.2% in 2003. The increase in margin principally reflected better-than-expected revenue growth.

Moody's reported $15.1 million of interest and other non-operating expense, net in 2004 compared with $6.7 million in 2003. The 2003 amount included a gain of $13.6 million from an insurance recovery related to the September 11th tragedy, as discussed in Note 20 to the consolidated financial statements. Interest expense was $23.0 million in 2004 and $23.5 million in 2003. The amounts in both periods included $22.8 million of interest expense on Moody's $300 million of private placement debt. Interest income was $6.8 million in 2004 compared to $1.7 million in 2003. The increase was due to a higher average investment balance as well as an increase in the weighted average yield. Foreign exchange gains were $1.9 million and $2.2 million in 2004 and 2003, respectively.

Moody's effective tax rate was 44.9% in 2004 compared to 44.6% in 2003. The 2004 and 2003 effective tax rates included charges aggregating approximately $30.0 million and $16.2 million, respectively, for increases in reserves related to legacy income tax exposures that were assumed by Moody's in connection with its separation from Old D&B in October 2000 (see "Contingencies—Legacy Tax Matters", below).

Net income was $425.1 million in 2004, an increase of $61.2 million or 16.8% from $363.9 million in 2003. Basic and diluted earnings per share for 2004 were $1.43 and $1.40, respectively, compared to basic and diluted earnings per share of $1.22 and $1.19, respectively, for 2003.

Segment Results

Moody's Investors Service Moody's Investors Service revenue for 2004 was $1,317.5 million, up $177.3 million or 15.5% from $1,140.2 million in 2003. Good growth was achieved in a number of ratings sectors as well as in research. Foreign currency translation contributed approximately $21 million to reported revenue growth, reflecting the depreciation of the U.S. dollar, mainly versus the euro. Price increases also contributed to year-to-year growth in reported revenue.

Structured finance revenue was $553.1 million for 2004, an increase of $78.4 million or 16.5% from $474.7 million in the same period of 2003. Approximately $51 million of this increase was in the United States, with the residential mortgage and home equity sector contributing nearly $34 million of this amount. In this sector, growth was driven by increases in mortgage lending and home equity loans due to low interest rates, a strong housing market and gains in market coverage. Good growth was also achieved in U.S. revenue from ratings of collateralized debt obligations (where the count of issues was up approximately

27% versus the prior year) and ratings of commercial mortgage-backed securities (driven by record market issuance). International structured finance revenue grew approximately $27 million; about 80% of the growth was attributable to Europe, with growth in all asset classes. Foreign currency translation contributed approximately $9 million to year-to-year growth in global structured finance revenue. Price increases also contributed to year-to-year growth.

Corporate finance revenue was $299.6 million in 2004, up $32.9 million or 12.3% from $266.7 million in 2003. Revenue grew by approximately $27 million in the United States, reflecting strong growth in ratings of speculative-grade bonds as well as syndicated bank loans and other areas not related to public debt issuance. Price increases also contributed to revenue growth in this sector. These positive impacts were partially offset by the effects of a year-to-year decline in issuance of investment grade securities in the U.S. markets. International corporate finance revenue grew approximately $6 million, with roughly one-half of the growth attributed to foreign currency translation. Underlying revenue growth primarily reflected higher issuance volumes in Asia outside of Japan and Australia. Issuance in Europe was weak compared to 2003. Speculative grade issuance was strong, but investment grade issuance declined year-to-year as improved corporate profitability reduced borrowing needs and mergers and acquisitions remained weak.

Revenue in the financial institutions and sovereign risk group was $208.9 million for 2004, an increase of $27.7 million or 15.3% from $181.2 million in 2003. In the U.S., revenue grew $15 million year-to-year, principally reflecting refinancings in the real estate sector, new relationships in the insurance sector and strong banking issuance as interest rate spreads tightened. Revenue from outside the U.S. grew approximately $13 million over the prior year, primarily in Europe. European growth reflected modest increases in issuance volumes, primarily in the banking sector and good growth from new rating relationships. Foreign currency translation contributed approximately $3 million to revenue growth.

Public finance revenue was $82.2 million for 2004, a decrease of $5.0 million or 5.7% from $87.2 million in 2003. Dollar issuance in the municipal bond market declined 6% versus the same period in 2003, reflecting higher borrowing costs, a reduced pool of debt that was refunded and reduced borrowing needs due to strengthened tax receipts.

Research revenue of $173.7 million for 2004 was $43.3 million or 33.2% higher than the $130.4 million reported in 2003. Revenue grew by approximately $20 million in the U.S. and $16 million in Europe. The strong performance reflected growth in licensing of Moody's information to financial customers for internal use and redistribution, sales of new products to existing clients and new clients. Foreign currency translation also contributed approximately $6 million to year-to-year growth in reported revenue.

Moody's Investors Service operating, selling, general and administrative expenses, including corporate expenses, were $518.0 million in 2004, an increase of $51.8 million or 11.1% from $466.2 million in 2003. Compensation and benefits expense accounted for $36 million of the expense growth. This increase included $15.0 million related to stock-based compensation, as discussed above. The growth also reflected compensation increases and staffing growth in many areas, including the specialist teams that support Moody's Enhanced Analysis Initiative. Additionally, rent and occupancy costs increased approximately $5 million due to business expansion. Year-to-year expense growth also includes higher professional services costs. Foreign currency translation contributed approximately $14 million to year-to-year growth in reported expenses. Depreciation and amortization expense was $17.3 million in 2004 versus $15.9 million in 2003.

Moody's Investors Service operating income of $782.2 million in 2004 was up $124.1 million or 18.9% from $658.1 million in 2003. Foreign currency translation contributed approximately $7 million to the year-to-year growth in operating income.

Moody's KMV Moody's KMV revenue of $120.8 million for 2004 was up $14.4 million or 13.5% from $106.4 million in 2003. Revenue grew by approximately $8 million in the U.S. and approximately $3 million in Europe. About $14 million of MKMV's global revenue growth was related to subscriptions for its credit risk assessment products, representing high teens percent revenue growth. Sales of MKMV's credit processing software accounted for approximately $2 million of revenue growth.

MKMV's operating, selling, general and administrative expenses were $99.8 million for 2004, an increase of $15.1 million or 17.8% from $84.7 million for 2003. The year-to-year increase primarily reflected growth of $13 million in compensation and related expenses. This reflected higher staffing to support the continued growth of the business as well as a $2.0 million increase related to stock-based compensation, as discussed above. Depreciation and amortization expense was $16.8 million and $16.7 million in 2004 and 2003, respectively. MKMV operating income was $4.2 million for 2004 compared with $5.0 million for 2003. The effects of foreign currency translation reduced MKMV reported year-to-year growth in operating income by approximately $2 million.

MARKET RISK

Moody's maintains operations in 22 countries outside the United States. Approximately 26% of the Company's revenue was billed in currencies other than the U.S. dollar in 2005, principally the British pound and the euro. Approximately 30% of the Company's expenses were incurred in currencies other than the U.S. dollar in 2005, principally the British pound and the euro. As such, the Company is exposed to market risk from changes in foreign exchange rates.

As of December 31, 2005, approximately 18% of Moody's assets were located outside the U.S. Of Moody's aggregate cash and cash equivalents of $486.0 million at December 31, 2005, approximately $119 million was located outside the United States (with $84 million in the U.K.), making the Company susceptible to fluctuations in foreign exchange rates. Additionally, of Moody's aggregate short-term investments of $94.5 million, approximately $18 million was located outside the United States. The effects of changes in the value of foreign currencies relative to the U.S. dollar on assets and liabilities of non-U.S. operations are charged or credited to the cumulative translation adjustment in shareholders' equity.

Moody's cash equivalents consist of investments in high quality investment grade securities within and outside the United States. The Company manages its credit risk exposure by allocating its cash equivalents among various money market mutual funds and issuers of high-grade commercial paper. Short-term investments primarily consist of high quality investment grade auction rate securities within the United States. The Company manages its credit risk exposure on cash equivalents and short-term investments by limiting the amount it can invest with any single issuer.

The Company has not engaged in foreign currency hedging transactions nor does the Company have any derivative financial instruments outstanding as of December 31, 2005. However, the Company continues to assess the need to enter into hedging transactions to limit its risk due to fluctuations in exchange rates or interest rates and may enter into such transactions in the future.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow

The Company is currently financing its operations and capital expenditures through cash flow from operations. Net cash provided by operating activities was $707.9 million, $526.2 million and $467.0 million for the years ended December 31, 2005, 2004 and 2003.

Moody's net cash provided by operating activities in 2005 increased by $181.7 million compared with 2004. Contributing to this growth was the increase in net income of $135.7 million, higher non-cash stock-based compensation expense of $27.0 million and higher tax benefits from exercise of stock options of $14.3 million. Improved collection of accounts receivable also benefited cash flow from operations by approximately $40 million. In addition, timing of quarterly federal, state and international income tax payments and growth in the tax provision for 2005 compared with 2004 contributed $56.7 million to year-to-year growth in cash provided by operating activities. Partially offsetting these benefits were the payment of $46.8 million related to the settlement of legacy tax matters as well as a $38.8 million reduction in year-over-year non-cash legacy income tax expense, as discussed below in "Contingencies—Legacy Tax Matters".

Moody's net cash provided by operating activities in 2004 increased by $59.2 million compared with 2003. Contributing to this growth was the increase in net income of $61.2 million, which included increases in non-cash expenses of $17.0 million related to stock-based compensation and $13.8 million related to legacy tax provisions for which cash payments have not yet been made. In addition, cash tax benefits from the exercise of stock options in 2004 exceeded the prior year by $22.6 million. Partially offsetting these sources of cash in 2004 were negative effects due to timing of income tax payments. In 2004, the Company made approximately $47 million of income tax payments related to 2003 tax liabilities. This includes approximately $11 million related to the change in treatment of tax benefits for stock options outstanding prior to the Company's separation from Old D&B, as discussed in Note 2 to the consolidated financial statements.

Net cash used in investing activities was $150.4 million, $31.3 million and $15.7 million for the years ended December 31, 2005, 2004 and 2003, respectively. Spending for property and equipment, internal use software and for development costs for MKMV's software products totaled $31.3 million, $21.3 million and $17.9 million in 2005, 2004 and 2003, respectively. Net investments in marketable securities totaled $88.9 million, $6.5 million and $(1.4) million in 2005, 2004 and 2003, respectively. The 2005 spending on investments in affiliates included approximately $25 million related to the acquisition of Economy.com, net of cash acquired, and the $3.9 million contingent payment made in the second quarter related to Korea Investors Service. The 2004 amount included approximately $3.5 million related to investments in rating agencies in Russia, Korea, Egypt and India. The 2003 amount included $1.1 million of cash acquired in connection with an increase in the Company's ownership of Argentine rating agencies.

Net cash used in financing activities was $666.5 million, $162.3 million and $227.7 million for the years ended December 31, 2005, 2004 and 2003, respectively. Spending for share repurchases totaled $691.7 million in 2005, $221.3 million in 2004 and $171.7 million in 2003. These amounts were offset in part by proceeds from exercises of stock options of $89.1 million in 2005, $105.0 million in 2004 and $79.0 million in 2003. Dividends paid were $60.3 million, $44.7 million and $26.8 million in 2005, 2004 and 2003, respectively. The increase in dividends reflects a quarterly dividend paid of $0.0375 in the first quarter and $0.055 in the subsequent quarters per share in 2005 versus $0.0375 per share in 2004 and $0.0225 per share in 2003. During 2003, the Company repaid $107.1 million of borrowings that had been outstanding under its bank revolving credit facility at December 31, 2002.

Future Cash Requirements

Moody's currently expects to fund expenditures as well as liquidity needs created by changes in working capital from internally generated funds. The Company believes that it has the financial resources needed to meet its cash requirements for the next twelve months and expects to have positive operating cash flow for fiscal year 2006. Cash requirements for periods beyond the next twelve months will depend among other things on the Company's profitability and its ability to manage working capital requirements.

The Company currently intends to use a portion of its cash flow to pay dividends, of which the Board of Directors declared a quarterly amount of $0.07 per share on December 13, 2005 payable on March 10, 2006 to shareholders of record at the close of business on February 20, 2006. The continued payment of dividends at this rate, or at all, is subject to the discretion of the Board of Directors.

The Company also currently expects to use a significant portion of its cash flow after dividends to continue its share repurchase program. The Company implemented a systematic share repurchase program in the third quarter of 2005 through a Securities and Exchange Commission ("SEC") Rule 10b5-1 program. Systematic share repurchases may constitute the majority of the Company's potential repurchase activity. Moody's will also be prepared to act opportunistically when conditions warrant. On October 25, 2005, the Board of Directors authorized an additional $1 billion share repurchase program. The Company's intent is to return capital to shareholders in a way that serves Moody's long-term interests. As a result, Moody's share repurchase activity will continue to vary from quarter to quarter.

In addition, the Company will from time to time consider cash outlays for acquisitions of or investments in complementary businesses, products, services and technologies. The Company may also be required to make future cash outlays to pay to New D&B its share of potential liabilities related to the legacy tax and legal contingencies that are discussed in this Management's Discussion and Analysis of Financial Condition and Results of Operations under "Contingencies". These potential cash outlays could be material and might affect liquidity requirements, and they could cause the Company to pursue additional financing. There can be no assurance that financing to meet cash requirements will be available in amounts or on terms acceptable to the Company, if at all.

Indebtedness

On September 30, 2005, the Company entered into a Note Purchase Agreement and issued and sold through a private placement transaction, $300 million aggregate principal amount of its Series 2005-1 Senior Unsecured Notes ("Notes"). The Notes have a ten-year term and bear interest at an annual rate of 4.98%, payable semi-annually on March 30 and September 30. The proceeds from the sale of the Notes were used to refinance $300 million aggregate principal amount of the Company's outstanding 7.61% Senior Notes ("Old Notes") which matured on September 30, 2005. In the event that Moody's pays all or part of the Notes in advance of their maturity (the "prepaid principal"), such prepayment will be subject to a penalty calculated based on the excess, if any, of the discounted value of the remaining scheduled payments, as defined in the agreement, over the prepaid principal.

On September 1, 2004, Moody's entered into a five-year senior, unsecured bank revolving credit facility (the "Facility") in an aggregate principal amount of $160 million that expires in September 2009. This Facility replaced the $80 million five-year facility that was scheduled to expire in September 2005 and the $80 million 364-day facility that expired in September 2004. Interest on borrowings under the Facility is payable at rates that are based on the London InterBank Offered Rate plus a premium that can range from 17 basis points to 47.5 basis points depending on the Company's ratio of total indebtedness to earnings before interest, taxes, depreciation and amortization ("Earnings Coverage Ratio"), as defined in the related agreement. At December 31, 2005, such premium was 17 basis points. The Company also pays quarterly facility fees, regardless of borrowing activity under the Facility. The quarterly fees can range from 8 basis points of the Facility amount to 15 basis points, depending on the Company's Earnings Coverage Ratio, and were 8 basis points at December 31, 2005. Under the Facility, the Company also pays a utilization fee of 12.5 basis points on borrowings outstanding when the aggregate amount outstanding under the Facility exceeds 50% of the Facility.

Management may consider pursuing additional long-term financing when it is appropriate in light of cash requirements for share repurchase and other strategic opportunities, which would result in higher financing costs.

The Notes and the Facility (the "Agreements") contain covenants that, among other things, restrict the ability of the Company and certain of its subsidiaries, without the approval of the lenders, to engage in mergers, consolidations, asset sales, transactions with affiliates and sale-leaseback transactions or to incur liens, as defined in the related agreements. The Facility also contains financial covenants that, among other things, require the Company to maintain an interest coverage ratio, as defined in the agreement, of not less than 3 to 1 for any period of four consecutive fiscal quarters, and an Earnings Coverage Ratio, as defined in the agreement, of not more than 4 to 1 at the end of any fiscal quarter. At December 31, 2005, the Company was in compliance with such covenants. Upon the occurrence of certain financial or economic events, significant corporate events or certain other events constituting an event of default under the Agreements, all loans outstanding under the Agreements (including accrued interest and fees payable thereunder) may be declared immediately due and payable and all commitments under the Agreements may be terminated. In addition, certain other events of default under the Agreements would automatically result in amounts outstanding becoming immediately due and payable and all commitments being terminated.

Off-Balance Sheet Arrangements

At December 31, 2005 and 2004, Moody's did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as special purpose or variable interest entities where Moody's is the primary beneficiary, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As such, Moody's is not exposed to any financing, liquidity, market or credit risk that could arise if it had engaged in such relationships.

Contractual Obligations

The following table presents payments due under the Company's contractual obligations as of December 31, 2005.

		Payments Due by Period			
(in millions)	Total	Less Than 1 Year	1–3 Years	4–5 Years	Over 5 Years
Notes payable[1]	$449.4	$14.9	$29.9	$29.9	$374.7
Operating lease obligations	63.9	16.7	24.0	12.5	10.7
Purchase obligations[2]	6.5	4.3	2.2	—	—
Total	$519.8	$35.9	$56.1	$42.4	$385.4

(1) Includes $3.7 million of accrued interest as of December 31, 2005 and $145.7 million of interest that will accrue and be due from January 1, 2006 through September 30, 2015, when the notes mature.

