

Registered no: 4006718

Moody's Holdings Limited
Annual Report for the year ended
31 December 2003



Moody's Holdings Limited

Annual Report

For the year ended 31 December 2003

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Moody's Holdings Limited**Directors and advisers****Directors**

M Madelain
M Foley

Registered Auditors

PricewaterhouseCoopers
Southwark Towers
32 London Bridge Street
London
SE1 9SY

Secretary and registered office

C J O Syer
2 Minster Court
Mincing Lane
London
EC3R 7XB

Bankers

Barclays Bank PLC
54 Lombard Street
London
EC3V 9EX

Directors' Report

The Directors present their report and the audited financial statements of the Company for the year ended 31 December 2003.

Principal activity

Moody's Holdings Limited acts as the holding Company of Moody's Investors Service Limited and its subsidiaries and Moodys KMV Ltd. It does not trade and there is no intention for it to trade in the future.

Review of business and future developments

The group continues to consolidate its position.

Following the acquisition in 2002 of KMV Corporation by the Company's ultimate parent Company, Moody's Corporation, the parent implemented a structural reorganisation of its subsidiaries. On 3 January 2003, the assets and liabilities of KMV Europe Ltd were absorbed into Moody's Risk Management Services Ltd.

At the same time, Moody's Risk Management Services Ltd changed its name to Moody's KMV Ltd and became a direct subsidiary of Moody's Holdings Ltd.

The directors have early adopted FRS20, 'Share-based payment' in the financial statements, as explained on page 9 under Note 1 'Accounting policies'.

The profit after dividends of £4,152,000 (2002: loss £5,157,000) will be transferred to reserves.

Dividends

An interim Dividend of £6,427,000 was paid during the year (2002: £27,798,000).

On 6 January 2004, the Company declared a final dividend for 2003 of £14,000,000.

Directors

The Directors who held office during the year are given below:

M Madelain
M Foley

None of the Directors have an interest in the shares of the Company or its holding group and fellow subsidiaries apart from those indicated below, which are beneficially held for Moody's Corporation:

M Madelain	2 Ordinary Shares in Moody's France SA
M Foley	1 Ordinary Shares in Moody's France SA

Fixed assets

Details of the movements in fixed assets are set out in notes 8 and 9 to the accounts.

Auditors

Following the conversion of our auditors PricewaterhouseCoopers to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned on 28 October 2003 and the Directors appointed its successor, PricewaterhouseCoopers LLP. A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the annual general meeting.

Employment of disabled persons

Applications for employment by disabled persons are fully and fairly considered having regard to the aptitudes and abilities of each applicant. Efforts are made to enable any employees who become disabled during employment to continue their careers within the group. Training, career development and promotion of disabled persons is, to the extent possible, identical to that of other employees who are not disabled.

By order of the board on 31 January 2005.



M Foley
Director

Moody's Holdings Limited

Statement of Directors' responsibilities

Company law requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the group and of the profit or loss of the Company for that year. In preparing those financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently.
- Make judgements and estimates that are reasonable and prudent.
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts.
- Prepare financial statements on the going concern basis, unless it is inappropriate to presume that the companies within the group will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud or other irregularities.

By order of the board on 31 January 2005



M Foley
Director

Moody's Holdings Limited

Independent Auditors' Report to the Members of Moody's Holdings Limited

We have audited the financial statements which comprise the profit and loss account, the balance sheet and the related notes which have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of Directors' responsibilities. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by prior consent in writing. We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises of the Directors' report only.

Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and Group at 31 December 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors, London

31 January 2005

Moody's Holdings Limited
**Consolidated Profit and loss account for the year ended
31 December 2003**

	Notes	2003 £'000	2002 £'000
TURNOVER			
Continuing operations:		103,372	92,661
Direct Cost		(5,207)	(4,155)
Gross profit		<u>98,165</u>	<u>88,506</u>
Administrative expenses		<u>(82,748)</u>	<u>(56,146)</u>
Profit on ordinary activities before interest and taxation on continuing operations	2	15,417	32,360
Interest receivable and similar income	3	71	251
Interest payable and similar charges	4	<u>(6)</u>	<u>(45)</u>
		65	206
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		15,482	32,566
Taxation on profit on ordinary activities	7	(4,903)	(9,925)
Dividends		(6,427)	(27,798)
RETAINED PROFIT / (LOSS) FOR THE FINANCIAL YEAR		<u>4,152</u>	<u>(5,157)</u>

All results are derived from continuing operations.

