

MOODYS CORP /DE/
Form 10-K
February 25, 2019
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(MARK ONE)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934**

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2018

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934**

FOR THE TRANSITION PERIOD FROM TO .

COMMISSION FILE NUMBER 1-14037

MOODY S CORPORATION

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE **13-3998945**
(STATE OF INCORPORATION) (I.R.S. EMPLOYER IDENTIFICATION NO.)
7 World Trade Center at 250 Greenwich Street, NEW YORK, NEW YORK 10007

(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

(ZIP CODE)

REGISTRANT S TELEPHONE NUMBER, INCLUDING AREA CODE: (212) 553-0300.

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

| TITLE OF EACH CLASS | NAME OF EACH EXCHANGE ON WHICH REGISTERED |
|---|--|
| COMMON STOCK, PAR VALUE \$.01 PER SHARE | NEW YORK STOCK EXCHANGE |
| 1.75% SENIOR NOTES DUE 2027 | NEW YORK STOCK EXCHANGE |

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company, and emerging growth company in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer Accelerated Filer Non-accelerated Filer Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

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The aggregate market value of Moody's Corporation Common Stock held by nonaffiliates* on June 30, 2018 (based upon its closing transaction price on the New York Stock Exchange on such date) was approximately \$32.7 billion.

As of January 31, 2019, 191.0 million shares of Common Stock of Moody's Corporation were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement for use in connection with its annual meeting of stockholders scheduled to be held on April 16, 2019, are incorporated by reference into Part III of this Form 10-K.

The Index to Exhibits is included as Part IV, Item 15(3) of this Form 10-K.

*Calculated by excluding all shares held by executive officers and directors of the Registrant without conceding that all such persons are affiliates of the Registrant for purposes of federal securities laws.

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**Exhibits
filed Herewith**

| | |
|---------|--|
| 10.22 | Supplemental Executive Disability Benefit Plan of Moody s Corporation, effective as of January 1, 2019 |
| 21 | SUBSIDIARIES OF THE REGISTRANT |
| 23.1 | CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM |
| 31.1 | Chief Executive Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Chief Financial Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | Chief Executive Officer Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2 | Chief Financial Officer Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101.DEF | XBRL Definitions Linkbase Document |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Labels Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

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The following terms, abbreviations and acronyms are used to identify frequently used terms in this report:

| TERM | DEFINITION |
|----------------------------------|--|
| Acquisition-Related Amortization | Amortization of definite-lived intangible assets acquired by the Company from all business combination transactions |
| Acquisition-Related Expenses | Consists of expenses incurred to complete and integrate the acquisition of Bureau van Dijk for which the integration will be a multi-year effort |
| Adjusted Diluted EPS | Diluted EPS excluding the impact of certain items as detailed in the section entitled Non-GAAP Financial Measures |
| Adjusted Net Income | Net Income excluding the impact of certain items as detailed in the section entitled Non-GAAP Financial Measures |
| Adjusted Operating Income | Operating income excluding depreciation and amortization |
| Adjusted Operating Margin | Adjusted Operating Income divided by revenue |
| AI | Artificial Intelligence |
| Americas | Represents countries within North and South America, excluding the U.S. |
| AOCI | Accumulated other comprehensive income (loss); a separate component of shareholders' equity (deficit) |
| AR | Accounts receivable |
| ASC | The FASB Accounting Standards Codification; the sole source of authoritative GAAP as of July 1, 2009 except for rules and interpretive releases of the SEC, which are also sources of authoritative GAAP for SEC registrants |
| ASC 605 | The U.S. GAAP authoritative guidance for revenue accounting prior to the adoption of ASU No. 2014-09, Revenue from Contracts with Customers (ASC Topic 606). |
| Asia-Pacific | Represents Australia and countries in Asia including but not limited to: China, India, Indonesia, Japan, Korea, Malaysia, Singapore, Sri Lanka and Thailand |
| ASR | Accelerated Share Repurchase |
| ASU | The FASB Accounting Standards Update to the ASC. It also provides background information for accounting guidance and the bases for conclusions on the changes in the ASC. ASUs are not considered authoritative until codified into the ASC |
| Basel III | A global regulatory standard on bank capital adequacy and liquidity agreed by the members of the Basel Committee on Banking Supervision. Basel III was developed in a response to the deficiencies in financial regulation revealed by the global financial crisis. Basel III strengthens bank capital requirements and introduces new regulatory requirements on bank liquidity and bank leverage |

| | |
|-----------------|--|
| Board | The board of directors of the Company |
| BPS | Basis points |
| Bureau van Dijk | Bureau van Dijk Electronic Publishing, B.V.; a global provider of business intelligence and company information; acquired by the Company on August 10, 2017 via the acquisition of Yellow Maple I B.V., an indirect parent of Bureau van Dijk. |
| CCAR | Comprehensive Capital Analysis and Review; annual review by the Federal Reserve in the U.S. to ensure that financial institutions have sufficient capital in times of economic and financial stress and that they have robust, forward-looking capital-planning processes that account for their unique risks. |
| CCXI | China Cheng Xin International Credit Rating Co. Ltd.; China's first and largest domestic credit rating agency approved by the People's Bank of China; the Company acquired a 49% interest in 2006; currently Moody's owns 30% of CCXI. |

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| TERM | DEFINITION |
|--------------|--|
| CCXI Gain | In the first quarter of 2017 CCXI, as part of a strategic business realignment, issued additional capital to its majority shareholder in exchange for a ratings business wholly-owned by the majority shareholder and which has the right to rate a different class of debt instrument in the Chinese market. The capital issuance by CCXI in exchange for this ratings business diluted Moody's ownership interest in CCXI to 30% of a larger business and resulted in a \$59.7 million non-cash, non-taxable gain. |
| CFG | Corporate finance group; an LOB of MIS |
| CLO | Collateralized loan obligation |
| CMBS | Commercial mortgage-backed securities; part of the CREF asset class within SFG |
| Commission | European Commission |
| Common Stock | The Company's common stock |
| Company | Moody's Corporation and its subsidiaries; MCO; Moody's |
| Content | A reporting unit within the MA segment that offers subscription based research, data and analytical products, including credit ratings produced by MIS, credit research, quantitative credit scores and other analytical tools, economic research and forecasts, business intelligence and company information products, and commercial real estate data and analytical tools |
| Council | Council of the European Union |
| CP | Commercial Paper |
| CP Notes | Unsecured commercial paper issued under the CP Program |
| CP Program | A program entered into on August 3, 2016 allowing the Company to privately place CP up to a maximum of \$1 billion for which the maturity may not exceed 397 days from the date of issue and which is backstopped by the 2018 Facility. |
| CRAs | Credit rating agencies |
| CREF | Commercial real estate finance which includes REITs, commercial real estate CDOs and mortgage-backed securities; part of SFG |
| D&A | Depreciation and amortization |
| D&B | Dun & Bradstreet |
| DBPPs | Defined benefit pension plans |
| EBITDA | Earnings before interest, taxes, depreciation and amortization |
| EMEA | Represents countries within Europe, the Middle East and Africa |
| EPS | Earnings per share |
| ERS | Enterprise Risk Solutions; an LOB within MA, which offers risk management software solutions as well as related risk management advisory engagements services |
| ESA | Economics and Structured Analytics; part of the RD&A line of business within MA |
| ESG | Environmental, Social and Governance |
| ESMA | European Securities and Markets Authority |

| | |
|---------------------|---|
| ETR | Effective tax rate |
| EU | European Union |
| EUR | Euros |
| EURIBOR | The Euro Interbank Offered Rate |
| Eurozone | Monetary union of the EU member states which have adopted the euro as their common currency |
| Excess Tax Benefits | The difference between the tax benefit realized at exercise of an option or delivery of a restricted share and the tax benefit recorded at the time the option or restricted share is expensed under GAAP |

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| TERM | DEFINITION |
|----------------------|---|
| Exchange Act | The Securities Exchange Act of 1934, as amended |
| External Revenue | Revenue excluding any intersegment amounts |
| FASB | Financial Accounting Standards Board |
| FIG | Financial institutions group; an LOB of MIS |
| Financial Reform Act | Dodd-Frank Wall Street Reform and Consumer Protection Act |
| Free Cash Flow | Net cash provided by operating activities less cash paid for capital additions |
| FSTC | Financial Services Training and Certifications; now referred to as MALS |
| FTSE | Financial Times Stock Exchange |
| FX | Foreign exchange |
| GAAP | U.S. Generally Accepted Accounting Principles |
| GBP | British pounds |
| ICRA | ICRA Limited; a leading provider of credit ratings and research in India. The Company previously held 28.5% equity ownership and in June 2014, increased that ownership stake to just over 50% through the acquisition of additional shares |
| ICRA Gain | Gain relating to the ICRA Acquisition; U.S. GAAP requires the remeasurement to fair value of the previously held non-controlling shares upon obtaining a controlling interest in a step-acquisition. This remeasurement of the Company's equity investment in ICRA to fair value resulted in a pre-tax gain of \$102.8 million (\$78.5 million after tax) in the second quarter of 2014 |
| ICR Chile | A leading provider of domestic credit ratings in Chile |
| IASB | International Accounting Standards Board |
| IFRS | International Financial Reporting Standards |
| IRS | Internal Revenue Service |
| IT | Information technology |
| KIS | Korea Investors Service, Inc.; a leading Korean rating agency and consolidated subsidiary of the Company |
| KIS Pricing | Korea Investors Service Pricing, Inc.; a leading Korean provider of fixed income securities pricing and consolidated subsidiary of the Company |
| KIS Research | Korea Investors Service Research; a Korean provider of financial research and consolidated subsidiary of the Company |
| Korea | Republic of South Korea |
| Legacy Tax Matters | Exposures to certain potential tax liabilities assumed in connection with the Company's spin-off from Dun & Bradstreet in 2000 |
| LIBOR | London Interbank Offered Rate |
| LOB | Line of business |

| | |
|-------------------|---|
| M&A | Mergers and acquisitions |
| MA | Moody's Analytics a reportable segment of MCO; provides a wide range of products and services that support financial analysis and risk management activities of institutional participants in global financial markets; consists of three LOBs RD&A, ERS and PS |
| Make Whole Amount | The prepayment penalty amount relating to the Series 2007-1 Notes, 2010 Senior Notes, 2012 Senior Notes, 2013 Senior Notes, 2014 Senior Notes (5-year), 2014 Senior Notes (30-year), 2015 Senior Notes, 2017 Senior Notes and 2018 Senior Notes, which is a premium based on the excess, if any, of the discounted value of the remaining scheduled payments over the prepaid principal |

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| TERM | DEFINITION |
|---------------------------------|---|
| MAKS | Moody's Analytics Knowledge Services; formerly known as Copal Amba; provides offshore research and analytic services to the global financial and corporate sectors; part of the PS LOB and a reporting unit within the MA reportable segment |
| MALS | Moody's Analytics Learning Solutions; a reporting unit within the MA segment that includes on-line and classroom-based training services as well as credentialing and certification services; formerly known as FSTC |
| MCO | Moody's; Moody's Corporation and its subsidiaries; the Company |
| MD&A | Management's Discussion and Analysis of Financial Condition and Results of Operations |
| MIS | Moody's Investors Service a reportable segment of MCO; consists of five LOBs SFG, CFG, FIG, PPIF and MIS Other |
| MIS Other | Consists of non-ratings revenue from ICRA, KIS Pricing and KIS Research. These businesses are components of MIS; MIS Other is an LOB of MIS |
| Moody's | Moody's Corporation and its subsidiaries; MCO; the Company |
| Net Income | Net income attributable to Moody's Corporation, which excludes net income from consolidated noncontrolling interests belonging to the minority interest holder |
| New D&B | The New D&B Corporation comprises the D&B business after September 30, 2000 |
| New Revenue Accounting Standard | Updates to the ASC pursuant to ASU No. 2014-09, Revenue from Contracts with Customers (ASC Topic 606). This new accounting guidance significantly changes the accounting framework under U.S. GAAP relating to revenue recognition and to the accounting for the deferral of incremental costs of obtaining or fulfilling a contract with a customer |
| N/A | Not applicable |
| NM | Percentage change is not meaningful |
| Non-GAAP | A financial measure not in accordance with GAAP; these 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 to provide greater transparency to investors of supplemental information used by management in its financial and operational decision making |
| NRSRO | Nationally Recognized Statistical Rating Organization, which is a credit rating agency registered with the SEC. |
| OCI | Other comprehensive income (loss); includes gains and losses on cash flow and net investment hedges, unrealized gains and losses on available for sale securities (in periods prior to January 1, 2018), certain gains and losses relating to pension and other retirement benefit obligations and foreign currency translation adjustments |
| Omega Performance | A leading provider of online credit training, acquired by the Company in August 2018 |
| Operating segment | Term defined in the ASC relating to segment reporting; the ASC defines an operating segment as a component of a business entity that has each of the three following characteristics: i) the component engages in business activities from which it may recognize revenue and incur expenses; ii) the operating results of the component are regularly reviewed by the entity's chief |

operating decision maker; and iii) discrete financial information about the component is available.

| | |
|---------------------------|--|
| Other Retirement Plans | The U.S. retirement healthcare and U.S. retirement life insurance plans |
| PCS | Post-Contract Customer Support |
| PPIF | Public, project and infrastructure finance; an LOB of MIS |
| Profit Participation Plan | Defined contribution profit participation plan that covers substantially all U.S. employees of the Company |
| PS | Professional Services, an LOB within MA consisting of MAKs and MALs that provides offshore analytical and research services as well as learning solutions and certification programs |
| Purchase Price Hedge | Foreign currency collars and forward contracts entered into by the Company to economically hedge the Bureau van Dijk euro denominated purchase price |

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| TERM | DEFINITION |
|---------------------------|--|
| Purchase Price Hedge Gain | Gain on foreign currency collars and forward contracts to economically hedge the Bureau van Dijk euro denominated purchase price |
| RD&A | Research, Data and Analytics; an LOB within MA that offers subscription based research, data and analytical products, including credit ratings produced by MIS, credit research, quantitative credit scores and other analytical tools, economic research and forecasts, business intelligence and company information products, and commercial real estate data and analytical tools |
| Reform Act | Credit Rating Agency Reform Act of 2006 |
| REIT | Real Estate Investment Trust |
| Reis, Inc. (Reis) | A leading provider of U.S. commercial real estate (CRE) data; acquired by the Company in October 2018. |
| Relationship Revenue | For MIS, represents recurring monitoring fees 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. For MIS Other represents subscription-based revenue. For MA, represents subscription-based revenue and software maintenance revenue |
| Reporting unit | The level at which Moody's evaluates its goodwill for impairment under U.S. GAAP; defined as an operating segment or one level below an operating segment |
| SaaS | Software-as-a-Service |
| SCDM | SCDM Financial, a leading provider of analytical tools for participants in securitization markets. Moody's acquired SCDM's structured finance data and analytics business in February 2017 |
| SEC | U.S. Securities and Exchange Commission |
| Securities Act | Securities Act of 1933, as amended |
| Series 2007-1 Notes | Principal amount of \$300 million, 6.06% senior unsecured notes due in September 2017 pursuant to the 2007 Agreement; prepaid in March 2017 |
| Settlement Charge | Charge of \$863.8 million recorded in the fourth quarter of 2016 related to an agreement entered into on January 13, 2017 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 that MIS assigned to certain structured finance instruments in the financial crisis era |
| SFG | Structured finance group; an LOB of MIS |
| SG&A | Selling, general and administrative expenses |
| SSP | Standalone selling price |
| T&M | Time-and-Material |
| Tax Act | The Tax Cuts and Jobs Act enacted into U.S. law on December 22, 2017, which significantly amends the tax code in the U.S. |
| Total Debt | All indebtedness of the Company as reflected on the consolidated balance sheets |
| Transaction Revenue | For MIS, represents the initial rating of a new debt issuance as well as other one-time fees. For MIS Other, represents revenue from professional services as well as data services, research and |

analytical engagements. For MA, represents perpetual software license fees and revenue from software implementation services, risk management advisory projects, training and certification services, and research and analytical engagements

| | |
|------|--|
| U.K. | United Kingdom |
| U.S. | United States |
| USD | U.S. dollar |
| UTPs | Uncertain tax positions |
| VSOE | Vendor specific objective evidence; as defined in the ASC, evidence of selling price limited to either of the following: the price charged for a deliverable when it is sold separately, or for a deliverable not yet being sold separately, the price established by management having the relevant authority |

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| TERM | DEFINITION |
|---------------------------------|---|
| WACC | Weighted Average Cost of Capital |
| 2007 Agreement | Note purchase agreement dated September 7, 2007, relating to the Series 2007-1 Notes |
| 2010 Indenture | Supplemental indenture and related agreements dated August 19, 2010, relating to the 2010 Senior Notes |
| 2010 Senior Notes | Principal amount of \$500 million, 5.50% senior unsecured notes due in September 2020 pursuant to the 2010 Indenture |
| 2012 Indenture | Supplemental indenture and related agreements dated August 18, 2012, relating to the 2012 Senior Notes |
| 2012 Senior Notes | Principal amount of \$500 million, 4.50% senior unsecured notes due in September 2022 pursuant to the 2012 Indenture |
| 2013 Indenture | Supplemental indenture and related agreements dated August 12, 2013, relating to the 2013 Senior Notes |
| 2013 Senior Notes | Principal amount of the \$500 million, 4.875% senior unsecured notes due in February 2024 pursuant to the 2013 Indenture |
| 2014 Indenture | Supplemental indenture and related agreements dated July 16, 2014, relating to the 2014 Senior Notes |
| 2014 Senior Notes (5-Year) | Principal amount of \$450 million, 2.75% senior unsecured notes due in July 2019 |
| 2014 Senior Notes (30-Year) | Principal amount of \$600 million, 5.25% senior unsecured notes due in July 2044 |
| 2015 Facility | Five-year unsecured revolving credit facility, with capacity to borrow up to \$1 billion; backstops CP issued under the CP Program |
| 2015 Indenture | Supplemental indenture and related agreements dated March 9, 2015, relating to the 2015 Senior Notes |
| 2015 Senior Notes | Principal amount of 500 million, 1.75% senior unsecured notes issued March 9, 2015; repaid in 2018 |
| 2017 Bridge Credit Facility | Bridge Credit Agreement entered into in May 2017 pursuant to the definitive agreement to acquire Bureau van Dijk; this facility was terminated in June 2017 upon issuance of the 2017 Private Placement Notes Due 2023 and 2028 |
| 2017 Floating Rate Senior Notes | Principal amount of \$300 million, floating rate senior unsecured notes due in September 2018 |
| 2017 Indenture | Collectively the Supplemental indenture and related agreements dated March 2, 2017, relating to the 2017 Floating Rate Senior Notes and 2017 Notes Due 2023 and 2028, and the supplemental indenture and related agreements dated June 12, 2017, relating to the 2017 Notes Due 2023 and 2028 |
| 2017 Senior Notes Due 2023 | Principal amount of \$500 million, 2.625% senior unsecured notes due January 15, 2023 |
| | Principal amount of \$500 million, 3.25% senior unsecured notes due January 15, 2028 |

| | |
|--------------------------------|--|
| 2017 Senior Notes Due 2028 | |
| 2017 Senior Notes Due 2021 | Principal amount of \$500 million, 2.75% senior unsecured notes due in December 2021 |
| 2017 Term Loan | \$500 million, three-year term loan facility entered into on June 6, 2017 for which the Company drew down \$500 million on August 8, 2017 to fund the acquisition of Bureau van Dijk; amounts under the 2017 Term Loan were repaid in 2018 |
| 2018 Facility | Five-year unsecured revolving credit facility, with capacity to borrow up to \$1 billion; replaced the 2015 Facility; backstops CP issued under the CP Program |
| 2018 Senior Notes | Principal amount of \$300 million, 3.25% senior unsecured notes due June 7, 2021 |
| 2018 Senior Notes (10-year) | Principal amount of \$400 million, 4.25% senior unsecured notes due February 1, 2029 |
| 2018 Senior Notes (30-year) | Principal amount of \$400 million, 4.875% senior unsecured notes due December 17, 2048 |
| 7WTC | The Company's corporate headquarters located at 7 World Trade Center in New York, NY |

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PART I

**ITEM 1. BUSINESS
BACKGROUND**

As used in this report, except where the context indicates otherwise, the terms Moody's or the Company refer to Moody's Corporation, a Delaware corporation, and its subsidiaries. The Company's executive offices are located at 7 World Trade Center at 250 Greenwich Street, New York, NY 10007 and its telephone number is (212) 553-0300.

