Moody's

Fourth Quarter and Full Year 2017 Earnings Call

February 9, 2018

Overview

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Global Head of Investor Relations and Communications

Disclaimer

Certain statements contained in this document 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 document are made as of the date hereof, and Moody's 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, Moody's 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 and the expansion of supervisory remit to include non-EU ratings used for regulatory purposes; 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. Other factors, risks and uncertainties relating to our acquisition of Bureau van Dijk could cause our actual results to differ, perhaps materially, from those indicated by these forward-looking statements, including risks relating to the integration of Bureau van Dijk's operations, products and employees into Moody's and the possibility that anticipated synergies and other benefits of the acquisition will not be realized in the amounts anticipated or will not be realized within the expected timeframe; risks that the acquisition could have an adverse effect on the business of Bureau van Dijk or its prospects, including, without limitation, on relationships with vendors, suppliers or customers; claims made, from time to time, by vendors, suppliers or customers; changes in the European or global marketplaces that have an adverse effect on the business of Bureau van Dijk. 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, 2016, 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 2017 Results**
   Ray McDaniel, President and Chief Executive Officer

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

3. **2018 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

Wednesday, February 28, 2018

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Fourth Quarter and Full Year 2017 Results

Ray McDaniel

President and Chief Executive Officer

Fourth Quarter 2017 Results and Comparison to Fourth Quarter 2016

Moody's Corporation

- Revenue ↑ 24% to $1.2 billion
- Operating Expenses[1] ↓ To $703 million
- Excluding the Settlement Charge, operating expenses were up 27%
  - includes 12 percentage points attributable to Bureau van Dijk operating expenses, amortization of acquired intangible assets and non-recurring Acquisition-Related Expenses
- Operating Income ↑ To $463 million from a loss of $473 million
- Adjusted Operating Income[2] ↑ 22% to $519 million
  - Foreign currency translation favorably impacted adjusted operating income by 3%

1 Operating expenses in the fourth quarter of 2016 included the $863.8 million charge related to a settlement with the U.S. Department of Justice and the attorneys general of 21 U.S. states and the District of Columbia (the "Settlement Charge").
2 Fourth quarter 2017 adjusted operating income excludes depreciation and amortization, as well as Acquisition-Related Expenses. Fourth quarter 2016 adjusted operating income excludes depreciation and amortization and the Settlement Charge.

Fourth Quarter 2017 Results and Comparison to Fourth Quarter 2016 (continued)

Moody's Corporation

» Operating Margin	●	39.7%
» Adjusted Operating Margin	●	44.5%
» Diluted EPS	↑	To $0.13 from a loss per share of $2.25
» Adjusted Diluted EPS[1]	↑	20% to $1.51

1 Fourth quarter 2017 adjusted diluted EPS excludes a $1.26 one-time charge related to the net impact of changes in tax laws in the U.S. and Europe. Additional adjustments include amortization of acquired intangible assets and Acquisition-Related Expenses. Fourth quarter 2016 adjusted diluted EPS primarily excludes the impacts of the Settlement Charge and a gain on the liquidation of a subsidiary.

Full Year 2017 Results and Comparison to Full Year 2016

Moody's Corporation Revenue

» Total Global	↑	17% to $4.2 billion
» U.S.	↑	12% to $2.3 billion
» Non-U.S.	↑	24% to $1.9 billion
» Total Global	●	Foreign currency translation favorably impacted revenue by 1%

Full Year 2017 Results and Comparison to Full Year 2016 (continued)

MIS Revenue

» Total MIS	↑	17% to $2.8 billion
» U.S.	↑	13% to $1.7 billion
» Non-U.S.	↑	23% to $1.1 billion

Full Year 2017 Results and Comparison to Full Year 2016 (continued)

MA Revenue

» Total MA	↑	16% to $1.4 billion
» U.S.	↑	7% to $646 million
» Non-U.S.	↑	25% to $785 million
» Organic MA	↑	8% to $1.3 billion

Full Year 2017 Results and Comparison to Full Year 2016 (continued)

Moody's Corporation

- Operating Expenses[1] — ↓ 19% to $2.4 billion
  – There was no material impact from foreign currency translation
- Excluding the Settlement Charge and restructuring charge in 2016, operating expenses were up 15%
  – includes 5 percentage points attributable to Bureau van Dijk operating expenses, amortization of acquired intangible assets and non-recurring Acquisition-Related Expenses
- Operating Income — ↑ To $1.8 billion from $639 million
- Adjusted Operating Income[2] — ↑ 21% to $2.0 billion
  – Foreign currency translation favorably impacted adjusted operating income by 2%

1 Full year 2017 operating expenses included the $863.8 million Settlement Charge and restructuring charge in 2016.
2 Full year 2017 adjusted operating income excludes depreciation and amortization, as well as Acquisition-Related Expenses. Full year 2016 adjusted operating income excludes depreciation and amortization, the Settlement Charge and a restructuring charge.

Full Year 2017 Results and Comparison to Full Year 2016 (continued)

Moody's Corporation

» Operating Margin	• 43.0%
» Adjusted Operating Margin	• 47.3%
» Effective Tax Rate[1]	• 43.6%

1 The effective tax rate for full year 2017 included a net charge in the fourth quarter related to the impacts of tax reform in the U.S. and Europe. The effective tax rate was down from 50.6% in full year 2016, which included the non-deductible portion of the Settlement Charge. Excluding the net charge in 2017, the effective tax rate was 29.9%. Excluding the Settlement Charge in 2016, the effective tax rate was 31.3%.

Full Year 2018 Diluted EPS and Adjusted Diluted EPS Guidance[1]

Moody's Corporation

- Expect FY 2018 diluted EPS to be $7.20 to $7.40
- Expect FY 2018 adjusted diluted EPS to be $7.65 to $7.85[2]
- Both ranges include an approximate $0.65 benefit from U.S. tax reform

1 Moody's outlook assumes foreign currency translation at exchange rates as of January 31, 2018. Specifically, our forecast reflects exchange rates for the British pound (£) of $1.42 to £1 and for the euro (€) of $1.25 to €1.
2 Full year 2018 adjusted diluted EPS excludes approximately $0.40 from acquisition-related intangibles and approximately $0.05 from acquisition-related expenses.

