Moody's Corporation Reports Record Results for Second Quarter 2002

NEW YORK, Jul 22, 2002 -- Moody's Corporation (NYSE: MCO) today announced record revenue and earnings per share for the second quarter of 2002.

Results for Second Quarter 2002

Moody's revenue for the three months ended June 30, 2002 totaled $271.5 million, an increase of 32% from $205.2 million for the same period of 2001. Reported revenue included $12 million related to KMV, which Moody's acquired on April 12, 2002. Excluding KMV's revenue, second quarter 2002 revenue would have been $259.5 million, up 26% year-over-year. Second quarter operating income of $147.0 million rose 41% from $104.0 million in the same period of 2001. Net income for the second quarter of 2002 was $78.7 million, an increase of 42% from $55.5 million in the prior year quarter. Diluted earnings per share for the second quarter of 2002 were $0.49 compared with $0.34 for the second quarter of 2001, an increase of 44%.

Moody's second quarter earnings per share included dilution of approximately $0.01 related to the KMV acquisition. During the period from April 12 to June 30, 2002, KMV generated $12 million in revenue and $3 million in operating income before one-time charges. One-time transaction-related charges during the quarter totaled $2.5 million, and management anticipates modest additional charges during the balance of the year. Amortization expense related to acquired intangible assets totaled $1.8 million in the quarter, and financing costs approximated $1 million. The financing costs and earnings per share dilution were less than management had anticipated when the transaction was announced. Moody's has thus far funded the acquisition with a combination of bank loans and cash on hand rather than with long-term debt, and has benefited from favorable short-term financing costs. Management intends to pursue long-term financing when it is appropriate in light of cash requirements for share repurchase, which will result in higher financing costs. Moody's filed a Form 8-K/A with the Securities and Exchange Commission in late June, which provides further information on the impacts of the KMV acquisition. This document is available on Moody's Shareholder Relations website at http://ir.moodys.com.

John Rutherfurd Jr., President and Chief Executive Officer of Moody's Corporation said, "Moody's posted record financial results this quarter. Because Moody's generates revenue from a range of businesses driven by diverse macroeconomic and capital market forces, we were able to produce outstanding results even when bond issuance in an important market - like U.S. corporates - was weak. Although we expect business volume in the second half of 2002 to fall below that of the year's first half, we look forward to delivering strong growth in revenue and earnings per share in 2002 and continued value for our shareholders."

Moody's strong second quarter results reflected revenue gains in all lines of business. Ratings revenue for the second quarter of 2002 totaled $228.5 million, an increase of 26% from $181.6 million in the second quarter of 2001. Research revenue grew 29% to $22.3 million in the quarter. Moody's KMV ("MKMV") revenue was $20.7 million; excluding the results of KMV, risk management revenue was $8.7 million, reflecting growth of 38%.

Within the ratings business, global structured finance revenue totaled $97.7 million for the second quarter of 2002, an increase of 43% from $68.3 million a year earlier. Structured finance volumes in the U.S. remained very strong, principally due to the continued strength of the consumer economy - which produced rate-driven residential mortgage refinancings and home equity loans. International structured finance revenue grew rapidly primarily due to strong results in Europe and Japan, the two largest structured finance markets outside the U.S. Global corporate finance revenue of $66.3 million in the second quarter was up 6% from $62.6 million in the year-ago quarter, mainly based on the European market. Excluding the very large media and telecommunications issues of the 2001 second quarter, European corporate issuance posted solid year-over-year growth. Revenue from global financial institutions and sovereigns grew 34% year-to-year to $44.1 million in the second quarter, as investor demand increased due to the relative absence of credit difficulties in the financial sector. U.S. public finance revenue grew 15% to $20.4 million for the second 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 $176.0 million for the second quarter of 2002, an increase of 21% from $146.1 million in the second quarter of 2001. While structured finance was the major driver of this growth, Moody's financial institutions and public finance ratings businesses, and its research and MKMV operations each posted strong double digit growth. International revenue of $95.5 million in the second quarter was 62% higher than the prior year on a reported basis and 48% higher excluding the results of KMV. Healthy performance in the non-U.S. ratings business, including European and Japanese structured finance and European financial institutions and research, were the major drivers behind this growth. Moody's non-

U.S. research and MKMV revenue also posted impressive increases. International revenue accounted for 35% of Moody's total in the quarter, up from 29% for the second quarter of 2001.

Total operating expenses were $124.5 million in the second quarter, 23% higher than the same period of the prior year and 10% higher excluding the impact of KMV. The expense growth principally reflected higher compensation and benefits costs, with continued growth in the number of analysts in Europe and the structured finance business globally. Worldwide headcount of approximately 1,800, excluding the Korean joint venture and KMV, is almost 200 people higher than the same time last year. Moody's operating margin for the second quarter of 2002 was 54%, up from 51% a year earlier and above our long-term target. Moody's expects the margin to decline in the second half of the year due to lower levels of revenue combined with increased staffing and higher spending on investment projects.

Year-to-date Results

Revenue for the first six months of 2002 totaled $503.1 million, an increase of 31% from $385.4 million for the same period of 2001. Excluding the results of KMV, revenue for the first half of 2002 would have been $491.1 million, up 27% year-over-year. First half operating income of $281.7 million was up 45% from $193.8 million in the first half of 2001. Reported net income for the six months ended June 30, 2002 was $151.3 million, an increase of 46% from $103.5 million for the same period of 2001. Diluted earnings per share for the first half of 2002 were $0.95, compared with $0.64 for the first half of 2001.

