Moody's

Fourth Quarter and Full Year 2016 Earnings Call

February 17, 2017

Overview

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Disclaimer

Certain statements contained in this presentation 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 in this presentation are made as of the date hereof, 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, risks and uncertainties include, but are not limited to, world-wide credit market disruptions or an economic slowdown, which could affect the volume of debt and other securities issued in domestic and/or global capital markets; other matters that could affect the volume of debt and other securities issued in domestic and/or global capital markets, including regulation, credit quality concerns, changes in interest rates and other volatility in the financial markets such as that due to the U.K.'s referendum vote whereby the U.K. citizens voted to withdraw from the EU; the level of merger and acquisition activity in the U.S. and abroad; the uncertain effectiveness and possible collateral consequences of U.S. and foreign government actions affecting world-wide credit markets, international trade and economic policy; concerns in the marketplace affecting our credibility or otherwise affecting market perceptions of the integrity or utility of independent credit agency ratings; the introduction of competing products or technologies by other companies; pricing pressure from competitors and/or customers; the level of success of new product development and global expansion; the impact of regulation as an NRSRO, the potential for new U.S., state and local legislation and regulations, including provisions in the Financial Reform Act and regulations resulting from that Act; the potential for increased competition and regulation in the EU and other foreign jurisdictions; exposure to litigation related to our rating opinions, as well as any other litigation, government and regulatory proceedings, investigations and inquires to which the Company may be subject from time to time; provisions in the Financial Reform Act legislation modifying the pleading standards, and EU regulations modifying the liability standards, applicable to credit rating agencies in a manner adverse to credit rating agencies; provisions of EU regulations imposing additional procedural and substantive requirements on the pricing of services; the possible loss of key employees; failures or malfunctions of our operations and infrastructure; any vulnerabilities to cyber threats or other cybersecurity concerns; the outcome of any review by controlling tax authorities of the Company's global tax planning initiatives; exposure to potential criminal sanctions or civil remedies if the Company fails to comply with foreign and U.S. laws and regulations that are applicable in the jurisdictions in which the Company operates, including sanctions laws, anti-corruption laws, and local laws prohibiting corrupt payments to government officials; the impact of mergers, acquisitions or other business combinations and the ability of the Company to successfully integrate acquired businesses; currency and foreign exchange volatility; the level of future cash flows; the levels of capital investments; and 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" in Part I, Item 1A of the Company's annual report on Form 10-K for the year ended December 31, 2015, and in other filings made by the Company from time to time with the SEC or in materials incorporated herein or therein. Stockholders and investors are cautioned 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.

Agenda

1. Fourth Quarter and Full Year 2016 Results
Ray McDaniel, President and Chief Executive Officer

2. Financial and Operating Highlights
Linda Huber, Executive Vice President and Chief Financial Officer

3. 2017 Outlook
Ray McDaniel, President and Chief Executive Officer

4. Q&A
Ray McDaniel, President and Chief Executive Officer
Linda Huber, Executive Vice President and Chief Financial Officer
Mark Almeida, President, Moody's Analytics
Rob Fauber, President, Moody's Investors Service

1. Fourth Quarter and Full Year 2016 Results

RAY MCDANIEL
PRESIDENT AND CHIEF EXECUTIVE OFFICER

Fourth Quarter 2016 Results and Comparison to Fourth Quarter 2015

Moody's Corporation

» Revenue	↑ 9% to $942 million
» Adjusted Operating Expense[1]	↑ 3% to $551 million
» Adjusted Operating Income[2]	↑ 17% to $424 million
» Adjusted Operating Margin	↑ 320 bps to 45%
» Adjusted EPS[3]	↑ 13% to $1.23

1 Adjusted operating expense is defined as operating expense less an $864 million settlement charge related to the Company's January 2017 agreement reached with the U.S. Department of Justice and the attorneys general of 21 U.S. states and the District of Columbia to resolve pending and potential civil claims related to credit ratings assigned during the financial crisis era.
2 Adjusted operating income is defined as operating income before the settlement charge as well as depreciation and amortization.
3 Fourth quarter 2016 adjusted EPS excludes a $3.63 loss from the settlement charge and an $0.18 gain from a non-cash foreign exchange benefit related to a subsidiary liquidation.

Full Year 2016 Performance and Comparison to Full Year 2015

Moody's Corporation

» Revenue

↑ 3% to $3.6 billion

- Foreign currency translation unfavorably impacted Moody's revenue by 1%

– MIS

↑ 2% to $2.4 billion

- The impact of foreign currency on MIS revenue was negligible

– MA

↑ 7% to $1.2 billion

- Foreign currency translation unfavorably impacted MA revenue by 3%

» Adjusted Operating Expense[1]

↑ 4% to $2.1 billion

- Foreign currency translation favorably impacted expense by 2%

1 Adjusted operating expense is defined as operating expense less the settlement charge and a $12 million restructuring charge.

Full Year 2016 Performance and Comparison to Full Year 2015 (continued)

Moody's Corporation

» Adjusted Operated Income[1]	↑ 3% to $1.6 billion
» Adjusted Operating Margin	• 45.5%

1 Adjusted operating income is defined as operating income less the settlement and restructuring charges, as well as depreciation and amortization.