THE COMPANY

Moody's is a provider of (i) credit ratings; (ii) credit, capital markets and economic research, data and analytical tools; (iii) software solutions that support financial risk management activities; (iv) quantitatively derived credit scores; (v) learning solutions and certification services; (vi) offshore financial research and analytical services; and (vii) company information and business intelligence products. Moody's reports in two reportable segments: MIS and MA. Financial information and operating results of these segments, including revenue, expenses and operating income, are included in Part II, Item 8. Financial Statements of this annual report, and are herein incorporated by reference.

MIS publishes credit ratings on a wide range of debt obligations and the entities that issue such obligations in markets worldwide, including various corporate and governmental obligations, structured finance securities and commercial paper programs. Ratings revenue is derived from the originators and issuers of such transactions who use MIS ratings to support the distribution of their debt issues to investors. MIS provides ratings in more than 130 countries. Ratings are disseminated via press releases to the public through a variety of print and electronic media, including the internet and real-time information systems widely used by securities traders and investors. As of December 31, 2018, MIS had the following ratings relationships:

- » Approximately 4,800 rated non-financial corporate issuers;
- » Approximately 4,100 rated financial institutions issuers;
- » Approximately 17,600 rated public finance issuers (including sovereign, sub-sovereign and supranational issuers);
- » Approximately 9,600 rated structured finance transactions; and
- » Approximately 1,000 rated infrastructure and project finance issuers.

Additionally, MIS earns revenue from certain non-ratings-related operations, which primarily consist of financial instruments pricing services in the Asia-Pacific region as well as revenue from ICRA non-rating operations. The revenue from these operations is included in the MIS Other LOB and is not material to the results of the MIS segment.

The MA segment develops a wide range of products and services that support financial analysis and risk management activities of institutional participants in global financial markets. Within its RD&A business, MA offers subscription based research, data and analytical products, including credit ratings produced by MIS, credit research, quantitative credit scores and other analytical tools, economic research and forecasts, business intelligence and company information products, and commercial real estate data and analytical tools. Within its ERS business, MA provides software solutions as well as related risk management services. The PS business provides offshore analytical and research services along with learning solutions and certification programs. MA customers represent more than 11,100 institutions worldwide operating in over 150 countries. During 2018, Moody's research website was accessed by over 281,000 individuals including 38,000 customer users.

PROSPECTS FOR GROWTH

Over recent decades, global fixed-income markets have grown significantly both in terms of the amount and types of securities or other obligations outstanding. Beginning in mid-2007, there was a severe market disruption and associated financial crisis both in the devel-

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oped and emerging markets resulting in a global decline in debt issuance activity for some significant asset classes and weak economic performance in advanced economies. Since this financial crisis, many markets and economies have recovered and Moody's believes the overall long-term outlook remains favorable for continued growth of the global fixed-income market and related financial information market, which includes information such as credit opinions, research, data, analytics, risk management tools and related services.

Moody's growth is influenced by a number of trends that impact financial information markets including:

» Health of the world's major economies;

» Debt capital markets activity;

» Disintermediation of credit markets;

» Fiscal and monetary policy of governments; and

» Business investment spending, including mergers and acquisitions.

In an environment of increasing financial complexity and heightened attention to credit analysis and risk management, Moody's is well positioned to benefit from continued growth in global fixed-income market activity and a more widespread use of credit ratings, research and related analytical products. Moody's expects that these developments will support continued long-term demand for high quality, independent credit opinions, research, data, analytics, risk management tools and related services.

Strong secular trends should continue to provide long-term growth opportunities. For MIS, key growth drivers include debt market issuance driven by global GDP growth, continued disintermediation of fixed-income markets in both developed and emerging economies driving issuance and demand for new ratings products and services. Growth in MA is likely to be driven by deeper and broader penetration of the customer base as data demands, regulatory compliance and other analytical requirements drive demand for MA's products and expertise. Moreover, pricing opportunities aligned with customer value creation and advances in information technology present growth opportunities for Moody's.

Growth in global fixed income markets in a given year is dependent on many macroeconomic and capital market factors including interest rates, business investment spending, corporate refinancing needs, merger and acquisition activity, issuer profits, consumer borrowing levels and securitization activity. Rating fees paid by debt issuers account for most of the revenue of MIS. Therefore, a substantial portion of MIS's revenue is dependent upon the dollar-equivalent volume and number of ratable debt securities issued in the global capital markets. MIS's results can be affected by factors such as the performance and prospects for growth of the major world economies, the fiscal and monetary policies pursued by their governments, and the decisions of issuers to request MIS ratings to aid investors in their investment decisions. However, annual fee arrangements with frequent debt issuers, annual debt monitoring fees and annual fees from commercial paper and medium-term note programs, bank deposit ratings, insurance company financial strength ratings, mutual fund ratings, and other areas partially mitigate MIS's dependence on the volume or number of new debt securities issued in the global fixed-income markets. Furthermore, the strong growth seen in the

issuance of structured finance securities from the mid-1990 s reversed dramatically in 2008 due to market turmoil, with continued declines seen in 2009 and 2010, before stabilizing in 2011 with Moody s experiencing revenue growth in this market beginning in 2012. Despite significant declines from peak market issuance levels, Moody s believes that structured finance securities will continue to play a role in global fixed-income markets and provide opportunities for long-term revenue growth.

The pace of change in technology and communication over the past two decades makes information about investment alternatives widely available throughout the world and facilitates issuers ability to place securities outside their national markets and similarly investors ability to obtain information about securities issued outside their national markets. Technology also allows issuers and investors the ability to more readily obtain information about new financing techniques and new types of securities that they may wish to purchase or sell, which in the absence of the appropriate technology might not be readily or easily obtainable. This availability of information promotes the ongoing integration and expansion of financial markets worldwide, giving issuers and investors access to a wider range of both established and newer capital markets. As technology provides broader access to worldwide markets, it also results in a greater need for credible, globally comparable opinions about credit risk, data, analytics and related services. Additionally, information technology also provides opportunities to further build a global platform to support Moody s continued expansion in developing markets.

An ongoing trend in the world s capital markets is the disintermediation of financial systems. Issuers increasingly raise capital in the global public capital markets, in addition to, or in substitution for, traditional financial intermediaries. Moreover, financial intermediaries have sold assets in the global public capital markets, in addition to, or instead of, retaining those assets. Moody s believes that issuer use of global debt capital markets offer advantages in capacity and efficiency compared to traditional banking systems and that the trend of increased disintermediation will continue. Further, disintermediation has continued because of the historically low interest rate environment and bank deleveraging, which has encouraged a number of corporations and other entities to seek alternative funding in the bond markets.

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Moody's also observes disintermediation in key emerging markets where economic growth may outpace internal banking system capacity. Thus, disintermediation is expected to continue over the longer-term, with Moody's targeting investment and resources to those markets where disintermediation and bond issuance is expected to remain robust.

In the aftermath of the global financial crisis, banking, insurance and capital markets authorities promulgated a wide range of new regulations to restore stability and confidence in financial institutions under their oversight. Programs such as Basel III, Solvency II, and CCAR among many others prompted banks, insurers, securities dealers, and asset managers to invest in more robust risk management practices and systems. Many of these investments drew on expertise and tools offered by MA, resulting in strong revenue growth in the post-crisis period. As banking and capital markets continue to stabilize, and with financial institutions better capitalized, regulatory-driven demand for MA products has moderated. Nonetheless, we expect that MA products and services that enable compliance with financial regulation and accounting standards will continue to be adopted by institutions worldwide, prompted by periodic revisions to regulatory frameworks such as the Basel capital adequacy protocols. Moreover, having responded to regulatory imperatives, financial institutions are increasingly seeking to leverage investments in regulatory compliance systems to gain business insights and front-office efficiencies; MA is well positioned to realize revenue growth by assisting in these efforts to apply back-office analytics in support of front-line business decisions. Finally, in order to respond to other sources of demand and drive growth, MA is actively investing in new products, including enhanced data sets and improved delivery methods (e.g., software-as-a-service). These efforts should support broader distribution of MA's capabilities, deepen relationships with existing customers and facilitate more new customer acquisition.

Legislative bodies and regulators in the U.S., Europe and other jurisdictions continue to conduct regulatory reviews of CRAs, which may result in, for example, an increased number of competitors, changes to the business model or restrictions on certain business activities of MIS, removal of references to ratings in certain regulations, or increased costs of doing business for MIS. At present, Moody's is unable to assess the nature and effect that any regulatory changes may have on future growth opportunities.

Moody's operations are subject to various risks, as more fully described in Part I, Item 1A Risk Factors, inherent in conducting business on a global basis. Such risks include currency fluctuations and possible nationalization, expropriation, exchange and price controls, changes in the availability of data from public sector sources, limits on providing information across borders and other restrictive governmental actions.

COMPETITION

MIS competes with other CRAs and with investment banks and brokerage firms that offer credit opinions and research. Many users of MIS's ratings also have in-house credit research capabilities. MIS's largest competitor in the global credit rating business is S&P Global Ratings (S&P), a division of S&P Global. There are some rating markets, based on industry, geography and/or instrument type, in which Moody's has made investments and obtained market positions superior to S&P, while in other markets, the reverse is true.

In addition to S&P, MIS's competitors in the U.S. include Fitch Ratings, Dominion Bond Rating Service (DBRS), A.M. Best Company, Kroll Bond Rating Agency Inc., and Morningstar Inc. In Europe, there are approximately 45 companies currently registered with ESMA, which include both purely domestic European CRAs and International CRAs such as S&P, Fitch and DBRS. There are additional competitors in other regions and countries, some of which are global entities and compete across regions and asset classes, while others focus on particular asset classes and regions.

MA competes broadly in the financial information industry against diversified competitors such as Refinitiv, Bloomberg, S&P Global Market Intelligence, Fitch Solutions, D&B, IBM, Wolters Kluwer, Fidelity National Information Services, SAS, Fiserv, MSCI and IHS Markit among others. MA's main competitors within RD&A include S&P Global Market Intelligence, CreditSights, Refinitiv, Intex, IHS Markit, BlackRock Solutions, FactSet and other providers of fixed income analytics, valuations, economic data and research. In ERS, MA faces competition from both large software providers such as IBM Algorithmics, Fidelity National Information Services, SAS, Oracle, Misys, Oliver Wyman, Verisk Analytics and various other vendors and in-house solutions. Within Professional Services, MA competes with a host of financial training and education firms and providers of offshore research and analytical services such as Evalueserve and CRISIL Global Research & Analytics.

MOODY'S STRATEGY

Moody's corporate mission is to be the world's most respected authority serving financial risk-sensitive markets. The key aspects to implement this strategy are to:

» Defend and enhance the core ratings and research business of MIS;

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» Build MA's position as a leading provider of data, analytics and risk management solutions to financial institutions, corporations, and governmental authorities; and

» Invest in strategic growth opportunities.

Moody's will make investments to defend and enhance its core businesses in an attempt to position the Company to fully capture market opportunities resulting from global debt capital market expansion and increased business investment spending. Moody's will also make strategic investments to achieve scale in attractive financial information markets, move into attractive product and service adjacencies where the Company can leverage its brand, extend its thought leadership and expand its geographic presence in high growth emerging markets.

To broaden the Company's potential, MA provides a wide range of products and services to enable financial institutions, corporations and governmental authorities to better manage risk. As such, MA adds to the Company's value proposition in three ways. First, MA's subscription businesses provide a significant base of recurring revenue to offset cyclical in ratings issuance volumes that may result in volatility in MIS's revenues. Second, MA products and services, such as financial training and professional services on research and risk management best practices, provide opportunities for entry into emerging markets before banking systems and debt capital markets fully develop and thus present long-term growth opportunities for the ratings business. Finally, MA's integrated risk management software platform embeds Moody's solutions deep into the technology infrastructure of banks and insurance companies worldwide.

Moody's invests in initiatives to implement the Company's strategy, including internally led organic development and targeted acquisitions. Example initiatives include:

» Enhancements to ratings quality and product extensions;

» Investments that extend ownership and participation in joint ventures and strategic alliances;

» New products, services, content (e.g., non-credit risk assessments such as ESG and cybersecurity risk), and technology capabilities to meet customer demands;

» Selective bolt-on acquisitions that accelerate the ability to scale and grow Moody's businesses; and

» Expansion in emerging markets.

During 2018, Moody's continued to invest in and acquire complementary businesses in MIS and MA. In May 2018, Moody's acquired a minority stake in QuantCube Technology, an innovative provider of real-time, AI-based predictive analytics for corporate customers, financial institutions and investment managers. The investment complements a series of initiatives across the company to harness innovative and emerging technologies. In August 2018, Moody's acquired Omega Performance, a leading provider of online credit training. The acquisition adds to MA's suite of industry-leading learning solutions and reinforces MA as a market standard in credit proficiency for financial institutions worldwide. In October 2018, Moody's invested in Team8 Partners II, L.P., the second vehicle raised by Team8, a leading think tank and company creation platform specializing in cybersecurity and data resilience. The

investment builds on Moody's investments and initiatives in cybersecurity and emerging technologies. Also in October 2018, Moody's completed the acquisition of Reis, Inc., a leading provider of U.S. commercial real estate (CRE) data. The acquisition further expands MA's network of data and analytics providers in the CRE space, including investments in start-ups that apply innovative approaches and new technologies to source data and deliver tools to the market. In November 2018, Moody's announced it had entered an agreement to acquire a minority stake in ICR Chile, a leading provider of domestic credit ratings in Chile. The transaction adds to Moody's growing presence across Latin America.

REGULATION

MIS and many of the securities that it rates are subject to extensive regulation in both the U.S. and in other countries (including by state and local authorities). Thus, existing and proposed laws and regulations can impact the Company's operations and the markets for securities that it rates. Additional laws and regulations have been adopted but not yet implemented or have been proposed or are being considered. Each of the existing, adopted, proposed and potential laws and regulations can increase the costs and legal risk associated with the issuance of credit ratings and may negatively impact Moody's operations or profitability, the Company's ability to compete, or result in changes in the demand for credit ratings, in the manner in which ratings are utilized and in the manner in which Moody's operates.

The regulatory landscape has changed rapidly in recent years, and continues to evolve. In the EU, the CRA industry is registered and supervised through a pan-European regulatory framework. The European Securities and Markets Authority (ESMA) has direct supervisory responsibility for the registered CRA industry throughout the EU. MIS is a registered entity and is subject to formal regulation and periodic inspection. Applicable rules include procedural requirements with respect to ratings of sovereign issuers, liability for intentional

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or grossly negligent failure to abide by applicable regulations, mandatory rotation requirements of CRAs hired by issuers of securities for ratings of resecuritizations, restrictions on CRAs or their shareholders if certain ownership thresholds are crossed, reporting requirements to ESMA regarding fees, and additional procedural and substantive requirements on the pricing of services. In 2016, the Commission published a report concluding that no new European legislation was needed for the industry at that time, but that it would continue to monitor the credit rating industry and analyze approaches that may strengthen existing regulation. In addition, from time to time, ESMA publishes interpretive guidance, or thematic reports regarding various aspects of the regulation. Two such reports were published in the first half of 2018. The first report provided further guidance from ESMA regarding the endorsement mechanism that CRAs will need to employ for those ratings that are produced outside of the EU but are used inside the EU by EU-regulated entities. The second report discussed ESMA's observations on CRA's fee practices. Further, in March 2018, ESMA published a consultation report seeking feedback on the extent to which EU regulation should be applied to CRAs operating outside of the EU to make their ratings eligible for regulatory use in the EU. In July 2018, ESMA published its final guidance on the applicability of EU regulation to endorsed ratings, with an effective date of January 1, 2019. In the final guidance, ESMA indicated that as long as the underlying principles of the EU rules were adhered to, ESMA did not expect that the EU's CRA rules would need to be exported to non-EU jurisdictions for endorsement purposes.

Separately, on June 23, 2016, the U.K. voted through a referendum to exit the EU. The U.K. officially launched the exit process by submitting its Article 50 letter to the EU, informing it of the U.K.'s intention to exit. The submission of this letter started the clock on the negotiation of the terms of exit, which originally was expected to take up to two years, but may take longer.

The longer-term impacts of the decision to leave the EU on the overall regulatory framework for the U.K. will depend, in part, on the relationship that the U.K. negotiates with the EU in the future. In the interim, however, the U.K.'s markets regulator (the Financial Conduct Authority) has indicated that all EU financial regulations will stay in place and that firms must continue to abide by their existing obligations. As a consequence, at this point in time, there is no change to the regulatory framework under which MIS operates and ESMA remains MIS's regulator both in the EU and in the U.K.

In the U.S., CRAs are subject to extensive regulation primarily pursuant to the Reform Act and the Financial Reform Act. The SEC is required by these legislative acts to publish two annual reports to Congress on NRSROs. The Financial Reform Act requires the SEC to examine each NRSRO once a year and issue an annual report summarizing the examination findings, among other requirements. The annual report required by the Reform Act details the SEC's views on the state of competition, transparency and conflicts of interests among NRSROs, among other requirements. The SEC voted in August 2014 to adopt its final rules for NRSROs as required by the Financial Reform Act. The Company has made and continues to make substantial IT and other investments, and has implemented the relevant compliance obligations.

In light of the regulations that have gone into effect in both the EU and the U.S. (as well as many other countries), periodically and as a matter of course pursuant to their enabling legislation, these regulatory authorities have and will continue to publish reports that describe their oversight activities over the industry. In addition, other legislation and/or interpretation of existing regulation relating to credit rating and research services is being considered by local, national and multinational bodies and this type of activity is likely to continue in the future. Finally, in certain countries, governments may provide financial or other support to locally-based rating agencies. For example, governments may from time to time establish official rating agencies or credit ratings criteria or procedures for evaluating local issuers. If enacted, any such legislation and regulation could change the competitive landscape in which MIS operates. The legal status of rating agencies has been addressed by courts in various decisions and is likely to be considered and addressed in legal proceedings from time to time in the future. Management of the Company

cannot predict whether these or any other proposals will be enacted, the outcome of any pending or possible future legal proceedings, or regulatory or legislative actions, or the ultimate impact of any such matters on the competitive position, financial position or results of operations of Moody's.

