2007 MCO Strategic Plan Overview

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July 2007

Moody's Corporation

Agenda

- Financial Summary
- Market Environment
- "Critical few" Strategic Priorities & Supporting Strategies
- Significant Issues in H1 2007
- Linkages Between Current Issues and Longer-Term Strategic Priorities?

07 Financial Performance & Outlook

2007 P&L Summary: H1 and Projected FY

$ Millions, except per share	2006 1H Actual	2007 1H Actual	Growth %	2006 FY Actual	2007 FY Fcst	Growth %
Ratings and Research (a)						
Ratings Revenue	**$762**	**$1,003**	*31.5%*	**$1,640**	**$1,881**	*14.7%*
Research Revenue	**122**	**153**	*25.3%*	**255**	**316**	*24.3%*
Total Revenue	**884**	**1,156**	*30.7%*	**1,894**	**2,198**	*16.0%*
Expenses (a)	363	498	*37.1%*	812	990	*22.0%*
Operating Income	**521**	**658**	*26.2%*	**1,082**	**1,207**	*11.5%*
Operating Margin	*58.9%*	*56.9%*		*57.1%*	*54.9%*	
Moody's KMV						
Revenue	**67**	**74**	*9.4%*	**143**	**158**	*10.9%*
Operating Income	**6**	**11**	*71.4%*	**17**	**27**	*64.5%*
Operating Margin	*9.4%*	*14.7%*		*11.6%*	*17.2%*	
Total Moody's						
Revenue	**952**	**1,229**	*29.2%*	**2,037**	**2,356**	*15.7%*
Operating Income	**527**	**668**	*26.7%*	**1,099**	**1,235**	*12.3%*
Operating Margin	*55.4%*	*54.4%*		*53.9%*	*52.4%*	
Interest Expense, net	4	(17)		1	(37)	
Net Income	**316**	**385**	*21.9%*	**658**	**710**	*8.0%*
Diluted EPS - Pro forma (a)	**$1.07**	**$1.37**	*28.0%*	**$2.25**	**$2.57**	*14.2%*
Diluted EPS - As Reported (b)	**$1.07**	**$1.56**	*45.8%*	**$2.58**	**$2.76**	*7.0%*

(a) Excludes gain on sale of HQ in 2006; legacy tax provisions in 2006 and 2007
(b) Includes gain on sale of HQ in 2006; legacy tax provisions in 2006 and 2007

Market Environment

Market Environment

Secular growth will continue, but more slowly. Cyclical conditions mixed, but credit cycle has peaked and market sentiment pessimistic…