(2) Purchase obligations include contracts for data processing services, data back-up facilities and professional services.

2006 OUTLOOK

Moody's outlook for 2006 is based on assumptions about many macroeconomic and capital market factors, including interest rates, corporate profitability and business investment spending, merger and acquisition activity, consumer spending, residential mortgage borrowing and refinancing activity, securitization levels and capital markets issuance. There is an important degree of uncertainty surrounding these assumptions and, if actual conditions differ from these assumptions, Moody's results for the year may differ from the current outlook.

For Moody's overall, the Company projects revenue growth in the high single-digit to double-digit percent range for the full year 2006, including a small negative impact from foreign currency translation. Moody's expects the operating margin after the impact of expensing stock-based compensation to decline by up to 150 basis points in 2006 compared with 2005. This reflects investments the Company is continuing to make to expand internationally, improve analytical processes, pursue ratings transparency and compliance initiatives, introduce new products and improve technology infrastructure.

For 2006, Moody's projects year-over-year growth in GAAP diluted earnings per share in the high single-digit to double-digit percent range. This expected growth includes the impact of reserve adjustments related to legacy tax matters in 2005, and the expensing of stock-based compensation in both 2005 and 2006. 2006 represents the final year of "phasing" for stock-based compensation, which began in 2003. The impact of expensing stock-based compensation is expected to be in the range of $0.12–$0.14 per diluted share in 2006, compared to $0.10 per diluted share in 2005.

In the U.S., the Company is forecasting mid-single-digit percent revenue growth for the Moody's Investors Service ratings and research business unit for the full year 2006. In the U.S. structured finance business, Moody's expects revenue for the year to rise modestly from the record level of 2005. The Company is projecting a high-teens percent decline from 2005 to 2006 in revenue from residential mortgage-backed securities, including home equity securitization, and notes a divergence in market views about the 2006 outlook for this business. Offsetting this expected decline, Moody's looks for double-digit year-over-year growth in asset-backed securities, credit derivatives, and commercial mortgage-backed securities.

In the U.S. corporate finance business, the Company believes that modest growth in investment grade issuance, gains in rated share of the syndicated bank loan market, and incremental revenue from the Enhanced Analysis Initiative and new products will more than offset expected flat issuance in the speculative grade bond sector. Overall, Moody's expects revenue in the U.S. corporate finance business to grow in the low double-digit percent range for the year.

In the U.S. financial institutions sector, the Company projects issuance by banks to increase slightly in 2006 compared with 2005 and issuance by insurers and other financial institutions to be flat or down. However, fee increases partly related to the Enhanced Analysis Initiative, as well as expected new ratings mandates, should produce revenue growth for the year in the low double-digit percent range.

For the U.S. public finance sector, Moody's believes that rising interest rates will slow refinancing activity and result in lower issuance in 2006 than 2005. The Company forecasts revenue for 2006 declining in the mid-single-digit percent range from the prior year. Moody's forecasts strong growth in the U.S. research business unit at about twenty percent.

Outside the U.S., the Company expects ratings revenue to grow in the low-teens percent range with high single-digit to mid-teens percent growth in all major business lines. This forecast assumes that foreign currency translation rates will have a modest negative impact on revenue growth for the year. In addition, the outlook assumes low- and mid-teens percentage growth in corporate revenue in Europe and Asia, respectively. For the financial institutions business Moody's expects to see high single-digit revenue growth in Europe, after a year of very strong issuance in 2005, and low double-digit percent growth in Asia. The Company looks for low teens percentage growth in international structured finance and about twenty percent growth in international research revenue.

For Moody's KMV globally, the Company expects moderate growth in net sales and revenue from credit risk assessment subscription products, credit decision processing software, and professional services. This should result in mid- to high-single-digit percent growth in revenue with greater growth in profitability.

CONTINGENCIES

From time to time, Moody's is involved in legal and tax proceedings, claims and litigation that are incidental to the Company's business, including claims based on ratings assigned by Moody's. Moody's is also subject to ongoing tax audits in the normal course of business. Management periodically assesses the Company's liabilities and contingencies in connection with these matters based upon the latest information available. Moody's discloses material pending legal proceedings, other than routine litigation incidental to Moody's business, material proceedings known to be contemplated by governmental authorities, and other pending matters that it may determine to be appropriate. For those matters where it is both probable that a liability has been incurred and the amount of loss can be reasonably estimated, the Company has recorded reserves in the consolidated financial statements and periodically adjusts these reserves as appropriate. In other instances, because of the uncertainties related to both the probable outcome and/or the amount or range of loss, management does not record a liability but discloses the contingency if significant. As additional information becomes available, the Company adjusts its assessments and estimates of such liabilities accordingly.

Based on its review of the latest information available, in the opinion of management, the ultimate liability of the Company in connection with pending legal and tax proceedings, claims and litigation will not have a material adverse effect on Moody's financial position, results of operations or cash flows, subject to the contingencies described below.

Legacy Contingencies

Moody's has exposure to certain potential liabilities assumed in connection with the 2000 Distribution. These contingencies are referred to by Moody's as "Legacy Contingencies".

Information Resources, Inc.

An antitrust lawsuit was filed in 1996 by Information Resources, Inc. ("IRI"). A detailed description of this lawsuit was contained in reports previously filed by the Company with the SEC. As previously disclosed, VNU N.V., a publicly traded Dutch company, and its U.S. subsidiaries, VNU, Inc., ACNielsen Corporation, AC Nielsen (US), Inc., and Nielsen Media Research, Inc. ("NMR") (collectively, the "VNU Parties"), had assumed exclusive joint and several liability for any judgment or settlement of this antitrust lawsuit under the terms of the July 30, 2004 Amended Indemnity and Joint Defense Agreement. As a result of the indemnity obligation, Moody's did not have any exposure to a judgment or settlement of this lawsuit unless the VNU Parties defaulted on their obligations. However, in the event of such a default, contractual commitments undertaken by Moody's in connection with various corporate reorganizations since 1996 would have required the Company to bear a portion of any amount not paid by the VNU Parties.

On February 16, 2006, the parties to this action signed a settlement agreement, pursuant to which the action will be dismissed with prejudice and releases from liability will be exchanged among the parties. Such releases will also include the Company, although not a defendant in the litigation, as a releasee. Any amounts payable to the plaintiffs in connection with the settlement will be paid by the VNU Parties, and the Company will not be required to contribute any amounts to the settlement payment. The dismissal of the lawsuit is subject to court approval and the releases are being held in escrow pending such approval.

Legacy Tax Matters

Old D&B and its predecessors entered into global tax planning initiatives in the normal course of business, including through tax-free restructurings of both their foreign and domestic operations. These initiatives are subject to normal review by tax authorities.

Pursuant to a series of agreements, as between themselves, IMS Health and NMR are jointly and severally liable to pay one-half, and New D&B and Moody's are jointly and severally liable to pay the other half, of any payments for taxes, penalties and accrued interest resulting from unfavorable Internal Revenue Service ("IRS") rulings on certain tax matters as described in such agreements (excluding the matter described below as "Amortization Expense Deductions" for which New D&B and Moody's are solely responsible) and certain other potential tax liabilities, also as described in such agreements, after New D&B and/or Moody's pays the first $137 million, which amount was paid in connection with the matter described below as "Utilization of Capital Losses".

In connection with the 2000 Distribution and pursuant to the terms of the 2000 Distribution Agreement, New D&B and Moody's have, between themselves, agreed to each be financially responsible for 50% of any potential liabilities that may arise to the extent such potential liabilities are not directly attributable to their respective business operations.

Without limiting the generality of the foregoing, three specific tax matters are discussed below.

Royalty Expense Deductions During the second quarter of 2003, New D&B received an Examination Report from the IRS with respect to a partnership transaction entered into in 1993. In this Examination Report, the IRS stated its intention to disallow certain royalty expense deductions claimed by Old D&B on its tax returns for the years 1993 through 1996 (the "Royalty Report"). In the first quarter of 2004, New D&B received a similar Examination Report (the "Second Royalty Report") relating to the first quarter of 1997.

During the second quarter of 2003, New D&B also received an Examination Report that had been issued by the IRS to the partnership, stating the IRS' intention to ignore the partnership structure that had been established in 1993 in connection with the above transaction, and to reallocate to Old D&B income and expense items that had been reported in the partnership tax return for 1996 (the "Reallocation Report"). New D&B also received a similar Examination Report (the "Second Reallocation Report") issued to the partnership with respect to the first quarter of 1997.

In June 2004, New D&B and the IRS conducted a mediation of these issues, at which they reached a basis for settlement with regard to the Royalty Report for 1995 and 1996, the Reallocation Report, and certain tax refund claims made by Old D&B related to 1995 and 1996. The IRS reasserted its position that certain tax refund claims made by Old D&B related to 1993 and 1994 may be offset by tax liabilities relating to the above mentioned partnership formed in 1993. The settlement was withdrawn by the IRS in November 2004. As a result of these events, the Company increased its reserves for this matter by $30 million in 2004.

In 2005, New D&B, Moody's, IMS Health and NMR executed a closing agreement with the IRS reflecting terms originally agreed to in June 2004.

After executing the closing agreement, IMS Health and NMR disagreed with New D&B's calculation of each party's share of the tax liability set forth in the agreement. As a result, New D&B and Moody's each increased its share of the assessment by $7.3

million to $35.5 million and Moody's paid approximately $34 million of this amount in October of 2005. These events resulted in a net reduction of tax expense of $11.5 million. New D&B anticipates commencing arbitration proceedings against IMS Health and NMR to collect the incremental amounts New D&B and Moody's were obligated to pay to the IRS on their behalf. Based upon the current understanding of the positions which New D&B and IMS Health may take, the Company believes it is likely that New D&B should prevail, but Moody's cannot predict with certainty the outcome.

In addition, the Second Royalty Report and the Second Reallocation Report, which were not part of the closing agreement with the IRS, have not been resolved. Moody's estimates that its share of the potential required payment to the IRS for this matter is $0.1 million (including penalties and interest, and net of tax benefits). In the fourth quarter of 2005, New D&B filed a protest with the IRS Appeals Office concerning the IRS' denial of certain tax refunds owing Old D&B for 1993 and 1994.

Moody's estimates that its remaining share of the potential liability for the Royalty Expense Deductions matter could be up to $16 million after payment pursuant to the closing agreement, which takes into consideration: (1) the state income tax liability connected with the terms of the federal closing agreement and (2) the potential write-off of receivables (for which the Company's exposure could be up to $9 million as discussed above).

Amortization Expense Deductions In April 2004, New D&B received Examination Reports (the "April Examination Reports") from the IRS with respect to a partnership transaction. This transaction was entered into in 1997 and has resulted in amortization expense deductions on the tax returns of Old D&B since 1997. These deductions could continue through 2012. In the April Examination Reports, the IRS stated its intention to disallow the amortization expense deductions related to this partnership that were claimed by Old D&B on its 1997 and 1998 tax returns. New D&B disagrees with the position taken by the IRS and can either: (1) accept and pay the IRS assessment; (2) challenge the assessment in U.S. Tax Court; or (3) challenge the assessment in U.S. District Court or the U.S. Court of Federal Claims, where in either case payment of the disputed amount would be required in connection with such challenge. IRS audits of Old D&B's or New D&B's tax returns for years subsequent to 1998 have resulted in the issuance of similar Examination Reports for the 1999 through 2002 tax years, described below, in which case New D&B has the aforementioned three courses of action. Similar Examination Reports could result for tax years subsequent to 2002.

Should any such payments be made by New D&B related to either the April Examination Reports or any potential Examination Reports for future years, including years subsequent to the separation of Moody's from New D&B, then pursuant to the terms of the 2000 Distribution Agreement, Moody's would have to pay to New D&B its 50% share. In addition, should New D&B discontinue claiming the amortization deductions on future tax returns, Moody's would be required to repay to New D&B an amount equal to the discounted value of its 50% share of the related future tax benefits. New D&B had paid the discounted value of 50% of the future tax benefits from this transaction in cash to Moody's at the Distribution Date. Moody's estimates that the Company's current potential exposure could be up to $101 million (including penalties and interest, and net of tax benefits). This exposure could increase by approximately $3 million to $6 million per year, depending on actions that the IRS may take and on whether New D&B continues claiming the amortization deductions on its tax returns.

In the April Examination Reports, the IRS also stated its intention to disallow certain royalty expense deductions claimed by Old D&B on its 1997 and 1998 tax returns with respect to the partnership transaction. In addition, the IRS stated its intention to disregard the partnership structure and to reallocate to Old D&B certain partnership income and expense items that had been reported in the partnership tax returns for 1997 and 1998. New D&B disagrees with the positions taken by the IRS and can take any of the three courses of action described in the first paragraph of this "Amortization Expense Deductions" section. IRS audits of Old D&B's or New D&B's tax returns for years subsequent to 1998 have resulted in the issuance of similar Examination Reports for the 1999 through 2002 tax years described below. Similar Examination Reports could result for years subsequent to 2002. Should any such payments be made by

New D&B related to either the April Examination Reports or any potential Examination Reports for future years, then pursuant to the terms of the 2000 Distribution Agreement, Moody's would have to pay to New D&B its 50% share of New D&B's payments to the IRS for the period from 1997 through the Distribution Date. Moody's estimates that its share of the potential exposure to the IRS for the potential disallowance of royalty expense deductions could be up to $135 million (including penalties and interest, and net of tax benefits). Moody's also could be obligated for future interest payments on its share of such liability.

New D&B had filed protests with the IRS Appeals Office regarding the April Examination Reports. In September 2004, the IRS Appeals Office remanded the case to the IRS examination office for further development of the issues. New D&B has reopened discussion of the issues with the examination office.

On May 6, 2005, New D&B received a Notice of Proposed Adjustment ("Notice") from the IRS for the 1999–2002 tax years which (1) disallows amortization expense deductions allocated from the partnership to Old D&B on its 1999 and 2000 tax returns and to New D&B on its 2000, 2001 and 2002 tax returns and (2) disallows certain royalty expense deductions claimed by Old D&B on its 1999 and 2000 tax returns and by New D&B on its 2000, 2001 and 2002 tax returns. On August 4, 2005, New D&B received an Examination Report (the "August Examination Report") from the IRS disallowing certain royalty expense deductions claimed by Old D&B on its 1999 and 2000 tax returns and by New D&B on its 2000, 2001 and 2002 tax returns consistent with the Notice and in addition assessing a twenty percent penalty. New D&B has filed a protest with the IRS Appeals Office regarding the August Examination Report. Currently, the Company does not expect that the Notice or the Examination Report will have a material impact on the legacy tax reserves and the potential future outlays related to legacy tax matters that are discussed below in "Summary of Moody's Exposure to Three Legacy Tax Matters".

Moody's believes that the IRS' proposed assessments of tax against Old D&B and the proposed reallocations of partnership income and expense to Old D&B are inconsistent with each other. Accordingly, while it is possible that the IRS could ultimately prevail in whole or in part on one of such positions, Moody's believes that it is unlikely that the IRS will prevail on both.

Utilization of Capital Losses In July 2004, New D&B and the IRS reached a basis for settlement of all outstanding issues related to the matter concerning utilization of certain capital losses generated by Old D&B during 1989 and 1990. In December 2004, New D&B executed a formal settlement agreement. New D&B received two assessments on this matter during the first quarter of 2005, and is awaiting receipt of the third and final assessment. Moody's paid its allocated share of the first two assessments consisting of cash payments of $12.8 million ($8.1 million net of expected tax benefits) and the utilization of a tax receivable of approximately $9 million. Moody's remaining liability at December 31, 2005 was approximately $0.3 million. The amounts paid by Moody's included its share of approximately $4 million that Moody's and New D&B believe should have been paid by IMS Health and NMR, but were not paid by them due to their disagreement with various aspects of New D&B's calculation of their respective shares of the payments. If New D&B fails to resolve this dispute with IMS Health and NMR, Moody's understands that New D&B anticipates commencing arbitration proceedings against them. Moody's believes that New D&B should prevail in its position, but the Company cannot predict with certainty the outcome. In the first quarter of 2005, Moody's had increased its reserves by $2.7 million due to this disagreement.

Summary of Moody's Exposure to Three Legacy Tax Matters The Company considers from time to time the range and probability of potential outcomes related to the three legacy tax matters discussed above and establishes reserves that it believes are appropriate in light of the relevant facts and circumstances. In doing so, Moody's makes estimates and judgments as to future events and conditions and evaluates its estimates and judgments on an ongoing basis.

For the year ended December 31, 2005, the Company recorded an $8.8 million net reversal of reserves of which $2.7 million related to an increase for the Utilization of Capital Losses matter and $11.5 million related to the reversal for the Royalty Expense Deductions described above. The Company has recorded $5.8

million of interest expense related to its legacy tax reserves. Moody's total net legacy tax reserves were $97 million (consisting of $106 million of tax liabilities, partially offset by the expected utilization of $9 million of tax receivables). The $97 million of expected cash payments consists of $8 million of current liabilities (reflecting the estimated cash payments related to the Royalty Expense Deductions and Utilization of Capital Losses matters that are expected to be made over the next twelve months) and $89 million of non-current liabilities.