INTELLECTUAL PROPERTY

Moody's and its affiliates own and control a variety of intellectual property, including but not limited to proprietary information, trademarks, research, software tools and applications, models and methodologies, databases, domain names, and other proprietary materials that, in the aggregate, are of material importance to Moody's business. Management of Moody's believes that each of the trademarks and related corporate names, marks and logos containing the term Moody's are of material importance to the Company.

The Company, primarily through MA (including its Bureau van Dijk business), licenses certain of its databases, software applications, credit risk models, training courses in credit risk and capital markets, research and other publications and services that contain intellectual property to its customers. These licenses are provided pursuant to standard fee-bearing agreements containing customary restrictions and intellectual property protections.

In addition, Moody's licenses from third parties certain technology, data and other intellectual property rights. Specifically, Moody's obtains licenses from third parties to use financial information (such as market and index data, financial statement data, research data,

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default data, and security identifiers) as well as software development tools and libraries. In addition, the Company's Bureau van Dijk business obtains from third party information providers certain financial, credit risk, compliance, management, ownership and other data on companies worldwide, which Bureau van Dijk distributes through its company information products. The Company obtains such technology and intellectual property rights from generally available commercial sources. The Company also utilizes generally available open source software and libraries for internal use and also, subject to appropriately permissive open source licenses, to carry out routine functions in certain of the Company's software products. Most of such technology and intellectual property is available from a variety of sources. Although certain financial information (particularly security identifiers, certain pricing or index data, and certain company financial data in selected geographic markets sourced by Bureau van Dijk) is available from a limited number of sources, Moody's does not believe it is dependent on any one data source for a material aspect of its business.

The names of Moody's products and services referred to herein are trademarks, service marks or registered trademarks or service marks owned by or licensed to Moody's or one or more of its subsidiaries. The Company owns two patents. None of the Intellectual Property is subject to a specific expiration date, except to the extent that the patents and the copyright in items that the Company authors (such as credit reports, research, software, and other written opinions) expire pursuant to relevant law.

The Company considers its Intellectual Property to be proprietary, and Moody's relies on a combination of copyright, trademark, trade secret, patent, non-disclosure and other contractual safeguards for protection. Moody's also pursues instances of third-party infringement of its Intellectual Property in order to protect the Company's rights.

EMPLOYEES

As of December 31, 2018 the number of full-time equivalent employees of Moody's was approximately 13,000.

AVAILABLE INFORMATION

Moody's investor relations internet website is <http://ir.moody's.com/>. Under the "SEC Filings" tab at this website, the Company makes available free of charge its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports as soon as reasonably practicable after they are filed with, or furnished to, the SEC.

The SEC maintains an internet site that contains annual, quarterly and current reports, proxy and other information statements that the Company files electronically with the SEC. The SEC's internet site is <http://www.sec.gov/>.

EXECUTIVE OFFICERS OF THE REGISTRANT

| Name, Age and Position | Biographical Data |
|---|---|
| Mark E. Almeida, 59 <i>President, Moody's Analytics</i> | Mr. Almeida has served as President of Moody's Analytics since January 2008. Prior to this position, Mr. Almeida was Senior Vice President of Moody's Corporation from August 2007 to January 2008, Senior Managing Director of the Investor Services Group (ISG) at Moody's Investors Service, Inc. from December 2004 to January 2008 and was Group Managing Director of ISG from June 2000 to December 2004. Mr. Almeida joined Moody's Investors Service, Inc. in April 1988 and has held a |

variety of positions with the company in both the U.S. and overseas.

Richard Cantor, 61

Chief Risk Officer

Mr. Cantor has served as the Company's Chief Risk Officer since December 2008 and as Chief Credit Officer of Moody's Investors Service, Inc. since November 2008. From July 2008 to November 2008, Mr. Cantor served as Acting Chief Credit Officer. Prior thereto, Mr. Cantor was Managing Director of Moody's Credit Policy Research Group from June 2001 to July 2008, after serving as Senior Vice President in the Financial Guarantors Rating Group. Mr. Cantor joined Moody's in 1997 from the Federal Reserve Bank of New York, where he served as Assistant Vice President in the Research Group and was Staff Director at the Discount Window. Prior to the Federal Reserve, Mr. Cantor taught Economics at UCLA and Ohio State and has taught on an adjunct basis at the business schools of Columbia University and New York University.

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Table of Contents**Name, Age and Position****Biographical Data****Robert Fauber, 48***President, Moody's Investors Service*

Mr. Fauber has served as President Moody's Investors Service, Inc. since June 1, 2016. He served as Senior Vice President Corporate & Commercial Development of Moody's Corporation from April 2014 to May 31, 2016 and was Head of the MIS Commercial Group from January 2013 to May 31, 2016. From April 2009 through April 2014, he served as Senior Vice President Corporate Development of Moody's Corporation. Mr. Fauber served as Vice President Corporate Development from September 2005 to April 2009. Prior to joining Moody's, Mr. Fauber served in several roles at Citigroup and its investment banking subsidiary Salomon Smith Barney from 1999 to 2005. From 1992 to 1996, Mr. Fauber worked at NationsBank (now Bank of America) in the middle market commercial banking group.

John J. Goggins, 58*Executive Vice President and General Counsel*

Mr. Goggins has served as the Company's Executive Vice President and General Counsel since April 2011 and the Company's Senior Vice President and General Counsel from October 2000 until April 2011. Mr. Goggins joined Moody's Investors Service, Inc. in February 1999 as Vice President and Associate General Counsel.

Melanie Hughes, 56*Senior Vice President and Chief Human Resources Officer*

Ms. Hughes has served as the Company's Senior Vice President Chief Human Resources Officer since September 2017. Prior to joining the Company, Ms. Hughes was Chief Human Resource Officer and Executive Vice President, Human Resources at American Eagle Outfitters from July 2016 to September 2017 and served as Executive Vice President, Human Resources at Tribune Media from May 2013 to June 2016. She has held several senior management roles for many different companies such as Coach, Gilt Group, DoubleClick and UBS Warburg.

Mark Kaye, 39*Senior Vice President and Chief Financial Officer*

Mr. Kaye has served as the Company's Senior Vice President Chief Financial Officer since August 2018. Prior to joining the Company, Mr. Kaye was Senior Vice President and Head of Financial Planning and Analysis at Massachusetts Mutual Life Insurance Company (MassMutual) since February 2016, and Chief Financial Officer of MassMutual U.S. since July 2015. Prior to that, Mr. Kaye served as Chief Financial Officer and Senior Vice President, Retirement Solutions, at Voya Financial from 2011 to 2015. Mr. Kaye previously held various senior financial and risk reporting positions at ING U.S. and ING Group, and was in the investment banking division of Credit Suisse First Boston.

Raymond W. McDaniel, Jr., 61*President and Chief Executive Officer*

Mr. McDaniel has served as the Company's President and Chief Executive Officer since April 2012, and served as the Chairman and Chief Executive Officer from April 2005 until April 2012. He currently serves on the Executive Committee of the Board of Directors. Mr. McDaniel served as the Company's President from October 2004 until April 2005 and the Company's Chief Operating Officer from January 2004 until April 2005. He has served as Chief Executive Officer of Moody's Investors Service, Inc. since October 2007. He held the additional titles of President from November 2001 to August 2007 and December 2008 to November 2010 and Chairman from October 2007 until June 2015. Mr. McDaniel served as the Company's Executive Vice President from April 2003 to January 2004, and as Senior Vice President, Global Ratings and Research from November 2000 until April 2003. He served as Senior Managing Director, Global Ratings and Research,

of Moody's Investors Service from November 2000 until November 2001 and as Managing Director, International from 1996 to November 2000. Mr. McDaniel currently is a director of John Wiley & Sons, Inc. and a member of the Board of Trustees of Muhlenberg College.

Caroline Sullivan, 50

*Senior Vice President and
Corporate Controller*

Ms. Sullivan has served as the Company's Senior Vice President - Corporate Controller since December 2018. Prior to joining the Company, Ms. Sullivan served in several roles at Bank of America, where her last position held was Managing Director and Global Banking Controller. Prior to that role, Ms. Sullivan supported the Global Wealth & Investment Management business from 2015 to 2017 in a variety of positions including Controller and was Chief Financial Officer for the Latin America region from 2014 to 2015. From 2011 to 2013, she served as the Legal Entity Controller for the bank's main broker dealer and other Merrill Lynch entities. Ms. Sullivan previously held various senior positions at several banks and a major accounting firm, and is a member of the American Institute of Certified Public Accountants.

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The following risk factors and other information included in this annual report on Form 10-K should be carefully considered. The risks and uncertainties described below are not the only ones the Company faces. Additional risks and uncertainties not presently known to the Company or that the Company's management currently deems minor or insignificant also may impair its business operations. If any of the following risks occur, Moody's business, financial condition, operating results and cash flows could be materially and adversely affected. These risk factors should be read in conjunction with the other information in this annual report on Form 10-K.

U.S. Laws and Regulations Affecting the Credit Rating Industry and Moody's Customers May Negatively Impact the Nature and Economics of the Company's Business.

Moody's operates in a highly regulated industry and is subject to extensive regulation by federal, state and local authorities in the U.S., including the Reform Act and the Financial Reform Act. These regulations are complex, continually evolving and have tended to become more stringent over time. See Regulation in Part 1, Item 1 of this annual report on Form 10-K for more information. These laws and regulations:

- » seek to encourage, and may result in, increased competition among rating agencies and in the credit rating business;
- » may result in alternatives to credit ratings or changes in the pricing of credit ratings;
- » restrict the use of information in the development or maintenance of credit ratings;
- » increase regulatory oversight of the credit markets and CRA operations;
- » provide for direct jurisdiction of the SEC over CRAs that seek NRSRO status, and grant authority to the SEC to inspect the operations of CRAs; and
- » authorize the adoption of enhanced oversight standards and new pleading standards, which may result in increases in the number of legal proceedings claiming liability for losses suffered by investors on rated securities and aggregate legal defense costs.

These laws and regulations, and any future rulemaking or court rulings, could result in reduced demand for credit ratings and increased costs, which Moody's may be unable to pass through to customers. In addition, there may be uncertainty over the scope, interpretation and administration of such laws and regulations. The Company may be required to incur significant expenses in order to ensure compliance and mitigate the risk of fines, penalties or other sanctions. Legal proceedings could become increasingly lengthy and there may be uncertainty over and exposure to liability. It is difficult to accurately assess the future impact of legislative and regulatory requirements on Moody's business and its customers' businesses. For example, new laws and regulations may affect MIS's communications with issuers as part of the rating assignment process, alter the manner in which MIS's ratings are developed, assigned and communicated, affect the manner in which MIS or its customers or users of credit ratings operate, impact the demand for MIS's ratings and alter the economics of the credit ratings business, including by restricting or mandating business models for rating agencies. Further, speculation concerning the impact of legislative and regulatory initiatives and the

increased uncertainty over potential liability and adverse legal or judicial determinations may negatively affect Moody's stock price. Although these legislative and regulatory initiatives apply to rating agencies and credit markets generally, they may affect Moody's in a disproportionate manner. Each of these developments increase the costs and legal risk associated with the issuance of credit ratings and may have a material adverse effect on Moody's operations, profitability and competitiveness, the demand for credit ratings and the manner in which such ratings are utilized.

In addition, MA derives a significant amount of its sales in the ERS and Professional Services segments from banks and other financial services providers who are subject to regulatory oversight. U.S. banking regulators, including the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Board of Governors of the Federal Reserve System and the Consumer Financial Protection Board, as well as many state agencies have issued guidance to insured depository institutions and other providers of financial services on assessing and managing risks associated with third-party relationships, which include all business arrangements between a financial services provider and another entity, by contract or otherwise, and generally requires banks and financial services providers to exercise comprehensive oversight throughout each phase of a bank or financial service provider's business arrangement with third-party service providers, and instructs banks and financial service providers to adopt risk management processes commensurate with the level of risk and complexity of their third-party relationships. In light of this, MA's existing or potential bank and financial services customers subject to this guidance may continue to revise their third-party risk management policies and processes and the terms on which they do business with MA, which may delay or reduce sales to such customers, adversely affect MA's relationship with such customers, increase the costs of doing business with such customers and/or result in MA assuming greater financial and legal risk under service agreements with such customers.

Financial Reforms Outside the U.S. Affecting the Credit Rating Industry and Moody's Customers May Negatively Impact the Nature and Economics of the Company's Business.

In addition to the extensive and evolving U.S. laws and regulations governing the industry, foreign jurisdictions have taken measures to increase regulation of rating agencies and the markets for ratings. In particular, the EU has adopted a common regulatory framework

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for rating agencies operating in the EU. As a result, ESMA has direct supervisory authority for CRAs in the EU and has the power to take enforcement action against non-compliant CRAs, including through the issuance of public notices, withdrawal of registration and, in some cases, the imposition of fines. Although the Commission published a report in 2016 concluding that no new European legislation was needed for the industry at that time, the report also stated that it would continue to monitor the credit rating industry and analyze approaches that may strengthen existing regulation. For example, in 2018, ESMA published final guidance on the applicability of EU regulation to endorsed ratings which became effective on January 1, 2019. See Regulation in Part 1, Item 1 of this annual report on Form 10-K for more information.

MIS is a registered entity and is therefore subject to formal regulation and periodic inspection in the EU. Applicable rules include procedural requirements with respect to ratings of sovereign issuers, liability for intentional or grossly negligent failure to abide by applicable regulations, mandatory rotation requirements of CRAs hired by issuers of securities for ratings of resecuritizations, and restrictions on CRAs or their shareholders if certain ownership thresholds are crossed. Additional procedural and substantive requirements include conditions for the issuance of credit ratings, rules regarding the organization of CRAs, restrictions on activities deemed to create a conflict of interest, including fees that are based on costs and are non-discriminatory, and special requirements for the rating of structured finance instruments. Compliance with the EU regulations may increase costs of operations and could have a significant negative effect on Moody's operations, profitability or ability to compete, or the markets for its products and services, including in ways that Moody's presently is unable to predict. In addition, exposure to increased liability under the EU regulations may further increase costs and legal risks associated with the issuance of credit ratings and materially and adversely impact Moody's results of operations.

In addition, regulators in Europe and other foreign markets in which MA is active have issued guidance similar to that issued in the U.S. relating to financial institutions' assessment and management of risks associated with third-party relationships. Such guidelines include the Committee of European Banking Supervisors Guidelines on Outsourcing and the European Banking Authority Recommendations on Outsourcing to Cloud Providers (each of which is expected to be superseded by the European Banking Authority's Guidelines on Outsourcing, currently under development and expected to be issued in early 2019). In light of this, MA's existing or potential bank and financial services customers subject to this guidance may continue to revise their third-party risk management policies and processes and the terms on which they do business with MA, which may delay or reduce sales to such customers, adversely affect MA's relationship with such customers, increase the costs of doing business with such customers and/or result in MA assuming greater financial and legal risk under service agreements with such customers.

The EU and other jurisdictions engage in rulemaking on an ongoing basis that could significantly impact operations or the markets for Moody's products and services, including regulations extending to products and services not currently regulated and regulations affecting the need for debt securities to be rated, expansion of supervisory remit to include non-EU ratings used for regulatory purposes, increasing the level of competition in the market for credit ratings, establishing criteria for credit ratings or limiting the entities authorized to provide credit ratings, and laws and regulations related to collection, use, accuracy, correction and sharing of personal information by CRAs. Additionally, as of the date of the filing of this annual report on Form 10-K, there remains uncertainty regarding the impact that Brexit will have on the credit rating industry within the U.K., the EU and other jurisdictions. Although Moody's will monitor these developments, Moody's cannot predict the extent of such future laws and regulations, and the effect that they will have on Moody's business or the potential for increased exposure to liability could be significant. Financial reforms in the EU and other foreign jurisdictions may have a material adverse effect on Moody's business, operating results and financial condition.

The Company Faces Exposure to Litigation and Government Regulatory Proceedings, Investigations and Inquiries Related to Rating Opinions and Other Business Practices.

Moody's faces exposure to litigation and government and regulatory proceedings, investigations and inquiries related to MIS's ratings actions, as well as other business practices and products. If the market value of credit-dependent instruments declines or defaults, whether as a result of difficult economic times, turbulent markets or otherwise, the number of investigations and legal proceedings that Moody's faces could increase significantly. Parties who invest in securities rated by MIS may pursue claims against MIS or Moody's for losses they face in their portfolios. Moody's has faced numerous class action lawsuits and other litigation, government investigations and inquiries concerning events linked to the U.S. subprime residential mortgage sector and broader deterioration in the credit markets during the financial crisis of 2007-2008. Legal proceedings impose additional expenses on the Company and require the attention of senior management to an extent that may significantly reduce their ability to devote time addressing other business issues, and any of these proceedings, investigations or inquiries could ultimately result in adverse judgments, damages, fines, penalties or activity restrictions. Risks relating to legal proceedings may be heightened in foreign jurisdictions that lack the legal protections or liability standards comparable to those that exist in the U.S. In addition, new laws and regulations have been and may continue to be enacted that establish lower liability standards, shift the burden of proof or relax pleading requirements, thereby increasing the risk of successful litigations in the U.S. and in foreign jurisdictions. These litigation risks are often difficult to assess or quantify. Moody's may not have adequate insurance or reserves to cover these risks, and the existence and magnitude of these risks often remains unknown for substantial periods of time. Furthermore, to the extent that Moody's is unable to achieve dismissals at an early stage and litigation matters proceed to trial, the aggregate legal defense costs incurred by Moody's increase substantially, as does the risk of an adverse outcome.

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Additionally, as litigation or the process to resolve pending matters progresses, Moody's will continue to review the latest information available and may change its accounting estimates, which could require Moody's to record liabilities in the consolidated financial statements in future periods. See Note 20 to the consolidated financial statements for more information regarding ongoing investigations and civil litigation that the Company currently faces. Due to the number of these proceedings and the significant amount of damages sought, there is a risk that Moody's will be subject to judgments, settlements, fines, penalties or other adverse results that could have a material adverse effect on its business, operating results and financial condition.

The Company is Exposed to Legal, Economic, Operational and Regulatory Risks of Operating in Multiple Jurisdictions.

Moody's conducts operations in various countries outside the U.S. and derives a significant portion of its revenue from foreign sources. Changes in the economic condition of the various foreign economies in which the Company operates may have an impact on the Company's business. For example, economic uncertainty in the Eurozone or elsewhere, including in Latin America, could affect the number of securities offerings undertaken within those particular areas. In addition, operations abroad expose Moody's to a number of legal, economic and regulatory risks such as:

- » exposure to exchange rate movements between foreign currencies and USD;
- » restrictions on the ability to convert local currency into USD and the costs, including the tax impact, of repatriating cash held by entities outside the U.S.;
- » U.S. laws affecting overseas operations, including domestic and foreign export and import restrictions, tariffs and other trade barriers and restrictions, such as those related to the U.S.'s relationship with China;
- » differing and potentially conflicting legal or civil liability, compliance and regulatory standards, including as a result of the U.K.'s referendum vote to withdraw from the EU, Brexit;
- » an extension or delay of the U.K.'s withdrawal from the EU, or the U.K. leaving the EU with no agreement in place (hard Brexit);
- » current and future regulations relating to the imposition of mandatory rotation requirements on CRAs hired by issuers of securities;
- » uncertain and evolving laws and regulations, including those applicable to the financial services industries, such as the European Union's implementation of the Markets in Financial Instruments Directive II, MiFID II, in January 2018, and to the protection of intellectual property;
- »

the transition away from LIBOR to the Secured Overnight Financing Rate, SOFR, as a benchmark reference for short-term interests;

- » economic, political and geopolitical market conditions;
- » the possibility of nationalization, expropriation, price controls and other restrictive governmental actions;
- » competition with local rating agencies that have greater familiarity, longer operating histories and/or support from local governments or other institutions;
- » uncertainties of obtaining data and creating products and services relevant to particular geographic markets;
- » reduced protection for intellectual property rights;
- » longer payment cycles and possible problems in collecting receivables;
- » differing accounting principles and standards;
- » difficulties in staffing and managing foreign operations, including the expected relocation and/or restaffing of employees due to Brexit;
- » difficulties and delays in translating documentation into foreign languages; and
- » potentially adverse tax consequences.