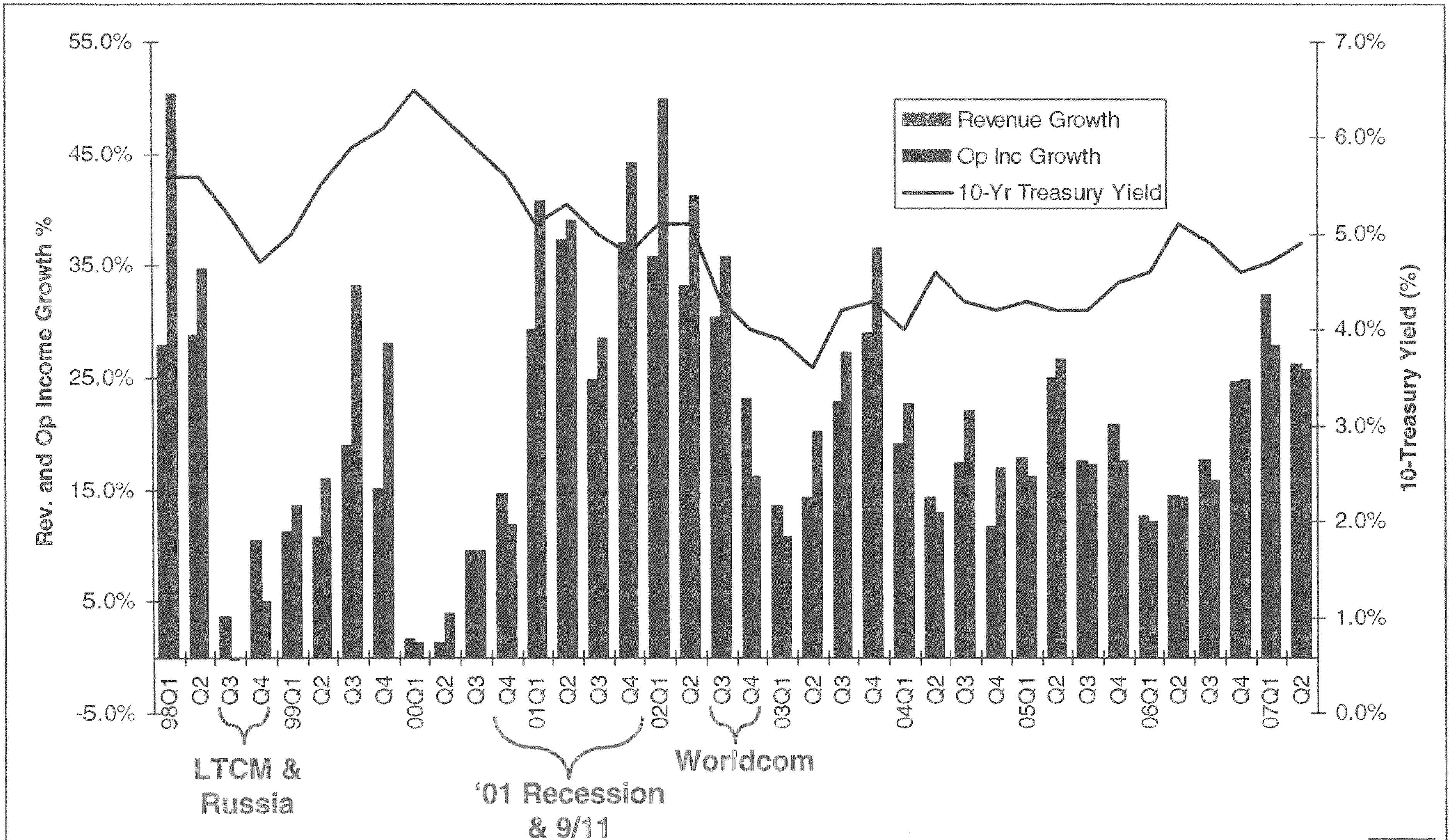
+'s	-'s
• **Fed probably won't tolerate an extended "seizing up" of capital markets** • **Housing market has been slow to undermine broader economic performance** • **Corp spreads still reasonable by historical measures & default rates at historical lows –** 1.4% default rate in June 07 • **Corporate debt protection compares favorably with 1998 (post-LTCM)** • **Similar number of upgrades/ downgrades of US high-yield companies** • **De-linking of US & Int'l economic cycles and market performance**	• **Ultimate credit (& ratings) performance for RMBS won't be clear for 12-18 months** • **Contagion risk from sub-prime still uncertain** – stabilized credit conditions for housing still 12+ months off • **Credit stabilization may not cure aversion to illiquid instruments** – esp. for mark-to-market investors • **Last major credit crunch followed Enron by >1 yr** • **Widening of yield spreads –** but still below LT mean/median • **Overdue rise in creditor risk aversion should reduce the issuance of riskiest corporate debt**… knock-on to CLOs?