It is possible that the legacy tax matters could be resolved in amounts that are greater than the amounts reserved by the Company, which could result in additional charges that may be material to Moody's future reported results, financial position and cash flows. Although Moody's does not believe it is likely that the Company will ultimately be required to pay the full amounts presently being sought by the IRS, potential future outlays resulting from these matters could be as much as $252 million and could increase with time as described above. In matters where Moody's believes the IRS has taken inconsistent positions, Moody's may be obligated initially to pay its share of related duplicative assessments. However, Moody's believes that ultimately it is unlikely that the IRS would retain such duplicative payments.

DIVIDENDS

During 2005, the Company paid a quarterly dividend of $0.0375 in the first quarter and $0.055 in each of the three subsequent quarters, per share of Moody's common stock, resulting in dividends paid per share of $0.2025 during the year. During 2004 and 2003, the Company paid quarterly dividends of $0.0375 and $0.0225 per share, respectively, of Moody's common stock resulting in total dividends paid per share of $0.15 and $0.09, respectively.

On December 13, 2005, the Board of Directors of the Company approved a quarterly dividend of $0.07 per share of Moody's common stock, payable on March 10, 2006 to shareholders of record at the close of business on February 20, 2006. The continued payment of dividends at the rate noted above, or at all, is subject to the discretion of the Board of Directors.

COMMON STOCK INFORMATION

The Company's common stock trades 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 declared for the periods shown. The number of registered shareholders of record at January 31, 2006 was 4,401.

	Price Per Share		Dividends Declared
	High	Low	Per Share
2004:			
First quarter	$35.50	$29.85	$0.0375
Second quarter	35.50	30.87	0.0375
Third quarter	37.21	32.30	0.0375
Fourth quarter	$43.86	$35.70	0.0375
Year ended December 31, 2004	$43.86	$29.85	$ 0.15
2005:			
First quarter	**$44.53**	**$40.29**	**$ 0.055**
Second quarter	**47.04**	**39.55**	**0.055**
Third quarter	**51.89**	**44.05**	**0.055**
Fourth quarter	**$62.50**	**$49.28**	**0.070**
Year ended December 31, 2005	**$62.50**	**$39.55**	**$ 0.235**

RISK FACTORS

The following risk factors and other information included in this Annual Report should be carefully considered. The risks and uncertainties described below are not the only ones the Company faces. Additional risks and uncertainties not presently known to the Company or that the Company's management currently deems minor or insignificant also may impair its business operations. If any of the following risks occur, Moody's business, financial condition, operating results and cash flows could be materially adversely affected.

Changes in the Volume of Debt Securities Issued in Domestic and/or Global Capital Markets and Changes in Interest Rates and Other Volatility in the Financial Markets

Approximately 80% of Moody's revenue in 2005 was derived from ratings, a significant portion of which was related to the issuance of credit-sensitive securities in the global capital markets. Moody's revenue growth from these sources in 2005 was in line with its compound annual growth rate from 2001 through 2004 as continued strength in global structured finance, strong financial institutions issuance and ratings of bank credit facilities was partially offset by the impacts of declines in U.S. high yield issues and in investment grade corporate finance issuance volumes in the U.S. and Europe. The Company anticipates that a substantial part of its business will continue to be dependent on the number and dollar volume of debt securities issued in the capital markets. Therefore, the Company's results could be adversely affected by a reduction in the level of debt issuance.

Unfavorable financial or economic conditions that either reduce investor demand for debt securities or reduce issuers' willingness or ability to issue such securities could reduce the number and dollar volume of debt issuance for which Moody's provides ratings services. In addition, increases in interest rates or credit spreads, volatility in financial markets or the interest rate environment, significant political or economic events, defaults of significant issuers and other market and economic factors may negatively impact the general level of debt issuance, the debt issuance plans of certain categories of borrowers, and/or the types of credit-sensitive products being offered. A sustained period of market decline or weakness could also have a material adverse effect on Moody's business and financial results.

Possible Loss of Market Share or Revenue Through Competition or Regulation

The markets for credit ratings, research and credit risk management services are increasingly competitive. Moody's competes on the basis of a number of factors, including quality of ratings, client service, research, reputation, regulatory qualification, price, geographic scope, range of products and technological innovation. For example, a large investment grade default could impact the Company's reputation and potentially lead to greater regulatory oversight. Moody's faces increasing competition from Standard & Poor's Ratings Services ("S&P"), a division of The McGraw-Hill Companies, Inc., Fitch, a subsidiary of Fimalac S.A, Dominion Bond Rating Service, Ltd. of Canada ("DBRS"), local rating agencies in a number of jurisdictions and niche companies that provide ratings for particular types of financial products or issuers (such as A.M. Best Company, Inc., with respect to the insurance industry). Since Moody's believes that some of its most significant challenges and opportunities will arise outside the U.S., it will have to compete with rating agencies that may have a stronger local presence or a longer operating history in those markets. These local providers or comparable competitors that may emerge in the future may receive support from local governments or other institutions that Moody's does not receive.

Currently, Moody's, S&P, Fitch, DBRS and A.M. Best Company, Inc. are designated as Nationally Recognized Statistical Rating Organizations ("NRSRO") by the SEC. In March 2005, the SEC disclosed that in considering the oversight of NRSROs, it may pursue a voluntary compliance and oversight framework for rating agencies that are designated as NRSROs, or it could seek legislative authority for formal compliance and oversight for NRSROs.

In April 2005, the SEC released for public comment a Proposed Rule on the "Definition of Nationally Recognized Statistical Rating Organization". The proposed definition of the term NRSRO is an entity that: (i) issues publicly available credit ratings that are current assessments of the creditworthiness of obligors with respect to specific securities or money market instruments; (ii) is generally accepted in the financial markets as an issuer of credible and reliable ratings, including ratings for a particular industry or geographic segment, by the predominant users of securities ratings; and (iii) uses systematic procedures designed to ensure credible and reliable ratings, manage potential conflicts of interest, and prevent the misuse of nonpublic information, and has sufficient financial resources to ensure compliance with those procedures. Numerous market participants, including Moody's, responded to the request for comment. Moody's response can be found on the *Regulatory Affairs* page of the Company's website.

In addition, in June 2005 the SEC produced technical assistance pursuant to a congressional request, relating to statutory authority that the SEC may need if Congress determines that it is appropriate to create a comprehensive oversight regime for credit rating agencies. Congress had also requested that market participants provide their views on the SEC's technical assistance. Moody's comments can be found on the *Regulatory Affairs* page of the Company's website.

At present, Moody's is unable to assess the likelihood of any regulatory changes that may result from the SEC's ongoing review. However, the elimination of the NRSRO concept, retention of the NRSRO concept with different regulatory oversight, or SEC recognition of additional NRSROs could result in loss of market share or revenue for Moody's, or higher costs of operations.

Introduction of Competing Products or Technologies by Other Companies

The markets for credit ratings, research and credit risk management services are increasingly competitive. The ability to provide innovative products and technologies that anticipate customers' changing requirements and to utilize emerging technological trends is a key factor in maintaining market share. Competitors may develop quantitative methodologies or related services for assessing credit risk that customers and market participants may deem preferable, more cost-effective or more valuable than the credit risk assessment methods currently employed by Moody's.

Increased Pricing Pressure from Competitors and/or Customers

In the credit rating, research and credit risk management markets, competition for customers and market share has spurred more aggressive tactics by some competitors in areas such as pricing and service. While Moody's seeks to compete primarily on the basis of the quality of its products and service, if its pricing and services are not sufficiently competitive with its current and future competitors, Moody's may lose market share.

Possible Loss of Key Employees to Investment or Commercial Banks or Elsewhere and Related Compensation Cost Pressures

Moody's success depends in part upon recruiting and retaining highly skilled, experienced financial analysts and other professionals. Competition for qualified staff in the financial services industry is intense, and Moody's ability to attract staff could be impaired if it is unable to offer competitive compensation and other incentives. Investment banks and other competitors for analyst talent may be able to offer higher compensation than Moody's. Moody's also may not be able to identify and hire employees in some markets outside the U.S. with the required experience or skills to perform sophisticated credit analysis. Moody's ability to compete effectively will continue to depend, among other things, on its ability to attract new employees and to retain and motivate existing employees.

Exposure to Litigation Related to Moody's Rating Opinions

Moody's faces litigation from time to time from parties claiming damages relating to ratings actions. In addition, as Moody's international business expands, these types of claims may increase because foreign jurisdictions may not have legal protections or liability standards comparable to those in the U.S. (such as protections for the expression of credit opinions as is provided by the First Amendment). These risks often may be difficult to assess or quantify and their existence and magnitude often remains unknown for substantial periods of time.

Potential Emergence of Government-Sponsored Credit Rating Agencies

When governments adopt regulations that require debt securities to be rated, establish criteria for credit ratings or authorize only certain entities to provide credit ratings, the competitive balance among rating agencies and the level of demand for ratings may be positively or negatively affected. Government-mandated ratings criteria may also have the effect of displacing objective assessments of creditworthiness. In these circumstances, debt issuers may be less likely to base their choice of rating agencies on criteria such as independence and credibility, and more likely to base their choice on their assumption as to which credit rating agency might provide a higher rating, which may negatively affect the Company.

Potential for New U.S., Foreign, State and Local Legislation and Regulations, Including Those Relating to Nationally Recognized Statistical Rating Organizations

In the United States and other countries, the laws and regulations applicable to credit ratings and rating agencies continue to evolve and are presently subject to review by a number of legislative or regulatory bodies, including the SEC in the United States and the Committee of European Securities Regulators on behalf of the European Union. It is possible that such reviews could lead to greater oversight or regulation concerning the issuance of credit ratings or the activities of credit rating agencies. Such additional regulations could, potentially, increase the costs associated with the operation of a credit rating agency, alter the rating agencies' communications with the issuers as part of the rating assignment process, increase the legal risk associated with the issuance of credit ratings, change the regulatory framework to which credit rating agencies are subject and/or affect the competitive environment in which credit rating agencies operate. A description of certain of the more recent regulatory initiatives in the United States and other countries is described under the section entitled "Regulation" in Item 1, "Business", of the Company's 2005 annual report on Form 10-K filed with the Securities and Exchange Commission on March 1, 2006. At present, Moody's is unable to predict the regulatory changes that may result from ongoing reviews by the SEC or other regulatory bodies or the effect that any such changes may have on its business.

Exposure to Increased Risk from Multinational Operations

Moody's maintains offices outside the U.S. and derives a significant portion of its revenue from sources outside the U.S. Operations in different countries expose Moody's to a number of legal, economic and regulatory risks such as:

- changes in legal and regulatory requirements affecting either Moody's operations or its customers' use of ratings
- possible nationalization, expropriation, price controls and other restrictive governmental actions
- restrictions on the ability to convert local currency into U.S. dollars
- currency fluctuations
- export and import restrictions, tariffs and other trade barriers
- difficulty in staffing and managing offices as a result of, among other things, distance, travel, cultural differences and intense competition for trained personnel
- longer payment cycles and problems in collecting receivables
- political and economic instability
- potentially adverse tax consequences

Any of these factors could have a material adverse effect on the business, financial condition and results of operations of the Company in the future.

FORWARD-LOOKING STATEMENTS

Certain statements contained in this Annual Report are forward-looking statements and are based on future expectations, plans and prospects for the Company's business and operations that involve a number of risks and uncertainties. Such statements involve estimates, projections, goals, forecasts, assumptions and uncertainties that could cause actual results or outcomes to differ materially from those contemplated, expressed, projected, anticipated or implied in the forward-looking statements. Those statements appear at various places throughout this Annual Report, including in the sections entitled "Outlook" and "Contingencies" under "Management's Discussion and Analysis of Financial Condition and Results of Operations", commencing at page 34 of this Annual Report, and elsewhere in the context of statements containing the words "believe", "expect", "anticipate", "intend", "plan", "will", "predict", "potential", "continue", "strategy", "aspire", "target", "forecast", "project", "estimate", "should", "could", "may" and similar expressions or words and variations thereof relating to the Company's views on future events, trends and contingencies. We caution you not to place undue reliance on these forward-looking statements. The forward-looking statements and other information are made as of the date of the Company's annual report on Form 10-K for the year ended December 31, 2005, and the Company undertakes no obligation (nor does it intend) to publicly supplement, 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 examples of factors, risks and uncertainties that could cause actual results to differ, perhaps materially, from those indicated by these forward-looking statements. Those factors, risks and uncertainties include, but are not limited to, changes in the volume of debt and other securities issued in domestic and/or global capital markets; changes in interest rates and other volatility in the financial markets; market perceptions of the utility and integrity of independent agency ratings; 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; possible judicial decisions in various jurisdictions regarding the status of and potential liabilities of rating agencies; 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 outcome of those tax and legal contingencies that relate to Old D&B, its predecessors and their affiliated companies for which the Company has assumed portions of the financial responsibility; the outcome of other legal actions to which the Company, from time to time, may be named as a party; the ability of the Company to successfully integrate the KMV and MRMS businesses; a decline in the demand for credit risk management tools by financial institutions. These factors, risks and uncertainties as well as other risks and uncertainties that could cause Moody's actual results to differ materially from those contemplated, expressed, projected, anticipated or implied in the forward-looking statements are described in greater detail under "Risk Factors", elsewhere in this Annual Report and in other filings made by the Company from time to time with the Securities and Exchange Commission or in materials incorporated herein or therein. You should be aware that the occurrence of any of these factors, risks and uncertainties may cause the Company's actual results to differ materially from those contemplated, expressed, projected, anticipated or implied in the forward-looking statements, which could have a material and adverse effect on the Company's business, results of operations and financial condition. New factors may emerge from time to time, and it is not possible for the Company to predict new factors, nor can the Company assess the potential effect of any new factors on it.

Management's Report on Internal Control Over Financial Reporting

Management of Moody's Corporation ("Moody's" or "the Company") is responsible for establishing and maintaining adequate internal control over financial reporting and for the assessment of the effectiveness of internal control over financial reporting. As defined by the Securities and Exchange Commission ("SEC") in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, internal control over financial reporting is a process designed by, or under the supervision of, the Company's principal executive and principal financial officers, or persons performing similar functions, and effected by the Company's Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Moody's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of Moody's management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management of the Company has undertaken an assessment of the design and operational effectiveness of the Company's internal control over financial reporting as of December 31, 2005 based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). The COSO framework is based upon five integrated components of control: risk assessment, control activities, control environment, information and communications and ongoing monitoring.

Based on the assessment performed, management has concluded that Moody's maintained effective internal control over financial reporting as of December 31, 2005.

Our management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2005 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

Raymond W. McDaniel, Jr.
Chairman and Chief Executive Officer

Linda S. Huber
Executive Vice President and Chief Financial Officer

February 28, 2006

Report of Independent Registered Public Accounting Firm

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

We have completed integrated audits of Moody's Corporation's December 31, 2005 and 2004 consolidated financial statements and of its internal control over financial reporting as of December 31, 2005, and an audit of its December 31, 2003 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated Financial Statements

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, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements 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.

