Moody's Corporation Reports Results for Third Quarter 2002

NEW YORK, Oct 22, 2002 -- Moody's Corporation (NYSE: MCO) today announced results for the third quarter of 2002.

Results for Third Quarter 2002

Moody's revenue for the three months ended September 30, 2002 totaled $248.3 million, an increase of 30% from $190.4 million for the same period of 2001. Reported revenue included $14.1 million related to KMV, which Moody's acquired on April 12, 2002. Excluding KMV's revenue, third quarter 2002 revenue would have been $234.2 million, up 23% year-over-year. Third quarter operating income of $127.4 million rose 36% from $93.7 million in the same period of 2001. Net income for the third quarter of 2002 was $67.8 million, an increase of 36% from $49.9 million in the prior year quarter. Diluted earnings per share for the third quarter of 2002 were $0.43 compared with $0.31 for the third quarter of 2001, an increase of 39%.

John Rutherfurd Jr., President and Chief Executive Officer of Moody's Corporation said, "As we had expected, revenue growth in several of Moody's business segments decelerated in the third quarter of 2002 from the unusually fast pace we experienced in the first half of 2002. Nevertheless third quarter revenue grew substantially on a year-to-year basis."

Moody's third quarter 2002 revenue reflected broad-based gains in the ratings business compared with the prior year period, when issuance slowed in the weeks following the September 11th terrorist attacks; revenue totaled $200.9 million in the third quarter, a 22% increase from $164.9 million in the third quarter of 2001. Research revenue grew 36% to $24.2 million in the quarter, reflecting increased customer demand for Moody's products. Moody's KMV ("MKMV") revenue was $23.2 million; excluding the results of KMV, revenue in the risk management services business was $9.1 million, an increase of 18% from the third quarter of 2001.

Within the ratings business, global structured finance revenue totaled $91.6 million for the third quarter of 2002, an increase of 37% from $67.0 million a year earlier. In the U.S., structured finance revenue continued to benefit from robust year-over-year volume increases in a number of markets, including residential mortgage-backed securities and certain classes of asset-backed securities. International structured finance revenue rose more than 65% year-over-year reflecting strong increases in the number of transactions rated in Europe and Japan, the two largest structured finance markets outside the U.S. Global corporate finance revenue of $50.2 million in the third quarter was down 4% from $52.1 million in the year-ago quarter. European corporate finance continued to grow, whereas weak business investment and slower refinancing activity resulted in a decline in the U.S. Revenue from global financial institutions and sovereigns grew 27% year-to-year to $38.5 million in the third quarter of 2002. Securities of U.S. financial institutions issuers remained relatively attractive to investors due to the market sector's lower incidence of credit difficulties. U.S. public finance revenue grew 34% to $20.6 million for the third quarter of 2002, reflecting the favorable interest rate environment and lower pay-as-you-go financing by municipal borrowers.

Moody's U.S. revenue totaled $165.0 million for the third quarter of 2002, an increase of 23% from $134.5 million in the third quarter of 2001. This increase was driven by robust growth in ratings revenue in the structured finance, financial institutions and public finance sectors. Moody's research and MKMV operations also posted solid year-over-year revenue growth in the quarter.

International revenue of $83.3 million in the third quarter of 2002 was 49% higher than in the prior year period on a reported basis and 39% higher excluding the results of KMV. Healthy performance in the non-U.S. ratings business, particularly in the European and Japanese structured finance markets, was the major driver behind this growth. Moody's non-U.S. research business also posted an impressive increase. International revenue accounted for 34% of Moody's total in the quarter, up from 29% for the third quarter of 2001.

Total operating expenses were $120.9 million in the third quarter, 25% higher than the same period of the prior year and 11% higher excluding the impact of KMV. Worldwide headcount, excluding the Korean joint venture and KMV, stood at approximately 1,800 at the end of the third quarter of 2002, about 170 people higher than at the same time last year. Moody's continues to increase staff in the growing areas of the business, particularly global structured finance, and to enhance our analysis of company ratings, particularly in U.S. and European corporate finance. Moody's operating margin for the third quarter of 2002 was 51%, up from 49% a year earlier but below the second quarter level.

Year-to-date Results

Revenue for the first nine months of 2002 totaled $751.4 million, an increase of 31% from $575.8 million for the same period of 2001. Excluding KMV, revenue for the first nine months of 2002 would have been $725.3 million, up 26% year-over-year. Operating income of $409.1 million for the first nine months of 2002 was up 42% from $287.5 million in the first nine months of 2001. Reported net income for the first nine months of 2002 was $219.1 million, an increase of 43% from $153.4 million for the same period of 2001. Diluted earnings per share for the first nine months of 2002 were $1.38, compared with $0.95 for the first nine months of 2001.

Ratings revenue was $631.4 million in the first nine months of 2002, up 25% from $504.5 million in the first nine months of 2001. This growth was primarily driven by strength in U.S. and European structured finance, U.S. public finance and global financial institutions. Global research revenue grew to $68.0 million, an increase of 31% from $52.0 million in the 2001 period. Revenue at Moody's KMV for the first nine months of 2002 totaled $52.0 million. Excluding KMV, revenue for the risk management services business would have been $25.9 million in the first nine months of 2002, an increase of 34% over the same period in 2001.