MCO Full Year 2017 Financial Outlook

» Revenue

↑ mid-single-digit % range

» EPS

- $5.15 - $5.30
  - Includes an estimated $0.15 benefit from an accounting change related to equity compensation

2. Financial and Operating Highlights

LINDA HUBER
EXECUTIVE VICE PRESIDENT AND CHIEF FINANCIAL OFFICER

Fourth Quarter 2016 Results and Comparison to Fourth Quarter 2015

Moody's Corporation Revenue

- Total Global ↑ 9% to $942 million
- U.S. ↑ 11% to $534 million
- Non-U.S. ↑ 6% to $408 million
  - 43% of total revenue
- Total Global
  - Foreign currency translation unfavorably impacted Moody's revenue by 2%
- Recurring Revenue ↔ flat at $472 million
  - 50% of total revenue

Fourth Quarter 2016 Results and Comparison to Fourth Quarter 2015 (continued)

MIS Revenue

» Total MIS	↑ 12% to $608 million
» U.S.	↑ 11% to $376 million
» Non-U.S.	↑ 13% to $232 million • 38% of total MIS revenue
» Total MIS	• The impact of foreign currency translation on MIS revenue was negligible

Fourth Quarter 2016 Results and Comparison to Fourth Quarter 2015 (continued)

MIS Revenue by Line of Business

- Corporate Finance: $278 million
  - Global ↑ 13%
  - U.S. ↑ 6%
  - Non-U.S. ↑ 28%

- Structured Finance: $131 million
  - Global ↑ 14%
  - U.S. ↑ 18%
  - Non-U.S. ↑ 7%

Fourth Quarter 2016 Results and Comparison to Fourth Quarter 2015 (continued)

MIS Revenue by Line of Business

- Financial Institutions: $89 million
  - Global ↓ 4%
  - U.S. ↑ 4%
  - Non-U.S. ↓ 8%
- Public, Project & Infrastructure Finance: $103 million
  - Global ↑ 21%
  - U.S. ↑ 21%
  - Non-U.S. ↑ 21%
- MIS Other: $8 million; up 10%

Fourth Quarter 2016 Results and Comparison to Fourth Quarter 2015 (continued)

MA Revenue by Geography

- Total MA — ↑ 4% to $334 million
- U.S. — ↑ 11% to $158 million
- Non-U.S. — ↓ 1% to $176 million
  - 53% of total MA revenue
- Total MA
  - Foreign currency translation unfavorably impacted MA revenue by 4%
- Total MA — ↑ 5% on a constant currency organic basis

Fourth Quarter 2016 Results and Comparison to Fourth Quarter 2015 (continued)

MA Revenue by Line of Business

» Research, Data and Analytics: $167 million

- Global ↑ 3%
  - 50% of total MA revenue
- U.S. ↑ 7%
- Non-U.S. ↓ 1%
- Global
  - Foreign currency translation unfavorably impacted RD&A revenue by 4%

Fourth Quarter 2016 Results and Comparison to Fourth Quarter 2015 (continued)

MA Revenue by Line of Business

- Enterprise Risk Solutions: $130 million
  - Global ↑ 7%
  - U.S. ↑ 24%
  - Non-U.S. ↓ 1%
  - Global
    - Foreign currency translation unfavorably impacted ERS revenue by 3%
- ERS TTM[1] Revenue ↑ 12%
- ERS TTM[1] Sales ↑ 4%
- ERS TTM[1] Product Sales ↑ 13%
- ERS TTM[1] Service Sales ↓ 16%

1 Trailing twelve months ended December 31, 2016.

Fourth Quarter 2016 Results and Comparison to Fourth Quarter 2015 (continued)

MA Revenue by Line of Business

» Professional Services: $37 million

- Global ↓ 3%
- U.S. ↔ flat
- Non-U.S. ↓ 4%
- Global
  - Foreign currency translation unfavorably impacted Professional Services revenue by 3%

Fourth Quarter 2016 Results and Comparison to Fourth Quarter 2015 (continued)

Moody's Corporation

- Adjusted Operating Expense[1] ↑ 3% to $551 million
  - Foreign currency translation favorably impacted adjusted operating expense by 3%
- Adjusted Operating Margin ↑ 320 bps to 45%

1 Adjusted operating expense is defined as operating expense less the settlement charge.

Fourth Quarter 2016 Capital Allocation

- During 4Q 2016, Moody's repurchased 558 thousand shares at a total cost of $59.9 million, or an average cost of $107.48 per share, and issued 86 thousand shares as part of its employee stock-based compensation plans
- During 4Q 2016, Moody's returned $71 million to its shareholders via dividend payments

Full Year 2016 Capital Allocation

- For full year 2016, Moody's repurchased 7.7 million shares at a total cost of $739 million, or an average cost of $96.38 per share, and issued 2.8 million shares as part of its employee stock-based compensation plans
- For full year 2016, Moody's returned $285 million to its shareholders via dividend payments
- For full year 2016, Moody's returned $1 billion in capital to its shareholders
- On December 21, 2016, Moody's increased its quarterly dividend by 3% from $0.37 to $0.38 per share of Moody's common stock
- As of December 31, 2016, shares outstanding totaled 190.7 million
  - 3% decline from December 31, 2015
- As of December 31, 2016, Moody's had approximately $700 million of share repurchase authority remaining

Balance Sheet and Free Cash Flow

- As of December 31, 2016, Moody's had:
  - $3.4 billion of outstanding debt
  - $1 billion of additional borrowing capacity under its commercial paper program which is backstopped by an undrawn $1 billion dollar revolving credit facility
  - Total cash, cash equivalents and short-term investments of $2.2 billion
    - Approximately 78% held outside the US

- Free cash flow of $1.1 billion for full year 2016, up 4% from full year 2015

3. 2017 Outlook

RAY MCDANIEL
PRESIDENT AND CHIEF EXECUTIVE OFFICER

MCO Full Year 2017 Financial Outlook

Our outlook does not include any estimated impact for potential changes in US tax laws or other possible policy or regulatory changes.