Additionally, Moody's is subject to complex U.S., foreign and other local laws and regulations that are applicable to its operations abroad, such as the Foreign Corrupt Practices Act of 1977, the U.K. Bribery Act of 2010 and other anti-bribery and anti-corruption laws. Although the Company has implemented internal controls, policies and procedures and employee training and compliance programs to deter prohibited practices, such measures may not be effective in preventing employees, contractors or agents from violating or circumventing such internal policies and violating applicable laws and regulations. Any determination that the Company has violated anti-bribery or anti-corruption laws could have a material adverse effect on Moody's business, operating results and financial condition. Compliance with international and U.S. laws and regulations that apply to the Company's international operations increases the cost of doing business in foreign jurisdictions. Violations of such laws and regulations may result in severe fines and penalties, criminal sanctions, administrative remedies, restrictions on business conduct and could have a material adverse effect on Moody's reputation, its ability to attract and retain employees, its business, operating results and financial condition.

Table of Contents***Moody's Operations and Infrastructure May Malfunction or Fail.***

Moody's ability to conduct business may be materially and adversely impacted by a disruption in the infrastructure that supports its businesses and the communities in which Moody's is located, including New York City, the location of Moody's headquarters, major cities worldwide in which Moody's has offices, and locations in China used for certain Moody's back office work. This may include a disruption involving physical or technological infrastructure (whether or not controlled by the Company), including the Company's electronic delivery systems, data center facilities, or the Internet, used by the Company or third parties with or through whom Moody's conducts business. Many of the Company's products and services are delivered electronically and the Company's customers depend on the Company's ability to receive, store, process, transmit and otherwise rapidly handle very substantial quantities of data and transactions on computer-based networks. Some of Moody's operations require complex processes and, although the Company has instituted extensive controls to reduce the risk of error inherent in our operations, such risk cannot be completely eliminated. The Company's customers also depend on the continued capacity, reliability and security of the Company's telecommunications, data centers, networks and other electronic delivery systems, including its websites and connections to the Internet. The Company's employees also depend on these systems for internal use. Any significant failure, compromise, cyber-breach, interruption or a significant slowdown of operations of the Company's infrastructure, whether due to human error, capacity constraints, hardware failure or defect, natural disasters, fire, power loss, telecommunication failures, break-ins, sabotage, intentional acts of vandalism, acts of terrorism, political unrest, war or otherwise, may impair the Company's ability to deliver its products and services.

Moody's efforts to secure and plan for potential disruptions of its major operating systems may not be successful. The Company relies on third-party providers to provide certain essential services. While the Company believes that such providers are reliable, the Company has limited control over the performance of such providers. To the extent any of the Company's third-party providers ceases to provide these services in an efficient, cost-effective manner or fails to adequately expand its services to meet the Company's needs and the needs of the Company's customers, the Company could experience lower revenues and higher costs. Additionally, although the Company maintains processes to prevent, detect and recover from a disruption, the Company also does not have fully redundant systems for most of its smaller office locations and low-risk systems, and its disaster recovery plan does not include restoration of non-essential services. If a disruption occurs in one of Moody's locations or systems and its personnel in those locations or those who rely on such systems are unable to utilize other systems or communicate with or travel to other locations, such persons' ability to service and interact with Moody's customers may suffer. The Company cannot predict with certainty all of the adverse effects that could result from the Company's failure, or the failure of a third party, to efficiently address and resolve these delays and interruptions. A disruption to Moody's operations or infrastructure may have a material adverse effect on its reputation, business, operating results and financial condition.

The Company is Exposed to Risks Related to Cybersecurity and Protection of Confidential Information.

The Company's operations rely on the secure processing, storage and transmission of confidential, sensitive, proprietary and other types of information relating to its business operations and confidential and sensitive information about its customers and employees in the Company's computer systems and networks, and in those of its third party vendors. The cyber risks the Company faces range from cyber-attacks common to most industries, to more advanced threats that target the Company because of its prominence in the global marketplace, or due to its ratings of sovereign debt. Breaches of Moody's or Moody's vendors' technology and systems, whether from circumvention of security systems, denial-of-service attacks or other cyber-attacks, hacking, phishing attacks, computer viruses, ransomware, or malware, employee or insider error, malfeasance, social engineering, physical breaches or other actions, may result in manipulation or corruption of sensitive data, material interruptions or malfunctions in the Company's or such vendors' web sites, applications, data processing, or disruption of other business operations, or may compromise the confidentiality and integrity of material information held by the Company (including information

about Moody's business, employees or customers), as well as sensitive personally identifiable information (PII), the disclosure of which could lead to identity theft. Measures that Moody's takes to avoid, detect, mitigate or recover from material incidents can be expensive, and may be insufficient, circumvented, or may become ineffective. To conduct its operations, the Company regularly moves data across national borders, and consequently is subject to a variety of continuously evolving and developing laws and regulations in the United States and abroad regarding privacy, data protection and data security. The scope of the laws that may be applicable to Moody's is often uncertain and may be conflicting, particularly with respect to foreign laws. For example, the European Union's General Data Protection Regulation (GDPR), which became effective on May 25, 2018, greatly increased the jurisdictional reach of European Union privacy law and added a broad array of requirements for processing personal data, including the public disclosure of significant data breaches. Failure to comply with GDPR requirements could result in penalties of up to 4% of annual worldwide revenue. Additionally, other countries have enacted or are enacting data localization laws that require data to stay within their borders. Further, California recently enacted legislation, the California Consumer Privacy Act (CCPA), that will, among other things, require covered companies to provide new disclosures to California consumers, and afford such consumers new abilities to opt-out of certain sales of personal information, when it goes into effect on January 1, 2020. Legislators have stated that they intend to propose amendments to the CCPA before it goes into effect, and it remains unclear what, if any, modifications will be made to this legislation or how it will be interpreted. The effects of the CCPA potentially are significant, however, and may require us to modify our data processing practices and policies and to incur substantial costs and expenses. All of these evolving

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compliance and operational requirements have required changes to certain business practices, thereby increasing costs, may result in negative publicity or increased operating costs, require significant management time and attention, and subject the Company to remedies that may harm its business, including fines or demands or orders that we modify or cease existing business practices, and expose it to litigation, regulatory actions, sanctions or other statutory penalties.

The Company has invested and continues to invest in risk management and information security measures in order to protect its systems and data, including employee training, disaster plans, and technical defenses. The cost and operational consequences of implementing, maintaining and enhancing further data or system protection measures could increase significantly to overcome increasingly intense, complex, and sophisticated global cyber threats. Despite the Company's best efforts, it is not fully insulated from data breaches and system disruptions. Recent well-publicized security breaches at other companies have led to enhanced government and regulatory scrutiny of the measures taken by companies to protect against cyber-attacks, and may in the future result in heightened cybersecurity requirements, including additional regulatory expectations for oversight of vendors and service providers. Any material breaches of cybersecurity, including the accidental loss, inadvertent disclosure or unapproved dissemination of proprietary information or sensitive or confidential data, or media reports of perceived security vulnerabilities to the Company's systems or those of the Company's third parties, even if no breach has been attempted or occurred, could cause the Company to experience reputational harm, loss of customers and revenue, fines, regulatory actions and scrutiny, sanctions or other statutory penalties, litigation, liability for failure to safeguard the Company's customers' information, or financial losses that are either not insured against or not fully covered through any insurance maintained by the Company. Any of the foregoing may have a material adverse effect on Moody's business, operating results and financial condition.

The Company is Dependent on the Use of Third-Party Software, Data, Hosted Solutions, Data Centers, Cloud and Network Infrastructure (Together, Third Party Technology), and Any Reduction in Third-Party Product Quality or Service Offerings, Could Have a Material Adverse Effect on the Company's Business, Financial Condition or Results of Operations.

Moody's relies on Third Party Technology in connection with its product development and offerings and operations. The Company depends on the ability of Third Party Technology providers to deliver and support reliable products, enhance their current products, develop new products on a timely and cost-effective basis, and respond to emerging industry standards and other technological changes. The Third Party Technology Moody's uses may become obsolete, incompatible with future versions of the Company's products, unavailable or fail to operate effectively, and Moody's business could be adversely affected if the Company is unable to timely or effectively replace such Third Party Technology. The Company also monitors its use of Third Party Technology to comply with applicable license and other contractual requirements. Despite the Company's efforts, the Company cannot ensure that such third parties will permit Moody's use in the future, resulting in increased Third Party Technology acquisition costs and loss of rights. In addition, the Company's operating costs could increase if license or other usage fees for Third Party Technology increase or the efforts to incorporate enhancements to Third Party Technology are substantial. Some of these third-party suppliers are also Moody's competitors, increasing the risks noted above. If any of these risks materialize, they could have a material adverse effect on the Company's business, financial condition or results of operations.

Changes in the Volume of Debt Securities Issued in Domestic and/or Global Capital Markets, Asset Levels and Flows into Investment Levels and Changes in Interest Rates and Other Volatility in the Financial Markets May Negatively Impact the Nature and Economics of the Company's Business.

Moody's business is impacted by general economic conditions and volatility in the U.S. and world financial markets. Furthermore, issuers of debt securities may elect to issue securities without ratings or securities which are rated or evaluated by non-traditional parties such as financial advisors, rather than traditional CRAs, such as MIS. A majority

of Moody's credit-rating-based revenue is transaction-based, and therefore it is especially dependent on the number and dollar volume of debt securities issued in the capital markets. Market disruptions and economic slowdown and uncertainty have in the past, and may in the future, negatively impacted the volume of debt securities issued in global capital markets and the demand for credit ratings. The Tax Act, in addition to other changes to U.S. tax laws and policy, could negatively affect the volume of debt securities issued in the U.S. For example, the Tax Act limits deductibility on interest payments and significantly reduce the tax cost associated with the repatriation of cash held outside the U.S., both of which could negatively affect the volume of debt securities issued. Conditions that reduce issuers' ability or willingness to issue debt securities, such as market volatility, declining growth, currency devaluations or other adverse economic trends, reduce the number and dollar-equivalent volume of debt issuances for which Moody's provides ratings services and thereby adversely affect the fees Moody's earns in its ratings business.

Economic and government factors such as a long-term continuation of difficult economic conditions, a re-emergence of the sovereign debt crisis in Europe, the ultimate Brexit outcome and current uncertainty in various other jurisdictions, may have an adverse impact on the Company's business. Future debt issuances also could be negatively affected by increases in interest rates, widening credit spreads, regulatory and political developments, growth in the use of alternative sources of credit, and defaults by significant issuers. Declines or other changes in the markets for debt securities may materially and adversely affect the Company's business, operating results and financial condition.

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Moody's initiatives to reduce costs to counteract a decline in its business may not be sufficient and cost reductions may be difficult or impossible to obtain in the short term, due in part to rent, technology, compliance and other fixed costs associated with some of the Company's operations as well as the need to monitor outstanding ratings. Further, cost-reduction initiatives, including those under-taken to date, could make it difficult for the Company to rapidly expand operations in order to accommodate any unexpected increase in the demand for ratings. Volatility in the financial markets, including changes in the volumes of debt securities and changes in interest rates, may have a material adverse effect on the business, operating results and financial condition, which the Company may not be able to successfully offset with cost reductions.

The Company Faces Increased Pricing Pressure from Competitors and/or Customers.

There is price competition in the credit rating, research, credit risk management markets, research and analytical services and financial training and certification services. Moody's faces competition globally from other CRAs and from investment banks and brokerage firms that offer credit opinions in research, as well as from in-house research operations. Competition for customers and market share has spurred more aggressive tactics by some competitors in areas such as pricing and services, as well as increased competition from non-NRSROs that evaluate debt risk for issuers or investors. At the same time, a challenging business environment and consolidation among customers, particularly those involved in structured finance products, and other factors affecting demand may enhance the market power of competitors and reduce the Company's customer base. Weak economic growth intensifies competitive pricing pressures and can result in customers' use of free or lower-cost information that is available from alternative sources or their development of alternative, proprietary systems for assessing credit risk that replace the products currently purchased from Moody's. While Moody's seeks to compete primarily on the basis of the quality of its products and services, it may lose market share if its pricing is not sufficiently competitive. In addition, the Reform Act was designed to encourage competition among rating agencies. The formation of additional NRSROs may increase pricing and competitive pressures. Furthermore, in some of the countries in which Moody's operates, governments may provide financial or other support to local rating agencies. Any inability of Moody's to compete successfully with respect to the pricing of its products and services could have a material adverse impact on its business, operating results and financial condition.

The Company is Exposed to Reputation and Credibility Concerns.

Moody's reputation and the strength of its brand are key competitive strengths. To the extent that the rating agency business as a whole or Moody's, relative to its competitors, suffers a loss in credibility, Moody's business could be significantly impacted. Factors that may have already affected credibility and could potentially continue to have an impact in this regard include the appearance of a conflict of interest, the performance of securities relative to the rating assigned to such securities, the timing and nature of changes in ratings, a major compliance failure, negative perceptions or publicity and increased criticism by users of ratings, regulators and legislative bodies, including as to the ratings process and its implementation with respect to one or more securities and intentional or unintentional misrepresentations of Moody's products and services in advertising materials, public relations information, social media or other external communications. Operational errors, whether by Moody's or a Moody's competitor, could also harm the reputation of the Company or the credit rating industry. Damage to reputation and credibility could have a material adverse impact on Moody's business, operating results and financial condition, as well as on the Company's ability to find suitable candidates for acquisition.

The Introduction of Competing Products or Technologies by Other Companies May Negatively Impact the Nature and Economics of the Company's Business.

The markets for credit ratings, research, credit risk management services, research and analytical services and financial training and certification services are highly competitive and characterized by rapid technological change, changes in customer demands, and evolving regulatory requirements, industry standards and market preferences. The ability to develop and successfully launch and maintain innovative products and technologies that anticipate customers' changing requirements and utilize emerging technological trends in a timely and cost-effective manner is a key factor in maintaining market share. Moody's competitors include both established companies with significant financial resources, brand recognition, market experience and technological expertise, and smaller companies which may be better poised to quickly adopt new or emerging technologies or respond to customer requirements. Competitors may develop quantitative methodologies or related services for assessing credit risk that customers and market participants may deem preferable, more cost-effective or more valuable than the credit risk assessment methods currently employed by Moody's, or may position, price or market their products in manners that differ from those utilized by Moody's. Moody's also competes indirectly against consulting firms and technology and information providers; these indirect competitors could in the future choose to compete directly with Moody's, cease doing business with Moody's or change the terms under which it does business with Moody's in a way that could negatively impact our business. In addition, customers or others may develop alternative, proprietary systems for assessing credit risk. Such developments could affect demand for Moody's products and services and its growth prospects. Further, the increased availability in recent years of free or relatively inexpensive internet information may reduce the demand for Moody's products and services. Moody's growth prospects also could be adversely affected by Moody's failure to make necessary or optimal capital infrastructure expenditures and improvements and the inability of its information technologies to provide adequate capacity and capabilities to meet increased demands of producing quality ratings and research products at levels achieved by competitors. Any inability of Moody to compete successfully may have a material adverse effect on its business, operating results and financial condition.

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Table of Contents***Possible Loss of Key Employees and Related Compensation Cost Pressures May Negatively Impact the Company.***

Moody's success depends upon its ability to recruit, retain and motivate highly skilled, experienced financial analysts and other professionals. Competition for skilled individuals in the financial services industry is intense, and Moody's ability to attract high quality employees could be impaired if it is unable to offer competitive compensation and other incentives or if the regulatory environment mandates restrictions on or disclosures about individual employees that would not be necessary in competing industries. As greater focus has been placed on executive compensation at public companies, in the future, Moody's may be required to alter its compensation practices in ways that could adversely affect its ability to attract and retain talented employees. Investment banks, investors and competitors may seek to attract analyst talent by providing more favorable working conditions or offering significantly more attractive compensation packages than Moody's. Moody's also may not be able to identify and hire the appropriate qualified employees in some markets outside the U.S. with the required experience or skills to perform sophisticated credit analysis. Additionally, relocation and/or restaffing of employees due to Brexit could adversely affect our ability to attract and retain talent for our European operations. There is a risk that even if the Company invests significant resources in attempting to attract, train and retain qualified personnel, it will not succeed in its efforts, and its business could be harmed.

Moody's is highly dependent on the continued services of Raymond W. McDaniel, Jr., the President and Chief Executive Officer, and other senior officers and key employees. The loss of the services of skilled personnel for any reason and Moody's inability to replace them with suitable candidates quickly or at all, as well as any negative market perception resulting from such loss, could have a material adverse effect on Moody's business, operating results and financial condition.

Moody's Acquisitions, Dispositions and Other Strategic Transactions or Internal Technology Investments May Not Produce Anticipated Results Exposing the Company to Future Significant Impairment Charges Relating to its Goodwill, Intangible Assets or Property and Equipment.

Moody's has entered into and expects to continue to enter into acquisition, disposition or other strategic transactions and expects to make various investments to strengthen its business and grow the Company. Such transactions as well as internal technology investments present significant challenges and risks. The market for acquisition targets, dispositions and other strategic transactions is highly competitive, especially in light of industry consolidation, which may affect Moody's ability to complete such transactions and complete such transactions on favorable terms. If Moody's is unsuccessful in completing such transactions on favorable terms or if opportunities for expansion do not arise, its business, operating results and financial condition could be materially adversely affected. Additionally, the Company makes significant investments in technology including software developed for internal-use which is time-intensive and complex to implement. Such investments may not be successful or may not result in the anticipated benefits resulting in asset write-offs.

In August 2017, Moody's acquired Bureau van Dijk for \$3,542.0 million. The anticipated growth, synergies and other strategic objectives of the Bureau van Dijk acquisition, as well as other completed transactions, may not be fully realized, and a variety of factors may adversely affect any anticipated benefits from such transactions. Any strategic transaction can involve a number of risks, including unanticipated challenges regarding integration of operations, technologies and new employees; the existence of liabilities or contingencies not disclosed to or otherwise known by the Company prior to closing a transaction; unexpected regulatory and operating difficulties and expenditures; scrutiny from competition and antitrust authorities; failure to retain key personnel of the acquired business; future developments that impair the value of purchased goodwill or intangible assets; diversion of management's focus from other business operations; failure to implement or remediate controls, procedures and policies appropriate for a larger public company at acquired companies that prior to the acquisition lacked such controls, procedures and policies;

challenges retaining the customers of the acquired business; coordination of product, sales, marketing and program and systems management functions; integration of employees from the acquired business into Moody's organization; integration of the acquired business's accounting, information technology, human resources, legal and other administrative systems with Moody's; and for foreign transactions, additional risks related to the integration of operations across different cultures and languages, and the economic, political, and regulatory risks associated with specific countries. The anticipated benefits from an acquisition or other strategic transaction may not be realized fully, or may take longer to realize than expected. As a result, the failure of acquisitions, dispositions and other strategic transactions to perform as expected may have a material adverse effect on Moody's business, operating results and financial condition.