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Financial Highlights

Linda Huber

Executive Vice President and Chief Financial Officer

Fourth Quarter 2017 Results and Comparison to Fourth Quarter 2016

Moody's Corporation Revenue

» Total Global	↑	24% to $1.2 billion
» U.S.	↑	15% to $614 million
» Non-U.S.	↑	35% to 551 million - 47% of total revenue
» Recurring Revenue	↑	23% to $581 million - 50% of total revenue
» Total Global	•	Foreign currency translation favorably impacted Moody's revenue by 3%

Fourth Quarter 2017 Results and Comparison to Fourth Quarter 2016 (continued)

MIS Revenue

» Total MIS	↑	19% to $725 million
» U.S.	↑	17% to $440 million
» Non-U.S.	↑	23% to $285 million - 39% of total MIS revenue
» Total MIS	●	Foreign currency translation favorably impacted MIS revenue by 3%

Fourth Quarter 2017 Results and Comparison to Fourth Quarter 2016 (continued)

MIS Revenue by Line of Business

- Corporate Finance: $334 million

- Global	↑ 20%
- U.S.	↑ 16%
- Non-U.S.	↑ 28%

- Structured Finance: $148 million

- Global	↑ 13%
- U.S.	↑ 17%
- Non-U.S.	↑ 5%

Fourth Quarter 2017 Results and Comparison to Fourth Quarter 2016 (continued)

MIS Revenue by Line of Business

» Financial Institutions: $119 million

- Global	↑	34%
- U.S.	↑	36%
- Non-U.S.	↑	33%

» Public, Project & Infrastructure Finance: $119 million

- Global	↑	16%
- U.S.	↑	14%
- Non-U.S.	↑	18%

Fourth Quarter 2017 Results and Comparison to Fourth Quarter 2016 (continued)

MA Revenue

» Total MA	↑	32% to $441 million
» U.S.	↑	10% to $174 million
» Non-U.S.	↑	51% to $267 million - 60% of total MA revenue
» Organic MA	↑	13% to $379 million
» Total MA	•	Foreign currency translation favorably impacted MA revenue by 3%

Fourth Quarter 2017 Results and Comparison to Fourth Quarter 2016 (continued)

MA Revenue by Line of Business

» Research, Data and Analytics: $258 million[1]

- Global	↑	55%
- U.S.	↑	18%
- Non-U.S.	↑	More than doubled to $144 million
- Organic	↑	17%

1 Bureau van Dijk's revenue contribution of $62 million for the fourth quarter included a $22 million reduction as a result of a deferred revenue adjustment required under acquisition accounting rules.

Fourth Quarter 2017 Results and Comparison to Fourth Quarter 2016 (continued)

MA Revenue by Line of Business

» Enterprise Risk Solutions: $143 million

- Global	↑	10%
- U.S.	↓	5%
- Non-U.S.	↑	18%

Fourth Quarter 2017 Results and Comparison to Fourth Quarter 2016 (continued)

MA Revenue by Line of Business

» ERS TTM[1] Sales	↑	7%
» ERS TTM[1] Product Sales	↑	14%
» ERS TTM[1] Services Sales	↓	13%

» Recurring revenue represented 69% of total ERS revenue in 2017, up from 66% in the prior year

1 Trailing twelve months ended December 31, 2017.

Fourth Quarter 2017 Results and Comparison to Fourth Quarter 2016 (continued)

MA Revenue by Line of Business

» Professional Services: $40 million

- Global	↑	7%
- U.S.	↑	6%
- Non-U.S.	↑	8%

Fourth Quarter 2017 Results and Comparison to Fourth Quarter 2016 (continued)

Moody's Corporation

» Operating Expenses[1] ↓ To $703 million
- – Foreign currency translation unfavorably impacted expenses by 1%

» Excluding the Settlement Charge, operating expenses were up 27%
- – includes 12 percentage points attributable to Bureau van Dijk operating expenses, amortization of acquired intangible assets and non-recurring Acquisition-Related Expenses

» Operating Margin ● 39.7%

» Adjusted Operating Margin ● 44.5%

1 Operating expenses in the fourth quarter of 2016 included the $863.8 million Settlement Charge.

Capital Allocation

Fourth Quarter 2017

- Repurchased 0.2 million shares at a total cost of $36 million, or an average cost of $146.85 per share
- Issued 0.1 million shares as part of employee stock-based compensation plans
- Returned $73 million to shareholders via dividend payments

Dividend Announcement

- On January 24, 2017, announced a regular quarterly dividend of $0.44 per share of Moody's common stock, a 16% increase from the prior quarterly dividend of $0.38 per share. This dividend will be payable March 12, 2018 to stockholders of record at the close of business on February 20, 2018.

Capital Allocation (continued)

Full Year 2017

- Repurchased 1.6 million shares at a total cost of $200 million, or an average cost of $121.21 per share
- Issued a net 1.9 million shares as part of employee stock-based compensation plans[1]
- Returned $290 million to shareholders via dividend payments

- As of December 31, 2017, shares outstanding totaled 191 million
  - Approximately flat to December 31, 2016
- As of December 31, 2017, approximately $500 million of share repurchase authority remaining

1 The net amount includes shares withheld for employee payroll taxes.

Balance Sheet and Free Cash Flow

- As of December 31, 2017, Moody's had:
  - $5.5 billion of outstanding debt
  - Approximately $870 million of additional borrowing capacity available under its revolving credit facility
  - Total cash, cash equivalents and short-term investments of $1.2 billion
    - Down $1.0 billion from December 31, 2016 primarily due to the acquisition of Bureau van Dijk
- Cash flow from operations in 2017 was $748 million, down from $1.3 billion in 2016[1]
- Free cash flow in 2017 was $657 million, down from $1.1 billion in 2016[1]

1 Declines in cash flow from operations and free cash flow were due to the Settlement Charge payment in 2017.

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2018 Outlook

Ray McDaniel

President and Chief Executive Officer

Full Year 2018 Financial Outlook

Moody's outlook assumes foreign currency translation at exchange rates as of January 31, 2018. Specifically, our forecast reflects exchange rates for the British pound (£) of $1.42 to £1 and for the euro (€) of $1.25 to €1.