The group has no recognised gains and profit/losses other than those included in the profit/loss above, and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the profit on ordinary activities before taxation and the profit/loss for the year stated above, and their historical cost equivalents.

The notes on pages 8 to 15 form part of these financial statements.

Moody's Holdings Limited

Consolidated Balance sheet - 31 December 2003

	Notes	£'000	2003 £'000	2002 £'000
Fixed assets				
Intangible assets	8		398	586
Tangible assets	9		2,251	2,378
Investments	10		460	-
Current assets				
Debtors: amounts falling due within one year	11	28,818		12,490
Debtors: amounts falling due after more than one year	12	759		-
Cash at bank and in hand		<u>20,620</u>		<u>11,189</u>
		50,197		23,679
Creditors: amounts falling due within one year	13	<u>(27,502)</u>		<u>(20,983)</u>
Net current assets			<u>22,695</u>	<u>2,696</u>
Total assets less current liabilities			25,804	5,660
Provisions for liabilities and charges	14		-	(41)
Net assets			<u>25,804</u>	<u>5,619</u>
Capital and reserves				
Called up share capital	16		-	-
Retained Profit/(loss) account	17		9,771	5,619
Share option equity reserve	17		16,033	-
Equity shareholders' funds	17		<u>25,804</u>	<u>5,619</u>

The financial statements on pages 5 to 15 were approved by the Board of Directors on 31 January 2005 and were signed in its behalf by



M Foley
Director

Moody's Holdings Limited
Company Balance sheet - 31 December 2003

	Notes	2003 £	2002 £
Fixed assets			
Investments	10	2	2
Current assets			
Debtors	11	4	4
Creditors: amounts falling due within one year	13	<u>(2)</u>	<u>(2)</u>
Total assets less current liabilities		4	4
Net assets		<u>4</u>	<u>4</u>
Capital and reserves			
Called up share capital		4	4
Profit and loss account		-	-
Equity shareholders' funds		<u>4</u>	<u>4</u>

The financial statements on pages 5 to 15 were approved by the Board of Directors on 31 January 2005 and were signed on its behalf by:


M Foley
Director

Moody's Holdings Limited

Notes to the financial statements - 31 December 2003

1 Accounting policies

Consolidation

The financial statements are prepared in accordance with the historical cost convention.

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies of the group, which have been applied consistently, are set out below.

The group accounts consolidate the accounts of the Company and its interests in subsidiaries.

As permitted by section 230 of the Companies Act 1985, the Company's profit and loss account has not been included in these financial statements. Its profit for the financial year amounted to £Nil.

Turnover and Revenue Recognition

Revenue for the group is recognised in accordance with agreements with Moody's Investors Service Inc and Moody's KVM Inc. In addition, training revenue from courses is recognised when each course is held. Turnover, which excludes value added tax and trade discounts, represents the invoiced value of goods and services supplied.

Segmental reporting

In the opinion of the Directors, the additional segmental analysis of turnover and profit before tax would be seriously prejudicial to the interests of the group.

Foreign currencies

Transactions in foreign currencies during the year are translated into sterling at the rates ruling at the time of the transactions.

Assets and liabilities denominated in foreign currencies at the balance sheet date are translated into sterling at the rates ruling on that date. Exchange differences are charged or credited to the profit and loss account.

Tangible fixed assets

Depreciation is calculated so as to write off the cost of tangible fixed assets on a straight line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

Fixtures, fittings and office furniture	10%
Office equipment	20%
Motor vehicles	25%
Computer equipment	33%

Leasehold improvements are amortised over the period of the lease to which they relate.

Intangible fixed assets

Purchased intangible fixed assets are capitalised written off over their useful economic lives.

Goodwill

The goodwill arising on acquisitions is capitalised and amortised on a straight line basis over its useful economic life.

Pension scheme arrangements

The company operates a money purchase pension scheme and costs are charged to profit and loss account as incurred.

Notes to the financial statements - 31 December 2003 (continued)

Finance and operating leases

Costs in respect of operating leases are charged on a straight line basis over the lease term. Leasing agreements which transfer to the Company substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital element of the leasing commitments is shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit in apportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over the shorter of the lease terms and the useful lives of equivalent owned assets.