Corporate spreads widening, but still favorable

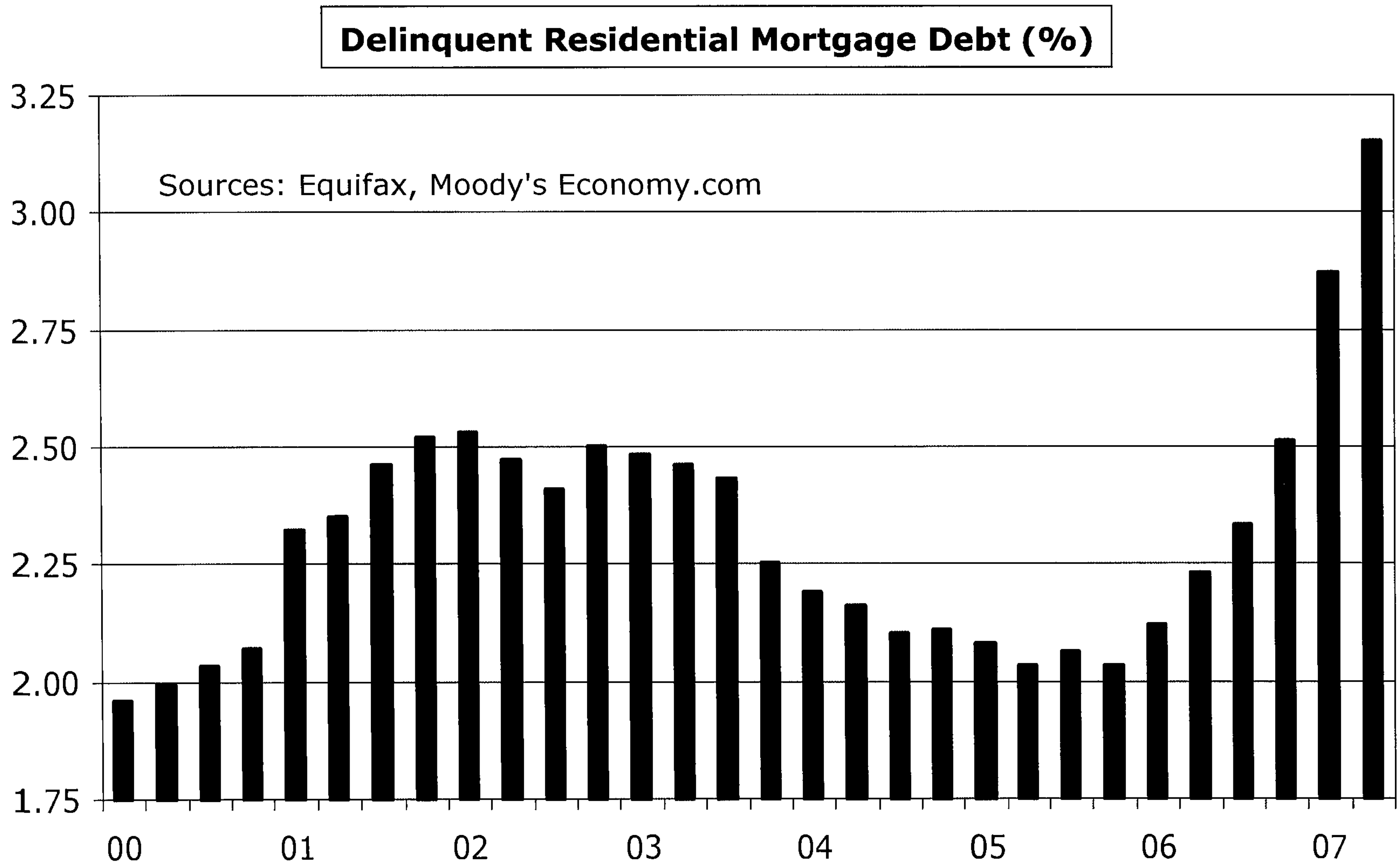
Moody's Revenue & Op Inc vs. Credit Cycles

- Moody's quarterly revenue growth has averaged 19.9% since 1998
- Quarterly revenue growth has never been negative during this period
  - The most recent period of low growth was in the first half of 2000 when revenue increased by about 1.5% in Q1 and Q2.
- Quarterly operating income growth has been negative once since 1998, though by only 0.2%
  - In Q3 1998, during the credit problems associated with Russia, Korea and LTCM.
- The last three credit crunches have occurred in 98, 01, and 02
  - Decelerating growth rates occurred during in two of the three crunches; sustained (and higher than average) growth in one of three
  - The two crunch periods of decelerating growth have each been followed by three quarters out of four of accelerating growth