Full-Year 2018 Financial Outlook	
MCO	**Guidance as of February 9, 2018**
Revenue	increase in the low-double-digit percent range
Operating expenses	increase in the low-double-digit percent range
Operating margin	43% to 44%
Adjusted operating margin	approximately 48%
Effective tax rate	22% to 23%
Diluted EPS[1]	$7.20 to $7.40
Adjusted Diluted EPS[1]	$7.65 to $7.85

1 Diluted EPS and adjusted diluted EPS ranges include an approximate $0.65 per share benefit resulting from U.S. tax reform and an estimated $0.20 benefit related to the tax accounting for equity compensation.

Full Year 2018 Financial Outlook (continued)

Full-Year 2018 Financial Outlook	
MCO	**Guidance as of February 9, 2018**
Free cash flow	approximately $1.6 billion
Share repurchase	approximately $200 million (subject to available cash, conditions and other ongoing capital allocation decisions)
Capital expenditures	approximately $120 million
Depreciation & amortization	approximately $200 million

Full Year 2018 Financial Outlook (continued)

Full-Year 2018 Financial Outlook	
MIS	**Guidance as of February 9, 2018**
Revenue	increase mid-single-digit percent range
U.S.	increase in the low-single-digit percent range
Non-U.S.	increase in high-single-digit percent range
Corporate Finance	increase in the high-single-digit percent range
Structured Finance	increase in the mid-single-digit percent range
Financial Institutions	increase in the mid-single-digit percent range
Public, Project & Infrastructure Finance	decrease in the low-single-digit percent range

Full Year 2018 Financial Outlook (continued)

Full-Year 2018 Financial Outlook	
MA	**Guidance as of February 9, 2018**
Revenue[1,2]	increase in the mid-twenties percent range
U.S.	increase in the low-double-digit percent range
Non-U.S.	increase in the mid-thirties percent range
Research, Data & Analytics[1,2]	approximately 40%
Enterprise Risk Solutions	increase in the low-single-digit percent range
Professional Services revenue	increase in the high-single-digit percent range

1 Organic MA global revenue is expected to increase in the low-double-digit percent range and organic RD&A revenue is expected to increase in the mid-teens percent range.
2 Bureau van Dijk's revenue contribution for full year 2018 will be reduced by an estimated $16 million as a result of a deferred revenue adjustment required as part of acquisition accounting.

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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

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 U.S. dollar issuance and may not align with Moody's revenue categorizations.

	FY 2018E
Investment Grade Bonds	~$1.25 trillion (flat to down 10%)

- Market remains robust with tight spreads offsetting rising rates; January 2018 was the second largest January on record after January 2017
- Growing M&A pipeline among investment grade borrowers
- ~87% probability of a Fed rate hike in March; on average expectation of 3 rate hikes in 2018

High Yield Bonds	~$285 billion (flat to up 10%)

- High yield fundamentals remain strong with demand for new issues, an improving macro-environment and relatively narrow spreads; issuance remains primarily driven by refinancings
- Year-to-date 2018 issuance up 10% year-over-year; forward pipeline characterized as robust
- Potential headwind is tax reform impact on companies with high amounts of debt and low EBIT/EBITDA

Leveraged Loans	~$500 billion (flat to down 10%)

- Leveraged loan market remains strong; spreads are narrow
- FY 2018 expected to be slightly down from a record 2017, with upside should M&A activity accelerate or rising rates create further demand for floating rate paper

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

- Slow start to issuance for the year, but expected to pick up post earnings season
- Spreads near historical lows; concerns around ECB QE tapering are muted
- The Euro area continues to see strong growth in GDP and corporate profits

Speculative Grade

- Both high yield and leveraged loan markets are in good shape with strong forward pipelines, though issuance levels face tough comps over strong 2017
- Spreads are narrow due to strong demand, fueling opportunistic issuance

Replay Details

» Available from 3:30pm (Eastern Time) February 9, 2018 until 3:30pm (Eastern Time) March 10, 2018

» Telephone Details:

– US	+1-888-203-1112
– Non-US	+1-719-457-0820
– Passcode	8257606

» Webcast Details:

– Go to ir.moodys.com

– Click on “Events & Presentations”

– Click on the link for “4Q & FY 2017 Earnings Conference Call”

Appendix

Consolidated Statements of Operations

(Unaudited)

Amounts in millions, except per share amounts	Three Months Ended December 31, 2017	Three Months Ended December 31, 2016	Year Ended December 31, 2017	Year Ended December 31, 2016
Revenue	$ 1,165.5	$ 942.1	$ 4,204.1	$ 3,604.2
Expenses:				
Operating	342.4	265.3	1,222.8	1,026.6
Selling, general and administrative	304.6	253.2	991.4	936.4
Restructuring	-	-	-	12.0
Depreciation and amortization	49.9	32.9	158.3	126.7
Settlement Charge	-	863.8	-	863.8
Acquisition-Related Expenses	5.8	-	22.5	-
Total expenses	702.7	1,415.2	2,395.0	2,965.5
Operating income (loss)	462.8	(473.1)	1,809.1	638.7
Non-operating income (expense), net				
Interest expense, net	(52.9)	(34.0)	(188.4)	(137.8)
Other non-operating income, net	(2.2)	41.6	(4.7)	57.1
CCXI Gain	-	-	59.7	-
Purchase price hedge gain	-	-	111.1	-
Total non-operating income (expense), net	(55.1)	7.6	(22.3)	(80.7)
Income before provision for income taxes	407.7	(465.5)	1,786.8	558.0
Provision for income taxes	379.2	(40.0)	779.1	282.2
Net income (loss)	28.5	(425.5)	1,007.7	275.8
Less: net income attributable to noncontrolling interests	3.0	3.1	7.1	9.2
Net income (loss) attributable to Moody's Corporation	$ 25.5	$ (428.6)	$ 1,000.6	$ 266.6