Moody's guidance assumes foreign currency translation at end-of-year exchange rates. Specifically, our forecast reflects exchange rates for British pound of $1.24 to £1 pound and for the euro of $1.05 to €1 euro.

» Revenue ↑ mid-single-digit % range

» Adjusted Operating Expense[1] ↑ low-single-digit % range

» On a constant dollar basis, the revenue growth rate would be approximately 120 basis points higher and the adjusted operating expense growth rate would be approximately 170 basis points higher.

1 This metric is a non-GAAP measure. See Appendix for a reconciliation of this measure to its comparable GAAP measure.

MCO Full Year 2017 Financial Outlook

» Operating Margin	• Approximately 43%
» Adjusted Operating Margin[1]	• Approximately 46%
» Effective Tax Rate[2]	• 31% to 32%
» EPS[3]	• $5.15 - $5.30

1 This metric is a non-GAAP measure. See Appendix for a reconciliation of this measure to its comparable GAAP measure.
2 Effective tax rate reflects the U.S. accounting change related to equity compensation as well as changes to U.K. tax laws as noted in the earnings press release.
3 EPS includes an estimated $0.15 per share benefit resulting from the accounting change previously mentioned.

MCO Full Year 2017 Financial Outlook (continued)

» Free Cash Flow[1,2]	• Approximately $500 million
» Share Repurchase	• Approximately $500 million (subject to available cash, market conditions and other ongoing capital allocation decisions)
» Capital Expenditures	• Approximately $100 million
» Depreciation and Amortization	• Approximately $135 million

1 Free cash flow includes the payment of the settlement charge recorded in the Company's fourth quarter 2016 financial results.
2 This metric is a non-GAAP measure. See Appendix for a reconciliation of this measure to its comparable GAAP measure.

MIS Full Year 2017 Financial Outlook

- Global ↑ mid-single-digit % range
- U.S. ↑ mid-single-digit % range
- Non-U.S. ↑ mid-single-digit % range
- On a constant dollar basis, MIS revenue growth rate would be approximately 100 basis points higher
- Corporate Finance ↑ mid-single-digit % range
- Structured Finance ↑ mid-single-digit % range
- Financial Institutions ↑ mid-single-digit % range
- Public, Project & Infrastructure ↑ low-single-digit % range

MA Full Year 2017 Financial Outlook

- Global ↑ mid-single-digit % range
- U.S. ↑ low-single-digit % range
- Non-U.S. ↑ high-single-digit % range
- On a constant dollar basis, MA revenue growth would be approximately 180 basis points higher
- Research, Data & Analytics ↑ high-single-digit % range
- Enterprise Risk Solutions ↑ mid-single-digit % range
- Professional Services ↑ low-single-digit % range

4. Q&A Session

- Ray McDaniel

  President and Chief Executive Officer, Moody's Corporation

- Linda Huber

  Executive Vice President and Chief Financial Officer, Moody's Corporation

- Mark Almeida

  President, Moody's Analytics

- Rob Fauber

  President, Moody's Investors Service

USD Market: Issuance Views From Investment Banks

Views on this page are from various investment banks. Issuance views are for both financial and non-financial US dollar issuance and may not align with Moody's revenue categorizations.

	YTD 2017	FY 2017E
Investment Grade	~$200 billion	~$1.2 trillion (about flat YOY)

- Record January supply with financials dominating as well as significant issuance from TMT companies
- Robust pipeline as corporates exit earnings blackout periods and look to get ahead of potential Fed rate hikes later in the year
- Many issuers prefunded in favorable 2016 environment which may serve as an offset to 2017 supply; smaller expected M&A pipeline in 2017 vs. prior years

High Yield	~$35 billion	~$250 billion (up 5% YOY)

- 2017 has started with positive tone driven by large cash inflows, recovering commodity prices, and attractive yields
- More constructive default and energy price outlook as well as overall improving economic backdrop expected to support 2017 high yield bond issuance

Leveraged Loans	~$120 billion	~$400 billion (down 15% YOY)

- Stability in macro backdrop is aiding the leverage loan market
- Rising rates and continued CLO formation expected to support leveraged loan activity; however, not enough to surpass the elevated levels of 2016

Euro Market: Issuance Views From Investment Banks

Views on this page are from various investment banks. Issuance views are for both financial and non-financial euro issuance and may not align with Moody's revenue categorizations.