At December 31, 2018, Moody's had \$3,781.3 million of goodwill and \$1,566.1 million of intangible assets on its balance sheet, both of which increased significantly due to the acquisition of Bureau van Dijk in 2017. Approximately 94% of the goodwill and intangible assets reside in the MA business, including those related to Bureau van Dijk, and are allocated to the six reporting units within MA: Content; ERS; MALS; MAKS; Bureau van Dijk; and Reis. The remaining 6% of goodwill and intangible assets reside in MIS and primarily relate to ICRA. Failure to achieve business objectives and financial projections in any of these reporting units could result in a significant asset impairment charge, which would result in a non-cash charge to operating expenses. Goodwill and intangible assets are tested for impairment on an annual basis and also when events or changes in circumstances indicate that impairment may have occurred. Determining whether an impairment of goodwill exists can be especially difficult in periods of market or economic uncertainty and turmoil, and requires significant management estimates and judgment. In addition, the potential for goodwill impairment is increased during periods of economic uncertainty. An asset impairment charge could have a material adverse effect on Moody's business, operating results and financial condition.

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The Company's Compliance and Risk Management Programs May Not be Effective and May Result in Outcomes That Could Adversely Affect the Company's Reputation, Financial Condition and Operating Results.

Moody's operates in a number of countries, and as a result the Company is required to comply and quickly adapt with numerous international and U.S. federal, state and local laws and regulations. The Company's ability to comply with applicable laws and regulations, including anti-corruption laws, is largely dependent on its establishment and maintenance of compliance, review and reporting systems, as well as its ability to attract and retain qualified compliance and risk management personnel. Moody's policies and procedures to identify, evaluate and manage the Company's risks, including risks resulting from acquisitions, may not be fully effective, and Moody's employees or agents may engage in misconduct, fraud or other errors. It is not always possible to deter such errors, and the precautions the Company takes to prevent and detect this activity may not be effective in all cases. If Moody's employees violate its policies or if the Company's risk management methods are not effective, the Company could be subject to criminal and civil liability, the suspension of the Company's employees, fines, penalties, regulatory sanctions, injunctive relief, exclusion from certain markets or other penalties, and may suffer harm to its reputation, financial condition and operating results.

Legal Protections for the Company's Intellectual Property Rights may not be Sufficient or Available to Protect the Company's Competitive Advantages.

Moody's considers many aspects of its products and services to be proprietary. Failure to protect the Company's intellectual property adequately could harm its reputation and affect the Company's ability to compete effectively. Businesses the Company acquires also involve intellectual property portfolios, which increase the challenges the Company faces in protecting its strategic advantage. In addition, the Company's operating results may be adversely affected by inadequate or changing legal and technological protections for intellectual property and proprietary rights in some jurisdictions and markets. On January 6, 2015, a rule with direct relevance to the CRA industry was published in the Official Journal of the European Union regarding the types of information that CRAs are to provide about certain ratings (those that were paid for by issuers) for publication on a central website administered by ESMA (the European Ratings Platform). This rule directly relates to the Company's intellectual property as it requires that the Company provide proprietary information at no cost that the Company currently sells, which could result in lost revenue. ESMA launched the European Rating Platform for public use on December 1, 2016.

Unauthorized third parties may also try to obtain and use technology or other information that the Company regards as proprietary. It is also possible that Moody's competitors or other entities could obtain patents related to the types of products and services that Moody's offers, and attempt to require Moody's to stop developing or marketing the products or services, to modify or redesign the products or services to avoid infringing, or to obtain licenses from the holders of the patents in order to continue developing and marketing the products and services. Even if Moody's attempts to assert or protect its intellectual property rights through litigation, it may require considerable cost, time and resources to do so, and there is no guarantee that the Company will be successful. The Company's ability to establish, maintain and protect its intellectual property and proprietary rights against theft, misappropriation or infringement could be materially and adversely affected by insufficient and/or changing proprietary rights and intellectual property legal protections in some jurisdictions and markets. These risks, and the cost, time and resources needed to address them, may increase as the Company's business grows and its profile rises in countries with intellectual property regimes that are less protective than the rules and regulations applied in the United States.

Changes in Tax Rates or Tax Rules Could Affect Future Results.

As a global company, Moody's is subject to taxation in the United States and various other countries and jurisdictions. As a result, our effective tax rate is determined based on the pre-tax income and applicable tax rates in the various

jurisdictions in which the Company operates. Moody's future tax rates could be affected by changes in the composition of earnings in countries or states with differing tax rates or other factors, including by increased earnings in jurisdictions where Moody's faces higher tax rates, losses incurred in jurisdictions for which Moody's is not able to realize the related tax benefit, or changes in foreign currency exchange rates. Changes in the tax, accounting and other laws, treaties, regulations, policies and administrative practices, or changes to their interpretation or enforcement, including changes applicable to multinational corporations such as the Base Erosion Profit Shifting initiative being conducted by the Organization for Economic Co-operation and Development, which requires companies to disclose more information to tax authorities on operations around the world, and the European Union's state aid rulings, could have a material adverse effect on the Company's effective tax rate, results of operations and financial condition and may lead to greater audit scrutiny of profits earned in various countries.

For example, the Tax Act made significant changes to the U.S. federal tax laws. Many aspects of the new legislation are currently uncertain or unclear and may not be clarified for some time. As additional regulatory guidance is issued interpreting or clarifying the Tax Act or if the tax accounting rules are modified, there may be adjustments or changes to the Company's determination of its mandatory one-time deemed repatriation tax liability (transition tax) on previously untaxed accumulated earnings of foreign subsidiaries recorded in 2017. Additional regulatory guidance may also affect the Company's expected future effective tax rates and tax assets and liabilities, which could have a material adverse effect on Moody's business, results of operations, cash flows and financial condition. Furthermore, the Tax Act may impact the volume of debt securities issued as discussed in the Risk Factor, *Changes in the Volume of*

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Debt Securities Issued in Domestic and/or Global Capital Markets, Asset Levels and Flows into Investment Levels and Changes in Interest Rates and Other Volatility in the Financial Markets May Negatively Impact the Nature and Economics of the Company's Business.

In addition, Moody's is subject to regular examination of its income tax returns by the Internal Revenue Service and other tax authorities, and the Company is experiencing increased scrutiny as its business grows. Moody's regularly assesses the likelihood of favorable or unfavorable outcomes resulting from these examinations to determine the adequacy of its provision for income taxes, including unrecognized tax benefits; however, developments in an audit or litigation could materially and adversely affect the Company. Although the Company believes its tax estimates and accruals are reasonable, there can be no assurance that any final determination will not be materially different than the treatment reflected in its historical income tax provisions, accruals and unrecognized tax benefits, which could materially and adversely affect the Company's business, operating results, cash flows and financial condition.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Moody's corporate headquarters is located at 7 World Trade Center at 250 Greenwich Street, New York, New York 10007, with approximately 797,537 square feet of leased space. As of December 31, 2018, Moody's operations were conducted from 21 U.S. offices and 105 non-U.S. office locations, all of which are leased. These properties are geographically distributed to meet operating and sales requirements worldwide. These properties are generally considered to be both suitable and adequate to meet current operating requirements.

ITEM 3. LEGAL PROCEEDINGS

For information regarding legal proceedings, see Part II, Item 8 Financial Statements, Note 20 Contingencies in this Form 10-K.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

Table of Contents**PART II****ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Information in response to this Item is set forth under the captions below.

MOODY'S PURCHASES OF EQUITY SECURITIES

For the three months ended December 31, 2018:

| Period | Total Number of Shares Purchased ⁽¹⁾ | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Program | Approximate Dollar Value of Shares That May Yet Be Purchased Under The Program ⁽²⁾ |
|-----------------|--|-------------------------------------|---|--|
| October 1 - 31 | 140,682 | \$ 159.08 | 140,235 | \$ 1,357.4 million |
| November 1 - 30 | 127,843 | \$ 149.80 | 127,488 | \$ 1,338.3 million |
| December 1 - 31 | 94,524 | \$ 149.03 | 93,920 | \$ 1,324.3 million |
| Total | 363,049 | \$ 153.20 | 361,643 | |

⁽¹⁾ Includes surrender to the Company of 447, 355 and 604 shares of common stock in October, November and December, respectively, to satisfy tax withholding obligations in connection with the vesting of restricted stock issued to employees.

⁽²⁾ As of the last day of each of the months. On December 15, 2015, the Board authorized a \$1 billion share repurchase program, which at December 31, 2018 had approximately \$324 million of remaining authority. On October 22, 2018, the Board approved an additional \$1 billion for the share repurchase program, which may commence following the completion of the existing program. There is no established expiration date for the remaining authorization.

During the fourth quarter of 2018, Moody's issued a net 57 thousand shares under employee stock-based compensation plans.

COMMON STOCK INFORMATION

The Company's common stock trades on the New York Stock Exchange under the symbol MCO. The number of registered shareholders of record at January 31, 2019 was 1,902. A substantially greater number of the Company's common stock is held by beneficial holders whose shares of record are held by banks, brokers and other financial institutions.

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The table below sets forth, as of December 31, 2018, certain information regarding the Company's equity compensation plans.

| Plan Category | Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a) | Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights ⁽²⁾ (b) | Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding Securities Reflected in Column (a)) (c) |
|--|--|---|--|
| Equity compensation plans approved by security holders | 5,446,379 ⁽¹⁾ | \$ 69.86 | 19,187,078 ⁽³⁾ |
| Equity compensation plans not approved by security holders | | \$ | |
| Total | 5,446,379 | \$ 69.86 | 19,187,078 |

(1) Includes 4,299,113 options and unvested restricted shares outstanding under the Company's 2001 Key Employees Stock Incentive Plan and 9,145 unvested restricted shares outstanding under the 1998 Non-Employee Directors Stock Incentive Plan. This number also includes a maximum of 1,138,121 performance shares outstanding under the Company's 2001 Key Employees Stock Incentive Plan, which is the maximum number of shares issuable pursuant to performance share awards assuming the maximum payout at 225% of the target award for performance shares granted in 2016 and 2017 and the maximum payout of 200% of the target award for performance shares granted in 2018. Assuming payout at target, the number of shares to be issued upon the vesting of outstanding performance share awards is 520,534.

(2) Does not reflect unvested restricted shares or performance share awards included in column (a) because these awards have no exercise price.

(3) Includes 15,500,780 shares available for issuance as under the 2001 Stock Incentive Plan, of which all may be issued as options and 9,183,720 may be issued as restricted stock, performance shares or other stock-based awards under the 2001 Stock Incentive Plan and 903,463 shares available for issuance as options, shares of restricted stock

or performance shares under the 1998 Directors Plan, and 2,782,835 shares available for issuance under the Company's Employee Stock Purchase Plan. No new grants may be made under the 1998 Stock Incentive Plan, which expired by its terms in June 2008.

Table of Contents**PERFORMANCE GRAPH**

The following graph compares the total cumulative shareholder return of the Company to the performance of Standard & Poor's Stock 500 Composite Index and the Russell 3000 Financial Services Index. Both of the aforementioned indexes are easily accessible to the Company's shareholders in newspapers, the internet and other readily available sources for purposes of the following graph.

The comparison assumes that \$100.00 was invested in the Company's common stock and in each of the foregoing indices on December 31, 2013. The comparison also assumes the reinvestment of dividends, if any. The total return for the common stock was 90% during the performance period as compared with a total return during the same period of 101% for the Russell 3000 Financial Services Index and 50% for the S&P 500 Composite Index.

Comparison of Cumulative Total Return**COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN**

Among Moody's Corporation, the S&P 500 Index
and the Russell 3000 Financial Services Index

| | Year Ended December 31, | | | | | |
|---------------------------------------|--------------------------------|-------------|-------------|-------------|-------------|-------------|
| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
| Moody's Corporation | \$ 100.00 | \$ 123.67 | \$ 131.20 | \$ 125.17 | \$ 198.42 | \$ 190.28 |
| S&P 500 Composite Index | \$ 100.00 | \$ 113.69 | \$ 115.26 | \$ 129.05 | \$ 157.22 | \$ 150.33 |
| Russell 3000 Financial Services Index | \$ 100.00 | \$ 114.05 | \$ 114.62 | \$ 183.03 | \$ 219.54 | \$ 201.21 |

The comparisons in the graph above are provided in response to disclosure requirements of the SEC and are not intended to forecast or be indicative of future performance of the Company's common stock.

Table of Contents**ITEM 6. SELECTED FINANCIAL DATA**

The Company's selected consolidated financial data should be read in conjunction with Item 7. MD&A and the Moody's Corporation consolidated financial statements and notes thereto.

| amounts in millions, except per share data | Year Ended December 31, | | | | |
|---|-------------------------|------------|------------|------------|------------|
| | 2018 | 2017 | 2016 | 2015 | 2014 |
| Results of operations | | | | | |
| Revenue | \$ 4,442.7 | \$ 4,204.1 | \$ 3,604.2 | \$ 3,484.5 | \$ 3,334.3 |
| Expenses | | | | | |
| Operating and SG&A Expenses ⁽¹⁾ | 2,325.6 | 2,202.5 | 1,950.8 | 1,880.3 | 1,788.9 |
| Restructuring | 48.7 | | 12.0 | | |
| Depreciation and amortization | 191.9 | 158.3 | 126.7 | 113.5 | 95.6 |
| Acquisition-Related Expenses | 8.3 | 22.5 | | | |
| Settlement Charge | | | 863.8 | | |
| Total Expenses | 2,574.5 | 2,383.3 | 2,953.3 | 1,993.8 | 1,884.5 |
| Operating income⁽²⁾ | 1,868.2 | 1,820.8 | 650.9 | 1,490.7 | 1,449.8 |
| Non-operating (expense) income, net ⁽³⁾⁽¹⁾ | (197.2) | (34.0) | (92.9) | (111.1) | 11.2 |
| Income before provision for income taxes⁽²⁾ | 1,671.0 | 1,786.8 | 558.0 | 1,379.6 | 1,461.0 |
| Provision for income taxes ⁽⁴⁾ | 351.6 | 779.1 | 282.2 | 430.0 | 455.0 |
| Net income⁽²⁾ | 1,319.4 | 1,007.7 | 275.8 | 949.6 | 1,006.0 |
| Less: Net income attributable to noncontrolling interests | 9.8 | 7.1 | 9.2 | 8.3 | 17.3 |
| Net income attributable to Moody⁽²⁾⁽⁵⁾ | \$ 1,309.6 | \$ 1,000.6 | \$ 266.6 | \$ 941.3 | \$ 988.7 |
| Earnings per share | | | | | |
| Basic ⁽²⁾ | \$ 6.84 | \$ 5.24 | \$ 1.38 | \$ 4.70 | \$ 4.69 |
| Diluted ⁽²⁾ | \$ 6.74 | \$ 5.15 | \$ 1.36 | \$ 4.63 | \$ 4.61 |
| Weighted average shares outstanding | | | | | |
| Basic | 191.6 | 191.1 | 192.7 | 200.1 | 210.7 |
| Diluted | 194.4 | 194.2 | 195.4 | 203.4 | 214.7 |
| Dividends declared per share | \$ 1.76 | \$ 1.14 | \$ 1.49 | \$ 1.39 | \$ 1.18 |
| Operating margin⁽²⁾ | 42.1% | 43.3% | 18.1% | 42.8% | 43.5% |
| Operating Cash Flow⁽⁶⁾ | \$ 1,461.1 | \$ 754.6 | \$ 1,259.2 | \$ 1,198.1 | \$ 1,077.3 |

December 31,

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|-------------------------------------|------------|------------|--------------|------------|------------|
| Balance sheet data | | | | | |
| Total assets | \$ 9,526.2 | \$ 8,594.2 | \$ 5,327.3 | \$ 5,103.0 | \$ 4,653.8 |
| Long-term debt | \$ 5,226.1 | \$ 5,111.1 | \$ 3,063.0 | \$ 3,380.6 | \$ 2,532.1 |
| Total shareholders equity (deficit) | \$ 656.5 | \$ (114.9) | \$ (1,027.3) | \$ (333.0) | \$ 42.9 |

- (1) Pursuant to the adoption of a new accounting standard relating to pension accounting as more fully discussed in Note 1, only the service cost component of net periodic expense is classified within operating and SG&A expenses with the remaining components being classified as non-operating (expenses) income. Prior period results have been restated to reflect this classification.
- (2) The significant decrease in 2016 is primarily driven by the 2016 \$863.8 million Settlement Charge (\$700.7 million, net of tax, or \$3.59 per diluted share).
- (3) The 2017 amount includes a \$111.1 million Purchase Price Hedge Gain as well as the \$59.7 million CCXI Gain. The 2016 amount includes a \$34.8 million FX gain relating to the substantial liquidation of a subsidiary. The 2015 and 2014 amounts include benefits of \$7.1 million each, related to the favorable resolution of certain Legacy Tax Matters. The 2014 amount also includes the ICRA Gain of \$102.8 million.
- (4) Provision for income taxes in the year ended December 31, 2018 includes a charge of \$63.9 million relating to an increase in non-U.S. UTPs, partially offset by a \$59.0 million benefit from potential realization of foreign tax credits and other adjustments to previous estimates relating to the Tax Act. Provision for income taxes in the year ended December 31, 2017 includes a net charge of \$245.6 million related to the impact of U.S. tax reform and a statutory tax rate reduction in Belgium as more fully discussed in Note 16 to the consolidated financial statements in Item 8 of this Form 10-K.

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- (5) The 2018 amount includes: i) a \$59.0 million (\$0.30 per share) benefit related to the impact of U.S. tax reform, ii) a \$63.9 million (\$0.33 per share) charge related to an increase to non-U.S UTPs; and iii) \$36.8 million (\$0.19 per share) net restructuring charge. The 2017 amount includes: i) a \$245.6 million (\$1.27 per share) charge related to the impact of U.S. tax reform and a statutory tax rate reduction in Belgium; ii) a \$72.3 million (\$0.37 per share) Purchase Price Hedge Gain; and iii) the \$59.7 million (\$0.31 per share) CCXI Gain. The 2016 amount includes: i) a \$700.7 million (\$3.59 per share) Settlement Charge; ii) an \$8.1 million (\$0.04 per share) restructuring charge; and iii) a \$34.8 million (\$0.18 per share) FX gain relating to the substantial liquidation of a subsidiary. The 2015 and 2014 amounts include benefits of \$6.4 million (\$0.03 per share) each related to the resolution of certain Legacy Tax Matters. Also, the 2014 amount includes the ICRA Gain of \$78.5 million (\$0.37 per share).
- (6) The decline in operating cash flow in 2017 is primarily due to payments made relating to the Settlement Charge. Additionally, in the first quarter of 2017, the Company adopted ASU No. 2016-09 Improvements to Employee Share-Based Payment Accounting . As required by ASU 2016-09, Excess Tax Benefits or shortfalls relating to employee stock-based compensation are reflected in operating cash flow and the Company has applied this provision on a retrospective basis. Under previous accounting guidance, Excess Tax Benefits or shortfalls were shown as a reduction to operating cash flow and an increase to financing cash flow.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This discussion and analysis of financial condition and results of operations should be read in conjunction with the Moody's Corporation consolidated financial statements and notes thereto included elsewhere in this annual report on Form 10-K.