Earnings (loss) per share attributable to Moody's common shareholders				
Basic	$ 0.13	$ (2.25)	$ 5.24	$ 1.38
Diluted	$ 0.13	$ (2.25)	$ 5.15	$ 1.36
Weighted average number of shares outstanding				
Basic	191.0	190.8	191.1	192.7
Diluted	194.4	190.8	194.2	195.4

Supplemental Revenue Information

(Unaudited)

Amounts in millions	Three Months Ended December 31, 2017	Three Months Ended December 31, 2016	Year Ended December 31, 2017	Year Ended December 31, 2016
Moody's Investors Service				
Corporate Finance	$ 333.9	$ 277.6	$ 1,392.7	$ 1,122.3
Structured Finance	147.8	130.5	495.5	436.8
Financial Institutions	119.0	88.5	435.8	368.9
Public, Project and Infrastructure Finance	119.3	103.2	431.3	412.2
MIS Other	4.7	8.0	18.5	30.6
Intersegment royalty	29.7	26.3	111.7	100.2
Sub-total MIS	754.4	634.1	2,885.5	2,471.0
Eliminations	(29.7)	(26.3)	(111.7)	(100.2)
Total MIS revenue	724.7	607.8	2,773.8	2,370.8
Moody's Analytics				
Research, Data and Analytics	258.0	166.7	832.7	667.6
Enterprise Risk Solutions	142.8	130.3	448.6	418.8
Professional Services	40.0	37.3	149.0	147.0
Intersegment revenue	4.4	3.7	16.0	13.5
Sub-total MA	445.2	338.0	1,446.3	1,246.9
Eliminations	(4.4)	(3.7)	(16.0)	(13.5)
Total MA revenue	440.8	334.3	1,430.3	1,233.4
Total Moody's Corporation revenue	$ 1,165.5	$ 942.1	$ 4,204.1	$ 3,604.2

Moody's Corporation revenue by geographic area				
United States	$ 614.4	$ 533.9	$ 2,348.4	$ 2,105.5
International	551.1	408.2	1,855.7	1,498.7
	$ 1,165.5	$ 942.1	$ 4,204.1	$ 3,604.2

Selected Consolidated Balance Sheet Data

(Unaudited)

Amounts in millions	December 31, 2017	December 31, 2016[1]
Cash and cash equivalents	$ 1,071.5	$ 2,051.5
Short-term investments	111.8	173.4
Total current assets	2,591.6	3,253.1
Non-current assets	6,013.6	2,074.2
Total assets	8,605.2	5,327.3
Total current liabilities [1,2]	2,074.3	2,428.2
Total debt [3]	5,540.5	3,363.0
Other long-term liabilities	1,534.7	863.4
Total shareholders' (deficit)	(114.9)	(1,027.3)
Total liabilities and shareholders' (deficit)	8,605.2	5,327.3
Actual number of shares outstanding	191.0	190.7

[1] The 2016 amount includes the $863.8 million accrued Settlement Charge paid by the Company in the first quarter of 2017.

[2] The December 31, 2017 and December 31, 2016 amounts include $429.4 million and $300.0 million, respectively, of debt and commercial paper classified as a current liability as the maturities are within twelve months of the balance sheet date.

[3] Includes debt classified in both current liabilities and long-term debt.

Selected Consolidated Balance Sheet Data (continued)

(Unaudited)

Total debt consists of the following:

Amounts in millions

	December 31, 2017				
	Principal Amount	Fair Value of Interest Rate Swap [1]	Unamortized (Discount) Premium	Unamortized Debt Issuance Costs	Carrying Value
Notes Payable:					
5.50% 2010 Senior Notes, due 2020	$ 500.0	$ -	$ (1.0)	$ (1.2)	$ 497.8
4.50% 2012 Senior Notes, due 2022	500.0	(0.8)	(2.0)	(1.7)	495.5
4.875% 2013 Senior Notes, due 2024	500.0	-	(1.8)	(2.4)	495.8
2.75% 2014 Senior Notes (5-Year), due 2019	450.0	(2.2)	(0.2)	(1.1)	446.5
5.25% 2014 Senior Notes (30-Year), due 2044	600.0	-	3.3	(5.7)	597.6
1.75% 2015 Senior Notes, due 2027	600.4	-	-	(3.6)	596.8
2.75% 2017 Senior Notes, due 2021	500.0	-	(1.3)	(3.2)	495.5
2017 Floating Rate Senior Notes, due 2018	300.0	-	-	(0.5)	299.5
2.625% 2017 Private Placement Notes, due 2023	500.0	-	(1.1)	(3.5)	495.4
3.25% 2017 Private Placement Notes, due 2028	500.0	-	(5.2)	(3.9)	490.9
2017 Term Loan Facility, due 2020	500.0	-	-	(0.7)	499.3
Commercial Paper	130.0	-	(0.1)	-	129.9
Total debt	$ 5,580.4	$ (3.0)	$ (9.4)	$ (27.5)	$ 5,540.5
Current portion					(429.4)
Total long-term debt					5,111.1

	December 31, 2016				
	Principal Amount	Fair Value of Interest Rate Swap [1]	Unamortized (Discount) Premium	Unamortized Debt Issuance Costs	Carrying Value
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

[1] The Company has entered into interest rate swaps on the 2010 Senior Notes, 2012 Senior Notes and the 2014 Senior Notes (5-Year).