Taxation

The charge for taxation is based on the profit for the year as adjusted for corporation tax purposes.

Deferred taxation has been provided as an asset or liability if transactions have occurred at the balance sheet date which result in an obligation to pay more tax, or a right to pay less tax, at a future date. An asset has not been recognised to the extent that the economic benefits are uncertain. Deferred tax assets and liabilities have not been discounted.

Cash Flow

The group has taken advantage of the exemption in Financial Reporting Standard No1 (Revised) from the requirement to produce a cash flow statement on the grounds that the group is a wholly owned subsidiary of Moody's Corporation. The ultimate parent Company has prepared a consolidated cash flow including the cash flows of this group for the year ended 31 December 2003.

Share based payment

In accordance with FRS 20, the share based payment transactions are recognized as expense based on the prorated cost of exercisable options over their vesting period.

Changes in accounting policies

In April 2004, the Accounting Standards Board issued FRS 20, 'Share-based payment to be effective from period beginning on or after 1 January 2006. The company has early adopted FRS 20, 'Share-based payment', in the financial statements. The adoption of this new standard represents a change in accounting policy and the effect of the adjustment for 2002 has been disclosed separately. The effect of the change in accounting policy to adopt FRS 20 was to increase staff costs and deferred taxation by £11,223,000, £16,033,000 and £4,810,000 respectively, and to therefore decrease profit for the year by £11,223,000 of which £6,862,000 related to 2003 and to decrease the total recognised gains and losses by the same amount.

2 Group Operating profit

	2003 £'000	2002 £'000
Operating profit is stated after crediting: (Profit)/Loss on disposal of tangible fixed assets	-	(8)
and after charging:		
Auditors' remuneration - audit services	42	45
- non audit services	8	109
Depreciation of:		
Tangible fixed assets	735	646
Intangible fixed assets under finance leases	59	180
Amortization of Goodwill	129	129
Hire of plant & machinery - operating leases	108	62
Other operating leases - operating leases	2,978	2,329

Moody's Holdings Limited
**Notes to the financial statements - 31 December 2003
(continued)**
3 Interest receivable and similar income

	2003 £'000	2002 £'000
Bank interest receivable	<u>71</u>	<u>251</u>

4 Interest payable and similar charges

	2003 £'000	2002 £'000
On bank loans and overdrafts	2	25
On finance leases	<u>4</u>	<u>20</u>
	<u>6</u>	<u>45</u>

5 Directors' emoluments

	2003 £'000	2002 £'000
Aggregate emoluments and benefits	<u>1,509</u>	<u>1,850</u>

Both directors of the Company exercised options over shares in the ultimate parent Company which is registered outside the United Kingdom. One of the directors is a member of the Company's defined contribution pension scheme, and the charge to the Company was £16,000 (2002: £15,000).

Highest paid director

	2003 £'000	2002 £'000
Aggregate emoluments and benefits	<u>922</u>	<u>1,085</u>

Moody's Holdings Limited

Notes to the financial statements - 31 December 2003 (continued)

6 Employee information

The average number of persons employed by the group (including executive Directors) during the year was:

	2003 No.	2002 No.
Administration	50	55
Marketing	47	33
Other professional	199	165
	<u>296</u>	<u>253</u>

Employment costs were as follows:-

	2003 £'000	2002 £'000
Wages and salaries	24,320	23,677
Social security costs	3,059	2,250
Other pension costs (see note 18)	1,190	858
	<u>28,569</u>	<u>26,785</u>

7 Tax on profit on ordinary activities

	2003 £'000	2002 £'000
UK Corporation tax at 30% (2002: 30%)		
Current	9,583	9,981
Deferred	(4,868)	(78)
Adjustments in respect of prior years		
Current	144	22
Deferred	44	-
Tax charge	<u>4,903</u>	<u>9,925</u>

The tax assessed on the profit on ordinary activities for the year is higher than the standard rate of corporation tax in the UK of 30% (2002: 30%). The differences are reconciled below:-