Investment Grade

- Volumes higher than usual in January as many issuers took advantage of strong issuance conditions and low rates
- ECB and Bank of England corporate bond buying programs continue to support the market
- Strong pipeline as issuers look to go to market ahead of key political events in Europe and potential ECB tapering

High Yield

- High yield and leverage loan markets in Europe remain in robust shape
- ECB bond buying has indirectly supported the high yield market and should help maintain rates near all-time lows
- Macroeconomic and geopolitical risks continue to be key focus in 2017

Replay Details

- Available from 3:30pm (Eastern Time) February 17, 2017 until 3:30pm (Eastern Time) March 18, 2017

- Telephone Details:
  - US +1-888-203-1112
  - Non-US +1-719-457-0820
  - Passcode 4534443

- Webcast Details:
  - Go to http://ir.moodys.com
  - Click on “Events & Presentations”
  - Click on the link for “4Q 2016 Earnings Conference Call”

Appendix

Consolidated Statements of Operations (Unaudited)

Amounts in millions, except per share amounts	Three Months Ended December 31, 2016	Three Months Ended December 31, 2015	Year Ended December 31, 2016	Year Ended December 31, 2015
Revenue	$ 942.1	$ 865.9	$ 3,604.2	$ 3,484.5
Expenses:				
Operating	265.3	251.9	1,026.6	976.3
Selling, general and administrative	253.2	252.2	936.4	921.3
Restructuring	-	-	12.0	-
Depreciation and amortization	32.9	28.7	126.7	113.5
Settlement charge	863.8	-	863.8	-
Total expenses	**1,415.2**	**532.8**	**2,965.5**	**2,011.1**
Operating (loss) income	**(473.1)**	**333.1**	**638.7**	**1,473.4**
Non-operating income (expense), net				
Interest expense, net	(34.0)	(28.1)	(137.8)	(115.1)
Other non-operating income, net	41.6	7.3	57.1	21.3
Total non-operating income (expense), net	7.6	(20.8)	(80.7)	(93.8)
Income before provision for income taxes	**(465.5)**	**312.3**	**558.0**	**1,379.6**
Provision for income taxes	(40.0)	91.9	282.2	430.0
Net income	(425.5)	220.4	275.8	949.6
Less: net income attributable to noncontrolling interests	3.1	2.5	9.2	8.3
Net (loss) income attributable to Moody's Corporation	$ **(428.6)**	$ **217.9**	$ **266.6**	$ **941.3**
(Loss) earnings per share attributable to Moody's common shareholders				
Basic	$ (2.25)	$ 1.11	$ 1.38	$ 4.70
Diluted	$ (2.25)[1]	$ 1.09	$ 1.36	$ 4.63
Weighted average number of shares outstanding				
Basic	190.8	197.0	192.7	200.1
Diluted	190.8[2]	200.2	195.4	203.4

(1) This number was initially reported as $(2.22) due to the inadvertent inclusion of the anti-dilutive effect of equity compensation awards in the loss per share calculation.

(2) This number was initially reported as 193.4 due to the inadvertent inclusion of the anti-dilutive effect of equity compensation awards.

Supplemental Revenue Information (Unaudited)

Amounts in millions	Three Months Ended December 31, 2016	Three Months Ended December 31, 2015	Year Ended December 31, 2016	Year Ended December 31, 2015
Moody's Investors Service				
Corporate Finance	$ 277.6	$ 246.1	$ 1,122.3	$ 1,112.7
Structured Finance	130.5	114.1	436.8	449.1
Financial Institutions	88.5	91.9	368.9	365.6
Public, Project and Infrastructure Finance	103.2	85.2	412.2	376.4
MIS Other	8.0	7.3	30.6	30.4
Intersegment royalty	26.3	24.0	100.2	93.5
Sub-total MIS	634.1	568.6	2,471.0	2,427.7
Eliminations	(26.3)	(24.0)	(100.2)	(93.5)
Total MIS revenue	607.8	544.6	2,370.8	2,334.2
Moody's Analytics				
Research, Data and Analytics	166.7	161.4	667.6	626.4
Enterprise Risk Solutions	130.3	121.5	418.8	374.0
Professional Services	37.3	38.4	147.0	149.9
Intersegment revenue	3.7	3.4	13.5	13.1
Sub-total MA	338.0	324.7	1,246.9	1,163.4
Eliminations	(3.7)	(3.4)	(13.5)	(13.1)
Total MA revenue	334.3	321.3	1,233.4	1,150.3
Total Moody's Corporation revenue	**$ 942.1**	**$ 865.9**	**$ 3,604.2**	**$ 3,484.5**
Moody's Corporation revenue by geographic area				
United States	$ 533.9	$ 481.2	$ 2,105.5	$ 2,009.0
International	408.2	384.7	1,498.7	1,475.5
	$ 942.1	**$ 865.9**	**$ 3,604.2**	**$ 3,484.5**

Selected Consolidated Balance Sheet Data (Unaudited)

Table 3 - Selected Consolidated Balance Sheet Data (Unaudited)

Amounts in millions	December 31, 2016	December 31, 2015[1]
Cash and cash equivalents	$ 2,051.5	$ 1,757.4
Short-term investments	173.4	474.8
Total current assets	3,253.1	3,243.1
Non-current assets	2,074.2	1,859.9
Total assets	5,327.3	5,103.0
Total current liabilities[2,3]	2,428.2	1,218.5
Total debt	3,363.0	3,380.6
Other long-term liabilities	863.4	836.9
Total shareholders' deficit	(1,027.3)	(333.0)
Total liabilities and shareholders' deficit	5,327.3	5,103.0
Actual number of shares outstanding	190.7	196.1

(1) In the first quarter of 2016, the Company adopted a new accounting update on a retrospective basis which requires debt issuance costs to be presented as a reduction of debt rather than as an asset. Accordingly, the Company reclassified debt issuance costs, which were previously included in non-current assets, as a reduction of total debt.