Share Repurchase Program

During October, Moody's completed the $300 million share repurchase program that had been authorized by the Board of Directors in October, 2001. Since becoming a public company in September 2000, Moody's has repurchased 17.0 million shares at a total cost of $600 million, including 5.6 million shares to offset issuances under employee stock plans. Today, the Board of Directors authorized an additional $450 million share repurchase program, which Moody's expects to complete by the middle of 2004.

Outlook for Fourth Quarter 2002 and Full Year 2003

We expect the revenue trends that Moody's experienced in the third quarter of 2002 to continue into the fourth quarter, with continued strength in global structured finance, U.S. public finance, and global research and risk management services, and relative weakness in U.S. corporate finance. In structured finance, we anticipate a continuation of the strong U.S. housing sector and residential mortgage refinancings, with low single digit growth in consumer spending; we also expect continued strength in the international segments of our business, particularly in Japan and Europe. Public finance volumes are likely to remain robust, reflecting the confluence of low interest rates and weak municipal tax receipts. Finally, we expect the good growth we have seen at our research and MKMV businesses to continue. In our corporate finance business, U.S. debt issuance will likely slow as the volume of outstanding debt still to be refinanced declines and the need for new borrowings to fund investment and mergers and acquisitions remains weak.

Our current range of expectations is for 2002 year-to-year percent revenue growth in the mid-twenties including KMV, with higher growth in operating income, and with 2002 diluted EPS close to or above $1.78, the high end of our previous range of estimates for the full year.

For 2003, we expect that revenue growth will be substantially less than we achieved in 2002; nevertheless, we expect double digit percentage growth in diluted EPS.

Moody's Corporation (NYSE: MCO) is the parent company of Moody's Investors Service, a leading provider of credit ratings, research and analysis covering debt instruments and securities in the global capital markets, and Moody's KMV, a credit risk management technology firm serving the world's largest financial institutions. The corporation reported revenue of $797 million in 2001. Further information is available at www.moodys.com.

"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995 The statements contained in the "Outlook for Fourth Quarter 2002 and Full Year 2003" section of this release are forward-looking statements and are based on future expectations, plans and prospects for Moody's business and operations that involve a number of risks and uncertainties. The forward-looking statements and other information are made as of October 22, 2002, and the Company disclaims any duty to 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 certain factors that could cause actual results to differ, perhaps materially, from those indicated by these forward-looking statements. Those factors include, but are not limited to, changes in the volume of debt securities issued in domestic and/or global capital markets; changes in interest rates and other volatility in the financial markets; possible loss of market share through competition; introduction of competing products or technologies by other companies; pricing pressures from competitors and/or customers; the potential emergence of government-sponsored credit rating agencies; proposed U.S., foreign, state and local legislation and regulations, including those relating to nationally recognized statistical rating organizations; the possible loss of key employees to investment or commercial banks or elsewhere and related compensation cost pressures; the outcome of any review by controlling tax authorities of the Company's global tax planning initiatives; the 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; and other risk factors as discussed in the Company's Annual Report on Form 10-K for the year ended December 31, 2001 and in other filings made by the Company from time to time with the Securities and Exchange Commission.

Moody's Corporation
Consolidated Statements of Operations (Unaudited)

Amounts in millions, except per share amounts	Three Months Ended September 30, 2002	Three Months Ended September 30, 2001	Nine Months Ended September 30, 2002	Nine Months Ended September 30, 2001
Revenue	$ 248.3	$ 190.4	$ 751.4	$ 575.8
Expenses:				
Operating, selling, general and administrative expenses	113.8	92.3	324.9	275.8
Depreciation and amortization	7.1	4.4	17.4	12.5
Total expenses	120.9	96.7	342.3	288.3
Operating income	127.4	93.7	409.1	287.5
Interest and other non-operating expense, net	(5.9)	(3.9)	(16.5)	(11.5)
Income before provision for income taxes	121.5	89.8	392.6	276.0
Provision for income taxes	53.7	39.9	173.5	122.6
Net income	$ 67.8	$ 49.9	$ 219.1	$153.4
Earnings per share				
Basic	$ 0.44	$ 0.32	$ 1.41	$ 0.97
Diluted	$ 0.43	$ 0.31	$ 1.38	$ 0.95
Weighted average number of shares outstanding				
Basic	155.2	158.2	154.9	158.4
Diluted	159.4	161.5	158.7	161.1

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Supplemental Revenue Information (Unaudited)

Amounts in millions	Three Months Ended September 30, 2002	Three Months Ended September 30, 2001	Nine Months Ended September 30, 2002	Nine Months Ended September 30, 2001
Ratings and Research:				
Structured finance	$ 91.6	$ 67.0	$ 277.9	$ 194.4
Corporate finance	50.2	52.1	174.5	169.2
Financial institutions and sovereign risk	38.5	30.4	120.3	94.7
Public finance	20.6	15.4	58.7	46.2
Total ratings revenue	200.9	164.9	631.4	504.5
Research	24.2	17.8	68.0	52.0
Total Ratings and Research Revenue	225.1	182.7	699.4	556.5
Moody's KMV	23.2	7.7	52.0	19.3
Total revenue	$ 248.3	$ 190.4	$ 751.4	$ 575.8
Revenue by geographic area:				

United States	$ 165.0	$ 134.5	$ 504.9	$ 412.5
International	83.3	55.9	246.5	163.3
Total revenue	$ 248.3	$ 190.4	$ 751.4	$ 575.8

CONTACT:
Moody's Corporation
Michael Courtian, 212/553-7194
michael.courtian@moodys.com