	2003 £'000	2002 £'000
Profit on ordinary activities before tax	<u>15,482</u>	<u>32,566</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2002:30%)	4,645	9,770
Effect of:		
Expenses not deductible for tax purposes	68	124
Depreciation in excess of capital allowances	60	44
Tax on stock options	4,810	-
Other timing differences	-	43
Adjustments in respect of previous years	144	22
Total current tax	<u>9,727</u>	<u>10,003</u>

Moody's Holdings Limited

Notes to the financial statements - 31 December 2003 (continued)

8 Intangible fixed assets

	Concessions, patents licenses, trademarks and similar rights and assets	Goodwill	Total
	£'000	£'000	£'000
Cost			
At 31 December 2002	900	903	1,803
At 31 December 2003	900	903	1,803
Depreciation			
At 31 December 2002	841	376	1,217
Charge for the year	59	129	188
At 31 December 2003	900	505	1,406
Net book value			
At 31 December 2003	-	398	398
At 31 December 2002	59	527	586

Goodwill relates to the purchase of trade and certain tangible assets and liabilities of Crowe Chizek & Co from Moody's Risk Management Services Inc, a wholly owned subsidiary of the parent undertaking, on 27 January 2000. The goodwill is amortised over 7 years. This is the period over which the Directors estimate that the value of the underlying business acquired is expected to exceed the value of the underlying assets.

Other Intangibles represent business assets held on finance leases with a five year lease term entered into with Moody's Holdings BV. The Directors' estimate of its useful economic life is 5 years.

9 Group Tangible fixed assets

	Leasehold Improvements £'000	Motor Vehicles £'000	Computer Equipment £'000	Fixtures, Fittings & £'000	Office Equipment £'000	Computer Software £'000	Office Furniture £'000	Total £'000
Cost								
At 31 December 2002	2,831	88	1,356	1,097	315	38	-	5,725
Additions	23	-	212	137	26	-	213	611
Disposals	-	-	(375)	-	(2)	-	-	(377)
At 31 December 2003	2,854	88	1,193	1,234	339	38	213	5,959
Depreciation								
At 31 December 2002	1,520	21	1,080	472	242	12	-	3,347
Charge for the year	327	22	204	115	30	13	26	735
Transfers	-	-	-	-	-	-	-	-
Disposals	-	-	(374)	-	-	-	-	(374)
At 31 December 2003	1,847	43	910	587	272	25	26	3,708
Net book value								
At 31 December 2003	1,007	45	284	647	68	13	187	2,251
At 31 December 2002	1,311	67	276	625	73	26	-	2,378

Moody's Holdings Limited

Notes to the financial statements - 31 December 2003 (continued)

10 Investments

Company

On 1 October 2000, Moody's Holdings Limited acquired the entire share capital of Moody's Investors Service Limited for £2, representing the nominal value share capital in Moody's Investors Service Limited.

Group

In 1998 Moody's Investors Service Limited acquired, for the consideration of £2, 2 £1 ordinary equity shares in a newly incorporated Company, Syndicate Underwriting Research Limited, representing 100% of the issued share capital. Syndicate Underwriting Research Limited, a Company incorporated in England, was dormant during the year.

In 2003 Moody's Investors Service Limited acquired, for the consideration of £47,755, 1000 1 Rand ordinary equity shares in the newly incorporated company, Moody's Investor's Service South Africa (Pty) Ltd, representing 100% of the issued share capital. The company is incorporated in South Africa.

In 2003 Moody's Investors Service Limited acquired, for the consideration of HK\$99, HK\$1 ordinary equity shares in the newly incorporated company, Moody's China Financial Information Services Limited representing 99% of the issued share capital. In addition during the year further financial capital contributions of £139,275 were made. The company is incorporated in China.

In 2003 Moody's Investors Service Limited made financial capital contributions of £273,251 into Moody's Investors Service (Beijing) Ltd, a newly incorporated company limited by registered capital. The company is incorporated in China.

11 Debtors: Amounts falling due within one year

	Group		Company	
	2003	2002	2003	2002
	£'000	£'000	£	£
Trade debtors	354	393	-	-
Amounts owed by group undertakings	22,540	10,536	4	4
Corporation tax	-	13	-	-
Other debtors	509	347	-	-
Deferred Taxation	4,025	-	-	-
Prepayments and accrued income	1,390	1,201	-	-
	<u>28,818</u>	<u>12,490</u>	<u>4</u>	<u>4</u>

12 Debtors: Amounts falling due after more than one year

	2003	2002
	£'000	£'000
Deferred Taxation	<u>759</u>	<u>-</u>

The movement in deferred taxation is shown in note 14.