Internal Control Over Financial Reporting

Also, in our opinion, management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that the Company maintained effective internal control over financial reporting as of December 31, 2005 based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control—Integrated Framework issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
New York, New York
February 28, 2006

Consolidated Statements of Operations

Year Ended December 31,	2005	2004	2003
(amounts in millions, except per share data)			
Revenue	$1,731.6	$1,438.3	$1,246.6
Expenses			
Operating	452.9	375.4	347.3
Selling, general and administrative	303.9	242.4	203.6
Depreciation and amortization	35.2	34.1	32.6
Total expenses	792.0	651.9	583.5
Operating income	939.6	786.4	663.1
Interest income (expense), net	5.0	(16.2)	(21.8)
Other non-operating (expense) income, net	(9.9)	1.1	15.1
Non-operating expense, net	(4.9)	(15.1)	(6.7)
Income before provision for income taxes	934.7	771.3	656.4
Provision for income taxes	373.9	346.2	292.5
Net income	$ 560.8	$ 425.1	$ 363.9
Earnings per share			
Basic	$ 1.88	$ 1.43	$ 1.22
Diluted	$ 1.84	$ 1.40	$ 1.19
Weighted average shares outstanding			
Basic	297.7	297.0	297.8
Diluted	305.6	304.7	304.6

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

Consolidated Balance Sheets

December 31,	2005	2004
(amounts in millions, except share and per share data)		
Assets		
Current assets:		
Cash and cash equivalents	$ 486.0	$ 606.1
Short-term investments	94.5	7.3
Accounts receivable, net of allowances of $12.7 in 2005 and $14.6 in 2004	421.8	371.7
Other current assets	49.5	50.8
Total current assets	1,051.8	1,035.9
Property and equipment, net	55.4	45.2
Prepaid pension costs	56.4	59.7
Goodwill	152.1	131.7
Intangible assets, net	70.8	70.7
Other assets	70.7	46.1
Total assets	$ 1,457.2	$1,389.3
Liabilities and shareholders' equity		
Current liabilities:		
Notes payable	$ —	$ 300.0
Accounts payable and accrued liabilities	279.8	283.8
Deferred revenue	299.1	266.7
Total current liabilities	578.9	850.5
Non-current portion of deferred revenue	75.7	54.4
Notes payable	300.0	—
Other liabilities	193.2	166.9
Total liabilities	1,147.8	1,071.8
Commitments and contingencies (Notes 15 and 16)		
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; 1,000,000,000 shares authorized; 342,902,272 shares issued at December 31, 2005 and 2004	3.4	3.4
Capital surplus	240.9	142.3
Retained earnings	1,419.2	939.3
Treasury stock, at cost; 52,604,734 and 45,078,230 shares of common stock at December 31, 2005 and 2004, respectively	(1,353.2)	(777.2)
Accumulated other comprehensive (loss) income	(0.9)	9.7
Total shareholders' equity	309.4	317.5
Total liabilities and shareholders' equity	$ 1,457.2	$1,389.3

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

Consolidated Statements of Cash Flows

Year Ended December 31,	2005	2004	2003
(amounts in millions)			
Cash flows from operating activities			
Net income	$ 560.8	$ 425.1	$ 363.9
Reconciliation of net income to net cash provided by operating activities:			
Depreciation and amortization	35.2	34.1	32.6
Stock-based compensation expense	54.8	27.8	10.8
Deferred income taxes	(20.2)	(9.6)	(0.4)
Tax benefits from exercise of stock options	70.2	55.9	33.3
Other	2.2	1.6	0.6
Changes in assets and liabilities:			
Accounts receivable	(53.1)	(93.0)	(96.5)
Other current assets and prepaid pension costs	4.3	(11.1)	(13.3)
Other assets	(10.0)	22.9	(0.5)
Accounts payable and accrued liabilities	(16.0)	42.2	46.2
Deferred revenue	52.2	65.1	56.8
Other liabilities	27.5	(34.8)	33.5
Net cash provided by operating activities	707.9	526.2	467.0
Cash flows from investing activities			
Capital additions	(31.3)	(21.3)	(17.9)
Purchases of marketable securities	(324.4)	(22.2)	(16.2)
Sales and maturities of marketable securities	235.5	15.7	17.6
Cash paid for acquisitions and investment in affiliates, net of cash acquired	(30.2)	(3.5)	0.8
Net cash used in investing activities	(150.4)	(31.3)	(15.7)
Cash flows from financing activities			
Repayment of notes	(300.0)	—	—
Issuance of notes	300.0	—	—
Net repayments of bank borrowings	—	—	(107.1)
Proceeds from stock plans	89.1	105.0	79.0
Cost of treasury shares repurchased	(691.7)	(221.3)	(171.7)
Payment of dividends	(60.3)	(44.7)	(26.8)
Payments under capital lease obligations	(1.3)	(1.3)	(1.1)
Debt issuance costs and related fees	(2.3)	—	—
Net cash used in financing activities	(666.5)	(162.3)	(227.7)
Effect of exchange rate changes on cash and cash equivalents	(11.1)	4.4	5.6
(Decrease) increase in cash and cash equivalents	(120.1)	337.0	229.2
Cash and cash equivalents, beginning of the period	606.1	269.1	39.9
Cash and cash equivalents, end of the period	$ 486.0	$ 606.1	$ 269.1

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

Consolidated Statements of Shareholders' Equity

	Common Stock Shares	Common Stock Amount	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock Shares	Treasury Stock Amount	Total Shareholders' Equity (Deficit)	Comprehensive Income
(amounts in millions)									
Balance at December 31, 2002	342.9	$3.4	$ 43.8	$ 221.8	$ 1.7	(45.2)	$ (597.7)	$(327.0)	
Net income				363.9				363.9	$363.9
Dividends				(26.8)				(26.8)	
Proceeds from stock plans, including tax benefits			112.3					112.3	
Stock-based compensation			10.8					10.8	
Net treasury stock activity			(92.2)			(0.4)	(79.5)	(171.7)	
Currency translation adjustment					6.4			6.4	6.4
Comprehensive income									$370.3
Balance at December 31, 2003	342.9	3.4	74.7	558.9	8.1	(45.6)	(677.2)	(32.1)	
Net income				425.1				425.1	$425.1
Dividends				(44.7)				(44.7)	
Proceeds from stock plans, including tax benefits			161.1					161.1	
Stock-based compensation			27.8					27.8	
Net treasury stock activity			(121.3)			0.5	(100.0)	(221.3)	
Currency translation adjustment					2.6			2.6	2.6
Additional minimum pension liability (net of tax of $0.7 million)					(1.0)			(1.0)	(1.0)
Comprehensive income									$426.7
Balance at December 31, 2004	342.9	3.4	142.3	939.3	9.7	(45.1)	(777.2)	317.5	
Net income				**560.8**				**560.8**	**$560.8**
Dividends				**(80.9)**				**(80.9)**	
Proceeds from stock plans, including tax benefits			**159.3**					**159.3**	
Stock-based compensation			**55.0**					**55.0**	
Net treasury stock activity			**(115.7)**			**(7.5)**	**(576.0)**	**(691.7)**	
Currency translation adjustment					**(7.3)**			**(7.3)**	**(7.3)**
Additional minimum pension liability (net of tax of $1.8 million)					**(2.5)**			**(2.5)**	**(2.5)**
Derivative instruments (net of tax of $0.5 million)					**(0.8)**			**(0.8)**	**(0.8)**
Comprehensive income									**$550.2**
Balance at December 31, 2005	**342.9**	**$3.4**	**$240.9**	**$1,419.2**	**$(0.9)**	**(52.6)**	**$(1,353.2)**	**$ 309.4**	

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

Notes to Consolidated Financial Statements

(tabular dollar and share amounts in millions, except per share data)

NOTE 1 :: DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Moody's Corporation ("Moody's" or the "Company") is a provider of (i) credit ratings, research and analysis covering fixed income securities, other debt instruments and the entities that issue such instruments in the global capital markets, and credit training services and (ii) quantitative credit risk assessment products and services and credit processing software for banks, corporations and investors in credit-sensitive assets. Moody's operates in two reportable segments: Moody's Investors Service and Moody's KMV. Moody's Investors Service publishes rating opinions on a broad range of credit obligors and credit obligations issued in domestic and international markets, including various corporate and governmental obligations, structured finance securities and commercial paper programs. It also publishes investor-oriented credit research, including in-depth research on major issuers, industry studies, special comments and credit opinion handbooks. The Moody's KMV business develops and distributes quantitative credit risk assessment products and services and credit processing software for banks, corporations and investors in credit-sensitive assets.

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 credit risk management services (the "Moody's Business") and was renamed "Moody's Corporation". The method by which Old D&B distributed to its shareholders its shares of New D&B stock is hereinafter referred to as the "2000 Distribution".

For purposes of governing certain ongoing relationships between the Company and New D&B after the 2000 Distribution and to provide for an orderly transition, the Company and New D&B entered into various agreements including a Distribution Agreement (the "2000 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.

In February 2005, Moody's Board of Directors declared a two-for-one stock split to be effected as a special stock distribution of one share of common stock for each share of the Company's common stock outstanding, subject to stockholder approval of a charter amendment to increase the Company's authorized common shares from 400 million shares to 1 billion shares. At the Company's Annual Meeting on April 26, 2005, Moody's stockholders approved the charter amendment. As a result, stockholders of record as of the close of business on May 4, 2005 received one additional share of common stock for each share of the Company's common stock held on that date (the "Stock Split"). Such additional shares were distributed on May 18, 2005. All prior period share, per share and equity award information have been restated to reflect the Stock Split.

NOTE 2 :: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation

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

The Company applies the guidelines set forth in Financial Accounting Standards Board ("FASB") Interpretation No. 46R "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51" ("FIN 46") in assessing its interests in variable interest entities to decide whether to consolidate that entity. The Company has reviewed the potential variable interest entities and determined that there are no consolidation requirements under FIN 46.

Cash and Cash Equivalents

Cash equivalents principally consist of investments in money market mutual funds and high-grade commercial paper with maturities of three months or less when purchased. Interest income on cash and cash equivalents and short-term investments was $26.0 million, $6.8 million and $1.7 million for the years ended December 31, 2005, 2004, and 2003, respectively.

Property and Equipment

Property and equipment are stated at cost and are depreciated using the straight-line method over their estimated useful lives, typically three to ten years for computer equipment and office furniture and fixtures and equipment, and seven to forty years for buildings and building improvements. Leasehold improvements are amortized over the shorter of the term of the lease or the estimated useful life of the improvement. 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 in accordance with Statement of Financial Accounting Standards ("SFAS") No. 86, "Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed". These assets primarily relate to the development of MKMV credit processing software and quantitative credit risk assessment products to be licensed to customers. The capitalized costs generally consist of professional services provided by third parties and compensation costs of employees that develop the software. These costs are amortized on a straight-line basis over three years, which approximates their useful life, and are reported at the lower of unamortized cost or net realizable value.

At December 31, 2005 and 2004, these costs, included in other assets in the consolidated balance sheets, were $4.1 million and $8.9 million, respectively (net of accumulated amortization of $20.3 million and $16.4 million, respectively). Other assets at December 31, 2005 and 2004 also included $3.9 million and $7.5 million, respectively, (net of accumulated amortization of $13.2 million and $9.6 million, respectively) of acquired software resulting from the April 2002 acquisition of KMV. Amortization expense for all such software for the years ended December 31, 2005, 2004, and 2003 was $8.0 million, $7.7 million and $7.3 million, respectively.

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 direct costs of third party license fees, professional services provided by third parties and employee compensation, in each case incurred either during the application development stage or in connection with upgrades and enhancements that increase functionality. Such costs are depreciated over their estimated useful lives, generally three to five years. Costs incurred during the preliminary project stage of development as well as maintenance costs are expensed as incurred.

Long-Lived Assets, Including Goodwill and Other Acquired Intangible Assets

Finite-lived intangible assets and other long-lived assets are reviewed for recoverability whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the estimated undiscounted future cash flows are lower than the carrying amount of the related asset, a loss is recognized for the difference between the carrying amount and the estimated fair value of the asset. Goodwill and indefinite-lived intangible assets are tested for impairment annually or more frequently if events or circumstances indicate the assets may be impaired. If the estimated fair value is less than its carrying amount, a loss is recognized.

Stock-Based Compensation

On January 1, 2003, the Company adopted, on a prospective basis, the fair value method of accounting for stock-based compensation under Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation". Therefore, employee stock awards granted on and after January 1, 2003 are being expensed by the Company over the vesting period (or sooner if employees are at or near retirement eligibility) based on the estimated fair value of the award on the date of grant. In addition, the Company records expense for the employee stock purchase plan based on the discount from the market price received by the participants.

The consolidated statements of operations include pre-tax compensation expense of $54.8 million in 2005, $27.8 million in 2004 and $10.8 million in 2003, related to grants of stock compensation awards, as well as stock issued under the employee stock purchase plan since January 1, 2003. The 2005 amount includes approximately $9.1 million recorded in the first quarter of 2005 relating to the accelerated expensing of equity grants for employees who are at or near retirement eligibility as defined in the related Company stock plans. The 2005, 2004 and 2003 expense is less than that which would have been recognized if the fair value method had been applied to all awards since the original effective date of SFAS No. 123 rather than being applied prospectively. Had the Company determined such stock-based compensation expense using the fair value method provisions of SFAS No. 123 since its original effective date, Moody's net income and earnings per share would have been reduced to the pro forma amounts shown below. The pro forma amounts for the year ended December 31, 2005 include the effect of the $9.1 million pre-tax charge discussed above.

Year Ended December 31,	2005	2004	2003
Net income:			
As reported	$560.8	$425.1	$363.9
Add: Stock-based compensation expense included in reported net income, net of tax	33.3	16.8	6.6
Deduct: Stock-based compensation expense determined under the fair value method, net of tax	(38.6)	(28.2)	(20.0)
Pro forma net income	$555.5	$413.7	$350.5
Basic earnings per share:			
As reported	$ 1.88	$ 1.43	$ 1.22
Pro forma	$ 1.87	$ 1.39	$ 1.18
Diluted earnings per share:			
As reported	$ 1.84	$ 1.40	$ 1.19
Pro forma	$ 1.82	$ 1.36	$ 1.15

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

The fair value of stock options used to compute the pro forma net income and earnings per share disclosures is the estimated present value at grant date using the Black-Scholes option pricing model. The following weighted average assumptions were used for options granted during 2005, 2004 and 2003:

	2005	2004	2003
Expected dividend yield	0.52%	0.46%	0.41%
Expected stock volatility	23%	30%	30%
Risk-free interest rate	4.07%	3.24%	3.03%
Expected holding period	6.0 yrs	5.0 yrs	5.0 yrs

The estimated weighted average fair value per option of Moody's options granted in 2005, 2004 and 2003 was $12.62, $10.00 and $6.53, respectively.

At the Distribution Date, all unexercised Old D&B stock options were converted into separately exercisable options of Moody's and New D&B. The 2000 Distribution Agreement provided that, for subsequent exercises of those options, the issuer of the stock rather than the employer would be entitled to the related tax deduction. Accordingly, from the Distribution Date through the 2002 tax year, Moody's claimed tax deductions when employees of New D&B exercised Moody's stock options and vice versa.

Beginning with stock option exercises in 2003, Moody's has changed its tax deductions to conform to an IRS ruling which clarified that the employer should take the tax deduction for option exercises rather than the issuer. The 2000 Distribution Agreement entitles Moody's to reimbursement from New D&B for the resulting loss of the issuer-based tax deductions. Accordingly, as of December 31, 2005 and 2004, Moody's has reflected $18.1 million and $23.3 million, respectively, in other current assets and $5.1 million in other assets as of December 31, 2005 related to the amounts due from New D&B. The consolidated statement of cash flows for the year ended December 31, 2003 has been reclassified to reflect this treatment.

In December 2004, the Financial Accounting Standards Board issued SFAS No. 123 (Revised 2004) "Share-Based Payment" ("SFAS No. 123R"). Under this pronouncement, companies are required to record compensation expense for all share-based payment award transactions granted to employees, based on the fair value of the equity instrument at the time of grant. This includes shares issued under employee stock purchase plans, stock options, restricted stock and stock appreciation rights. SFAS No. 123R eliminates the ability to account for share-based compensation transactions using APB Opinion No. 25, "Accounting for Stock Issued to Employees", which had been allowed in SFAS No. 123 as originally issued. In April 2005, the Securities and Exchange Commission ("SEC") allowed public companies to delay the implementation of SFAS No. 123R until the first annual period beginning after June 15, 2005. The Company plans to implement this standard effective January 1, 2006. Because the Company adopted the fair value method provisions of SFAS No. 123 prospectively beginning on January 1, 2003, it does not believe that the impact of adoption of SFAS No. 123R will be material to its consolidated results of operations or financial position. However, Moody's currently anticipates that its 2006 stock compensation expense will be higher than its 2005 expense, in part because the Company has been phasing in the expensing of annual stock award grants commencing in 2003 over the current four-year stock plan vesting period (or sooner if employees are at or near retirement eligibility). SFAS No. 123R also requires the benefits of tax deductions in excess of recognized compensation expense to be reported as a financing cash flow, rather than as an operating cash flow. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. Total change in cash and cash equivalents will remain the same.

Derivative Instruments and Hedging Activities

Based on the Company's risk management policy, from time to time the Company may use derivative financial instruments to reduce exposure to changes in foreign exchange and interest rates. The Company does not enter into derivative financial instruments for speculative purposes. The Company accounts for derivative financial instruments and hedging activities in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Certain Hedging Activities" ("SFAS No. 133"), as amended and interpreted, which requires that all derivative financial instruments be recorded on the balance sheet at their respective fair values. Changes in the derivative's fair value are recognized currently in earnings unless they are designated as cash flow hedges for which changes in fair value are recorded as other comprehensive income or loss, to the extent the hedge is effective, and such amounts are reclassified to earnings in the same period or periods during which the hedged transaction affects income.

Employee Benefit Plans

Moody's maintains various noncontributory defined benefit pension plans, in which substantially all U.S. employees of the Company are eligible to participate, as well as other contributory and noncontributory retirement and post-retirement plans. The expenses, assets, liabilities and obligations that Moody's reports for pension and other post-retirement benefits are dependent on many assumptions concerning the outcome of future events and circumstances. Moody's major assumptions vary by plan and the Company determines these assumptions based on the Company's long-term actual experience and future outlook as well as consultation with outside actuaries and other advisors where deemed appropriate. If actual results differ from the Company's assumptions, such differences are deferred and amortized over the estimated future working life of the plan participants. The annual measurement date for the plans is December 31. See Note 10 for a full description of these plans and the accounting and funding policies.

Revenue Recognition

The Company recognizes revenue in accordance with Staff Accounting Bulletin No. 104, "Revenue Recognition". As such, revenue is recognized when an arrangement exists, the services have been provided and accepted by the customer, fees are determinable and the collection of resulting receivables is considered probable.

Revenue attributed to initial ratings of issued securities is recognized when the rating is issued. Revenue attributed to monitoring of issuers or issued securities is recognized over the period in which the monitoring is performed. In most areas of the ratings business, the Company charges issuers annual monitoring fees and amortizes such fees ratably over the related one-year period. In the case of commercial mortgage-backed securities, fees that are charged for future monitoring over the life of the related securities are amortized over such lives which averaged approximately 26 years as of December 31, 2005.

In areas where the Company does not separately charge monitoring fees, the Company defers portions of the rating fees that it estimates will be attributed to future monitoring activities and recognizes such fees ratably over the applicable estimated monitoring period. The portion of the revenue to be deferred is based upon a number of factors, including the fair market value of the monitoring services charged for similar securities or issuers. The estimated monitoring period is determined based on factors such as the lives of the rated securities. Currently, the estimated monitoring periods range from one year to ten years.