(2) The 2016 amount includes an $863.8 million settlement charge related to the agreement with the U.S. Department of Justice and attorneys general of 21 U.S. states and the District of Columbia to resolve pending and potential civil claims related to credit ratings that MIS assigned to certain structured finance instruments in the financial crisis era.

(3) The 2016 amount includes $300 million of debt classified as a current liability as it matures in September 2017.

Selected Consolidated Balance Sheet Data (continued) (Unaudited)

Table 4 - Selected Consolidated Balance Sheet Data (Unaudited) Continued

Total debt consists of the following:

Amounts in millions	Principal Amount	Fair Value of Interest Rate Swaps	Unamortized (Discount) Premium	Unamortized Debt Issuance Costs [1]	Carrying Value
December 31, 2016					
Notes Payable:					
6.06% Series 2007-1 Notes due 2017	$ 300.0	$ -	$ -	$ -	$ 300.0
5.50% 2010 Senior Notes, due 2020	500.0	5.5	(1.3)	(1.6)	502.6
4.50% 2012 Senior Notes, due 2022	500.0	(0.2)	(2.4)	(2.1)	495.3
4.875% 2013 Senior Notes, due 2024	500.0	-	(2.1)	(2.7)	495.2
2.75% 2014 Senior Notes (5-Year), due 2019	450.0	0.9	(0.4)	(1.7)	448.8
5.25% 2014 Senior Notes (30-Year), due 2044	600.0	-	3.3	(5.9)	597.4
1.75% 2015 Senior Notes, due 2027	527.4	-	-	(3.7)	523.7
Total debt	$ 3,377.4	$ 6.2	$ (2.9)	$ (17.7)	$ 3,363.0
Current portion					(300.0)
Total long-term debt					$ 3,063.0
December 31, 2015					
Notes Payable:					
6.06% Series 2007-1 Notes due 2017	$ 300.0	$ -	$ -	$ (0.2)	$ 299.8
5.50% 2010 Senior Notes, due 2020	500.0	9.4	(1.6)	(2.0)	505.8
4.50% 2012 Senior Notes, due 2022	500.0	-	(2.8)	(2.5)	494.7
4.875% 2013 Senior Notes, due 2024	500.0	-	(2.3)	(3.1)	494.6
2.75% 2014 Senior Notes (5-Year), due 2019	450.0	2.3	(0.5)	(2.4)	449.4
5.25% 2014 Senior Notes (30-Year), due 2044	600.0	-	3.4	(6.2)	597.2
1.75% 2015 Senior Notes, due 2027	543.1	-	-	(4.0)	539.1
Total debt	$ 3,393.1	$ 11.7	$ (3.8)	$ (20.4)	$ 3,380.6

[1] Pursuant to a new accounting update, unamortized debt issuance costs are presented as a reduction to the carrying value of the debt.

Non-operating (Expense) Income, Net

Amounts in millions	Three Months Ended December 31, 2016	Three Months Ended December 31, 2015	Year Ended December 31, 2016	Year Ended December 31, 2015
Interest (expense) / income, net:				
Expense on borrowings	**$ (36.3)**	$ (31.8)	**$ (141.9)**	$ (120.6)
Income	**2.7**	2.7	**10.9**	9.7
Legacy Tax (a)	**-**	-	**0.2**	0.7
UTPs and other tax related liabilities (b)	**(0.8)**	1.0	**(7.8)**	(5.3)
Interest capitalized	**0.4**	-	**0.8**	0.4
Total interest expense, net	**$ (34.0)**	$ (28.1)	**$ (137.8)**	$ (115.1)
Other non-operating (expense) income, net:				
FX gain (c)	**$ 41.0**	$ 3.6	**$ 50.1**	$ 1.1
Legacy Tax (a)	**-**	-	**1.6**	6.4
Joint venture income	**4.2**	3.0	**11.4**	11.8
Other	**(3.6)**	0.7	**(6.0)**	2.0
Other non-operating (expense) income, net	**41.6**	7.3	**57.1**	21.3
Total non-operating (expense) income, net	**$ 7.6**	$ (20.8)	**$ (80.7)**	$ (93.8)

(a) Reflects favorable resolution of legacy tax matters
(b) The 2015 amounts include benefits from the resolution of certain domestic and international tax matters
(c) The 2016 amounts include an approximate $35 million foreign exchange gain relating to the liquidation of a subsidiary

Financial Information by Segment

The table below presents revenue, adjusted operating income and operating income by reportable segment. The Company defines adjusted operating income as operating income excluding depreciation and amortization, restructuring and settlement charges.

Table 6 - Financial Information by Segment:

The table below presents revenue, adjusted operating income and operating income by reportable segment. The Company defines adjusted operating income as operating income excluding depreciation and amortization, restructuring and settlement charges.