Non-Operating (Expense) Income, Net

Amounts in millions	Three Months Ended December 31, 2017	Three Months Ended December 31, 2016	Year Ended December 31, 2017	Year Ended December 31, 2016
Interest (expense) / income, net:				
Expense on borrowings[1]	$ (50.2)	$ (36.3)	$ (190.1)	$ (141.9)
Income	3.0	2.7	16.0	10.9
Legacy Tax	-	-	-	0.2
UTPs and other tax related liabilities	(5.9)	(0.8)	(15.3)	(7.8)
Interest capitalized	0.2	0.4	1.0	0.8
Total interest expense, net	**$ (52.9)**	**$ (34.0)**	**$ (188.4)**	**$ (137.8)**
Other non-operating (expense) income, net:				
FX gain	$ (4.3)	$ 41.0	$ (16.8)	$ 50.1
Legacy Tax	-	-	-	1.6
Joint venture income	5.6	4.2	13.3	11.4
Other	(3.5)	(3.6)	(1.2)	(6.0)
Other non-operating (expense) income, net	**(2.2)**	**41.6**	**(4.7)**	**57.1**
CCXI Gain [2]	-	-	59.7	-
Purchase Price Hedge Gain [3]	-	-	111.1	-
Total non-operating (expense) income, net	**$ (55.1)**	**$ 7.6**	**$ (22.3)**	**$ (80.7)**

[1] The increases reflect interest on the various debt instruments issued to fund the acquisition of Bureau van Dijk including approximately $6 million of fees incurred in the second quarter of 2017 on an undrawn $1.5 billion bridge loan facility. Additionally, includes interest on the $800 million in notes issued in late February 2017 to fund payment of the Settlement Charge and the repayment of $300 million of notes maturing in September 2017.

[2] Reflects the non-cash, non-taxable gain from a strategic realignment and expansion involving Moody's China affiliate, China Cheng Xin International Credit Rating Co. Ltd.

[3] Reflects a realized gain on a foreign currency collar to economically hedge the Bureau van Dijk euro-denominated purchase price.

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, Acquisition-Related expenses, restructuring and a Settlement Charge.

	Three Months Ended December 31,							
	2017				2016			
	MIS	MA	Eliminations	Consolidated	MIS	MA	Eliminations	Consolidated
Revenue	$ 754.4	$ 445.2	$ (34.1)	$ 1,165.5	$ 634.1	$ 338.0	$ (30.0)	$ 942.1
Operating, selling, general and administrative expense	348.0	333.1	(34.1)	647.0	285.5	263.0	(30.0)	518.5
Adjusted operating income	406.4	112.1	-	518.5	348.6	75.0	-	423.6
Depreciation and amortization	18.3	31.6	-	49.9	19.0	13.9	-	32.9
Acquisition-Related Expenses	-	5.8	-	5.8	-	-	-	-
Settlement Charge	-	-	-	-	863.8	-	-	863.8
Operating income (loss)	$ 388.1	$ 74.7	$ -	$ 462.8	$ (534.2)	$ 61.1	$ -	$ (473.1)
Adjusted operating margin	53.9%	25.2%		44.5%	55.0%	22.2%		45.0%
Operating margin	51.4%	16.8%		39.7%	(84.2%)	18.1%		(50.2%)

	Year Ended December 31,							
	2017				2016			
	MIS	MA	Eliminations	Consolidated	MIS	MA	Eliminations	Consolidated
Revenue	$ 2,885.5	$ 1,446.3	$ (127.7)	$ 4,204.1	$ 2,471.0	$ 1,246.9	$ (113.7)	$ 3,604.2
Operating, selling, general and administrative expense	1,246.9	1,095.0	(127.7)	2,214.2	1,115.6	961.1	(113.7)	1,963.0
Adjusted operating income	1,638.6	351.3	-	1,989.9	1,355.4	285.8	-	1,641.2
Depreciation and amortization	74.7	83.6	-	158.3	73.8	52.9	-	126.7
Restructuring	-	-	-	-	10.2	1.8	-	12.0
Acquisition-Related Expenses	-	22.5	-	22.5	-	-	-	-
Settlement Charge	-	-	-	-	863.8	-	-	863.8
Operating income	$ 1,563.9	$ 245.2	$ -	$ 1,809.1	$ 407.6	$ 231.1	$ -	$ 638.7
Adjusted operating margin	56.8%	24.3%		47.3%	54.9%	22.9%		45.5%
Operating margin	54.2%	17.0%		43.0%	16.5%	18.5%		17.7%

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.

	Three Months Ended December 31,					
Amounts in millions	2017			2016		
	Transaction	Relationship	Total	Transaction	Relationship	Total
Corporate Finance	$ 234.6	$ 99.3	$ 333.9	$ 187.7	$ 89.9	$ 277.6
	70%	30%	100%	68%	32%	100%
Structured Finance	$ 103.4	$ 44.4	$ 147.8	$ 88.8	$ 41.7	$ 130.5
	70%	30%	100%	68%	32%	100%
Financial Institutions	$ 56.8	$ 62.2	$ 119.0	$ 31.1	$ 57.4	$ 88.5
	48%	52%	100%	35%	65%	100%
Public, Project and Infrastructure Finance	$ 80.9	$ 38.4	$ 119.3	$ 64.2	$ 39.0	$ 103.2
	68%	32%	100%	62%	38%	100%
MIS Other	$ 1.5	$ 3.2	$ 4.7	$ 2.7	$ 5.3	$ 8.0
	32%	68%	100%	34%	66%	100%
Total MIS	**$ 477.2**	**$ 247.5**	**$ 724.7**	$ 374.5	$ 233.3	$ 607.8
	66%	**34%**	**100%**	62%	38%	100%
Moody's Analytics	**$ 107.7**	**$ 333.1**	**$ 440.8**	$ 97.3	$ 237.0	$ 334.3
	24%	**76%**	**100%**	29%	71%	100%
Total Moody's Corporation	**$ 584.9**	**$ 580.6**	**$ 1,165.5**	$ 471.8	$ 470.3	$ 942.1
	50%	**50%**	**100%**	50%	50%	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, 2017			2016		
	Transaction	Relationship	Total	Transaction	Relationship	Total
Corporate Finance	$ 1,012.0	$ 380.7	$ 1,392.7	$ 765.5	$ 356.8	$ 1,122.3
	73%	27%	100%	68%	32%	100%
Structured Finance	$ 320.2	$ 175.3	$ 495.5	$ 269.4	$ 167.4	$ 436.8
	65%	35%	100%	62%	38%	100%
Financial Institutions	$ 194.7	$ 241.1	$ 435.8	$ 137.3	$ 231.6	$ 368.9
	45%	55%	100%	37%	63%	100%
Public, Project and Infrastructure Finance	$ 278.4	$ 152.9	$ 431.3	$ 257.9	$ 154.3	$ 412.2
	65%	35%	100%	63%	37%	100%
MIS Other	$ 2.5	$ 16.0	$ 18.5	$ 10.9	$ 19.7	$ 30.6
	14%	86%	100%	36%	64%	100%
Total MIS	**$ 1,807.8**	**$ 966.0**	**$ 2,773.8**	$ 1,441.0	$ 929.8	$ 2,370.8
	65%	**35%**	**100%**	61%	39%	100%
Moody's Analytics	**$ 312.7**	**$ 1,117.6**	**$ 1,430.3**	$ 314.0	$ 919.4	$ 1,233.4
	22%	**78%**	**100%**	25%	75%	100%
Total Moody's Corporation	**$ 2,120.5**	**$ 2,083.6**	**$ 4,204.1**	$ 1,755.0	$ 1,849.2	$ 3,604.2
	50%	**50%**	**100%**	49%	51%	100%