This MD&A contains Forward-Looking Statements. See **Forward-Looking Statements** commencing on page 57 and **Item 1A. Risk Factors** commencing on page 17 for a discussion of uncertainties, risks and other factors associated with these statements.

THE COMPANY

Moody's is a provider of (i) credit ratings; (ii) credit, capital markets and economic research, data and analytical tools; (iii) software solutions that support financial risk management activities; (iv) quantitatively derived credit scores; (v) learning solutions and certification services; (vi) offshore financial research and analytical services; and (vii) company information and business intelligence products. Moody's reports in two reportable segments: MIS and MA.

MIS, the credit rating agency, publishes credit ratings on a wide range of debt obligations and the entities that issue such obligations in markets worldwide. Revenue is primarily derived from the originators and issuers of such transactions who use MIS ratings in the distribution of their debt issues to investors. Additionally, MIS earns revenue from certain non-ratings-related operations, which consist primarily of financial instrument pricing services in the Asia-Pacific region as well as revenue from ICRA's non-ratings operations. The revenue from these operations is included in the MIS Other LOB and is not material to the results of the MIS segment.

The MA segment develops a wide range of products and services that support financial analysis and risk management activities of institutional participants in global financial markets. Within its RD&A business, MA offers subscription based research, data and analytical products, including credit ratings produced by MIS, credit research, quantitative credit scores and other analytical tools, economic research and forecasts, business intelligence and company information products, and commercial real estate data and analytical tools. Within its ERS business, MA provides software solutions as well as related risk management services. The PS business provides offshore analytical and research services along with learning solutions and certification programs.

CRITICAL ACCOUNTING ESTIMATES

Moody's discussion and analysis of its financial condition and results of operations are based on the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires Moody's to make estimates and judgments that affect reported amounts of assets and liabilities and related disclosures of contingent assets and liabilities at the dates of the financial statements and revenue and expenses during the reporting periods. These estimates are based on historical experience and on other assumptions that are believed to be reasonable under the circumstances. On an ongoing basis, Moody's evaluates its estimates, including those related to revenue recognition, accounts receivable allowances, contingencies, restructuring, goodwill and acquired intangible assets, pension and other retirement benefits, and income taxes. Actual results may differ from these estimates under different assumptions or conditions. The following accounting estimates are considered critical because they are particularly dependent on management's judgment about matters that are uncertain at the time the accounting estimates are made and changes to those estimates could have a material impact on the Company's consolidated results of operations or financial condition.

Goodwill and Other Acquired Intangible Assets

On July 31st of each year, Moody's evaluates its goodwill for impairment at the reporting unit level, defined as an operating segment (i.e., MIS and MA), or one level below an operating segment (i.e., a component of an operating segment).

The Company has eight primary reporting units: two within the Company's ratings business (one for the ICRA business and one that encompasses all of Moody's other ratings operations) and six reporting units within MA: Content, ERS, MALS (formerly FSTC), MAKS, Bureau van Dijk and Reis. The Content reporting unit offers subscription based research, data and analytical products, including credit ratings produced by MIS, credit research, quantitative credit scores and other analytical tools, economic research and forecasts, business intelligence and company information products, and credit analytical tools. The ERS reporting unit provides products and services that support the credit risk management and regulatory compliance activities of financial institutions and also provides advanced actuarial software for the life insurance industry. These products and services are primarily delivered via software that is licensed on a perpetual basis or sold on a subscription basis. The MALS reporting unit consists of the portion of the MA business that offers both credit training as well as other professional development training. The MAKS reporting unit provides offshore research and analytical services. The Bureau van Dijk reporting unit consists of the Bureau van Dijk business, which was acquired on August 10, 2017, and primarily provides business intelligence and company information products. The Reis reporting unit, consists of the newly acquired Reis business, and provides commercial real estate market information and analytical tools.

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The Company evaluates the recoverability of goodwill using a two-step impairment test approach at the reporting unit level. In the first step, the Company assesses various qualitative factors to determine whether the fair value of a reporting unit may be less than its carrying amount. If a determination is made based on the qualitative factors that an impairment does not exist, the Company is not required to perform further testing. If the aforementioned qualitative assessment results in the Company concluding that it is more likely than not that the fair value of a reporting unit may be less than its carrying amount, the fair value of the reporting unit will be quantitatively determined and compared to its carrying value including goodwill. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is not impaired and the Company is not required to perform further testing. If the fair value of the reporting unit is less than the carrying value, the Company will record a goodwill impairment charge for the amount by which the carrying value exceeds the reporting unit's fair value in accordance with ASU No. 2017-04, Intangibles—Goodwill and Other (Topic 350), Simplifying the Test for Goodwill Impairment. The Company evaluates its reporting units on an annual basis, or more frequently if there are changes in the reporting structure of the Company due to acquisitions, realignments or if there are indicators of potential impairment. For the reporting units where the Company is consistently able to conclude that no impairment exists using only a qualitative approach, the Company's accounting policy is to perform the second step of the aforementioned goodwill impairment assessment at least once every three years.

At July 31, 2018, the Company performed quantitative assessments of the ERS, MALS, MAKS and ICRA reporting units and a qualitative assessment for the remaining reporting units. No quantitative assessment resulted in the carrying value of the reporting unit exceeding its fair value. Each qualitative analysis resulted in the Company determining that it was not more likely than not that the fair value of the reporting unit was less than its carrying amount.

The Company quantitatively tested the ERS, MALS, MAKS and ICRA reporting units as of July 31, 2018 due to the factors outlined below:

- » ERS—this reporting unit was quantitatively assessed to update its valuation to reflect the current assumptions relating to the timing of a strategic shift in the business away from lower margin sales of highly customized software solutions to higher margin SaaS sales. This migration to SaaS sales is expected to contribute to a more stable and more profitable base of recurring revenue over the medium to long-term. In 2018, the Company revised its projections for ERS to reflect a faster deterioration of the lower margin sales of highly customized software solutions than was previously projected in 2017.
- » MALS and MAKS—these reporting units were quantitatively assessed at the discretion of the Company as they have historically been the reporting units with the lowest amount by which the fair value of a reporting unit exceeds its carrying value.
- » ICRA—this reporting unit was tested quantitatively due to it having a readily available fair value based on its stock price.

Determining the fair value of a reporting unit or an indefinite-lived acquired intangible asset (including its estimated useful life) involves the use of significant estimates and assumptions. These estimates and assumptions include projections of future operating results and cash flows of each reporting unit that are based on internal budgets and strategic plans, expected long-term growth rates, terminal values, weighted average cost of capital, the effects of external factors and market conditions as well as appropriate comparable market metrics. However, as these estimates

and assumptions are unpredictable and inherently uncertain, actual future results may differ from these estimates and the time frame of such changes may be rapid. In addition, the Company also makes certain judgments and assumptions in allocating shared assets and liabilities to determine the carrying values for each of its reporting units.

Other assets and liabilities, including applicable corporate assets, are allocated to the extent they are related to the operation of respective reporting units.

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Table of Contents**Sensitivity Analyses and Key Assumptions for Deriving the Fair Value of a Reporting Unit**

The following table identifies the amount of goodwill allocated to each reporting unit as of December 31, 2018 and the amount by which the net assets of each reporting unit would exceed the fair value under Step 2 of the goodwill impairment test as prescribed in ASC Topic 350, assuming hypothetical reductions in their fair values as of the date of the last quantitative goodwill impairment assessment for each reporting unit (July 31, 2018 for ERS, MALS, MAKS and ICRA; July 31, 2016 for MIS and Content).

| | Goodwill | Sensitivity Analysis | | | |
|--------------------------------|------------|--|-----|-----------|------------|
| | | Deficit Caused by a Hypothetical Reduction to Fair Value | | | |
| | | 10% | 20% | 30% | 40% |
| MIS | \$ 45.9 | \$ | \$ | \$ | \$ |
| Content | 342.9 | | | | |
| ERS | 609.1 | | | (33.1) | (169.2) |
| MALS ⁽¹⁾ | 120.7 | | | | (2.9) |
| MAKS | 181.4 | | | | (21.6) |
| ICRA | 215.2 | | | (1.2) | (59.6) |
| Bureau van Dijk ⁽²⁾ | 2,080.1 | N/A | N/A | N/A | N/A |
| Reis ⁽³⁾ | 186.0 | N/A | N/A | N/A | N/A |
| Totals | \$ 3,781.3 | \$ | \$ | \$ (34.3) | \$ (253.3) |

(1) Omega Performance was acquired subsequent to the Company's annual goodwill impairment assessment as of July 31, 2018. Goodwill related to this acquisition is reported within the MALS reporting unit.

(2) Bureau van Dijk was acquired in August 2017 and has not yet been subject to a quantitative goodwill assessment. The purchase price approximates the fair value of the reporting unit at July 31, 2018, and accordingly, Bureau van Dijk was not subject to the sensitivity analysis above.

(3) Reis was acquired in October 2018, subsequent to the Company's annual goodwill impairment assessment as of July 31, 2018. Due to the close proximity of the Reis acquisition to December 31, 2018, the purchase price approximates the fair value of the reporting unit.

Methodologies and significant estimates utilized in determining the fair value of reporting units:

The following is a discussion regarding the Company's methodology for determining the fair value of its reporting units, excluding ICRA, as of the date of each reporting unit's last quantitative assessment (July 31, 2018 for ERS, MALS, and MAKS and July 31, 2016 for MIS and Content). As ICRA is a publicly traded company in India, the Company was able to observe its fair value based on its market capitalization.

The fair value of each reporting unit, excluding ICRA, was estimated using a discounted cash flow methodology and comparable public company and precedent transaction multiples. The discounted cash flow analysis requires significant estimates, including projections of future operating results and cash flows of each reporting unit that are based on internal budgets and strategic plans, expected long-term growth rates, terminal values, weighted average cost of capital and the effects of external factors and market conditions. Changes in these estimates and assumptions could materially affect the estimated fair value of each reporting unit that could result in an impairment charge to reduce the carrying value of goodwill, which could be material to the Company's financial position and results of operations. Moody's allocates newly acquired goodwill to reporting units based on the reporting unit expected to benefit from the acquisition.

The sensitivity analyses on the future cash flows and WACC assumptions described below are as of each reporting unit's last quantitative goodwill impairment assessment. The following discusses the key assumptions utilized in the discounted cash flow valuation methodology that requires significant management judgment:

- » *Future cash flow assumptions* The projections for future cash flows utilized in the models are derived from historical experience and assumptions regarding future growth and profitability of each reporting unit. These projections are consistent with the Company's operating budget and strategic plan. Cash flows for the five years subsequent to the date of the quantitative goodwill impairment analysis were utilized in the determination of the fair value of each reporting unit. The growth rates assumed a gradual increase in revenue based on a continued improvement in the global economy and capital markets, new customer acquisition and new products. Beyond five years, a terminal value was determined using a perpetuity growth rate based on inflation and real GDP growth rates. A sensitivity analysis of the revenue growth rates was performed on all reporting units. For each reporting unit analyzed, a 10% decrease in the revenue growth rates used would not have resulted in its carrying value exceeding its estimated fair value.
- » *WACC* The WACC is the rate used to discount each reporting unit's estimated future cash flows. The WACC is calculated based on the proportionate weighting of the cost of debt and equity. The cost of equity is based on a risk-free interest rate and an equity risk factor, which is derived from public companies similar to the reporting unit and which captures the perceived risks and uncertainties associated with the reporting unit's cash flows. The cost of debt component is calculated as the weighted average cost associated

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with all of the Company's outstanding borrowings as of the date of the impairment test and was immaterial to the computation of the WACC. The cost of debt and equity is weighted based on the debt to market capitalization ratio of publicly traded companies with similarities to the reporting unit being tested. The WACC for all reporting units ranged from 8.5% to 10.5% as of the date of the reporting unit's most recent quantitative assessment. Differences in the WACC used between reporting units is primarily due to distinct risks and uncertainties regarding the cash flows of the different reporting units. A sensitivity analysis of the WACC was performed on all reporting units as of the date of the reporting unit's last quantitative goodwill impairment assessment. For each reporting unit analyzed, an increase in the WACC of one percentage point would not result in its carrying value exceeding its fair value.

Income Taxes

The Company is subject to income taxes in the U.S. and various foreign jurisdictions. The Company's tax assets and liabilities are affected by the amounts charged for services provided and expenses incurred as well as other tax matters such as intercompany transactions. The Company accounts for income taxes under the asset and liability method in accordance with ASC Topic 740. Therefore, income tax expense is based on reported income before income taxes, and deferred income taxes reflect the effect of temporary differences between the amounts of assets and liabilities that are recognized for financial reporting purposes and the amounts that are recognized for income tax purposes.

The Company is subject to tax audits in various jurisdictions. The Company regularly assesses the likely outcomes of such audits in order to determine the appropriateness of liabilities for UTPs. The Company classifies interest related to income taxes as a component of interest expense in the Company's consolidated financial statements and associated penalties, if any, as part of other non-operating expenses.

For UTPs, ASC Topic 740 requires a company to first determine whether it is more-likely-than-not (defined as a likelihood of more than fifty percent) that a tax position will be sustained based on its technical merits as of the reporting date, assuming that taxing authorities will examine the position and have full knowledge of all relevant information. A tax position that meets this more-likely-than-not threshold is then measured and recognized at the largest amount of benefit that is greater than fifty percent likely to be realized upon effective settlement with a taxing authority. As the determination of liabilities related to UTPs and associated interest and penalties requires significant estimates to be made by the Company, there can be no assurance that the Company will accurately predict the outcomes of these audits, and thus the eventual outcomes could have a material impact on the Company's operating results or financial condition.

On December 22, 2017, the Tax Act was signed into law, which resulted in significant changes to U.S. corporate tax laws. The Tax Act includes a mandatory one-time deemed repatriation tax (transition tax) on previously untaxed accumulated earnings of foreign subsidiaries and reduces the statutory federal corporate income tax rate from 35% to 21%. Due to the complexities involved in applying the provisions of the Tax Act, in 2017 the Company recorded a provisional estimate of \$247.3 million related to the transition tax in 2017. In 2018, the IRS issued notices clarifying certain aspects of the transition tax. As a result, the Company reduced its provision for the transition tax by \$10.9 million. The IRS may issue additional regulations or notices in future periods to clarify or amend provisions of the Tax Act and such guidance could result in revisions in future periods to the amounts recorded for the existing provisions and interpretations of the Tax Act. In addition, in 2018 the Company recorded a deferred tax asset of \$48.1 million related to potential foreign tax credits which could be realized if certain UTPs resulted in tax assessments. The transition tax liability reported on the Company's 2017 tax return is payable over eight years starting in 2018 and will not accrue interest. Due to the reduction in U.S. corporate income tax rates beginning in 2018, a decrease of \$56.2 million was recorded to net deferred tax assets in 2017. The above amounts may be impacted by a number of additional considerations, including but not limited to the issuance of regulations and the Company's ongoing analysis of the new law.

Pursuant to the Tax Act being signed into law, all previously undistributed foreign earnings became subject to U.S. tax. In light of U.S tax reform, the Company has reassessed its capital allocation strategy, including reevaluating its global cash position and revising its plans for repatriating or reinvesting foreign earnings. The Company regularly evaluates in which entities it will indefinitely reinvest earnings outside the U.S. The Company has provided non-U.S. deferred taxes for those entities whose earnings are not considered indefinitely reinvested outside of the U.S.

Revenue Recognition and Costs to Obtain a Contract with a Customer

Revenue is recognized when control of promised goods or services is transferred to the customer, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services.

The discussion below outlines areas of the Company's revenue recognition process that require significant management judgment and estimates. Refer to Note 2 of the consolidated financial statements for a comprehensive discussion regarding the Company's accounting policies relating to the recognition of revenue and costs to obtain a contract with a customer.

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Determination of performance obligations:

When contracts with customers contain multiple performance obligations, the Company accounts for individual performance obligations separately if they are distinct.

In the Company's MIS segment, revenue arrangements with multiple elements are generally comprised of two distinct performance obligations, initial rating fees and the related monitoring services. Revenue attributed to initial ratings of issued securities is generally recognized when the rating is delivered to the issuer, whereas revenue from monitoring related to MIS's ratings is recognized ratably over the period in which the monitoring is performed.

In the MA segment, contracts with customers often include promises to transfer multiple products and services to a customer. When arrangements for software, content or SaaS licenses also include related implementation services, the Company may be required to exercise significant judgment in determining the level of integration and interdependency between the promise to grant the software license and the promise to deliver the related implementation services. This determination influences whether the software license is considered distinct and accounted for separately (with revenue generally being recognized at the time the product master or first copy is delivered or transferred to the customer), or not distinct and accounted for together with the implementation services (with revenue being recognized on a percentage-of-completion basis as implementation services are performed).

Allocating consideration to performance obligations:

Management judgment is also required in the determination of the SSP, which is utilized to allocate the consideration from a contract with a customer to each distinct performance obligation.

In the MIS segment, the Company allocates the transaction price within arrangements that include multiple elements based upon the relative SSP of each service at contract inception. The SSP for monitoring fees in these arrangements is generally based upon directly observable selling prices where the monitoring service is sold separately. The Company generally utilizes management's best estimate of SSP for initial rating fees and considers all available data points. MIS generally provides initial ratings only in transactions with customers that include monitoring services related to the rating.

In the MA segment, revenue is generally allocated to all performance obligations based upon the relative SSP at contract inception. For performance obligations where an observable price exists, such as PCS, the observable price is utilized. If an observable price does not currently exist, the Company will utilize management's best estimate of SSP for that good or service using estimation methods that maximize the use of observable data points.

The SSP in both segments is usually apportioned along the lines of class of customer, nature of product/services, and other attributes related to those products and services. Once SSP is determined for each performance obligation, the transaction price, including any discount, is allocated based on the relative SSP of the separate performance obligations.

Costs to Obtain a Contract with a Customer:

Costs incurred to obtain customer contracts, such as sales commissions, are deferred and recorded within other current assets and other assets when such costs are determined to be incremental to obtaining a contract, would not have been incurred otherwise and the Company expects to recover those costs. These costs are amortized to expense consistent with the recognition pattern of the related revenue over time. Depending on the line of business to which the contract relates, this amortization period may be based upon the average economic life of the products sold or average period

for which services are provided, inclusive of anticipated contract renewals. Determining the estimated economic life of the products sold requires judgment with respect to anticipated future technological changes/product enhancements.

Contingencies

Accounting for contingencies, including those matters described in Note 20 to the consolidated financial statements, is highly subjective and requires the use of judgments and estimates in assessing their magnitude and likely outcome. In many cases, the outcomes of such matters will be determined by third parties, including governmental or judicial bodies. The provisions made in the consolidated financial statements, as well as the related disclosures, represent management's best estimates of the current status of such matters and their potential outcome based on a review of the facts and in consultation with outside legal counsel where deemed appropriate. The Company regularly reviews contingencies and as new information becomes available may, in the future, adjust its associated liabilities.