Revenue from sales of research products and from credit risk management subscription products is recognized ratably over the related subscription period, which is principally one year. Revenue from licenses of credit processing software is recognized at the time the product is shipped to customers, or at such other time as the Company's obligations are complete. Related software maintenance revenue is recognized ratably over the annual maintenance period.

Amounts billed or received in advance of providing the related products or services are classified in accounts payable and accrued liabilities in the consolidated financial statements and reflected in revenue when earned. In addition, the consolidated balance sheets reflect as current deferred revenue amounts that are expected to be recognized within one year of the balance sheet date, and as non-current deferred revenue amounts that are expected to be recognized over periods greater than one year. The majority of the balance in non-current deferred revenue relates to fees for future monitoring of commercial mortgage-backed securities.

Accounts Receivable Allowances

Moody's records as reductions of revenue provisions for estimated future adjustments to customer billings, based on historical experience and current conditions. Such provisions are reflected as additions to the accounts receivable allowance. Adjustments to and write-offs of receivables are charged against the allowance. Moody's evaluates its estimates on a regular basis and makes adjustments to its revenue provisions and the accounts receivable allowance as considered appropriate.

Operating Expenses

Operating expenses are charged to income as incurred. These expenses include costs associated with the development and production of the Company's products and services and their delivery to customers. These expenses principally include employee compensation and benefits and travel costs that are incurred in connection with these activities.

Selling, General and Administrative Expenses

Selling, general and administrative expenses are charged to income as incurred. These expenses include such items as compensation and benefits for corporate officers and staff and compensation and other expenses related to sales of products. They also include items such as office rent, business insurance, professional fees and gains and losses from sales and disposals of assets.

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. Transaction gains and losses are reflected in other non-operating (expense) income, net. Transaction (losses) gains were ($8.2) million, $1.9 million and $2.2 million in 2005, 2004 and 2003, 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 including foreign currency translation impacts, changes in minimum pension liability and derivative instruments. Accumulated comprehensive (loss) income is comprised of currency translation adjustments of $3.4 million and $10.7 million in 2005 and 2004, respectively, additional minimum pension liabilities of ($3.5) million and ($1.0) million in 2005 and 2004, respectively, and derivative instruments of ($0.8) million in 2005. The required disclosures have been included in the consolidated statements of shareholders' equity.

Income Taxes

The Company accounts for income taxes under the liability method in accordance with SFAS No. 109, "Accounting for Income Taxes". Therefore, income tax expense is based on reported income before income taxes, and deferred income taxes reflect the effect of temporary differences between the amounts of assets and liabilities that are recognized for financial reporting purposes and the amounts that are recognized for income tax purposes.

Fair Value of Financial Instruments

The Company's financial instruments include cash, cash equivalents, trade receivables and payables, all of which are short-term in nature and, accordingly, approximate fair value. Additionally, the Company invests in short-term investments that are carried at fair value. The fair value of the Company's notes payable, which have a fixed rate of interest, is estimated using discounted cash flow analyses based on the prevailing interest rates available to the Company for borrowings with similar maturities. The carrying amount of the Company's notes payable was $300.0 million at December 31, 2005 and 2004. Their estimated fair value was $306.3 million and $316.7 million at December 31, 2005 and 2004, respectively.

Concentration of Credit Risk

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

Cash equivalents consist of investments in high quality investment grade securities within and outside the United States. The Company manages its credit risk exposure by allocating its cash equivalents among various money market mutual funds and issuers of high-grade commercial paper. Short-term investments primarily consist of high-grade auction rate securities within the United States. The Company manages its credit risk exposure on cash equivalents and short-term investments by limiting the amount it can invest with any single issuer. The Company has not engaged in foreign currency hedging transactions nor does the Company have any derivative financial instruments outstanding as of December 31, 2005. However, the Company continues to assess the need to enter into hedging transactions to limit its risk due to fluctuations in exchange rates or interest rates and may enter into such transactions in the future.

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, 2005 or 2004.

Earnings Per Share of Common Stock

In accordance with SFAS No. 128, "Earnings per Share", basic earnings per share is calculated based on the weighted average number of shares of common stock outstanding during the reporting period. Diluted earnings per share is 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 accounting principles generally accepted in the United States of America 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 for, but not limited to, revenue recognition, accounts receivable allowances, income taxes, contingencies, valuation of investments in affiliates, long-lived and intangible assets and goodwill, pension and other post-retirement benefits, stock based compensation, and depreciation and amortization rates for property and equipment and computer software.

Reclassifications

Certain reclassifications have been made to the prior year amounts to conform to the current year presentation.

Recently Issued Accounting Pronouncements

As discussed in Note 10, in May 2004, the FASB issued FASB Staff Position ("FSP") No. FAS 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003" (the "Act"). The Act provides new government subsidies for companies that provide prescription drug benefits to retirees. Moody's has incorporated the effects of the Act into the measurement of plan assets and obligations as of December 31, 2004. In January 2005, the Centers for Medicare and Medicaid Services published final regulations implementing major provisions of the Act resulting in a $0.8 million reduction to the Company's accumulated post-retirement benefit obligation. The adoption of FSP 106-2 and the final regulations reduced the Company's net periodic post-retirement expense by $0.2 million in 2005.

In December 2004, the FASB issued FSP No. 109-2, "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004", which provides guidance under SFAS No. 109, "Accounting for Income Taxes", with respect to recording the potential impact of the repatriation provisions of the American Jobs Creation Act of 2004 (the "Jobs Act"). The Jobs Act provides for a special one-time tax deduction relating to a portion of certain foreign earnings that are repatriated in 2004 or 2005. In 2005, the Company repatriated approximately $63 million under the Jobs Act resulting in a reduction of tax expense in 2005 of $3.6 million.

In December 2004, the FASB issued SFAS No. 123R. Under this pronouncement, companies are required to record compensation expense for all share-based payment award transactions granted to employees, based on the fair value of the equity instrument at the time of grant. This includes shares issued under employee stock purchase plans, stock options, restricted stock and stock appreciation rights. SFAS No. 123R eliminates the ability to account for share-based compensation transactions using APB Opinion No. 25, "Accounting for Stock Issued to Employees", which had been allowed in SFAS No. 123 as originally issued. In March 2005, the SEC issued Staff Accounting Bulletin No. 107 ("SAB 107"). SAB 107 expresses views of the SEC staff regarding the interaction between this statement and certain SEC rules. In April 2005, the SEC allowed public companies to delay the implementation of SFAS No. 123R until the first annual period beginning after June 15, 2005. The Company plans to implement this standard effective January 1, 2006. Because the Company adopted the fair value method provisions of SFAS No. 123 prospectively beginning on January 1, 2003, it does not believe that the impact of adoption of SFAS No. 123R will be material to its consolidated results of operations or financial position. However, Moody's currently anticipates that its 2006 stock compensation expense will be higher than its 2005 expense, in part because the Company has been phasing in the expensing of annual stock award grants commencing in 2003 over the current four-year stock plan vesting period (or sooner if employees are at or near retirement eligibility). SFAS No. 123R also requires the benefits of tax deductions in excess of recognized compensation expense to be reported as a financing cash flow, rather than as an operating cash flow. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. Total change in cash and cash equivalents will remain the same.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections" ("SFAS No. 154") which replaces Accounting Principles Board Opinion No. 20 "Accounting Changes" and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements—An Amendment of APB Opinion No. 28". SFAS No. 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes retrospective application, or the latest practicable date, as the required method for reporting a change in accounting principle and the reporting of a correction of an error. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005 and, accordingly, is required to be adopted by the Company on January 1, 2006. The Company does not expect that the adoption of SFAS No. 154 will have a material impact on its consolidated results of operations and financial position.

NOTE 3 :: RECONCILIATION OF WEIGHTED AVERAGE SHARES OUTSTANDING

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

Year Ended December 31,	2005	2004	2003
Basic	297.7	297.0	297.8
Dilutive effect of shares issuable under stock-based compensation plans	7.9	7.7	6.8
Diluted	305.6	304.7	304.6

Options to purchase 0.1 million, 1.5 million and 4.4 million common shares at December 31, 2005, 2004 and 2003, respectively, were outstanding but were not included in the computation of diluted weighted average shares outstanding because they were antidilutive.

NOTE 4 :: SHORT-TERM INVESTMENTS

Short-term investments are securities with maturities greater than 90 days at the time of purchase that are available for operations in the next twelve months and primarily represent auction rate certificates. The short-term investments are classified as available-for-sale and therefore are carried at fair value. The remaining contractual maturities of the short-term investments were one month to 38 years and one month to eight months as of December 31, 2005 and 2004, respectively. Unrealized holding gains and losses on available-for-sale securities are included in accumulated other comprehensive income, net of applicable income taxes in the consolidated financial statements. During the years ended December 31, 2005, 2004 and 2003 there were no realized gains or losses from sales of available-for-sale securities. As of December 31, 2005 and 2004, there were no unrealized gains or losses from available-for-sale securities.

NOTE 5 :: DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

On August 23, 2005, the Company entered into forward starting interest rate swap agreements ("Swaps") with a notional amount of $300 million. These cash flow hedges effectively mitigated the interest rate risk from August 23, 2005 to September 22, 2005, the pricing date for the newly issued fixed rate ten-year $300 million Senior Unsecured Notes due 2015 (see Note 13). On September 22, 2005, the Company terminated all the Swaps resulting in a payment of $1.3 million. Under hedge accounting this amount was deferred in other comprehensive (loss) income and will be amortized as an adjustment to interest expense over the ten-year life of the Senior Unsecured Notes. At December 31, 2005 and 2004, the Company had no outstanding derivative instruments. As of December 31, 2005, the Company has included in accumulated other comprehensive loss an unamortized Swap loss of $1.3 million ($0.8 million net of tax), of which $0.1 million will be reclassified to interest expense in the next 12 months.

NOTE 6 :: PROPERTY AND EQUIPMENT, NET

Property and equipment, net consisted of:

December 31,	2005	2004
Land, building and building improvements	$ 25.8	$ 25.4
Office and computer equipment	53.7	48.1
Office furniture and fixtures	25.4	23.0
Internal-use computer software	41.4	30.7
Leasehold improvements	44.0	35.1
Property and equipment, at cost	190.3	162.3
Less: accumulated depreciation and amortization	(134.9)	(117.1)
Property and equipment, net	$ 55.4	$ 45.2

The consolidated statements of operations reflect depreciation and amortization expense related to the above assets of $20.4 million, $19.5 million and $18.3 million for the years ended December 31, 2005, 2004, and 2003, respectively.

NOTE 7 :: ACQUISITIONS

Economy.com

In November 2005, the Company acquired Economy.com, a leading independent provider of economic research and data services, for $27.7 million, including transaction fees and expenses. The acquisition will deepen Moody's analytical capabilities to broader areas of economic and demographic research, expand the range of products and services offered to institutional customers and introduce new customers to Moody's. It will provide Economy.com with access to Moody's extensive client base, deep product marketing capabilities and other resources needed to expand its business. The transaction was funded by cash on hand and resulted in additional goodwill of $20.3 million.

Korea Investors Service

In December 2001, the Company increased its investment in Korea Investors Service ("KIS") to just over 50%, at a cost of $9.6 million with a contingent payment based on KIS net income for the three-year period ended December 31, 2004. The $3.9 million contingent payment, which was reflected in goodwill and accrued liabilities as of December 31, 2004, was paid in the second quarter of 2005 and is reflected in the Consolidated Statement of Cash Flows for the year ended December 31, 2005.

NOTE 8 :: GOODWILL AND OTHER INTANGIBLE ASSETS

The following table summarizes the activity in goodwill for the periods indicated:

	Year Ended December 31, 2005			Year Ended December 31, 2004		
	Moody's Investors Service	Moody's KMV	Consolidated	Moody's Investors Service	Moody's KMV	Consolidated
Beginning balance	$ 7.6	$124.1	$131.7	$2.3	$124.1	$126.4
Additions	20.3	—	20.3	4.9	—	4.9
Other	0.1	—	0.1	0.4	—	0.4
Ending balance	$28.0	$124.1	$152.1	$7.6	$124.1	$131.7

The following table summarizes intangible assets at the dates indicated:

December 31,	2005	2004
Customer lists (11.3 year original weighted average life)	$ 60.2	$ 58.0
Accumulated amortization	(21.2)	(15.9)
Net customer lists	39.0	42.1
MKMV trade secret (12.0 year weighted average life)	25.5	25.5
Accumulated amortization	(0.2)	—
Net trade secret	25.3	25.5
Other amortizable intangible assets (5.1 year original weighted average life)	12.9	8.2
Accumulated amortization	(6.4)	(5.1)
Net other amortizable intangible assets	6.5	3.1
Total intangible assets	$ 70.8	$ 70.7

Amortization expense for the years ended December 31, 2005, 2004 and 2003 was $6.8 million, $6.9 million and $7.0 million, respectively. In December 2005, the Company began amortizing the MKMV trade secret over 12 years.

Estimated future annual amortization expense for intangible assets subject to amortization is as follows:

Year Ending December 31,	
2006	$ 9.7
2007	9.0
2008	7.8
2009	7.0
2010	7.0
Thereafter	$30.3

NOTE 9 :: ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consisted of the following:

December 31,	2005	2004
Accounts payable	$ 6.8	$ 2.9
Accrued income taxes (see Note 12)	41.9	75.5
Accrued compensation and benefits	138.8	128.7
Accrued professional fees	11.5	9.7
Accrued interest expense	3.7	5.7
Advance payments	10.3	13.3
Other	66.8	48.0
Total	$279.8	$283.8

Accrued compensation and benefits included accrued incentive compensation of approximately $92 million at December 31, 2005 and $83 million at December 31, 2004. Funding and related expense for Moody's incentive compensation plans are primarily based on year-to-year growth in operating income and, to a lesser extent, earnings per share, for Moody's senior management and annual results compared to budget for the Moody's Investors Service professional staff and for Moody's KMV.

NOTE 10 :: PENSION AND OTHER POST-RETIREMENT BENEFITS

Moody's maintains both funded and unfunded noncontributory defined benefit pension plans in which substantially all U.S. employees of the Company are eligible to participate. The plans provide defined benefits using a cash balance formula based on years of service and career average salary or final average pay for selected executives.

The Company also provides certain healthcare and life insurance benefits for retired U.S. employees. The post-retirement healthcare plans are contributory with participants' contributions adjusted annually; the life insurance plans are noncontributory. At December 31, 2004, the accounting for the healthcare plans anticipated future cost-sharing changes which require retirees to pay for all future increases in plan costs in excess of the amount of the per person company contribution in the year 2005. In November 2005, the Company increased its future share of the costs and as a result remeasured the healthcare plan as of the date of the plan amendment, the effects of which were not material to the results of operations.

Moody's funded and unfunded pension plans, the post-retirement healthcare plans and the post-retirement life insurance plans described in the preceding two paragraphs are collectively referred to herein as the "Post-Retirement Plans". Effective at the Distribution Date, Moody's assumed responsibility for pension and other post-retirement benefits relating to its active employees. New D&B has assumed responsibility for the Company's retirees and vested terminated employees as of the Distribution Date.

In May 2004, the FASB issued FASB Staff Position No. FAS 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003". The Act provides new government subsidies for companies that provide prescription drug benefits to retirees. In January 2005, the Centers for Medicare and Medicaid Services published final regulations implementing major provisions of the Act resulting in a $0.8 million reduction to the Company's accumulated other post-retirement benefit obligation. The adoption of FSP 106-2 and the final regulations reduced the Company's net periodic post-retirement expense by $0.2 million in 2005.

Following is a summary of the activity related to the Post-Retirement Plans for the years ended December 31, 2005 and 2004, as well as the status of the plans at December 31, 2005. The Company uses a December 31 measurement date for its Post-Retirement Plans.

	Pension Plans		Other Post-Retirement Plans	
	2005	2004	**2005**	2004
Change in benefit obligation				
Projected benefit obligation, beginning of the period	**$(109.8)**	$ (79.7)	**$(7.4)**	$(6.1)
Service cost	**(10.1)**	(8.3)	**(0.6)**	(0.5)
Interest cost	**(6.2)**	(5.1)	**(0.4)**	(0.4)
Benefits paid*	**7.6**	0.8	**0.2**	0.3
Plan amendments	**—**	(3.5)	**(0.6)**	—
Impact of Medicare Part D	**—**	—	**0.5**	0.4
Actuarial loss	**(3.6)**	(1.0)	**—**	(0.4)
Assumption changes	**(5.2)**	(13.0)	**(0.5)**	(0.7)
Projected benefit obligation, end of the period	**$(127.3)**	$(109.8)	**$(8.8)**	$(7.4)
Change in plan assets				
Fair value of plan assets, beginning of the period	**$ 95.7**	$ 86.1	**$ —**	$ —
Actual return on plan assets	**7.3**	10.4	**—**	—
Benefits paid*	**(7.6)**	(0.8)	**(0.3)**	(0.3)
Contributions	**6.7**	—	**0.3**	0.3
Fair value of plan assets, end of the period	**$ 102.1**	$ 95.7	**$ —**	$ —
Reconciliation of funded status to total amount recorded on balance sheet				
Funded status of the plans	**$ (25.2)**	$ (14.1)	**$(8.8)**	$(7.4)
Unrecognized actuarial loss	**52.4**	48.6	**1.1**	1.1
Unrecognized prior service cost	**4.9**	5.3	**0.9**	0.3
Net amount recognized	**$ 32.1**	$ 39.8	**$(6.8)**	$(6.0)
Amounts recorded on the consolidated balance sheets				
Prepaid pension cost	**$ 56.4**	$ 59.7	**$ —**	$ —
Pension and post-retirement benefits liability	**(35.4)**	(27.2)	**(6.8)**	(6.0)
Intangible asset	**5.1**	5.6	**—**	—
Accumulated other comprehensive loss	**6.0**	1.7	**—**	—
Net amount recognized	**$ 32.1**	$ 39.8	**$(6.8)**	$(6.0)

*Includes $6.3 million of lump sum cash settlement payments.