Credit "Crunches" and Moody's Performance



Spotlight on Mortgages: Quality Continues to Erode

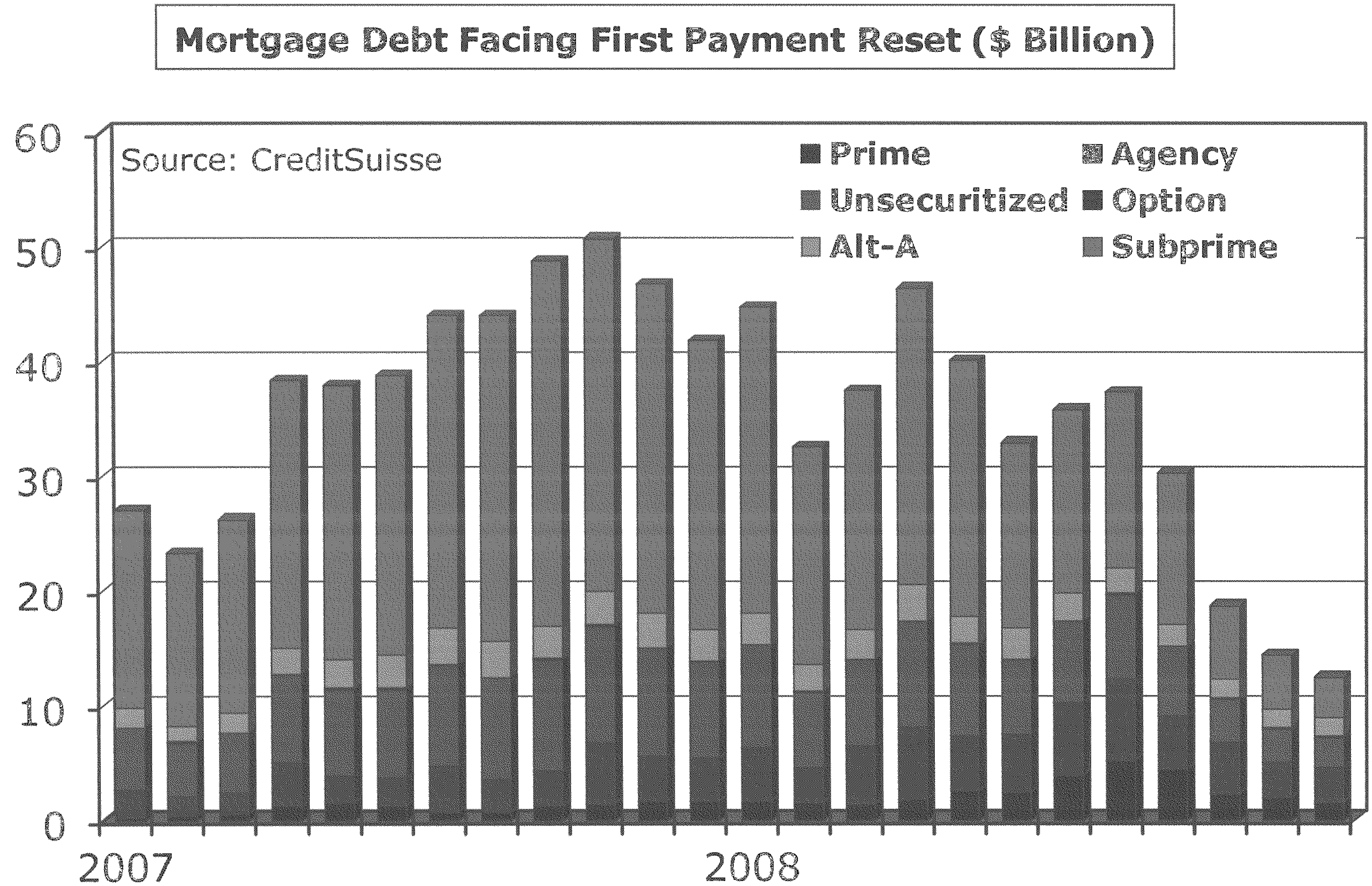


House Prices Are Falling...