For claims, litigation and proceedings and governmental investigations and inquiries not related to income taxes, where it is both probable that a liability has been incurred and the amount of loss can be reasonably estimated, the Company records liabilities in the consolidated financial statements and periodically adjusts these as appropriate. When the reasonable estimate of the loss is within a range of amounts, the minimum amount of the range is accrued unless some higher amount within the range is a better estimate than another amount within the range. In other instances, where a loss is reasonably possible, management does not record a liability because of uncertainties related to the probable outcome and/or the amount or range of loss, but discloses the contingency if material.

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As additional information becomes available, the Company adjusts its assessments and estimates of such matters accordingly. In view of the inherent difficulty of predicting the outcome of litigation, regulatory, governmental investigations and inquiries, enforcement and similar matters and contingencies, particularly where the claimants seek large or indeterminate damages or where the parties assert novel legal theories or the matters involve a large number of parties, the Company cannot predict what the eventual outcome of the pending matters will be or the timing of any resolution of such matters. The Company also cannot predict the impact (if any) that any such matters may have on how its business is conducted, on its competitive position or on its financial position, results of operations or cash flows. As the process to resolve any pending matters progresses, management will continue to review the latest information available and assess its ability to predict the outcome of such matters and the effects, if any, on its operations and financial condition. However, in light of the large or indeterminate damages sought in some of them, the absence of similar court rulings on the theories of law asserted and uncertainties regarding apportionment of any potential damages, an estimate of the range of possible losses cannot be made at this time.

The Company's wholly-owned insurance subsidiary insures the Company against certain risks including, but not limited to, deductibles for worker's compensation, employment practices litigation, employee medical claims and terrorism, for which the claims are not material to the Company. In addition, for claim years 2008 and 2009, the insurance subsidiary insured the Company for defense costs related to professional liability claims. For matters insured by the Company's insurance subsidiary, Moody's records liabilities based on the estimated total claims expected to be paid and total projected costs to defend a claim through its anticipated conclusion. The Company determines liabilities based on an assessment of management's best estimate of claims to be paid and legal defense costs as well as actuarially determined estimates. Defense costs for matters not self-insured by the Company's wholly-owned insurance subsidiary are expensed as services are provided.

Accounts Receivable Allowances and Contract Assets

Moody's records variable consideration in respect of estimated future adjustments to customer billings as an adjustment to revenue, using the expected value method based on analysis of similar contracts in the same line of business. Such amounts are reflected as additions to the accounts receivable allowance, or to contract assets. Additionally, estimates of uncollectible accounts are recorded as bad debt expense and are reflected as additions to the accounts receivable allowance. Actual billing adjustments are recorded against the allowance, or contract asset, depending on the nature of the adjustment. Actual uncollectible account write-offs are recorded against the allowance. Moody's evaluates its accounts receivable allowance by reviewing and assessing historical collection and adjustment experience and the current status of customer accounts. Moody's also considers the economic environment of the customers, both from an industry and geographic perspective, in evaluating the need for allowances. Based on its analysis, Moody's adjusts its allowance as considered appropriate in the circumstances. This process involves a high degree of judgment and estimation and could involve significant dollar amounts. Accordingly, Moody's results of operations can be affected by adjustments to the allowance. Management believes that the allowance is adequate to cover anticipated adjustments and write-offs under current conditions. However, significant changes in any of the above factors, or actual write-offs or adjustments that differ from the estimated amounts, could impact the Company's consolidated results of operations.

Pension and Other Retirement Benefits

The expenses, assets and liabilities that Moody's reports for its Retirement Plans are dependent on many assumptions concerning the outcome of future events and circumstances. These significant assumptions include the following:

- » future compensation increases based on the Company's long-term actual experience and future outlook;
- » long-term expected return on pension plan assets based on historical portfolio results and the expected future average annual return for each major asset class within the plan's portfolio (which is principally comprised of equity and fixed-income investments); and
- » discount rates based on current yields on high-grade corporate long-term bonds.

The discount rates used to measure the present value of the Company's benefit obligation for its Retirement Plans as of December 31, 2018 were derived using a cash flow matching method whereby the Company compares each plan's projected payment obligations by year with the corresponding yield on the FTSE pension discount curve. The cash flows by plan are then discounted back to present value to determine the discount rate applicable to each plan.

Moody's major assumptions vary by plan and assumptions used are set forth in Note 14 to the consolidated financial statements. In determining these assumptions, the Company consults with third-party actuaries and other advisors as deemed appropriate. While the Company believes that the assumptions used in its calculations are reasonable, differences in actual experience or changes in assumptions could have a significant effect on the expenses, assets and liabilities related to the Company's Retirement Plans. Additionally, the Company has updated its mortality assumption by adopting the newly released mortality improvement scale MP-2018 to accompany the RP-2014 mortality tables to reflect the latest information regarding future mortality expectations by the Society of Actuaries.

When actual plan experience differs from the assumptions used, actuarial gains or losses arise. Excluding differences between the expected long-term rate of return assumption and actual returns on plan assets, the Company amortizes, as a component of annual

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pension expense, total outstanding actuarial gains or losses over the estimated average future working lifetime of active plan participants to the extent that the gain/loss exceeds 10% of the greater of the beginning-of-year projected benefit obligation or the market-related value of plan assets. For Moody's Retirement Plans, the total actuarial losses as of December 31, 2018 that have not been recognized in annual expense are \$83.5 million, and Moody's expects to recognize a net periodic expense of \$3.6 million in 2019 related to the amortization of actuarial losses.

For Moody's funded U.S. pension plan, the differences between the expected long-term rate of return assumption and actual returns could also affect the net periodic pension expense. As permitted under ASC Topic 715, the Company amortizes the impact of asset returns over a five-year period for purposes of calculating the market-related value of assets that is used in determining the expected return on assets component of annual expense and in calculating the total unrecognized gain or loss subject to amortization. As of December 31, 2018, the Company has an unrecognized asset loss of \$12.5 million, of which \$4.3 million will be recognized in the market-related value of assets that is used to calculate the expected return on assets component of 2020 expense.

The table below shows the estimated effect that a one percentage-point decrease in each of these assumptions will have on Moody's 2019 income before provision for income taxes. These effects have been calculated using the Company's current projections of 2019 expenses, assets and liabilities related to Moody's Retirement Plans, which could change as updated data becomes available.

| (dollars in millions) | Assumption Used for 2019 | Estimated Impact on 2019 Income before Provision for Income Taxes (Decrease)/Increase |
|---|-----------------------------|--|
| Weighted Average Discount Rates ⁽¹⁾ | 4.07%/4.10% | \$ (8.2) |
| Weighted Average Assumed Compensation Growth Rate | 3.69% | \$ 1.4 |
| Assumed Long-Term Rate of Return on Pension Assets | 5.65% | \$ (3.6) |

⁽¹⁾ Weighted average discount rates of 4.07% and 4.10% for pension plans and Other Retirement Plans, respectively. A one percentage-point increase in assumed healthcare cost trend rates will not affect 2019 projected expenses. Based on current projections, the Company estimates that expenses related to Retirement Plans will be approximately \$24 million in 2019, a decrease compared to the \$30.7 million recognized in 2018.

Restructuring

The Company has engaged, and may continue to engage, in restructuring actions, which require management to utilize significant estimates related to expenses for severance and other employee benefit costs, contract termination costs and asset impairments. If the actual amounts differ from these estimates, the amount of the restructuring charge could be impacted. For a full description of Moody's restructuring actions, refer to Note 10 to the consolidated financial statements.

Other Estimates

In addition, there are other accounting estimates within Moody's consolidated financial statements, including recoverability of deferred tax assets, valuation of investments in affiliates and the estimated lives of amortizable intangible assets. Management believes the current assumptions and other considerations used to estimate amounts reflected in Moody's consolidated financial statements are appropriate. However, if actual experience differs from the assumptions and other considerations used in estimating amounts reflected in Moody's consolidated financial statements, the resulting changes could have a material adverse effect on Moody's consolidated results of operations or financial condition.

See Note 2 to the consolidated financial statements for further information on significant accounting policies that impact Moody's.

REPORTABLE SEGMENTS

The Company is organized into two reportable segments at December 31, 2018: MIS and MA.

The MIS segment is comprised primarily of all of the Company's ratings operations consisting of five LOBs—CFG, SFG, FIG, PPIF and MIS Other. The ratings LOBs generate revenue principally from fees for the assignment and ongoing monitoring of credit ratings on debt obligations and the entities that issue such obligations in markets worldwide. The MIS Other LOB consists of certain non-ratings operations managed by MIS, which consists of non-rating revenue from ICRA and fixed income pricing service operations in the Asia-Pacific region.

The MA segment develops a wide range of products and services that support financial analysis and risk management activities of institutional participants in global financial markets as well as serving as provider of business intelligence and company information. The MA segment consists of three lines of business—RD&A, ERS and PS. The results of operations for MA for the year ended December 31, 2018 include the financial results from Omega Performance and Reis, which were acquired in August 2018 and October 2018, respectively. Revenue for the PS LOB includes financial results from Omega Performance and revenue for RD&A LOB includes financial results from Reis.

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The following is a discussion of the results of operations of the Company and its reportable segments. Total MIS revenue and total MA expenses include the intersegment royalty revenue for MIS and expense charged to MA for the rights to use and distribute content, data and products developed by MIS. The royalty rate charged by MIS approximates the fair value of the aforementioned content, data and products developed by MIS. Total MA revenue and total MIS expenses include intersegment fees charged to MIS from MA for the use of certain MA products and services in MIS's ratings process. These fees charged by MA are generally equal to the costs incurred by MA to provide these products and services. Overhead charges and corporate expenses that exclusively benefit one segment are fully charged to that segment. Additionally, overhead costs and corporate expenses of the Company that benefit both segments are generally allocated to each segment based on a revenue-split methodology. Overhead expenses include costs such as rent and occupancy, information technology and support staff such as finance, human resources and legal.

RESULTS OF OPERATIONS**Year ended December 31, 2018 compared with year ended December 31, 2017***Executive Summary*

- » Moody's completed the acquisition of Bureau van Dijk on August 10, 2017. Moody's results of operations include Bureau van Dijk's operating results beginning as of August 11, 2017. Additionally, Moody's completed the acquisitions of Omega Performance and Reis on August 16, 2018 and October 15, 2018, respectively. In the discussion below, reference to inorganic revenue growth refers to Bureau van Dijk's operating results from January 1, 2018 through and including August 10, 2018 as well as Reis and Omega Performance revenue from their respective acquisitions dates through December 31, 2018.
- » Moody's revenue in 2018 totaled \$4,442.7 million, an increase of \$238.6 million, or 6%, compared to 2017, reflecting growth in MA being partially offset by declines in MIS.
 - » MIS external revenue was 2% lower compared to the prior year reflecting:
 - » lower non-financial corporate and infrastructure rated issuance volumes reflecting the confluence of unfavorable market factors, with the impact most notable in the fourth quarter of 2018;
 - » a decline in U.S. public finance issuance resulting from certain provisions of the Tax Act;
- partially offset by:*
 - » benefits from a favorable product mix and pricing increases;
 - » an increase in new ratings mandates; and

- » demand for floating rate instruments (most notably in the first half of 2018), which resulted in strong CLO formation.

- » MA external revenue grew 21% compared to the prior year primarily reflecting:
 - » approximately \$202 million of inorganic revenue growth from the acquisitions of Bureau van Dijk, Reis and Omega, or approximately 14 percentage points of the growth; and
 - » strong growth in the credit research and rating data feeds product lines within RD&A.

- » Total operating and SG&A expenses increased \$123.1 million, or 6% compared to 2017, with the most notable driver being approximately \$120 million of inorganic expense growth from the aforementioned acquisitions.

- » The restructuring charge in 2018 relates to a restructuring program approved in the fourth quarter of 2018, which is more fully discussed in Note 10 to the consolidated financial statements.

- » D&A increased \$33.6 million primarily due to amortization of intangible assets acquired as part of the Bureau van Dijk acquisition.

- » Operating income of \$1,868.2 million in 2018 increased \$47.4 million compared to 2017 and resulted in an operating margin of 42.1%, compared to 43.3% in the prior year. Adjusted Operating Income of \$2,117.1 million in 2018 increased \$115.5 million compared to 2017, resulting in an Adjusted Operating Margin of 47.7% compared to 47.6% in the prior year.

- » The change in total non-operating (expense) income, net compared to the prior year is primarily due to the \$59.7 million CCXI Gain and \$111.1 million Purchase Price Hedge Gain in 2017.

- » The ETR in 2018 was 21.0%, down from 43.6% for the prior-year period. The ETR in 2018 benefitted from the impact of an enacted lower corporate tax rate in the U.S. pursuant to the Tax Act and lower non-U.S. effective tax rates. The ETR in 2017 included a net charge of approximately \$246 million related to the impacts of tax reform in the U.S. and Belgium partially offset by the non-taxable CCXI Gain.

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» Diluted EPS and Adjusted Diluted EPS in 2018 of \$6.74 and \$7.39, respectively, increased 31%, and 22%, respectively, compared to 2017, with approximately 10 percentage points of the growth due to the favorable impact of the Tax Act on the ETR. Refer to the section entitled "Non-GAAP Financial Measures" of this MD&A for items excluded in the derivation of Adjusted Diluted EPS.

Moody's Corporation

| | Year Ended December 31, | | % Change Favorable (Unfavorable) |
|--|------------------------------------|-------------|---|
| | 2018 | 2017 | |
| Revenue: | | | |
| United States | \$ 2,329.6 | \$ 2,348.4 | (1%) |
| Non-U.S.: | | | |
| EMEA | 1,377.0 | 1,131.7 | 22% |
| Asia-Pacific | 493.2 | 471.4 | 5% |
| Americas | 242.9 | 252.6 | (4%) |
| Total Non-U.S. | 2,113.1 | 1,855.7 | 14% |
| Total | 4,442.7 | 4,204.1 | 6% |
| Expenses: | | | |
| Operating | 1,245.5 | 1,216.6 | (2%) |
| SG&A | 1,080.1 | 985.9 | (10%) |
| Restructuring | 48.7 | | NM |
| Depreciation and amortization | 191.9 | 158.3 | (21%) |
| Acquisition-Related Expenses | 8.3 | 22.5 | 63% |
| Total | 2,574.5 | 2,383.3 | (8%) |
| Operating income | \$ 1,868.2 | \$ 1,820.8 | 3% |
| Adjusted Operating Income ⁽¹⁾ | \$ 2,117.1 | \$ 2,001.6 | 6% |
| Interest expense, net | \$ (216.0) | \$ (208.5) | (4%) |
| Other non-operating income, net | 18.8 | 3.7 | NM |
| Purchase Price Hedge Gain | | 111.1 | NM |
| CCXI Gain | | 59.7 | NM |
| Non-operating (expense) income, net | \$ (197.2) | \$ (34.0) | NM |
| Net income attributable to Moody's | \$ 1,309.6 | \$ 1,000.6 | 31% |
| Diluted weighted average shares outstanding | 194.4 | 194.2 | |
| | \$ 6.74 | \$ 5.15 | 31% |

| | | | |
|---|---------|---------|-----|
| Diluted EPS attributable to Moody's common shareholders | | | |
| Adjusted Diluted EPS ⁽¹⁾ | \$ 7.39 | \$ 6.07 | 22% |
| Operating margin | 42.1% | 43.3% | |
| Adjusted Operating Margin ⁽¹⁾ | 47.7% | 47.6% | |
| Effective tax rate | 21.0% | 43.6% | |

⁽¹⁾ Adjusted Operating Income, Adjusted Operating Margin and Adjusted Diluted EPS attributable to Moody's common shareholders are non-GAAP financial measures. Refer to the section entitled "Non-GAAP Financial Measures" of this Management Discussion and Analysis for further information regarding these measures. The table below shows Moody's global staffing by geographic area:

| | December 31, | | % |
|---------------|-----------------------|--------|--------|
| | 2018 | 2017 | Change |
| United States | 4,008 | 3,591 | 12% |
| Non-U.S. | 9,049 | 8,305 | 9% |
| Total | 13,057 ⁽¹⁾ | 11,896 | 10% |

⁽¹⁾ Includes approximately 275 employees from the acquisition of Reis and Omega Performance. Global revenue of \$4,442.7 million in 2018 increased \$238.6 million, or 6%, compared to 2017 reflecting growth in MA partially offset by declines in MIS. Refer to the section entitled "Segment Results" of this MD&A for a more fulsome discussion of the Company's segment revenue.

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Transaction Revenue accounted for 44% of global MCO revenue in 2018 compared to 50% in 2017.

U.S. revenue of \$2,329.6 million in 2018 decreased \$18.8 million over the prior year reflecting declines in MIS being partially offset by growth in MA.

Non-U.S. revenue of \$2,113.1 million increased \$257.4 million from 2017 reflecting growth in both reportable segments, and included approximately \$167 million of inorganic revenue growth from Bureau van Dijk.

Operating expenses were \$1,245.5 million in 2018, up \$28.9 million from 2017, reflecting increases in non-compensation of approximately \$38 million, partially offset by a decline in compensation cost of approximately \$9 million. The increase in non-compensation costs is primarily due to inorganic expense growth related to the acquisitions of Bureau van Dijk, Reis and Omega. The decline in compensation costs reflects lower incentive compensation resulting from lower achievement against full-year targeted results compared to the prior year, partially offset by higher salaries and employee benefits expenses, which includes the impact of salary adjustments and hiring as well as inorganic expense growth related to the aforementioned acquisitions.

SG&A expenses of \$1,080.1 million in 2018 increased \$94.2 million from the prior year reflecting increases in non-compensation and compensation costs of approximately \$65 million and \$30 million, respectively. The increase in non-compensation costs primarily reflects inorganic expense growth related to the acquisition of Bureau van Dijk and higher legal costs. The increase in compensation costs reflects an increase in salaries and employee benefits expenses, which includes the impact of salary adjustments and hiring as well as inorganic expense growth related to the Bureau van Dijk, Reis and Omega Performance acquisitions. These increases were partially offset by lower incentive compensation reflecting lower achievement against full-year targeted results compared to the prior year.

The restructuring charge of \$48.7 million relates to a restructuring program approved in the fourth quarter of 2018, which is more fully discussed in Note 10 to the consolidated financial statements.

D&A increased \$33.6 million primarily due to amortization of intangible assets acquired as part of the Bureau van Dijk acquisition.

Operating income of \$1,868.2 million in 2018 increased \$47.4 million compared to 2017 and resulted in an operating margin of 42.1%, compared to 43.3% in the prior year. Adjusted Operating Income of \$2,117.1 million in 2018 increased \$115.5 million compared to 2017, resulting in an Adjusted Operating Margin of 47.7% compared to 47.6% in the prior year.

Interest expense, net in 2018 was \$216.0 million, a \$7.5 million increase in expense compared to 2017, primarily due to interest and fees on additional debt issued in 2017 to fund the acquisition of Bureau van Dijk and the issuance of additional notes issued in the second and fourth quarter of 2018, all of which are more fully discussed in Note 17 to the consolidated financial statements. Refer to the section entitled *Liquidity and Capital Resources* of this MD&A for further discussion regarding cash flows relating to the Company's indebtedness. This increase was partially offset by benefits from cross-currency swaps executed in 2018, which are more fully discussed in Note 6 to the consolidated financial statements. Additionally, interest expense in 2017 included approximately \$7 million due to the Make Whole Amount on the prepayment of the Series 2007-1 Notes.