The pension plan amendment charge in 2004 relates to additional participants admitted to the Supplemental Executive Benefit Plan. The other post-retirement plan amendment charge in 2005 relates to the increase of the Company's future share of healthcare plan costs as previously discussed.

During 2005 and 2004, the Company recorded charges to other comprehensive loss related to additional minimum pension liability adjustments totaling $4.3 million and $1.7 million, respectively ($2.5 million and $1.0 million net of tax, respectively), resulting in accumulated other comprehensive loss due to minimum pension liability adjustments of $6.0 million and $1.7 million at December 31, 2005 and 2004, respectively ($3.5 million and $1.0 million net of tax, respectively).

The accumulated benefit obligation related to the pension plans totaled $97.9 million and $79.3 million as of December 31, 2005 and 2004.

	Pension Plans			Other Post-Retirement Plans		
	2005	2004	2003	**2005**	2004	2003
Components of net periodic expense						
Service cost	**$10.1**	$ 8.3	$ 6.9	**$0.6**	$0.6	$0.4
Interest cost	**6.2**	5.1	4.1	**0.4**	0.4	0.3
Expected return on plan assets	**(8.2)**	(8.0)	(7.7)	**—**	—	—
Amortization of net actuarial loss from earlier periods	**2.6**	1.4	1.2	**—**	—	—
Amortization of unrecognized prior service costs	**0.5**	0.2	0.2	**0.1**	0.1	0.2
Settlement loss	**3.2**	—	—	**—**	—	—
Net periodic expense	**$14.4**	$ 7.0	$ 4.7	**$1.1**	$1.1	$0.9

The settlement loss in 2005 relates to the election of a lump sum payment of pension benefits to settle an unfunded pension obligation.

The following information is for those pension plans with an accumulated benefit obligation in excess of plan assets:

December 31,	**2005**	2004
Projected benefit obligation	**$53.3**	$47.6
Accumulated benefit obligation	**$34.0**	$27.2
Fair value of plan assets	**—**	—

Additional Information:

Assumptions

Weighted average assumptions used to determine benefit obligations at December 31:

	Pension Plans		Other Post-Retirement Plans	
	2005	2004	**2005**	2004
Discount rate	**5.60%**	5.90%	**5.45%**	5.90%
Rate of compensation increase	**4.00%**	4.00%	**—**	—
Cash balance accumulation/conversion rate	**4.75%**	5.00%	**—**	—

Weighted average assumptions used to determine net periodic benefit cost for years ended December 31:

	Pension Plans			Other Post-Retirement Plans		
	2005	2004	2003	**2005**	2004	2003
Discount rate	**5.90%**	6.25%	6.75%	**5.90%**	6.25%	6.75%
Expected return on plan assets	**8.35%**	8.35%	8.10%	**—**	—	—
Rate of compensation increase	**4.00%**	3.91%	3.91%	**—**	—	—
Cash balance accumulation/conversion rate	**5.00%**	5.00%	5.00%	**—**	—	—

For 2005, the Company used an assumed return on assets of approximately 8.35% for Moody's funded pension plan, which was determined based on explicit long-term return assumptions for each major asset class within the plan portfolio. Moody's works with third party consultants to determine assumptions for long-term rates of return for the asset classes that are included in the pension plan investment portfolio. These return assumptions reflect a long-term time horizon. They also reflect a combination of historical performance analysis and forward-looking views of the financial markets including consideration of inflation, current yields on long-term bonds and price-earnings ratios of the major stock market indices.

Assumed Healthcare Cost Trend Rates at December 31:

	2005		2004		2003
	Pre-age 65	**Post-age 65**	Pre-age 65	Post-age 65	Pre- and post-age 65
Healthcare cost trend rate assumed for the following year	**10.0%**	**12.0%**	11.0%	13.0%	10.0%
Ultimate rate to which the cost trend rate is assumed to decline (ultimate trend rate)	**5.0%**	**5.0%**	5.0%	5.0%	6.0%
Year that the rate reaches the ultimate trend rate	**2013**	**2013**	2013	2013	2008

The assumed health cost trend rate was modified in 2004 to better reflect different trend expectations for the medical and prescribed medication components of healthcare costs in proportion to the respective share of gross healthcare costs for pre- and post-age 65 retirees.

A one percentage-point change in assumed healthcare cost trend rates would not have affected total service and interest cost and would have increased or decreased the post-retirement benefit obligation by $0.2 million.

Plan Assets

The assets of the funded pension plan were allocated among the following categories at December 31, 2005 and 2004:

	Percentage of Plan Assets at December 31,	
Asset Category	**2005**	2004
Equity securities	**75%**	73%
Debt securities	**16**	18
Real estate	**9**	9
Total	**100%**	100%

Moody's investment objective for the assets in the funded pension plan is to earn total returns that will minimize future contribution requirements over the long run within a prudent level of risk. The Company's current pension plan asset allocation targets are for approximately seventy percent of assets to be invested in equity securities, diversified across U.S. and non-U.S. stocks of small, medium and large capitalization, twenty percent in investment grade bonds and the remainder in real estate funds. The use of derivatives to leverage the portfolio or otherwise is not permitted. The Company's monitoring of the plan includes ongoing reviews of investment performance, annual liability measurements, periodic asset/liability studies and investment portfolio reviews.

Moody's other Post-Retirement Plans are unfunded and therefore have no plan assets.

Cash Flows

The Company contributed $6.7 million to its unfunded pension plans during the year ended December 31, 2005 primarily related to a lump sum payment of pension benefits and made no significant contributions to its pension plans during the year ended December 31, 2004. The Company also contributed $0.3 million to its other post-retirement plans during both the years ended December 31, 2005 and 2004. The Company presently anticipates contributing $0.9 million to its unfunded pension plans and $0.3 million to its other post-retirement plans during 2006.

Estimated Future Benefits Payable

Estimated future benefits payments for the Post-Retirement Plans are as follows at December 31, 2005:

Year Ending December 31,	Pension Plans	Other Post-Retirement Plans*
2006	$ 2.6	$0.3
2007	3.1	0.4
2008	3.4	0.4
2009	3.6	0.5
2010	4.5	0.5
Next five years to December 31, 2015	$33.5	$3.1

*The estimated future benefits payable for the Post-Retirement Plans are reflected net of the expected Medicare Part D subsidy for which the subsidy is insignificant on an annual basis for all the years presented.

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 Company contributions. Employees may contribute up to 16% of their pay, subject to the federal limit. 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 makes additional contributions to the Plan that are based on year-to-year growth in the Company's earnings per share. Expense associated with this plan was $15.3 million, $15.0 million and $18.3 million in 2005, 2004 and 2003, respectively.

International Plans

Certain of the Company's international operations provide pension benefits to their employees in the form of defined contribution plans. Company contributions are primarily determined as a percentage of employees' eligible compensation. Expense related to these plans for the years ended December 31, 2005, 2004 and 2003 was approximately $3.1 million, $3.4 million and $2.1 million, respectively.

In addition, the Company also maintains an unfunded defined benefit pension plan for its German employees, which was closed to new entrants in 2002. The pension liability recorded related to this plan was $2.6 million, $2.4 million and $2.1 million based on the discount rate of 4.15%, 5.00% and 5.25% at December 31, 2005, 2004 and 2003, respectively. Expense related to this plan for the years ended December 31, 2005, 2004 and 2003 was approximately $0.6 million, $0.4 million and $0.3 million, respectively. These amounts are not included in the tables above.

NOTE 11 :: STOCK-BASED COMPENSATION PLANS

Prior to the 2000 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 "1998 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 2000 Distribution. Old D&B stock options held by employees and retirees of Old D&B were converted in the same manner. Immediately after the 2000 Distribution, the 1998 Plan was amended and adopted by the Company.

Under the 1998 Plan, 33,000,000 shares of the Company's common stock were reserved for issuance. The 1998 Plan provides that options are exercisable not later than ten years from the grant date. The vesting period for awards under the 1998 Plan is determined by the Board of Directors at the date of the grant and has principally been four 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. The 1998 Plan also provides for the granting of restricted stock.

The Amended and Restated 2001 Moody's Corporation Key Employees' Stock Incentive Plan (the "2001 Plan") was approved by the Company's Board of Directors in March 2004 and by the Company's shareholders in April 2004. Under the 2001 Plan, 25,600,000 shares of common stock have been reserved for issuance. Options may not be granted at less than the fair market value of the Company's common stock at the date of grant. The 2001 Plan provides that options are exercisable not later than ten years from the grant date. The vesting period for awards under the 2001 Plan is determined by the Board of Directors at the date of the grant and has been four years except for employees who are at or near retirement eligibility, as defined, for which vesting is between one and four years. Unlike the 1998 Plan, the 2001 Plan also provides that consultants to the Company or any of its affiliates are eligible to be granted options. The 2001 Plan also provides for the granting of restricted stock. The total number of shares available for grants of awards other than stock options is limited to 5,000,000 shares.

The Company maintains a stock plan for its Board of Directors, the 1998 Directors Plan (the "Directors Plan"), which permits the granting of awards in the form of non-qualified stock options, restricted stock or performance shares. The Directors Plan provides that options are exercisable not later than ten years from the grant date. The vesting period is determined by the Board of Directors at the date of the grant and is generally one year for options and three years for restricted stock. Under the Directors Plan, 800,000 shares of common stock were reserved for issuance. Any director of the Company who is not an employee of the Company or any of its subsidiaries as of the date that an award is granted is eligible to participate in the Directors Plan.

In February 2006, Moody's awarded long-term, equity-based compensation as a mix of stock options and restricted stock. The aggregate grants were approximately 2.2 million options and 0.7 million shares of restricted stock under the 2001 Plan, and approximately 0.8 million options and 0.2 million shares of restricted stock under the 1998 Plan. The options and a portion of the restricted stock vest ratably over four years (or sooner if employees are at or near retirement eligibility). The remaining restricted stock will vest over a period of three to five years, depending on growth in the Company's operating income.

Also in February 2006, Directors of the Company were granted approximately 11,000 shares of restricted stock under the Directors Plan.

Below is a summary of restricted shares that Moody's granted in 2005, 2004 and 2003:

	2005	2004	2003
Restricted shares granted	0.9	0.8	0.03
Weighted average fair value at grant date	$42.11	$32.79	$21.02

Changes in stock options for the three years ended December 31, 2005 are summarized below:

	Number Outstanding	Weighted Average Exercise Price
Options outstanding, December 31, 2002	30.5	$ 13.82
Granted	7.2	21.37
Exercised	(6.2)	11.94
Surrendered or retired	(1.2)	16.34
Options outstanding, December 31, 2003	30.3	15.89
Granted	4.6	32.67
Exercised	(7.2)	13.74
Surrendered or retired	(1.4)	22.94
Options outstanding, December 31, 2004	26.3	19.08
Granted	**4.2**	**42.12**
Exercised	**(5.7)**	**15.13**
Surrendered or retired	**(1.1)**	**28.65**
Options outstanding, December 31, 2005	**23.7**	**$23.62**

Below is a summary of Moody's stock options held by Moody's employees and by New D&B employees and retirees as of each date:

	Moody's Employees	New D&B Employees and Retirees
Options outstanding at:		
December 31, 2003	25.1	5.2
December 31, 2004	23.2	3.1
December 31, 2005	**21.5**	**2.2**

The following table summarizes additional information about stock options outstanding at December 31, 2005:

	Options Outstanding		
Range of Exercise Prices	Number Outstanding	Average Remaining Contractual Life in Years	Weighted Average Exercise Price
$ 8.08–$11.98	**2.9**	**3.1**	**$10.41**
$12.56–$14.06	**4.3**	**3.7**	**$13.76**
$18.09–$21.27	**8.9**	**6.5**	**$20.66**
$26.02–$37.13	**3.6**	**8.1**	**$32.41**
$40.43–$61.48	**4.0**	**9.2**	**$42.17**
Total	**23.7**		

	Options Exercisable	
Range of Exercise Prices	Number Exercisable	Weighted Average Exercise Price
$ 8.08–$11.98	**2.9**	**$10.41**
$12.56–$14.06	**4.3**	**$13.76**
$18.09–$21.27	**4.7**	**$20.50**
$26.02–$37.13	**0.8**	**$32.38**
$40.43–$61.48	**—**	**—**
Total	**12.7**	

In addition, the Company also sponsors the Moody's Corporation Employee Stock Purchase Plan ("ESPP"). The ESPP allows eligible employees to purchase common stock of the Company on a monthly basis at 85% of its fair market value on the first trading day of the month. The employee purchases are funded through after-tax payroll deductions, which plan participants can elect at from one percent to ten percent of compensation, subject to the federal limit.

NOTE 12 :: INCOME TAXES

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

Year Ended December 31,	2005	2004	2003
Current:			
Federal	**$234.6**	$240.7	$199.7
State and local	**89.8**	70.8	63.6
Non-U.S.	**69.7**	44.3	35.3
Total current	**394.1**	355.8	298.6
Deferred:			
Federal	**(15.0)**	(6.9)	(3.8)
State and local	**(5.4)**	(2.3)	(1.5)
Non-U.S.	**0.2**	(0.4)	(0.8)
Total deferred	**(20.2)**	(9.6)	(6.1)
Total provision for income taxes	**$373.9**	$346.2	$292.5

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,	2005	2004	2003
U.S. statutory tax rate	**35.0%**	35.0%	35.0%
State and local taxes, net of federal tax benefit	**5.9**	5.8	6.2
U.S. taxes on foreign income	**0.3**	0.3	0.3
Legacy tax items	**(0.3)**	4.3	3.0
Jobs Act repatriation benefit	**(0.4)**	—	—
Other	**(0.5)**	(0.5)	0.1
Effective tax rate	**40.0%**	44.9%	44.6%

Income taxes paid were $355.6 million, $300.1 million and $210.6 million in 2005, 2004 and 2003, respectively.

The components of deferred tax assets and liabilities are as follows:

December 31,	2005	2004
Deferred tax assets:		
Current:		
Accounts receivable allowances	$ 4.8	$ 6.1
Accrued compensation and benefits	4.9	4.9
Other	2.4	1.3
Total current	12.1	12.3
Non-current:		
Depreciation and amortization	8.3	8.1
Stock-based compensation	28.5	10.2
Benefit plans	16.6	15.1
State taxes	2.9	1.9
Accrued legacy and other liabilities	5.4	3.2
Other	4.2	4.3
Total non-current	65.9	42.8
Total deferred tax assets	78.0	55.1
Deferred tax liabilities:		
Current:		
Prepaid expenses	(1.8)	(1.6)
Total current	(1.8)	(1.6)
Non-current:		
Prepaid pension costs	(23.8)	(25.3)
Amortization of intangible assets and capitalized software	(11.3)	(9.7)
Other	(0.7)	(4.8)
Total non-current	(35.8)	(39.8)
Total deferred tax liabilities	(37.6)	(41.4)
Net deferred tax asset	$ 40.4	$ 13.7

The current deferred tax assets, net of current deferred tax liabilities, as well as prepaid taxes of $1.0 million for both December 31, 2005 and 2004 are included in other current assets in the consolidated balance sheets. Non-current tax receivables of $2.6 million for both December 31, 2005 and 2004 are included in other assets. The net effect of non-current deferred tax assets and non-current deferred tax liabilities is included in other assets at December 31, 2005 and 2004. For the year ended December 31, 2005, a valuation allowance of $0.7 million was established against capital loss carryovers. No valuation allowances were established against any other deferred assets for December 31, 2005 and 2004, as management has determined, based on the Company's history of prior and current levels of operating earnings, that none should be provided.

At December 31, 2005, undistributed earnings of non-U.S. subsidiaries aggregated approximately $116 million. It is assumed that earnings from the United Kingdom, France, Germany, Spain, Italy and Japan will be remitted to the U.S. on a regular basis. As such incremental deferred U.S. taxes related to anticipated distributions have been provided in the consolidated financial statements. For the year ended December 31, 2005, Moody's recognized a benefit of $3.6 million related to the repatriation of foreign earnings under the American Jobs Creation Act of 2004. Deferred tax liabilities have not been recognized for approximately $12.9 million of undistributed foreign earnings that management intends to permanently reinvest outside the U.S. If all such 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 approximately $1.4 million.