Adjusted Operating Income and Adjusted Operating Margin

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, Acquisition-Related Expenses, restructuring and the Settlement Charge. Depreciation and amortization are excluded because companies utilize productive assets of different ages and use different methods of acquiring and depreciating productive assets. Acquisition-Related Expenses consist of expenses incurred to complete and integrate the acquisition of Bureau van Dijk and are excluded due to the material nature of these expenses which are not expected to recur at this dollar magnitude subsequent to the completion of the multi-year integration effort. Acquisition related expenses from previous acquisitions were not material. Restructuring charges are excluded as the frequency and magnitude of these charges may vary widely across periods and companies. The Settlement Charge is a material non-recurring event that is not expected to recur in the future at this magnitude. Management believes that the exclusion of depreciation and amortization, Acquisition-Related Expenses, restructuring and the Settlement Charge, as 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.

	Three Months Ended December 31,		Year Ended December 31,	
	2017	2016	2017	2016
Operating income (loss)	$ 462.8	$ (473.1)	$ 1,809.1	$ 638.7
Restructuring	-	-	-	12.0
Depreciation & amortization	49.9	32.9	158.3	126.7
Acquisition-Related Expenses	5.8	-	22.5	-
Settlement Charge	-	863.8	-	863.8
Adjusted operating income	$ 518.5	$ 423.6	$ 1,989.9	$ 1,641.2
Operating margin	39.7%	(50.2%)	43.0%	17.7%
Adjusted operating margin	44.5%	45.0%	47.3%	45.5%

Adjusted Operating Expenses

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 expenses excludes a settlement and restructuring charge.

	Three Months Ended December 31,				Year Ended December 31,			
	2017	2016	Change	Growth	2017	2016	Change	Growth
Total expenses	**$ 702.7**	$ 1,415.2	$ (712.5)	(50%)	**$ 2,395.0**	$ 2,965.5	$ (570.5)	(19%)
Restructuring charge	-	-	-		-	(12.0)	12.0	
Settlement Charge	-	(863.8)	863.8		-	(863.8)	863.8	
Adjusted operating expenses	**$ 702.7**	$ 551.4	$ 151.3	27%	**$ 2,395.0**	$ 2,089.7	$ 305.3	15%

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 expenditures. 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.

	Year Ended	
	2017	2016
Net cash flows from operating activities	**$ 747.5**	$ 1,259.2
Capital expenditures	**(90.6)**	(115.2)
Free cash flow	**$ 656.9**	$ 1,144.0
Net cash provided by (used in) investing activities	**$ (3,420.0)**	$ 102.0
Net cash provided by (used in) financing activities	**$ 1,607.2**	$ (1,042.9)

Organic Revenue and Growth Measures

The Company presents the organic revenue and growth for the MA segment and RD&A LOB because management deems this metric to be a useful measure which provides additional perspective in assessing the revenue growth of the Company's MA segment and RD&A LOB excluding the revenue impacts from Bureau van Dijk, a material acquisition. The organic revenue and growth for MA in the twelve months ended December 31, 2017 also exclude two months of revenue from GGY, which was acquired in March 2016. The Company calculates organic revenue and growth by excluding from the fourth quarter and full year $62 million and $92 million, respectively, in revenue from Bureau van Dijk (which is net of a $22 million and $36 million reduction, respectively, to revenue due to a $52 million fair value adjustment, as part of acquisition accounting, to acquired deferred revenue) from the global MA revenue and RD&A revenue. Below is a reconciliation of the Company's organic dollar revenue and growth rates:

	Three Months Ended December 31,				Twelve Months Ended December 31,			
Amounts in millions	2017	2016	Change	Growth	2017	2016	Change	Growth
MA revenue	$ **440.8**	$ 334.3	$ 106.5	32%	$ **1,430.3**	$ 1,233.4	$ 196.9	16%
GGY revenue	-	-	-		**(6.0)**	-	(6.0)	
Bureau van Dijk revenue	**(62.2)**	-	(62.2)		**(92.4)**	-	(92.4)	
Organic MA revenue	$ **378.6**	$ 334.3	$ 44.3	13%	$ **1,331.9**	$ **1,233.4**	$ **98.5**	8%

	Three Months Ended December 31,				Twelve Months Ended December 31,			
Amounts in millions	2017	2016	Change	Growth	2017	2016	Change	Growth
RD&A revenue	$ **258.0**	$ 166.7	$ 91.3	55%	$ **832.7**	$ 667.6	$ 165.1	25%
Bureau van Dijk revenue	**(62.2)**	-	(62.2)		**(92.4)**	-	(92.4)	
Organic RD&A revenue	$ 195.8	$ 166.7	$ 29.1	17%	$ 740.3	$ 667.6	$ 72.7	11%

Adjusted Provision for Income Taxes and Effective Tax Rate Measures

The Company presents Adjusted Provision for Income Taxes and Adjusted Effective Tax Rate to exclude charges in the fourth quarter of 2017 relating to U.S. tax reform and changes in tax laws in Europe and the impact of the Settlement Charge in 2016. Management believes that the exclusion of these items, as detailed in the reconciliation below, allows for an additional perspective on the Company's effective tax rate from period to period and across companies.