Amounts in millions	Three Months Ended December 31,							
	2016				2015			
	MIS	MA	Eliminations	Consolidated	MIS	MA	Eliminations	Consolidated
Revenue	$ 634.1	$ 338.0	$ (30.0)	$ 942.1	$ 568.6	$ 324.7	$ (27.4)	$ 865.9
Operating, selling, general and administrative expense	285.5	263.0	(30.0)	518.5	283.9	247.6	(27.4)	504.1
Adjusted operating income	348.6	75.0	-	423.6	284.7	77.1	-	361.8
Depreciation and amortization	19.0	13.9	-	32.9	17.3	11.4	-	28.7
Settlement charge	863.8	-	-	863.8	-	-	-	-
Operating (loss) income	$ (534.2)	$ 61.1	$ -	$ (473.1)	$ 267.4	$ 65.7	$ -	$ 333.1
Adjusted operating margin	55.0%	22.2%		45.0%	50.1%	23.7%		41.8%
Operating margin	(84.2%)	18.1%		(50.2%)	47.0%	20.2%		38.5%

Amounts in millions	Year Ended December 31,							
	2016				2015			
	MIS	MA	Eliminations	Consolidated	MIS	MA	Eliminations	Consolidated
Revenue	$ 2,471.0	$ 1,246.9	$ (113.7)	$ 3,604.2	$ 2,427.7	$ 1,163.4	$ (106.6)	$ 3,484.5
Operating, selling, general and administrative expense	1,115.6	961.1	(113.7)	1,963.0	1,120.3	883.9	(106.6)	1,897.6
Adjusted operating income	1,355.4	285.8	-	1,641.2	1,307.4	279.5	-	1,586.9
Restructuring	10.2	1.8	-	12.0	-	-	-	-
Depreciation and amortization	73.8	52.9	-	126.7	66.0	47.5	-	113.5
Settlement charge	863.8	-	-	863.8	-	-	-	-
Operating income	$ 407.6	$ 231.1	$ -	$ 638.7	$ 1,241.4	$ 232.0	$ -	$ 1,473.4
Adjusted operating margin	54.9%	22.9%		45.5%	53.9%	24.0%		45.5%
Operating margin	16.5%	18.5%		17.7%	51.1%	19.9%		42.3%

Transaction and Relationship Revenue

The tables below summarize the split between transaction and relationship revenue. In the MIS segment, excluding MIS Other, transaction revenue represents the initial rating of a new debt issuance as well as other one-time fees while relationship revenue represents the recurring monitoring of a rated debt obligation and/or entities that issue such obligations, as well as revenue from programs such as commercial paper, medium-term notes and shelf registrations. In MIS Other, transaction revenue represents revenue from professional services and outsourcing engagements and relationship revenue represents subscription based revenues. In the MA segment, relationship revenue represents subscription-based revenues and software maintenance revenue. Transaction revenue in MA represents software license fees and revenue from risk management advisory projects, training and certification services, and outsourced research and analytical engagements.

Amounts in millions	**Three Months Ended December 31,**					
	2016			**2015**		
	Transaction	Relationship	Total	Transaction	Relationship	Total
Corporate Finance	$ 187.7	$ 89.9	$ 277.6	$ 160.8	$ 85.3	$ 246.1
	68%	32%	100%	65%	35%	100%
Structured Finance	$ 88.8	$ 41.7	$ 130.5	$ 76.0	$ 38.1	$ 114.1
	68%	32%	100%	67%	33%	100%
Financial Institutions	$ 31.1	$ 57.4	$ 88.5	$ 35.2	$ 56.7	$ 91.9
	35%	65%	100%	38%	62%	100%
Public, Project and Infrastructure Finance	$ 64.2	$ 39.0	$ 103.2	$ 47.8	$ 37.4	$ 85.2
	62%	38%	100%	56%	44%	100%
MIS Other	$ 2.7	$ 5.3	$ 8.0	$ 2.8	$ 4.5	$ 7.3
	34%	66%	100%	38%	62%	100%
Total MIS	**$ 374.5**	**$ 233.3**	**$ 607.8**	$ 322.6	$ 222.0	$ 544.6
	62%	**38%**	**100%**	59%	41%	100%
Moody's Analytics	**$ 97.3**	**$ 237.0**	**$ 334.3**	$ 97.7	$ 223.6	$ 321.3
	29%	**71%**	**100%**	30%	70%	100%
Total Moody's Corporation	**$ 471.8**	**$ 470.3**	**$ 942.1**	$ 420.3	$ 445.6	$ 865.9
	50%	**50%**	**100%**	49%	51%	100%

Transaction and Relationship Revenue (continued)

The tables below summarize the split between transaction and relationship revenue. In the MIS segment, excluding MIS Other, transaction revenue represents the initial rating of a new debt issuance as well as other one-time fees while relationship revenue represents the recurring monitoring of a rated debt obligation and/or entities that issue such obligations, as well as revenue from programs such as commercial paper, medium-term notes and shelf registrations. In MIS Other, transaction revenue represents revenue from professional services and outsourcing engagements and relationship revenue represents subscription based revenues. In the MA segment, relationship revenue represents subscription-based revenues and software maintenance revenue. Transaction revenue in MA represents software license fees and revenue from risk management advisory projects, training and certification services, and outsourced research and analytical engagements.