NOTE 13 :: INDEBTEDNESS

On September 30, 2005, the Company entered into a Note Purchase Agreement and issued and sold through a private placement transaction, $300 million aggregate principal amount of its Series 2005-1 Senior Unsecured Notes ("Notes"). The Notes have a ten-year term and bear interest at an annual rate of 4.98%, payable semi-annually on March 30 and September 30. The proceeds from the sale of the Notes were used to refinance $300 million aggregate principal amount of the Company's outstanding 7.61% Senior Notes ("Old Notes") which matured on September 30, 2005. In the event that Moody's pays all or part of the Notes in advance of their maturity (the "prepaid principal"), such prepayment will be subject to a penalty calculated based on the excess, if any, of the discounted value of the remaining scheduled payments, as defined in the agreement, over the prepaid principal. Interest paid under the Notes and Old Notes was $22.8 million for each of the years ended December 31, 2005, 2004 and 2003. Total interest expense was $21.0 million, $23.0 million and $23.5 million, respectively, for the years ended December 31, 2005, 2004 and 2003.

On September 1, 2004, Moody's entered into a five-year senior, unsecured bank revolving credit facility (the "Facility") in an aggregate principal amount of $160 million that expires in September 2009. This Facility replaced the $80 million five-year facility that was scheduled to expire in September 2005 and the $80 million 364-day facility that expired in September 2004. Interest on borrowings under the Facility is payable at rates that are based on the London InterBank Offered Rate plus a premium that can range from 17 basis points to 47.5 basis points depending on the Company's ratio of total indebtedness to earnings before interest, taxes, depreciation and amortization ("Earnings Coverage Ratio"), as defined in the related agreement. At December 31, 2005, such premium was 17 basis points. The Company also pays quarterly facility fees, regardless of borrowing activity under the Facility. The quarterly fees can range from 8 basis points of the Facility amount to 15 basis points, depending on the Company's Earnings Coverage Ratio, and were 8 basis points at December 31, 2005. Under the Facility, the Company also pays a utilization fee of 12.5 basis points on borrowings outstanding when the aggregate amount outstanding under the Facility exceeds 50% of the Facility.

Interest paid under Moody's previous revolving credit facilities for the year ended December 31, 2003 was $0.6 million. No interest was paid under the Company's facilities for the years ended December 31, 2005 and 2004 as no borrowings were outstanding during those years.

The Notes and the Facility (the "Agreements") contain covenants that, among other things, restrict the ability of the Company and certain of its subsidiaries, without the approval of the lenders, to engage in mergers, consolidations, asset sales, transactions with affiliates and sale-leaseback transactions or to incur liens, as defined in the related agreements. The Facility also contains financial covenants that, among other things, require the Company to maintain an interest coverage ratio, as defined in the agreement, of not less than 3 to 1 for any period of four consecutive fiscal quarters, and an Earnings Coverage Ratio, as defined in the agreement, of not more than 4 to 1 at the end of any fiscal quarter. At December 31, 2005, the Company was in compliance with such covenants. Upon the occurrence of certain financial or economic events, significant corporate events or certain other events constituting an event of default under the Agreements, all loans outstanding under the Agreements (including accrued interest and fees payable thereunder) may be declared immediately due and payable and all commitments under the Agreements may be terminated. In addition, certain other events of default under the Agreements would automatically result in amounts outstanding becoming immediately due and payable and all commitments being terminated.

NOTE 14 :: 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 1,020,000,000 shares with a par value of $0.01, of which 1,000,000,000 are shares of common stock, 10,000,000 are shares of preferred stock and 10,000,000 are 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.

In February 2005, Moody's Board of Directors declared a two-for-one stock split to be effected as a special stock distribution of one share of common stock for each share of the Company's common stock outstanding, subject to stockholder approval of a charter amendment to increase the Company's authorized common shares from 400 million shares to 1 billion shares. At the Company's Annual Meeting on April 26, 2005, Moody's stockholders approved the charter amendment. As a result, stockholders of record as of the close of business on May 4, 2005 received one additional share of common stock for each share of the Company's common stock held on that date. Such additional shares were distributed on May 18, 2005. All prior period share and per share information has been restated to reflect the Stock Split.

Rights Agreement

The Company has a Rights Agreement designed to protect its shareholders in the event of unsolicited offers to acquire the Company and coercive takeover tactics that, 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. Pursuant to the provisions of the Rights Agreement, after giving effect to the Stock Split, the number of rights associated with each share of common stock shall be adjusted so that each share of common stock will have associated with it one-half of a right. Each right entitles the registered holder to purchase 1/1000 of a share of Series A Junior Participating Preferred Stock, par value $0.01 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 at such time.

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 rights are not currently exercisable, as no shareholder is currently an Acquiring Person. The Company may redeem the rights, which expire in June 2008, for $0.01 per right, under certain circumstances, including for a Board-approved acquirer either before the acquirer becomes an Acquiring Person or during the window period after the triggering event as specified in the Rights Agreement.

Share Repurchase Program

On October 25, 2005, the Board of Directors authorized an additional $1 billion share repurchase program. There is no established expiration date for this authorization. During November 2005, the Company completed its previous $600 million program, which had been authorized by the Board of Directors in May 2004. During June 2004, the Company completed its previous $450 million program, which had been authorized by the Board of Directors in October 2002.

During 2005, Moody's repurchased 13.5 million shares at an aggregate cost of $691.7 million and issued 6.1 million shares of stock under employee stock compensation plans. Since becoming a public company in October 2000 and through December 31, 2005, Moody's has repurchased 66.4 million shares at a total cost of $1.8 billion, including 32.1 million shares to offset issuances under employee stock compensation plans.

Dividends

During 2005, the Company paid a quarterly dividend of $0.0375 in the first quarter and $0.055 in each of the three subsequent quarters, per share of Moody's common stock, resulting in dividends paid per share of $0.2025 during the year. During 2004 and 2003, the Company paid quarterly dividends of $0.0375 and $0.0225 per share, respectively, of Moody's common stock resulting in total dividends paid per share of $0.15 and $0.09, respectively.

On December 13, 2005, the Board of Directors of the Company approved a quarterly dividend of $0.07 per share of Moody's common stock, payable on March 10, 2006 to shareholders of record at the close of business on February 20, 2006. The continued payment of dividends at the rate noted above, or at all, is subject to the discretion of the Board of Directors.

NOTE 15 :: LEASE COMMITMENTS

Moody's operates its business from various leased facilities, which are under operating leases that expire over the next nine 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, 2005, 2004 and 2003 was $21.5 million, $15.1 million and $13.3 million, respectively.

The approximate minimum rent for leases that have remaining or original noncancelable lease terms in excess of one year at December 31, 2005 is as follows:

Year Ending December 31,	Operating Leases
2006	$16.7
2007	12.8
2008	11.2
2009	8.6
2010	3.9
Thereafter	10.7
Total minimum lease payments	$63.9

NOTE 16 :: CONTINGENCIES

From time to time, Moody's is involved in legal and tax proceedings, claims and litigation that are incidental to the Company's business, including claims based on ratings assigned by Moody's. Moody's is also subject to ongoing tax audits in the normal course of business. Management periodically assesses the Company's liabilities and contingencies in connection with these matters based upon the latest information available. Moody's discloses material pending legal proceedings, other than routine litigation incidental to Moody's business, material proceedings known to be contemplated by governmental authorities, and other pending matters that it may determine to be appropriate. For those matters where it is both probable that a liability has been incurred and the amount of loss can be reasonably estimated, the Company has recorded reserves in the consolidated financial statements and periodically adjusts these reserves as appropriate. In other instances, because of the uncertainties related to both the probable outcome and/or the amount or range of loss, management does not record a liability but discloses the contingency if significant. As additional information becomes available, the Company adjusts its assessments and estimates of such liabilities accordingly.

Based on its review of the latest information available, in the opinion of management, the ultimate liability of the Company in connection with pending legal and tax proceedings, claims and litigation will not have a material adverse effect on Moody's financial position, results of operations or cash flows, subject to the contingencies described below.

Legacy Contingencies

Moody's has exposure to certain potential liabilities assumed in connection with the 2000 Distribution. These contingencies are referred to by Moody's as "Legacy Contingencies".

Information Resources, Inc.

An antitrust lawsuit was filed in 1996 by Information Resources, Inc. ("IRI"). VNU N.V., a publicly traded Dutch company, and its U.S. subsidiaries, VNU, Inc., ACNielsen Corporation, AC Nielsen (US), Inc., and Nielsen Media Research, Inc. ("NMR") (collectively, the "VNU Parties"), had assumed exclusive joint and several liability for any judgment or settlement of this antitrust lawsuit under the terms of the July 30, 2004 Amended Indemnity and Joint Defense Agreement. As a result of the indemnity obligation, Moody's did not have any exposure to a judgment or settlement of this lawsuit unless the VNU Parties defaulted on their obligations. However, in the event of such a default, contractual commitments undertaken by Moody's in connection with various corporate reorganizations since 1996 would have required the Company to bear a portion of any amount not paid by the VNU Parties.

On February 16, 2006, the parties to this action signed a settlement agreement, pursuant to which the action will be dismissed with prejudice and releases from liability will be exchanged among the parties. Such releases will also include the Company, although not a defendant in the litigation, as a releasee. Any amounts payable to the plaintiffs in connection with the settlement will be paid by the VNU Parties, and the Company will not be required to contribute any amounts to the settlement payment. The dismissal of the lawsuit is subject to court approval and the releases are being held in escrow pending such approval.

Legacy Tax Matters

Old D&B and its predecessors entered into global tax planning initiatives in the normal course of business, including through tax-free restructurings of both their foreign and domestic operations. These initiatives are subject to normal review by tax authorities.

Pursuant to a series of agreements, as between themselves, IMS Health and NMR are jointly and severally liable to pay one-half, and New D&B and Moody's are jointly and severally liable to pay the other half, of any payments for taxes, penalties and accrued interest resulting from unfavorable Internal Revenue Service ("IRS") rulings on certain tax matters as described in such agreements (excluding the matter described below as "Amortization Expense Deductions" for which New D&B and Moody's are solely responsible) and certain other potential tax liabilities, also as described in such agreements, after New D&B and/or Moody's pays the first $137 million, which amount was paid in connection with the matter described below as "Utilization of Capital Losses".

In connection with the 2000 Distribution and pursuant to the terms of the 2000 Distribution Agreement, New D&B and

Moody's have, between themselves, agreed to each be financially responsible for 50% of any potential liabilities that may arise to the extent such potential liabilities are not directly attributable to their respective business operations.

Without limiting the generality of the foregoing, three specific tax matters are discussed below.

Royalty Expense Deductions During the second quarter of 2003, New D&B received an Examination Report from the IRS with respect to a partnership transaction entered into in 1993. In this Examination Report, the IRS stated its intention to disallow certain royalty expense deductions claimed by Old D&B on its tax returns for the years 1993 through 1996 (the "Royalty Report"). In the first quarter of 2004, New D&B received a similar Examination Report (the "Second Royalty Report") relating to the first quarter of 1997.

During the second quarter of 2003, New D&B also received an Examination Report that had been issued by the IRS to the partnership, stating the IRS' intention to ignore the partnership structure that had been established in 1993 in connection with the above transaction, and to reallocate to Old D&B income and expense items that had been reported in the partnership tax return for 1996 (the "Reallocation Report"). New D&B also received a similar Examination Report (the "Second Reallocation Report") issued to the partnership with respect to the first quarter of 1997.

In June 2004, New D&B and the IRS conducted a mediation of these issues, at which they reached a basis for settlement with regard to the Royalty Report for 1995 and 1996, the Reallocation Report, and certain tax refund claims made by Old D&B related to 1995 and 1996. The IRS reasserted its position that certain tax refund claims made by Old D&B related to 1993 and 1994 may be offset by tax liabilities relating to the above mentioned partnership formed in 1993. The settlement was withdrawn by the IRS in November 2004. As a result of these events, the Company increased its reserves for this matter by $30 million in 2004.

In 2005 New D&B, Moody's, IMS Health and NMR executed a closing agreement with the IRS reflecting terms originally agreed to in June 2004.

After executing the closing agreement, IMS Health and NMR disagreed with New D&B's calculation of each party's share of the tax liability set forth in the agreement. As a result, New D&B and Moody's each increased its share of the assessment by $7.3 million to $35.5 million and Moody's paid approximately $34 million of this amount in October of 2005. These events resulted in a net reduction of tax expense of $11.5 million. New D&B anticipates commencing arbitration proceedings against IMS Health and NMR to collect the incremental amounts New D&B and Moody's were obligated to pay to the IRS on their behalf. Based upon the current understanding of the positions which New D&B and IMS Health may take, the Company believes it is likely that New D&B should prevail, but Moody's cannot predict with certainty the outcome.

In addition, the Second Royalty Report and the Second Reallocation Report, which were not part of the closing agreement with the IRS, have not been resolved. Moody's estimates that its share of the potential required payment to the IRS for this matter is $0.1 million (including penalties and interest, and net of tax benefits). In the fourth quarter of 2005, New D&B filed a protest with the IRS Appeals Office concerning the IRS' denial of certain tax refunds owing Old D&B for 1993 and 1994.

Moody's estimates that its remaining share of the potential liability for the Royalty Expense Deductions matter could be up to $16 million after payment pursuant to the closing agreement which takes into consideration: (1) the state income tax liability connected with the terms of the federal closing agreement and (2) the potential write-off of receivables (for which the Company's exposure could be up to $9 million as discussed above).

Amortization Expense Deductions In April 2004, New D&B received Examination Reports (the "April Examination Reports") from the IRS with respect to a partnership transaction. This transaction was entered into in 1997 and has resulted in amortization expense deductions on the tax returns of Old D&B since 1997. These deductions could continue through 2012. In the April Examination Reports, the IRS stated its intention to disallow the amortization expense deductions related to this partnership that were claimed by Old D&B on its 1997 and 1998 tax returns. New D&B disagrees with the position taken by the IRS and can either: (1) accept and pay the IRS assessment; (2) challenge the assessment in U.S. Tax Court; or (3) challenge the assessment in U.S. District Court or the U.S. Court of Federal Claims, where in either case payment of the disputed amount would be required in connection with such challenge. IRS audits of Old D&B's or New D&B's tax returns for years subsequent to 1998 have resulted in the issuance of similar Examination Reports for the 1999 through 2002 tax years, described below, in which case New D&B has the aforementioned three courses of action. Similar Examination Reports could result for tax years subsequent to 2002.

Should any such payments be made by New D&B related to either the April Examination Reports or any potential Examination Reports for future years, including years subsequent to the separation of Moody's from New D&B, then pursuant to the terms of the 2000 Distribution Agreement, Moody's would have to pay to New D&B its 50% share. In addition, should New D&B discontinue claiming the amortization deductions on future tax returns, Moody's would be required to repay to New D&B an amount equal to the discounted value of its 50% share of the related future tax benefits. New D&B had paid the discounted value of 50% of the future tax benefits from this transaction in cash to Moody's at the Distribution Date. Moody's estimates that the Company's current potential exposure could be up to $101 million (including penalties and interest, and net of tax benefits). This exposure could increase by approximately $3 million to $6 million per year, depending on actions that the IRS may take and on whether New D&B continues claiming the amortization deductions on its tax returns.

In the April Examination Reports, the IRS also stated its intention to disallow certain royalty expense deductions claimed by Old D&B on its 1997 and 1998 tax returns with respect to the partnership transaction. In addition, the IRS stated its intention to disregard the partnership structure and to reallocate to Old D&B certain partnership income and expense items that had been reported in the partnership tax returns for 1997 and 1998. New D&B disagrees with the positions taken by the IRS and can take any of the three courses of action described in the first paragraph of this "Amortization Expense Deductions" section. IRS audits of Old D&B's or New D&B's tax returns for years subsequent to 1998 have resulted in the issuance of similar Examination Reports for the 1999 through 2002 tax years described below. Similar Examination Reports could result for years subsequent to 2002. Should any such payments be made by New D&B related to either the April Examination Reports or any potential Examination Reports for future years, then pursuant to the terms of the 2000 Distribution Agreement, Moody's would have to pay to New D&B its 50% share of New D&B's payments to the IRS for the period from 1997 through the Distribution Date. Moody's estimates that its share of the potential exposure to the IRS for the potential disallowance of royalty expense deductions could be up to $135 million (including penalties and interest, and net of tax benefits). Moody's also could be obligated for future interest payments on its share of such liability.

New D&B had filed protests with the IRS Appeals Office regarding the April Examination Reports. In September 2004, the IRS Appeals Office remanded the case to the IRS examination office for further development of the issues. New D&B has reopened discussion of the issues with the examination office.

On May 6, 2005, New D&B received a Notice of Proposed Adjustment ("Notice") from the IRS for the 1999–2002 tax years which (1) disallows amortization expense deductions allocated from the partnership to Old D&B on its 1999 and 2000 tax returns and to New D&B on its 2000, 2001 and 2002 tax returns and (2) disallows certain royalty expense deductions claimed by Old D&B on its 1999 and 2000 tax returns and by New D&B on its 2000, 2001 and 2002 tax returns. On August 4, 2005, New D&B received an Examination Report (the "August Examination Report") from the IRS disallowing certain royalty expense deductions claimed by Old D&B on its 1999 and 2000 tax returns and by New D&B on its 2000, 2001 and 2002 tax returns consistent with the Notice and in addition assessing a twenty percent penalty. New D&B has filed a protest with the IRS Appeals Office regarding the August Examination Report. Currently, the Company does not expect that the Notice or the Examination Report will have a material impact on the legacy tax reserves and the potential future outlays related to legacy tax matters that are discussed below in "Summary of Moody's Exposure to Three Legacy Tax Matters".