Amounts in millions	Three Months Ended December 31, 2017	Three Months Ended December 31, 2016	Three Months Ended December 31, Change	Twelve Months Ended December 31, 2017	Twelve Months Ended December 31, 2016	Twelve Months Ended December 31, Change
Income before provision for income taxes	$ 407.7	$ (465.5)	$ 873.2	$ 1,786.8	$ 558.0	$ 1,228.8
Settlement Charge	-	863.8	(863.8)	-	863.8	(863.8)
Adjusted Income before provision for income taxes	407.7	398.3	9.4	1,786.8	1,421.8	365.0
Provision for income taxes	$ 379.2	$ (40.0)	$ 419.2	$ 779.1	$ 282.2	$ 496.9
Transition tax related to U.S. tax reform[1]	(247.3)	-	(247.3)	(247.3)	-	(247.3)
Net Impact of U.S./European tax rate changes on deferred taxes[1]	1.7	-	1.7	1.7	-	1.7
Tax Impact on Settlement Charge	-	163.1	(163.1)	-	163.1	(163.1)
Total Impact	(245.6)	163.1	(408.7)	(245.6)	163.1	(408.7)
Adjusted Provision for income taxes	$ 133.6	$ 123.1	$ 10.5	$ 533.5	$ 445.3	$ 88.2
Effective tax rate-GAAP	93.0%	8.6%		43.6%	50.6%	
Transition tax related to U.S. tax reform[1]	(60.6%)	-		(13.8%)	-	
Net Impact of U.S./European tax rate change on deferred taxes[1]	0.4%	-		0.1%	-	
Tax Impact on Settlement Charge		22.3%			(19.3%)	
Total Impact	(60.2%)	22.3%		(13.7%)	(19.3%)	
Effective tax rate adjusted	32.8%	30.9%		29.9%	31.3%	

(1) The U.S impacts are pursuant to the Tax Cuts and Jobs Act, which was enacted into law in December 2017 and the change in Europe relates to a lower prospective statutory tax rate in Belgium.

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

Beginning in the third quarter of 2017, the Company modified this adjusted measure to exclude the impact of amortization of acquired intangible assets as companies utilize intangible assets with different ages and have different methods of acquiring and amortizing intangible assets. Furthermore, the timing and magnitude of business combination transactions are not predictable and the purchase price allocated to amortizable intangible assets and the related amortization period are unique to each acquisition and can vary significantly from period to period and across companies. Also, management believes that excluding acquisition-related amortization expense provides additional perspective when comparing operating results from period to period, and with both acquisitive and non-acquisitive peer companies.

Furthermore, U.S. tax reform as well as changes in tax laws in Europe were both enacted in the fourth quarter of 2017, resulting in significant adjustments to the tax provision. The Company modified the adjusted measures to exclude these adjustments to provide additional perspective when comparing net income and diluted EPS from period to period and across companies.

In addition to excluding acquisition-related amortization expense and the effects of U.S. tax reform as well as changes in the tax laws in Europe, current and prior-year adjusted net income and adjusted diluted earnings per share exclude the CCXI Gain, the Purchase Price Hedge Gain, Acquisition-Related Expenses, restructuring charges and the Settlement Charge. The Company excludes these items to provide additional perspective on the Company's operating results from period to period and across companies as the frequency and magnitude of similar transactions may vary widely across periods. Additionally, the Acquisition-Related Expenses are excluded due to the material nature of these expenses which are not expected to recur at this dollar magnitude subsequent to the completion of the multi-year integration effort relating to Bureau van Dijk. Acquisition-Related Expenses from previous acquisitions were not material.

Below is a reconciliation of this measure to its most directly comparable U.S. GAAP amount.

	Three Months Ended December 31,				Year Ended December 31,			
Amounts in millions	2017		2016		2017		2016	
Net income attributable to Moody's common shareholders		$ 25.5		$ (428.6)		$ 1,000.6		$ 266.6
Transition tax related to U.S. tax reform		247.3		-		247.3		-
Net Impact of U.S./European tax change on deferred taxes		(1.7)				(1.7)		
CCXI Gain		-		-		(59.7)		-
Pre-Tax Purchase Price Hedge Gain	$ -		$ -		$ (111.1)		$ -	
Tax on Purchase Price Hedge Gain	-		-		38.8		-	
Net Purchase Price Hedge Gain		-				(72.3)		-
Pre-Tax Acquisition-Related Expenses	$ 5.8		$ -		$ 22.5		$ -	
Tax on Acquisition-Related Expenses	(2.0)		-		(3.6)		-	
Net Acquisition-Related Expenses (1)		3.8		-		18.9		-
Pre-Tax Acquisition-Related Intangible Amortization Expenses	$ 25.5		$ 8.7		$ 61.4		$ 34.2	
Tax on Acquisition-Related Intangible Amortization Expenses	(6.3)		(2.5)		(16.2)		(9.8)	
Net Acquisition-Related Intangible Amortization Expenses		19.2		6.2		45.2		24.4
FX gain on liquidation of a subsidiary		-		(34.8)		-		(34.8)
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
Adjusted net income attributable to Moody's common shareholders		$ 294.1		$ 243.5		$ 1,178.3		$ 965.0

(1) Certain Acquisition-Related Expenses are not deductible for tax.

Adjusted Net Income and Adjusted Diluted Earnings per Share Attributable to Moody's Common Shareholders (continued)

Beginning in the third quarter of 2017, the Company modified this adjusted measure to exclude the impact of amortization of acquired intangible assets as companies utilize intangible assets with different ages and have different methods of acquiring and amortizing intangible assets. Furthermore, the timing and magnitude of business combination transactions are not predictable and the purchase price allocated to amortizable intangible assets and the related amortization period are unique to each acquisition and can vary significantly from period to period and across companies. Also, management believes that excluding acquisition-related amortization expense provides additional perspective when comparing operating results from period to period, and with both acquisitive and non-acquisitive peer companies.