13 Creditors: amounts falling due within one year

	Group		Company	
	2003	2002	2003	2002
	£'000	£'000	£	£
Trade creditors	665	263	-	-
Group undertakings	-	95	-	-
Amounts owed to group undertakings	10,472	7,206	-	-
Corporation tax	5,661	1,899	-	-
Accruals and deferred income	10,704	11,520	2	2
	<u>27,502</u>	<u>20,983</u>	<u>2</u>	<u>2</u>

Moody's Holdings Limited

Notes to the group financial statements - 31 December 2003 (continued)

14 Provisions for liabilities and charges

Deferred taxation

	£'000
At 31 December 2002	41
Transferred to profit and loss account	(41)
At 31 December 2003	-

Deferred tax is calculated at 30% on timing differences.

The movement on the provision for deferred taxation is as follows:

	Amount Provided £'000	2003 Amount Unprovided £'000	Amount Provided £'000	2002 Amount Unprovided £'000
Accelerated capital allowances	25	-	83	-
Tax on stock options	(4,809)	-	83	-
Other short term timing differences	0	-	(42)	-
	(4,784)	-	41	-

As deferred taxation is carried forward as a net asset, it is disclosed in debtors.

The expected maturity of the deferred taxation provision is as follows:

	Amount Provided £'000	2003 Amount Unprovided £'000	Amount Provided £'000	2002 Amount Unprovided £'000
Less than one year	(4,025)	-	41	-
Over than one year	(759)	-	-	-
	(4,784)	-	41	-

15 Financial commitments

Amounts due under finance leases:

	2003 £'000	2002 £'000
Amounts payable:		
within one year	-	112
between two and five years	-	-
	-	112
Less: finance charges allocated to future periods	-	(17)
	-	95

The group had annual commitments under non-cancellable operating leases as follows:

	Land and buildings 2003 £'000	2002 £'000	Other 2003 £'000	2002 £'000
Expiring within one year	620	98	19	12
Expiring between two and five years	1,250	1,600	64	38
Expiring after more than five years	1,337	1,057	-	-
	3,207	2,755	83	50

Moody's Holdings Limited

Notes to the group financial statements - 31 December 2003 (continued)

16 Called up share capital

	Group 2003 £	Group 2002 £
Authorised		
100,000 ordinary shares of £1 each	<u>£100,000</u>	<u>£100,000</u>
Allotted, called up and fully paid		
4 ordinary shares of £1 each	<u>£4</u>	<u>£4</u>

The above shares were issued upon incorporation.

17 Profit and loss account and reconciliation of shareholders' funds

	2003 £'000	2003 £'000	Group 2003 £'000	Group 2002 £'000	Company 2003 £	Company 2002 £
	P&L reserve	Equity reserve				
Opening equity shareholders' funds	5,619	-	5,619	10,776	4	4
Movement in respect of prior years	(6,230)	6,230	-	-	-	-
Movement for the year	16,809	9,803	26,612	22,641	-	-
Dividend for the year	(6,427)	-	(6,427)	(27,798)	-	-
Closing equity shareholders' funds	<u>9,771</u>	<u>16,033</u>	<u>25,804</u>	<u>5,619</u>	<u>4</u>	<u>4</u>

18 Pension plan

A money purchase pension scheme with defined contribution levels covers the majority of its employees. Contributions to the scheme are independently administered by insurance companies.

The total pension cost for the group was £1,189,928 (2002: £857,548).

19 Related party transactions

The Company has taken advantage of the exceptions conferred by Financial Reporting Standard No. 8 paragraph 3c not to make disclosures concerning transactions with entities that are part of the Moody's Corporation group. The parent undertaking prepares consolidated financial statements which include the Company and are publicly available.

20 Ultimate parent undertaking and controlling party

The Company's ultimate parent undertaking and controlling party is Moody's Corporation, incorporated in the United States of America. Moody's Corporation is the parent undertaking of the smallest and largest group to consolidate these financial statements. Copies of the Moody's Corporation consolidated accounts can be obtained from the Secretary, Moody's Corporation, 99 Church Street, New York, NY10007 USA.