Moody's believes that the IRS' proposed assessments of tax against Old D&B and the proposed reallocations of partnership income and expense to Old D&B are inconsistent with each other. Accordingly, while it is possible that the IRS could ultimately prevail in whole or in part on one of such positions, Moody's believes that it is unlikely that the IRS will prevail on both.

Utilization of Capital Losses In July 2004, New D&B and the IRS reached a basis for settlement of all outstanding issues related to the matter concerning utilization of certain capital losses generated by Old D&B during 1989 and 1990. In December 2004, New D&B executed a formal settlement agreement. New D&B received two assessments on this matter during the first quarter of 2005, and is awaiting receipt of the third and final assessment. Moody's paid its allocated share of the first two assessments consisting of cash payments of $12.8 million ($8.1 million net of expected tax benefits) and the utilization of a tax receivable of approximately $9 million. Moody's remaining liability at December 31, 2005 was approximately $0.3 million. The amounts paid by Moody's included its share of approximately $4 million that Moody's and New D&B believe should have been paid by IMS Health and NMR, but were not paid by them due to their disagreement with various aspects of New D&B's calculation of their respective shares of the payments. If New D&B fails to resolve this dispute with IMS Health and NMR, Moody's understands that New D&B anticipates commencing arbitration proceedings against them. Moody's believes that New D&B should prevail in its position, but the Company cannot predict with certainty the outcome. In the first quarter of 2005, Moody's had increased its reserves by $2.7 million due to this disagreement.

Summary of Moody's Exposure to Three Legacy Tax Matters The Company considers from time to time the range and probability of potential outcomes related to the three legacy tax matters discussed above and establishes reserves that it believes are appropriate in light of the relevant facts and circumstances. In doing so, Moody's makes estimates and judgments as to future events and conditions and evaluates its estimates and judgments on an ongoing basis.

For the year ended December 31, 2005, the Company recorded an $8.8 million net reversal of reserves of which $2.7 million related to an increase for the Utilization of Capital Losses matter and $11.5 million related to the reversal for the Royalty Expense Deductions described above. The Company has recorded $5.8 million of interest expense related to its legacy tax reserves. Moody's total net legacy tax reserves were $97 million (consisting of $106 million of tax liabilities, partially offset by the expected utilization of $9 million of tax receivables). The $97 million of expected cash payments consists of $8 million of current liabilities (reflecting the estimated cash payments related to the Royalty Expense Deductions and Utilization of Capital Losses matters that are expected to be made over the next twelve months) and $89 million of non-current liabilities.

It is possible that the legacy tax matters could be resolved in amounts that are greater than the amounts reserved by the Company, which could result in additional charges that may be material to Moody's future reported results, financial position and cash flows. Although Moody's does not believe it is likely that the Company will ultimately be required to pay the full amounts presently being sought by the IRS, potential future outlays resulting from these matters could be as much as $252 million and could increase with time as described above. In matters where Moody's believes the IRS has taken inconsistent positions, Moody's may be obligated initially to pay its share of related duplicative assessments. However, Moody's believes that ultimately it is unlikely that the IRS would retain such duplicative payments.

NOTE 17 :: SEGMENT INFORMATION

Moody's operates in two reportable segments: Moody's Investors Service and Moody's KMV. The Company reports segment information in accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information". SFAS No. 131 defines operating segments 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.

Moody's Investors Service consists of four rating groups—structured finance, corporate finance, financial institutions and sovereign risk, and public finance—that generate revenue principally from the assignment of credit ratings on issuers and issues of fixed-income obligations in the debt markets, and research, which primarily generates revenue from the sale of investor-oriented credit research, principally produced by the rating groups. Given the dominance of Moody's Investors Service to Moody's overall results, the Company does not separately measure or report corporate expenses, nor are such expenses allocated between the Company's business segments. Accordingly, all corporate expenses are included in operating income of the Moody's Investors Service segment and none have been allocated to the Moody's KMV segment.

The Moody's KMV business develops and distributes quantitative credit risk assessment products and services and credit processing software for banks, corporations and investors in credit-sensitive assets. Assets used solely by Moody's KMV are separately disclosed within that segment. All other Company assets, including corporate assets, are reported as part of Moody's Investors Service. Revenue by geographic area is generally based on the location of the customer. Inter-segment sales are insignificant and no single customer accounted for 10% or more of total revenue.

Below is financial information by segment, Moody's Investors Service revenue by business unit and consolidated revenue and long-lived asset information by geographic area, for the years ended and as of December 31, 2005, 2004 and 2003. Certain prior year amounts have been reclassified to conform to the current presentation.

Financial Information by Segment

	Year Ended December 31, 2005			Year Ended December 31, 2004			Year Ended December 31, 2003		
	Moody's Investors Service	Moody's KMV	Consolidated	Moody's Investors Service	Moody's KMV	Consolidated	Moody's Investors Service	Moody's KMV	Consolidated
Revenue	$1,598.9	$132.7	$1,731.6	$1,317.5	$120.8	$1,438.3	$1,140.2	$106.4	$1,246.6
Operating expenses	645.4	111.4	756.8	518.0	99.8	617.8	466.2	84.7	550.9
Depreciation and amortization	18.6	16.6	35.2	17.3	16.8	34.1	15.9	16.7	32.6
Operating income	$ 934.9	$ 4.7	939.6	$ 782.2	$ 4.2	786.4	$ 658.1	$ 5.0	663.1
Non-operating expense, net			(4.9)			(15.1)			(6.7)
Income before provision for income taxes			934.7			771.3			656.4
Provision for income taxes			373.9			346.2			292.5
Net income			$ 560.8			$ 425.1			$ 363.9
Total assets at December 31	$1,204.5	$252.7	$1,457.2	$1,123.5	$265.8	$1,389.3	$ 691.5	$268.4	$ 959.9

Moody's Investors Service Revenue by Business Unit

Year Ended December 31,	2005	2004	2003
Ratings revenue:			
Structured finance	$ 715.4	$ 553.1	$ 474.7
Corporate finance	321.8	299.6	266.7
Financial institutions and sovereign risk	254.6	208.9	181.2
Public finance	91.8	82.2	87.2
Total ratings revenue	1,383.6	1,143.8	1,009.8
Research revenue	215.3	173.7	130.4
Total Moody's Investors Service	$1,598.9	$1,317.5	$1,140.2

Revenue and Long-lived Asset Information by Geographic Area

	2005	2004	2003
Revenue:			
United States	$1,085.4	$ 911.2	$ 795.3
International	646.2	527.1	451.3
Total	$1,731.6	$1,438.3	$1,246.6
Long-lived assets:			
United States	$ 267.3	$ 245.2	$ 255.9
International	18.9	18.7	14.7
Total	$ 286.2	$ 263.9	$ 270.6

NOTE 18 :: VALUATION AND QUALIFYING ACCOUNTS

Accounts receivable allowances primarily represent adjustments to customer billings that are estimated when the related revenue is recognized. During 2003, the Company reduced its provision rates and in the fourth quarter of 2003, the Company recorded adjustments to the allowances totaling $6.0 million, of which approximately $3.0 million related to 2002 and $3.0 million related to prior quarters of 2003. In 2005 and 2004, the Company further reduced its provision rates and allowance to reflect its current estimate of the appropriate level of accounts receivable allowances. Below is a summary of activity for each of the three years ended December 31, 2005:

	Balance at Beginning of the Year	Additions Charged to Revenue	Write-offs and Adjustments	Balance at End of the Year
2005	$(14.6)	(24.4)	26.3	$(12.7)
2004	$(15.9)	(18.1)	19.4	$(14.6)
2003	$(16.4)	(16.4)	16.9	$(15.9)

NOTE 19 :: RELATED PARTY TRANSACTIONS

Moody's Corporation made grants of $6.0 million, $7.0 million and $6.0 million to The Moody's Foundation (the "Foundation") in 2005, 2004 and 2003, respectively. The Foundation carries out philanthropic activities on behalf of Moody's Corporation primarily in the areas of education and health and human services. Certain members of senior management of Moody's Corporation are on the Board of Directors of the Foundation.

NOTE 20 :: INSURANCE RECOVERY

In February 2003, Moody's received a $15.9 million insurance recovery related to the September 11th tragedy, for incremental costs incurred and for lost profits due to the sharp decline in debt market activity in the weeks following the disaster. Moody's had previously received a $4.0 million advance payment in 2002, resulting in a total recovery of $19.9 million. Moody's had incurred incremental costs of $6.3 million for property damage and temporary office facilities, and had fully accrued for the recovery of these costs in its financial statements. The remainder of the insurance recovery, $13.6 million, had not previously been accrued as its realizability was not sufficiently assured. As a result, in the first quarter of 2003 Moody's recorded a gain of $13.6 million, included in other non-operating (expense) income, net in the consolidated statements of operations.

NOTE 21 :: QUARTERLY FINANCIAL DATA (UNAUDITED)

	Three Months Ended			
	March 31	June 30	September 30	December 31
2005:				
Revenue	**$390.5**	**$446.8**	**$421.1**	**$473.2**
Operating income	**$212.5**	**$252.8**	**$231.9**	**$242.4**
Net income	**$118.7**	**$145.4**	**$146.6**	**$150.1**
Basic earnings per share	**$ 0.40**	**$ 0.48**	**$ 0.49**	**$ 0.51**
Diluted earnings per share	**$ 0.39**	**$ 0.47**	**$ 0.48**	**$ 0.50**
2004:				
Revenue	$331.2	$357.6	$357.9	$391.6
Operating income	$182.9	$199.5	$197.8	$206.2
Net income	$103.5	$103.5	$ 95.5	$122.6
Basic earnings per share	$ 0.35	$ 0.35	$ 0.32	$ 0.41
Diluted earnings per share	$ 0.34	$ 0.34	$ 0.32	$ 0.40

Basic and diluted earnings per share are computed for each of the periods presented. The number of weighted average shares outstanding changes as common shares are issued pursuant to employee stock plans and for other purposes or as shares are repurchased. Therefore, the sum of basic and diluted earnings per share for each of the four quarters may not equal the full year basic and diluted earnings per share.

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.

Year Ended December 31,	**2005**	2004	2003	2002	2001
amounts in millions, except per share data					
Results of operations[1]					
Revenue	**$1,731.6**	$1,438.3	$1,246.6	$1,023.3	$ 796.7
Expenses	**792.0**	651.9	583.5	485.2	398.2
Operating income	**939.6**	786.4	663.1	538.1	398.5
Non-operating expense, net[2]	**(4.9)**	(15.1)	(6.7)	(20.7)	(16.6)
Income before provision for income taxes	**934.7**	771.3	656.4	517.4	381.9
Provision for income taxes	**373.9**	346.2	292.5	228.5	169.7
Net income	**$ 560.8**	$ 425.1	$ 363.9	$ 288.9	$ 212.2
Earnings per share[3]					
Basic	**$ 1.88**	$ 1.43	$ 1.22	$ 0.94	$ 0.67
Diluted	**$ 1.84**	$ 1.40	$ 1.19	$ 0.92	$ 0.66
Weighted average shares outstanding[3]					
Basic	**297.7**	297.0	297.8	307.8	315.2
Diluted	**305.6**	304.7	304.6	315.0	320.4
Dividends declared per share	**$ 0.24**	$ 0.15	$ 0.11	$ 0.09	$ 0.09

December 31,	**2005**	2004	2003	2002	2001
Balance sheet data					
Total assets[4]	**$1,457.2**	$1,389.3	$ 959.9	$ 633.7	$ 505.4
Long-term debt[5]	**$ 300.0**	$ —	$ 300.0	$ 300.0	$ 300.0
Shareholders' equity (deficit)	**$ 309.4**	$ 317.5	$ (32.1)	$ (327.0)	$(304.1)

(1) The 2002 results of operations include revenue of $42.1 million, expenses of $42.8 million and an operating loss of $0.7 million related to KMV, which was acquired in April 2002.

(2) Non-operating expense, net includes $21.0 million, $23.0 million, $23.5 million, $23.5 million and $22.9 million in 2005, 2004, 2003, 2002 and 2001, respectively, of interest expense that principally relates to the Company's $300 million of notes payable issued in October 2000 that were repaid in September 2005 and the Company's $300 million of notes payable issued in September 2005. The 2003 amount also includes a gain of $13.6 million on an insurance recovery related to the September 11th tragedy.

(3) Prior period earnings per share and weighted average shares outstanding have been adjusted to reflect the May 2005 2-for-1 stock split.

(4) Certain prior year amounts have been reclassified to conform to the current presentation.

(5) At December 31, 2004, the notes payable scheduled to mature in September 2005 were classified as a current liability.

Moody's Corporation

Directors

Raymond W. McDaniel, Jr.
Chairman and Chief Executive Officer
Moody's Corporation

Basil L. Anderson[1,2]
Retired Vice Chairman
Staples, Inc.

Robert R. Glauber[1,2]
Chairman and Chief Executive Officer
NASD

Ewald Kist[1,2]
Retired Chairman
ING Groep N.V. (ING Group)

Senator Connie Mack[1,2]
Senior Policy Advisor
King & Spalding LLP

Henry A. McKinnell, Jr., Ph.D.[1,2]
Chairman and Chief Executive Officer
Pfizer Inc.

Nancy S. Newcomb[1,2]
Retired Senior Corporate Officer,
Risk Management
Citigroup Inc.

John K. Wulff[1,2]
Non-Executive Chairman
Hercules Incorporated

Board Committees
1 Audit
2 Governance and Compensation

Stockholders and other stakeholders may communicate with the Board, or with a specific director or directors, by writing to them c/o the Corporate Secretary, Moody's Corporation, 99 Church Street, New York, NY 10007.

Officers

Raymond W. McDaniel, Jr.
Chairman and Chief Executive Officer

Executive Vice Presidents

Jeanne M. Dering
Global Regulatory Affairs and Compliance

Linda S. Huber
Chief Financial Officer

Senior Vice Presidents

John J. Goggins
General Counsel

Joseph (Jay) McCabe
Corporate Controller

Vice Presidents

Carlton Charles
Treasurer

Michael D. Courtian
Investor Relations and Corporate Finance

Jennifer Elliott
Chief Human Resources Officer

Frances G. Laserson
Corporate Communications

Corporate Secretary

Jane B. Clark

Corporate Information

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Telephone: 212-815-3700 Outside the U.S.
Hearing Impaired: 800-936-4237
Online Shareholder Account Information:
Website: www.stockbny.com
Email: shareowners@bankofny.com

Independent Accountants

PricewaterhouseCoopers LLP
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New York, NY 10017

Form 10-K and Other Reports; Corporate Governance

The Form 10-K, along with other Moody's SEC filings and corporate governance documents are available, without charge, on http://ir.moodys.com.

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 Investor Relations Department at the Corporate Office above.

The Company has submitted to the New York Stock Exchange the Chief Executive Officer's certification that he is unaware of any violation by the Company of the NYSE's corporate governance listing standards. The Company has filed the Chief Executive Officer and Chief Financial Officer certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 required to be filed with the SEC.

Common Stock Information

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

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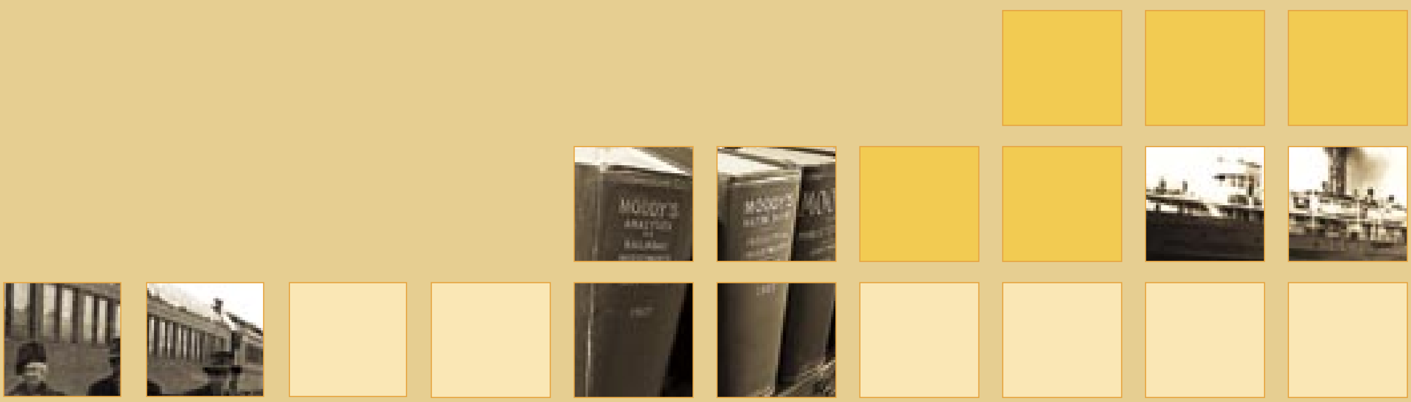

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