Furthermore, U.S. tax reform as well as changes in tax laws in Europe were both enacted in the fourth quarter of 2017, resulting in significant adjustments to the tax provision. The Company modified the adjusted measures to exclude these adjustments to provide additional perspective when comparing net income and diluted EPS from period to period and across companies.

In addition to excluding acquisition-related amortization expense and the effects of U.S. tax reform as well as changes in the tax laws in Europe, current and prior-year adjusted net income and adjusted diluted earnings per share exclude the CCXI Gain, the Purchase Price Hedge Gain, Acquisition-Related Expenses, restructuring charges and the Settlement Charge. The Company excludes these items to provide additional perspective on the Company's operating results from period to period and across companies as the frequency and magnitude of similar transactions may vary widely across periods. Additionally, the Acquisition-Related Expenses are excluded due to the material nature of these expenses which are not expected to recur at this dollar magnitude subsequent to the completion of the multi-year integration effort relating to Bureau van Dijk. Acquisition-Related Expenses from previous acquisitions were not material.

Below is a reconciliation of this measure to its most directly comparable U.S. GAAP amount.

	Three Months Ended December 31,				Year Ended December 31,			
	2017		2016		2017		2016	
Diluted EPS attributable to Moody's common shareholders - GAAP		$ 0.13		$ (2.25)		$ 5.15		$ 1.36
Transition tax related to U.S. tax reform		1.27				1.28		-
Net Impact of U.S./European tax change on deferred taxes		(0.01)				(0.01)		
CCXI Gain		-		-		(0.31)		-
Pre-Tax Purchase Price Hedge Gain	$ -		$ -		$ (0.57)		$ -	
Tax on Purchase Price Hedge Gain	-		-		0.20		-	
Net Purchase Price Hedge Gain				-		(0.37)		-
Pre-Tax Acquisition-Related Expenses	$ 0.03		$ -		0.12		$ -	
Tax on Acquisition-Related Expenses	(0.01)		-		(0.02)		-	
Net Acquisition-Related Expenses (1)		0.02		-		0.10		-
Pre-Tax Acquisition-Related Intangible Amortization Expenses	$ 0.13		$ 0.04		$ 0.32		$ 0.18	
Tax on Acquisition-Related Intangible Amortization Expenses	(0.03)		(0.01)		(0.09)		(0.05)	
Net Acquisition-Related Intangible Amortization Expenses		0.10		0.03		0.23		0.13
FX gain on liquidation of a subsidiary		-		(0.18)		-		(0.18)
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
Adjustment to include dilutive effect of equity compensation awards		-		0.03		-		-
Adjusted Diluted EPS attributable to Moody's common shareholders		$ 1.51		$ 1.26		$ 6.07		$ 4.94

(1) Certain Acquisition-Related Expenses are not deductible for tax.

2018 Outlook

Moody's outlook for 2018 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 exchange rates as of January 31, 2018. Specifically, our forecast reflects exchange rates for the British pound (£) of $1.42 to £1 and for the euro (€) of $1.25 to €1.

Full Year 2018 Moody's Corporation Guidance as of February 9, 2018	
MOODY'S CORPORATION	
Revenue	increase in the low-double-digit percent range
Operating expenses	increase in the low-double-digit percent range
Depreciation & amortization	approximately $200 million
Operating margin	43% - 44%
Adjusted operating margin(1)	approximately 48%
Effective tax rate	22% - 23%
Diluted EPS	$7.20 to $7.40
Adjusted diluted EPS(1)	$7.65 to $7.85
Capital expenditures	approximately $120 million
Operating cash flow	approximately $1.7 billion
Free cash flow(1)	approximately $1.6 billion
Share repurchases	approximately $200 million (subject to available cash, market conditions and other ongoing capital allocation decisions)
(1) These metrics are adjusted measures. See below for a reconciliation of these measures to their comparable GAAP measure.	

2018 Outlook (continued)

Moody's outlook for 2018 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 exchange rates as of January 31, 2018. Specifically, our forecast reflects exchange rates for the British pound (£) of $1.42 to £1 and for the euro (€) of $1.25 to €1.

Full Year 2018 Moody's Corporation Guidance as of February 9, 2018	
MIS	
MIS global	increase in the mid-single-digit percent range
MIS U.S.	increase in the low-single-digit percent range
MIS non-U.S.	increase in the high-single-digit percent range
CFG	increase in the high-single-digit percent range
SFG	increase in the mid-single-digit percent range
FIG	increase in the mid-single-digit percent range
PPIF	decrease in the low-single-digit percent range
MA	
MA global[(1)]	increase in the mid-twenties percent range
MA U.S.	increase in the low-double-digit percent range
MA non-U.S.	increase in the mid-thirties percent range
RD&A[(1)]	increase approximately 40%
ERS	increase in the low-single-digit percent range
PS	increase in the high-single-digit percent range

(1) Organic MA global revenue is expected to increase in the low-double-digit percent range and organic RD&A revenue is expected to increase in the mid-teens percent range.

2018 Outlook (continued)

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

	Projected for the Year Ended December 31, 2018
Operating margin guidance	43% - 44%
Depreciation and amortization	Approximately 4.0%
Acquisition-Related Expenses	Approximately 0.5%
Adjusted operating margin guidance	**Approximately 48%**

	Projected for the Year Ended December 31, 2018
Operating cash flow guidance	Approximately $1.7 billion
Less: Capital expenditures	Approximately $120 million
Free cash flow guidance	**Approximately $1.6 billion**

	Projected for the Year Ended December 31, 2018
MA global revenue	Increase in the mid-twenties percent range
	Partial year impact of Bureau van Dijk
Organic MA global revenue	**Increase in the low-double-digit percent range**

	Projected for the Year Ended December 31, 2018
RD&A revenue	Increase approximately 40%
	Partial year impact of Bureau van Dijk
Organic RD&A revenue	**Increase in the mid-teens percent range**

	Projected for the Year Ended December 31, 2018
Diluted EPS	$7.20 to $7.40
Acquisition-related intangibles	Approximately $0.40
Acquisition-Related Expenses	Approximately $0.05
Adjusted diluted EPS	**$7.65 to $7.85**

Moody's

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