Ratings revenue was $430.5 million in the first six months of 2002, up 27% from $339.6 million in the first half of 2001. This growth was driven primarily by strength in U.S. and European structured finance, U.S. public finance and global financial institutions. Global research revenue grew to $43.8 million, an increase of 28% from $34.2 million, reflecting increased sales of products to current customers and the addition of new customers. Revenue at Moody's KMV for the first half of 2002 totaled $28.8 million. Excluding the results of KMV, revenue would have been $16.8 million in the first half of 2002, an increase of 44% over the same period in 2001.

Share Repurchase Program

Moody's remains committed to repurchasing the company's stock when doing so creates value for long-term shareholders. Management uses a discounted cash flow model with conservative assumptions to estimate a value for the company's shares and repurchases stock opportunistically when the market price falls below that level. Following this process, the company repurchased a minimal number of shares during the second quarter of 2002. Moody's continues to generate strong cash flow, and has repaid the short-term bank debt which, along with cash on hand, was used to finance the KMV acquisition. The company had cash on hand of approximately $80 million at the end of the second quarter.

Outlook for Third Quarter and Full Year 2002

Moody's results for the first half of 2002 have exceeded the forecasts management provided at the beginning of 2002 and at the end of the first quarter. The macroeconomic and capital market conditions in key sectors in the United States during the first half of 2002 were better than we had anticipated. Our first half results reflect a continuation of the momentum in the United States that drove Moody's strong results in 2001. Interest rates have been favorable for refinancing of corporate and municipal debt. Consumer spending has continued at a solid pace, and mortgage refinancings have been extremely strong and greatly exceeded our expectations. In addition, the secular growth of corporate and structured finance in Europe has continued.

Our forecast at the end of the first quarter of 2002 anticipated that the momentum in the U.S. would abate during the second quarter as corporate refinancings ran their course, business investment remained weak, rate-driven mortgage activity declined and other issuance driven by consumer spending could have lessened with declines in consumer confidence. Although United States corporate finance issuance declined in the second quarter, momentum in structured finance, financial institutions and public finance has not abated. While we still believe that the momentum will slow, it is difficult to project either the timing or the pace of deceleration.

In Europe, we continue to expect solid growth in the corporate sector as new issuers enter the market and in financial institutions as rates remain attractive. In the European and Asian structured finance markets, we expect strength in issuance to persist.

There are many reasons for uncertainty in our forecast. Interest rates have been low for a lengthy period; we expect them to rise at some point, which would reduce some of the cyclical component of our current financial performance. It is particularly difficult to forecast turning points in the macroeconomy and the capital markets. Therefore, we cannot provide a narrow range of expectations for our financial results for the balance of 2002. Our current range of expectations is for 2002 year-to-year percent revenue growth in the low to high twenties including KMV, with higher growth in operating income and with 2002 diluted EPS ranging from $1.65 to $1.78.

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 had 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 "2002 Outlook" 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 July 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 June 30, 2002	Three Months Ended June 30, 2001	Six Months Ended June 30, 2002	Six Months Ended June 30, 2001
Revenue	$ 271.5	$ 205.2	$ 503.1	$ 385.4
Expenses:				
Operating, selling, general and administrative expenses	118.3	97.2	211.1	183.5
Depreciation and amortization	6.2	4.0	10.3	8.1
Total expenses	124.5	101.2	221.4	191.6
Operating income	147.0	104.0	281.7	193.8
Interest and other non-operating expense, net	(6.0)	(4.1)	(10.6)	(7.6)
Income before provision for income taxes	141.0	99.9	271.1	186.2
Provision for income taxes	62.3	44.4	119.8	82.7
Net income	$ 78.7	$ 55.5	$ 151.3	$ 103.5
Earnings per share				
Basic	$ 0.51	$ 0.35	$ 0.98	$ 0.65
Diluted	$ 0.49	$ 0.34	$ 0.95	$ 0.64
Weighted average number of shares outstanding				
Basic	155.0	158.0	154.7	158.5
Diluted	159.3	161.2	158.6	161.2

Moody's Corporation
Supplemental Revenue Information (Unaudited)

Amounts in millions	Three Months Ended June 30, 2002	Three Months Ended June 30, 2001	Six Months Ended June 30, 2002	Six Months Ended June 30, 2001
Ratings and Research:				
Structured finance	$ 97.7	$ 68.3	$ 186.3	$ 127.4
Corporate finance	66.3	62.6	124.3	117.1
Financial institutions and sovereign risk	44.1	32.9	81.8	64.3
Public finance	20.4	17.8	38.1	30.8

Total ratings revenue	228.5	181.6	430.5	339.6
Research	22.3	17.3	43.8	34.2
Total Ratings and Research Revenue	250.8	198.9	474.3	373.8
Moody's KMV	20.7	6.3	28.8	11.6
Total revenue	$ 271.5	$ 205.2	$ 503.1	$ 385.4
Revenue by geographic area:				
United States	$ 176.0	$ 146.1	$ 339.9	$ 278.0
International	95.5	59.1	163.2	107.4
Total revenue	$ 271.5	$ 205.2	$ 503.1	$ 385.4

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