Amounts in millions	Year Ended December 31,					
	2016			2015		
	Transaction	Relationship	Total	Transaction	Relationship	Total
Corporate Finance	$ 765.5 68%	$ 356.8 32%	$ 1,122.3 100%	$ 768.8 69%	$ 343.9 31%	$ 1,112.7 100%
Structured Finance	$ 269.4 62%	$ 167.4 38%	$ 436.8 100%	$ 287.9 64%	$ 161.2 36%	$ 449.1 100%
Financial Institutions	$ 137.3 37%	$ 231.6 63%	$ 368.9 100%	$ 136.6 37%	$ 229.0 63%	$ 365.6 100%
Public, Project and Infrastructure Finance	$ 257.9 63%	$ 154.3 37%	$ 412.2 100%	$ 225.9 60%	$ 150.5 40%	$ 376.4 100%
MIS Other	$ 10.9 36%	$ 19.7 64%	$ 30.6 100%	$ 13.2 43%	$ 17.2 57%	$ 30.4 100%
Total MIS	**$ 1,441.0 61%**	**$ 929.8 39%**	**$ 2,370.8 100%**	$ 1,432.4 61%	$ 901.8 39%	$ 2,334.2 100%
Moody's Analytics	**$ 314.0 25%**	**$ 919.4 75%**	**$ 1,233.4 100%**	$ 296.9 26%	$ 853.4 74%	$ 1,150.3 100%
Total Moody's Corporation	**$ 1,755.0 49%**	**$ 1,849.2 51%**	**$ 3,604.2 100%**	$ 1,729.3 50%	$ 1,755.2 50%	$ 3,484.5 100%

Adjusted Financial Measures

The tables below reflect certain adjusted results that the SEC defines as "non-GAAP financial measures" as well as a reconciliation of each non-GAAP measure to its most directly comparable GAAP measure. Management believes that such adjusted financial measures, when read in conjunction with the Company's reported results, can provide useful supplemental information for investors analyzing period-to-period comparisons of the Company's performance, facilitate comparisons to competitors' operating results and provide greater transparency to investors of supplemental information used by management in its financial and operational decision-making. These adjusted measures, as defined by the Company, are not necessarily comparable to similarly defined measures of other companies. Furthermore, these adjusted measures should not be viewed in isolation or used as a substitute for other GAAP measures in assessing the operating performance or cash flows of the Company.

The Company presents Adjusted Operating Income because management deems this metric to be a useful measure of assessing the operating performance of Moody's. Adjusted Operating Income excludes depreciation and amortization because companies utilize productive assets of different ages and use different methods of acquiring and depreciating productive assets. Adjusted Operating Income also excludes a restructuring and settlement charge as the frequency and magnitude of these charges may vary widely across periods. Management believes that the exclusion of certain items, detailed in the reconciliation below, allows for an additional perspective on the Company's operating results from period to period and across companies. The Company defines Adjusted Operating Margin as Adjusted Operating Income divided by revenue.

Amounts in millions	Three Months Ended December 31,		Year Ended December 31,	
	2016	**2015**	**2016**	**2015**
Operating (loss) income	**$ (473.1)**	$ 333.1	**$ 638.7**	$ 1,473.4
Restructuring	**-**	-	**12.0**	-
Depreciation & amortization	**32.9**	28.7	**126.7**	113.5
Settlement charge	**863.8**	-	**863.8**	-
Adjusted operating income	**$ 423.6**	$ 361.8	**$ 1,641.2**	$ 1,586.9
Operating margin	**(50.2%)**	38.5%	**17.7%**	42.3%
Adjusted operating margin	**45.0%**	41.8%	**45.5%**	45.5%

Adjusted Financial Measures (continued)

The Company presents adjusted operating expense because management deems this metric to be a useful additional measure of assessing period-to-period comparisons of the Company's operating expenses. Adjusted operating expense excludes a settlement and restructuring charge.

Amounts in millions	Three Months Ended December 31,		Year Ended December 31,	
	2016	**2015**	**2016**	**2015**
Operating expense	**$ 1,415.2**	$ 532.8	**$ 2,965.5**	$ 2,011.1
Settlement charge	**(863.8)**	-	**(863.8)**	-
Restructuring	**-**	-	**(12.0)**	-
Adjusted operating expense	**$ 551.4**	$ 532.8	**$ 2,089.7**	$ 2,011.1

Free Cash Flow

The table below reflects a reconciliation of the Company's net cash flows from operating activities to free cash flow. The Company defines free cash flow as net cash provided by operating activities minus payments for capital additions. Management believes that free cash flow is a useful metric in assessing the Company's cash flows to service debt, pay dividends and to fund acquisitions and share repurchases. Management deems capital expenditures essential to the Company's product and service innovations and maintenance of Moody's operational capabilities. Accordingly, capital expenditures are deemed to be a recurring use of Moody's cash flow.

Amounts in millions	Year Ended December 31,	
	2016	**2015**
Net cash flows from operating activities	$ **1,226.1**	$ 1,153.6
Capital additions	**(115.2)**	(89.0)
Free cash flow	$ **1,110.9**	$ 1,064.6
Net cash provided by (used in) investing activities	$ **102.0**	$ (92.0)
Net cash used in financing activities	$ **(1,009.8)**	$ (461.0)

Adjusted Net Income and Earnings Per Share Attributable to Moody's Common Shareholders

The Company presents these adjusted measure to exclude restructuring and settlement charge, a foreign exchange gain related to a subsidiary liquidation and a Legacy Tax benefit as well as the income tax effects of these items to allow for an additional perspective when comparing Moody's net income and diluted earnings per share from period to period. Below is a reconciliation of these measures to their most directly comparable U.S. GAAP amount:

Amounts in millions	Three months ended December 31, 2016	Three months ended December 31, 2015	Year ended December 31, 2016	Year ended December 31, 2015
Net (loss)/income attributable to Moody's common shareholders	$ (428.6)	$ 217.9	$ 266.6	$ 941.3
Pre-tax restructuring	$ -	$ -	$ 12.0	$ -
Tax on restructuring	-	-	(3.9)	-
Net restructuring	-	-	8.1	-
Pre-tax settlement charge	863.8	-	863.8	-
Tax on settlement charge	(163.1)	-	(163.1)	-
Net settlement charge	700.7	-	700.7	-
FX gain on subsidiary liquidation	(34.8)	-	(34.8)	-
Legacy Tax benefit	-	-	-	(6.4)
Adjusted net income attributable to Moody's common shareholders	$ 237.3	$ 217.9	$ 940.6	$ 934.9

	Three months ended December 31, 2016	Three months ended December 31, 2015	Year ended December 31, 2016	Year ended December 31, 2015
(Loss)/Earnings per share attributable to Moody's common shareholders	$ (2.25)[1]	$ 1.09	$ 1.36	$ 4.63
Pre-tax restructuring	$ -	$ -	$ 0.06	$ -
Tax on restructuring	-	-	(0.02)	-
Net restructuring	-	-	0.04	-
Pre-tax settlement charge	4.47	-	4.42	-
Tax on settlement charge	(0.84)	-	(0.83)	-
Net settlement charge	3.63	-	3.59	-
FX gain on subsidiary liquidation	(0.18)	-	(0.18)	-
Legacy Tax benefit	-	-	-	(0.03)
Adjustment to include dilutive effect of equity compensation awards	0.03	-	-	-
Adjusted EPS attributable to Moody's common shareholders	$ 1.23	$ 1.09	$ 4.81	$ 4.60
Diluted weighted average number of shares outstanding inclusive of dilutive effect of equity compensation awards	193.4	200.2	195.4	203.4

(1) This number was initially reported as $(2.22) due to the inadvertent inclusion of the anti-dilutive effect of equity compensation awards in the loss per share calculation.

2017 Outlook

Moody's outlook for 2017 is based on assumptions about many macroeconomic and capital market factors, including interest rates, foreign currency exchange rates, corporate profitability and business investment spending, merger and acquisition activity, consumer borrowing and securitization, and the amount of debt issued. These assumptions are subject to some degree of uncertainty, and results for the year could differ materially from our current outlook. Moody's guidance, which is presented in the table below, assumes foreign currency translation at end-of-quarter exchange rates with the exception of the British pound (£) and the euro (€) which assume foreign currency translation of $1.24 to £1 and $1.05 to €1, respectively.

Full Year 2017 Moody's Corporation Guidance as of February 17, 2017	
MOODY'S CORPORATION	
Revenue	increase in the mid-single-digit percent range
Operating expense	decrease in the 25% to 30% range
Adjusted operating expense[(1)]	increase in the low-single-digit percent range
Depreciation & amortization	Approximately $135 million
Operating margin	Approximately 43%
Adjusted Operating margin[(1)]	Approximately 46%
Effective tax rate	31% - 32%
EPS	$5.15 to $5.30
Capital expenditures	Approximately $100 million
Operating cash flow[(2)]	Approximately $600 million
Free cash flow[(1,2)]	Approximately $500 million
Share repurchases	Approximately $500 million (subject to available cash, market conditions and other ongoing capital allocation decisions)

(1) These metrics are non-GAAP measures. See below for a reconciliation of these measures to their comparable GAAP measure.

(2) Includes payment of the settlement charge related to an agreement with the U.S. Department of Justice and the attorneys general of 21 U.S. states and the District of Columbia

2017 Outlook (continued)

Moody's outlook for 2017 is based on assumptions about many macroeconomic and capital market factors, including interest rates, foreign currency exchange rates, corporate profitability and business investment spending, merger and acquisition activity, consumer borrowing and securitization, and the amount of debt issued. These assumptions are subject to some degree of uncertainty, and results for the year could differ materially from our current outlook. Moody's guidance, which is presented in the table below, assumes foreign currency translation at end-of-quarter exchange rates with the exception of the British pound (£) and the euro (€) which assume foreign currency translation of $1.24 to £1 and $1.05 to €1, respectively.

Full Year 2017 Moody's Corporation Guidance as of February 17, 2017	
MIS	
MIS global	increase in the mid-single-digit percent range
MIS U.S.	increase in the mid-single-digit percent range
MIS non-U.S.	increase in the mid-single-digit percent range
CFG	increase in the mid-single-digit percent range
SFG	increase in the mid-single-digit percent range
FIG	increase in the mid-single-digit percent range
PPIF	increase in the low-single-digit percent range
MA	
MA global	increase in the mid-single-digit percent range
MA U.S.	increase in the low-single-digit percent range
MA non-U.S.	increase in the high-single-digit percent range
RD&A	increase in the high-single-digit percent range
ERS	increase in the mid-single-digit percent range
PS	increase in the low-single-digit percent range

2017 Outlook (continued)

The following are reconciliations of the Company's adjusted forward looking measures to their comparable GAAP measure:

	Year Ended December 31, 2017
Operating margin guidance	Approximately 43%
Depreciation and amortization	Approximately 3%
Adjusted operating margin guidance	**Approximately 46%**

	Year Ended December 31, 2017
Operating expense guidance	Decrease in the 25% to 30% range *Impact of 2016 settlement and restructuring charges*
Adjusted operating expense guidance	**Increase in the low-single-digit percent range**

	Year Ended December 31, 2017
Operating cash flow guidance	Approximately $600 million
Capital additions	Approximately $100 million
Free cash flow guidance	**Approximately $500 million**

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