Median Existing House Price – % Change vs Prior Year

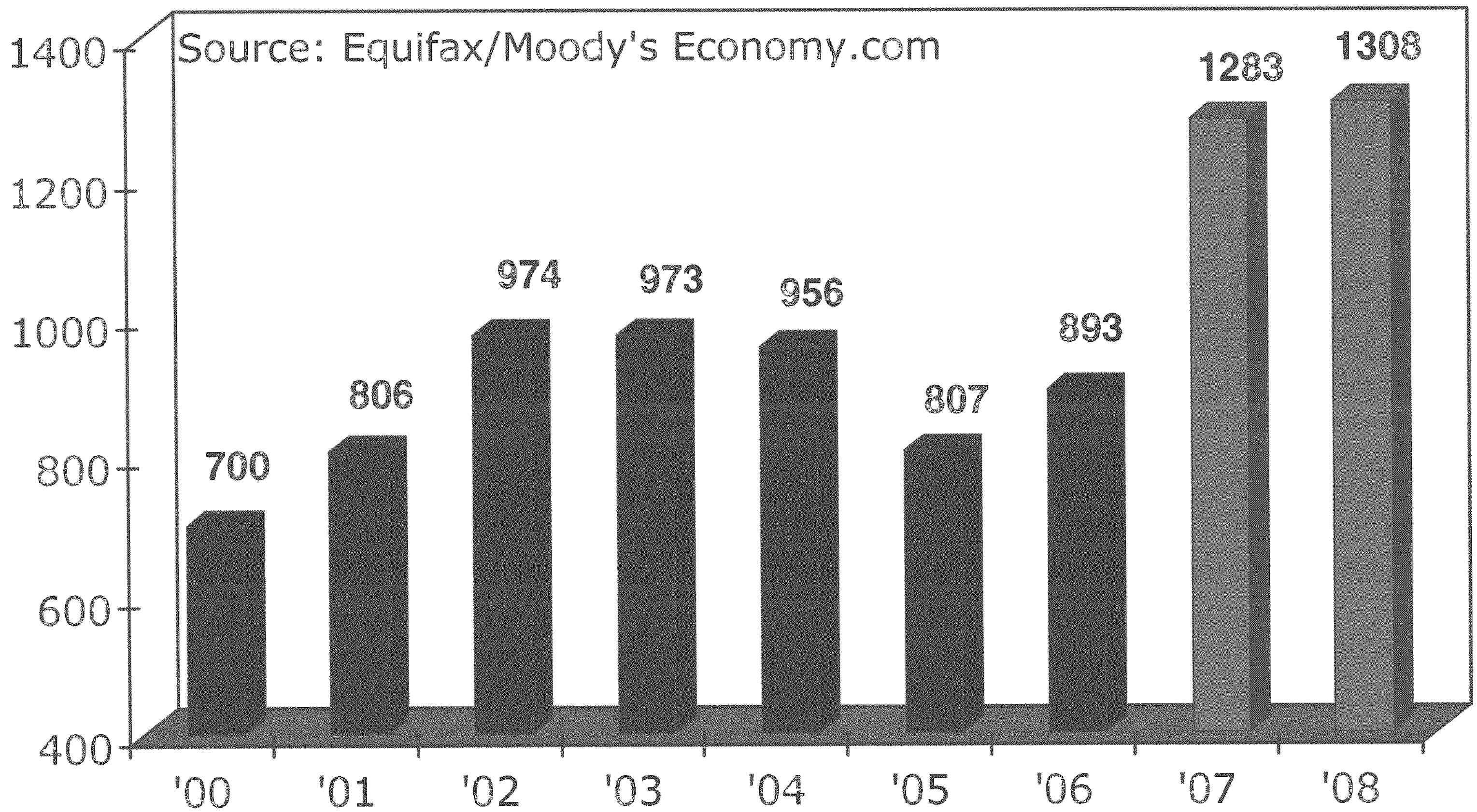
3 month moving average

Mortgage Payment Resets are Mounting



1.3 MM Mortgage Defaults Forecast 2007-08

First Mortgage Loan Defaults (000s)



On the Horizon...?

- Credit crunch
- More hedge fund failures
- Sub-prime problems spread to Alt-A & Prime
- LBOs
  - 9 postponed so far, 32 in the pipeline
  - Banks holding significantly more risk than planned – how long?
- CLOs
  - Markets appear to be closing – how long?
- CMBS
- States Attorneys' General investigations

2007 Strategic Priorities

Critical Few Priorities

Strategic Priorities	Supporting Strategies
■ Market Relevance ■ Product Development (esp. around proprietary data/analytics) ■ International Expansion ■ Corporate Development (acquisitions) ■ Synergies (revenue & expense)	■ Execution – Corporate Positioning (brand & identity, communications, etc.) – Organizational design – Information Strategy – Human Resources Management ■ Financial Strategy ■ Legal & Regulatory Strategy

Selected 2006-07 Accomplishments

Market Relevance

- Created Investor Advisory Councils
- Strategic Calling Officers
- Customer Service Steering Committee
- Brand Strategy Project

New Products

- SFG New Products Group
- MKMV RiskFrontier
- Corporate Financial Metrics
- M3 Sub-prime Mortgage Model

International Expansion

- Joint venture in China
- Acquisition of CRA Ratings in the Czech Republic, CA Ratings in South Africa, and Kasnic Ratings in Indonesia
- Moody's office in Dubai

Corporate Development

- Adopted investment criteria & scoring
- LOBs taking more active role in deal identification
- WSA acquisition; international expansion (see above)
- Actively pursuing deals: e.g. Fermat, KIS Ratings, Strat
- Analytics

Synergies

- Project Athena
- Established Global Project Finance Group
- SFG New Products Group

Significant H1 '07 Issues

Major First Half Challenges

- Joint Default Analysis for Banks
- Challenges with foreign regulators – China; European scrutiny of structured finance
- SEC Rule-making Process
  - The notching debate
- U.S. Sub-prime
  - Spawning private litigation & state AG investigations
  - Creating significant scrutiny of our role & performance; misinformation & disinformation

Exceptional financial performance with challenging regulatory and credit environments is similar to 2002-03 (post-Enron)

Relationship of Current Challenges to Long-term Strategic Priorities

Common Themes to 1st Half Challenges

- Understanding of ratings lags sensitivity to rating actions
  - Performance assessed by anecdote, not data
- Significant & irreconcilable conflicts between user groups for ratings
  - "Standards" users vs. "alpha" seekers; longs vs. shorts
  - Ratings being adopted for uses beyond credit
- Rating agencies assessed as a collective, not individually
  - But MCO is only public company in industry – the example
- Behaviors/actions intensely scrutinized both for independence & competence

Observations & Implications

Is the current environment any different than what we've had to confront historically?

- **Rating agencies today have a more prominent role in the capital markets** than 5 years ago – and much more than 10 years ago…Why?
  - Hard-coded into global financial system infrastructure (Basel II, Reform Act, IOSCO)
  - Embraced by emerging market authorities/companies as a "stamp of arrival" (accelerating use ahead of need)
  - Proliferation of structured finance driving more demand for independent, credible opinion & guidance to cope with financial complexity
  - Global disintermediation

Observations & Implications

- Capital markets are more accessible to more people, becoming directly linked to the "real world" – **rating agencies are increasingly relevant to real people,** e.g.:
  - Ratings with more obvious social, political & geo-political implications (securitization of housing and consumer finance, China, "national champions", etc.)
  - Expansion into general economic commentary with MEDC
- As a U.S. public company, MCO is the symbol of an industry perceived to be very profitable, powerful and – possibly – conflicted
  - External actions to-date have not broken our position
  - Good results = bad publicity?

Observations & Implications

Confronting and managing multiple "big" issues at once is an aberration historically, but prospectively?

- We are perceived as having "system lock-in", in an industry that has system lock-in, in a system that matters more to more people
- We've always taken unpopular positions, but complaints about us have a wider and more willing audience in the media, among bankers, in Washington, Brussels...
  - Our environment breeds intense scrutiny of everything we do
  - Many parties resent us for the position that we have & for lack of control over us

We need to better deal with the Real World's opinions about – and interference in – our business, and its desire to define our role and to influence our activities to suit various purposes.

Observations & Implications

More interest and involvement from the real world requires us to:

- Understand our customers *and our customers' customers* more deeply
- Anticipate reactions to our actions on an interdisciplinary basis
- Develop and communicate messages rigorously & *simply*
  - Our role and function in the capital markets
  - How we manage the rating system
  - How we compete
  - Where we invest
- Stay on message and drive key messages down and out
- Operate in a world of zero tolerance for ambiguity and error – ***being right without being persuasive is failure***

Critical Few Priorities

We must transmit implications into actions consistent with the major ideas we are discussing with the board:

Strategic Priorities	Supporting Strategies	Actions, for example...
▪ Market Relevance ▪ Product Development (esp. around proprietary data/analytics) ▪ International Expansion ▪ Corporate Development (acquisitions) ▪ Synergies (revenue & expense)	▪ Execution – Corporate Positioning – Organizational design – Information Technology – Human Resources Management ▪ Financial Strategy ▪ Legal & Regulatory Strategy	▪ Reinforce clear, core corporate identity – internally/ externally ▪ Data, analytics, advisory, etc. that satisfy emerging demands beyond the purview of traditional ratings ▪ Org structure that encourages cohesive, interdisciplinary orientation to customers and markets ▪ Centralize Communications function ▪ Instill/reinforce behavioral patterns that preserve legal protections (without losing customers)