Other non-operating income, net was \$18.8 million in 2018, a \$15.1 million increase compared to 2017 primarily reflecting lower FX losses of approximately \$5 million coupled with gains on the Company's investments in certain mutual funds.

Additionally, Moody's recognized the \$59.7 million CCXI Gain and the \$111.1 million Purchase Price Hedge Gain in 2017.

The reduction in the ETR to 21.0% in 2018 primarily reflects the impact of an enacted lower corporate tax rate in the U.S. pursuant to the Tax Act. Additionally, the 2018 ETR includes additional UTPs of approximately \$64 million relating to certain non-U.S. matters partially offset by a decrease relating to the transition tax liability of approximately \$59 million. Furthermore, the 2018 ETR includes the benefit from lower non-U.S. effective tax rates. The ETR in 2017 was 43.6% and included a net charge of approximately \$246 million related to the impacts of tax reform in the U.S. and Belgium and tax on the Purchase Price Hedge Gain, which was taxed in a higher tax jurisdiction. These items were partially offset by the non-taxable CCXI Gain in 2017.

Diluted EPS in 2018 of \$6.74, which included a \$0.19 restructuring charge, increased \$1.59, or 31%, compared to 2017, which included both the \$0.31 CCXI Gain and the \$0.37 Purchase Price Hedge Gain. Adjusted Diluted EPS of \$7.39 in 2018 increased \$1.32, or 22%, compared to 2017 (refer to the section entitled "Non-GAAP Financial Measures" of this MD&A for items excluded in the derivation of Adjusted Diluted EPS). The favorable impact of the Tax Act on the ETR contributed approximately 10 percentage points of the growth for both Diluted EPS and Adjusted Diluted EPS.

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The table below provides a summary of revenue and operating results, followed by further insight and commentary:

| | Year Ended December 31, | | % Change |
|--|-------------------------|------------|----------------------------|
| | 2018 | 2017 | Favorable (Unfavorable) |
| Revenue: | | | |
| Corporate finance (CFG) | \$ 1,334.1 | \$ 1,392.7 | (4%) |
| Structured finance (SFG) | 526.5 | 495.5 | 6% |
| Financial institutions (FIG) | 441.7 | 435.8 | 1% |
| Public, project and infrastructure finance (PPIF) | 391.1 | 431.3 | (9%) |
| Total ratings revenue | 2,693.4 | 2,755.3 | (2%) |
| MIS Other | 19.0 | 18.5 | 3% |
| Total external revenue | 2,712.4 | 2,773.8 | (2%) |
| Intersegment royalty | 124.0 | 111.7 | 11% |
| Total | 2,836.4 | 2,885.5 | (2%) |
| Expenses: | | | |
| Operating and SG&A (external) | 1,166.7 | 1,223.3 | 5% |
| Operating and SG&A (intersegment) | 12.3 | 16.0 | 23% |
| Adjusted Operating Income | 1,657.4 | 1,646.2 | 1% |
| Restructuring | 32.2 | | NM |
| Depreciation and amortization | 64.9 | 74.7 | 13% |
| Operating income | \$ 1,560.3 | \$ 1,571.5 | (1%) |
| Adjusted Operating Margin | 58.4% | 57.1% | |
| Operating margin | 55.0% | 54.5% | |

The following is a discussion of external MIS revenue and operating expenses:

Global MIS revenue of \$2,712.4 million in 2018 was down 2% compared to 2017, reflecting declines in CFG and PPIF being partially offset by growth in SFG and FIG and the favorable impact of changes in product mix and pricing increases.

Transaction Revenue for MIS was 62% in 2018, compared to 65% in 2017.

In the U.S., revenue was \$1,619.2 million in 2018, down \$83.6 million from 2017 reflecting declines in CFG and PPIF.

Non-U.S. revenue was \$1,093.2 million in 2018, an increase of \$22.2 million or 2%, compared to 2017, primarily reflecting strength in non-U.S. SFG revenue.

Global CFG revenue of \$1,334.1 million in 2018 declined 4% compared to 2017 and reflected lower corporate debt issuance (both investment-grade and speculative-grade) resulting from a confluence of unfavorable cyclical market factors which included: i) higher U.S. benchmark interest rates; ii) increased capital market volatility; iii) widening of credit spreads; and iv) an increase in U.S. corporate sector liquidity subsequent to U.S. tax reform. These declines were partially offset by changes in product mix and pricing increases coupled with growth in new ratings mandates, which resulted in higher monitoring fees in all regions. Additionally, the decline compared to 2017 was partially offset by higher bank loan revenue in the first half of 2018 in the U.S. and EMEA resulting from favorable changes in product mix, M&A financing activity and investor demand for floating rate debt instruments earlier in the year. Transaction Revenue represented 69% and 73% of total CFG revenue in 2018 and 2017, respectively. In the U.S., revenue was \$852.3 million, or 6% lower compared to the prior year. Non-U.S. revenue of \$481.8 million was approximately flat compared to the prior year.

Global SFG revenue of \$526.5 million in 2018 increased \$31.0 million, or 6%, compared to 2017. In the U.S., revenue of \$342.9 million increased \$2.8 million over 2017 and reflected strength in CLO formation resulting from an increase in the supply of collateral and favorable market conditions in the first half of 2018, which facilitated both new securitizations and ongoing refinancing activity. These increases were partially offset by declines in REIT issuance compared to record issuance in 2017 coupled with lower CMBS issuance. Non-U.S. revenue in 2018 of \$183.6 million increased \$28.2 million compared to the prior year. This growth primarily reflects increases across most asset classes in the EMEA region, most notably in structured credit which has benefited from increased availability of loan

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collateral resulting from strength in leveraged loan issuance late in 2017 into early 2018. Transaction Revenue was 65% of total SFG revenue in both 2018 and 2017.

Global FIG revenue of \$441.7 million in 2018 increased \$5.9 million, or 1%, compared to 2017 primarily due to growth in the insurance sector reflecting issuance to fund M&A and refinancing activity as well as benefits from changes in product mix and pricing increases. These increases were partially offset by lower banking-related revenue in Asia-Pacific reflecting a decline in issuance from Chinese financial institutions. In the U.S., revenue of \$194.6 million increased 5% compared to the prior year. Non-U.S. revenue was \$247.1 million in 2018, down 1% compared to 2017. Transaction revenue was 42% of total FIG revenue in 2018, compared to 45% in the same period in 2017.

Global PPIF revenue was \$391.1 million in 2018 and decreased 9% compared to 2017. In the U.S., revenue in 2018 was \$228.8 million, a decrease of \$37.6 million compared to 2017, primarily due to lower U.S. public sector supply following the enactment of the Tax Act, which disallowed certain tax exemptions for advance refunding transactions. Additionally, the decline reflects lower infrastructure finance rated issuance volumes. These decreases were partially offset by benefits from changes in product mix and pricing increases. Outside the U.S., PPIF revenue was \$162.3 million and declined modestly compared to 2017. Transaction Revenue was 61% in 2018, compared to 65% in the same period of 2017.

Operating and SG&A expenses in 2018 decreased \$56.6 million compared to 2017 primarily due to approximately \$98 million in lower incentive compensation accruals reflecting lower achievement against full-year targeted results compared to the prior year. This decrease was partially offset by higher salaries and employee benefits costs reflecting salary adjustments and hiring coupled with higher legal costs.

The restructuring charge relates to a restructuring program approved in the fourth quarter of 2018, which is more fully discussed in Note 10 to the consolidated financial statements.

Adjusted Operating Income and operating income in 2018, which includes intersegment royalty revenue and intersegment expenses, were \$1,657.4 million and \$1,560.3 million, respectively, and were generally in line with the prior year. Operating income in 2018 included a \$32.2 million restructuring charge. Adjusted Operating Margin was 58.4%, or 130BPS higher than the prior year. Operating margin was 55.0% in 2018 compared to 54.5% in the prior year.

Moody's Analytics

The table below provides a summary of revenue and operating results, followed by further insight and commentary:

| | Year Ended December 31, | | % Change |
|-------------------------------------|-------------------------|----------|----------------------------|
| | 2018 | 2017 | Favorable (Unfavorable) |
| Revenue: | | | |
| Research, data and analytics (RD&A) | \$ 1,134.1 | \$ 832.7 | 36% |
| Enterprise risk solutions (ERS) | 437.4 | 448.6 | (2%) |
| Professional services (PS) | 158.8 | 149.0 | 7% |

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| | | | |
|-----------------------------------|-----------------|----------|-------|
| Total external revenue | 1,730.3 | 1,430.3 | 21% |
| Intersegment revenue | 12.3 | 16.0 | (23%) |
| Total MA Revenue | 1,742.6 | 1,446.3 | 20% |
| Expenses: | | | |
| Operating and SG&A (external) | 1,158.9 | 979.2 | (18%) |
| Operating and SG&A (intersegment) | 124.0 | 111.7 | (11%) |
| Adjusted Operating Income | 459.7 | 355.4 | 29% |
| Restructuring | 16.5 | | NM |
| Acquisition-Related Expenses | 8.3 | 22.5 | 63% |
| Depreciation and amortization | 127.0 | 83.6 | (52%) |
| Operating income | \$ 307.9 | \$ 249.3 | 24% |
| Adjusted Operating Margin | 26.4% | 24.6% | |
| Operating margin | 17.7% | 17.2% | |

The following is a discussion of external MA revenue and operating expenses:

Global MA revenue increased \$300.0 million, or 21%, compared to 2017, primarily due to growth in RD&A, which included approximately \$202 million of inorganic revenue growth from the acquisitions of Bureau van Dijk, Reis and Omega Performance, or 14

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percentage points of the growth. Additionally, the growth over the prior year reflects benefits from higher fees within MA's recurring revenue base due to enhanced content and continued alignment of usage and licensing parameters. Recurring revenue comprised 84% and 78% of total MA revenue in 2018 and 2017, respectively.

In the U.S., revenue of \$710.4 million in 2018 increased \$64.8 million, mainly reflecting growth in RD&A.

Non-U.S. revenue of \$1,019.9 million in 2018 was \$235.2 million higher than in 2017 primarily reflecting growth in RD&A, which included approximately \$167 million of inorganic growth from Bureau van Dijk.

Global RD&A revenue of \$1,134.1 million, which comprised 66% and 58% of total external MA revenue in 2018 and 2017, respectively, increased \$301.4 million, or 36%, over the prior year period. RD&A revenue in 2018 included approximately \$198 million of inorganic revenue growth, or 24 percentage points of the growth, from the Bureau van Dijk and Reis acquisitions. RD&A revenue growth also reflects strong results in the credit research and rating data feeds product lines, where enhanced content and continued alignment of usage and licensing parameters have generated higher fees, coupled with strong organic growth from Bureau van Dijk. U.S. revenue of \$480.4 million and non-U.S. revenue of \$653.7 million increased 13% and 60%, respectively, compared to 2017.

Global ERS revenue of \$437.4 million in 2018 decreased \$11.2 million, or 2%, compared to 2017. This decrease primarily reflects a decline in perpetual software license sales and related implementation services as the business continues to transition to SaaS products sold on a subscription basis. These decreases were partially offset by continued strong demand for subscription-based products and benefits from pricing increases within ERS's recurring revenue base. In the U.S., revenue of \$170.0 million increased 2% compared to the prior year. Non-U.S. revenue of \$267.4 million decreased 5% compared to the prior year.

Global PS revenue of \$158.8 million in 2018 increased \$9.8 million compared to 2017 reflecting higher revenue from analytical and research services in EMEA, which benefited from strong new sales and improved customer retention, coupled with growth in U.S. learning solutions revenue mainly due to the acquisition of Omega Performance. In the U.S., revenue in 2018 was \$60.0 million, up 10% compared to 2017. Non-U.S. revenue was \$98.8 million, up 5% compared to 2017.

Operating and SG&A expenses in 2018 increased \$179.7 million compared to 2017 primarily due to approximately \$120 million of inorganic expense growth from the Bureau van Dijk, Reis and Omega Performance acquisitions. Additionally, the increase reflects higher compensation costs primarily resulting from salary adjustments and hiring as well as higher incentive compensation reflecting higher achievement against full-year targeted results compared to the prior year.

The restructuring charge relates to a restructuring program approved in the fourth quarter of 2018, which is more fully discussed in Note 10 to the consolidated financial statements.

Depreciation and amortization increased \$43.4 million primarily due to the amortization of Bureau van Dijk's intangible assets.

Adjusted Operating Income was \$459.7 million in 2018 and increased \$104.3 million compared to the same period in 2017. Operating income of \$307.9 million in 2018, which included a \$16.5 million restructuring charge, increased \$58.6 million compared to the same period in 2017. Adjusted Operating Margin in 2018 was 26.4%, up 180BPS from 2017. Operating margin was 17.7% in 2018, up 50BPS from the prior year, with the margin expansion being suppressed by the restructuring charge in 2018. Adjusted Operating Income and operating income both include intersegment revenue and expense.

RESULTS OF OPERATIONS

Year ended December 31, 2017 compared with year ended December 31, 2016

Executive Summary

- » Moody's completed the acquisition of Bureau van Dijk on August 10, 2017. Moody's results of operations include Bureau van Dijk's operating results beginning as of August 10, 2017.

- » Moody's revenue in 2017 totaled \$4,204.1 million, an increase of \$599.9 million, or 17%, compared to 2016 reflecting strong growth in both segments.
 - » MIS revenue was 17% higher compared to the prior year with growth across all ratings LOBs. The most notable growth was in the CFG LOB mainly due to strong leveraged finance issuance across all regions reflecting favorable market conditions and increased investor demand for higher yielding securities.

 - » MA revenue grew 16% compared to the prior year reflecting growth across all LOBs. The most notable growth was in the RD&A LOB, which reflected increases in credit research subscriptions and licensing of credit data as well as an approximate \$92 million contribution from Bureau van Dijk (net of an approximate \$36 million reduction relating to a deferred revenue adjustment required as part of acquisition accounting as further described in Note 8 to the financial statements, providing approximately seven additional percentage points to growth).

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- » Total operating expenses excluding D&A decreased \$601.6 million, or 21% compared to 2016 reflecting the \$863.8 million Settlement Charge in 2016. This decrease is partially offset by higher compensation costs in 2017, which reflects growth in performance-based compensation resulting from strong financial performance in 2017 coupled with annual merit increases. Additionally, there was approximately \$64 million in Bureau van Dijk operating expenses and \$22.5 million in Acquisition-Related Expenses in 2017.
 - » D&A increased \$31.6 million primarily due to amortization of intangible assets acquired as part of the Bureau van Dijk acquisition.
 - » Operating income of \$1,820.8 million in 2017 increased \$1,169.9 million compared to 2016 and resulted in an operating margin of 43.3%, compared to 18.1% in the prior year. Operating income and operating margin in 2016 were suppressed by the \$863.8 million Settlement Charge. Adjusted Operating Income of \$2,001.6 million in 2017 increased \$348.2 million compared to 2016, resulting in an Adjusted Operating Margin of 47.6% compared to 45.9% in the prior year.
 - » The decrease in non-operating expense, net, compared to the prior year is primarily due to:
 - » the \$59.7 million CCXI Gain in 2017;
 - » the \$111.1 million Purchase Price Hedge Gain in 2017;
- Partially offset by:*
- » higher interest expense of \$51.2 million primarily reflecting additional financing in 2017 utilized to fund the payment of the 2016 Settlement Charge, repay the Series 2007-1 Notes and fund the Bureau van Dijk acquisition; and
 - » FX losses of approximately \$17 million in the 2017 compared to FX gains of approximately \$50 million in the prior year. The FX gains in 2016 included approximately \$35 million related to the liquidation of a non-U.S. subsidiary.
- » The ETR of 43.6% in 2017 includes a net charge of approximately \$246 million in the fourth quarter related to the impacts of tax reform in the U.S. and Belgium partially offset by the non-taxable CCXI Gain and an approximate \$40 million benefit relating to Excess Tax Benefits on stock-based compensation. The 2016 ETR of 50.6% included the non-deductible nature of the federal portion of the Settlement Charge.
 - » Full year 2017 Diluted EPS of \$5.15 was up from \$1.36 in 2016. Adjusted Diluted EPS of \$6.07 was up 23% from \$4.94 in 2016. Refer to the section entitled *Non-GAAP Financial Measures* of this MD&A for a full list of items excluded in the derivation of Adjusted Diluted EPS.

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| | Year Ended December 31, | | % Change Favorable (Unfavorable) |
|--|------------------------------------|-------------|---|
| | 2017 | 2016 | |
| Revenue: | | | |
| United States | \$ 2,348.4 | \$ 2,105.5 | 12% |
| Non-U.S.: | | | |
| EMEA | 1,131.7 | 904.4 | 25% |
| Asia-Pacific | 471.4 | 373.2 | 26% |
| Americas | 252.6 | 221.1 | 14% |
| Total Non-U.S. | 1,855.7 | 1,498.7 | 24% |
| Total | 4,204.1 | 3,604.2 | 17% |
| Expenses: | | | |
| Operating | 1,216.6 | 1,019.6 | (19%) |
| SG&A | 985.9 | 931.2 | (6%) |
| Restructuring | | 12.0 | NM |
| Depreciation and amortization | 158.3 | 126.7 | (25%) |
| Acquisition-Related Expenses | 22.5 | | NM |
| Settlement Charge | | 863.8 | NM |
| Total | 2,383.3 | 2,953.3 | 19% |
| Operating income | \$ 1,820.8 | \$ 650.9 | 180% |
| Adjusted Operating Income ⁽¹⁾ | \$ 2,001.6 | \$ 1,653.4 | 21% |
| Interest expense, net | \$ (208.5) | \$ (157.3) | (33%) |
| Other non-operating income, net | 3.7 | 64.4 | NM |
| Purchase Price Hedge Gain | 111.1 | | NM |
| CCXI Gain | 59.7 | | NM |
| Non-operating (expense) income, net | \$ (34.0) | \$ (92.9) | 63% |
| Net income attributable to Moody's | \$ 1,000.6 | \$ 266.6 | 275% |
| Diluted weighted average shares outstanding | 194.2 | 195.4 | 1% |
| Diluted EPS attributable to Moody's common shareholders | \$ 5.15 | \$ 1.36 | 279% |
| Adjusted Diluted EPS ⁽¹⁾ | \$ 6.07 | \$ 4.94 | 23% |
| Operating margin | 43.3% | 18.1% | |

| | | |
|--|--------------|-------|
| Adjusted Operating Margin ⁽¹⁾ | 47.6% | 45.9% |
| Effective tax rate | 43.6% | 50.6% |

⁽¹⁾ Adjusted Operating Income, Adjusted Operating Margin and Adjusted Diluted EPS attributable to Moody's common shareholders are non-GAAP financial measures. Refer to the section entitled "Non-GAAP Financial Measures" of this Management Discussion and Analysis for further information regarding these measures.

The table below shows Moody's global staffing by geographic area:

| | December 31, | | % |
|---------------|-----------------------------|--------|--------|
| | 2017 | 2016 | Change |
| United States | 3,591 | 3,386 | 6% |
| Non-U.S. | 8,305 | 7,231 | 15% |
| Total | 11,896⁽¹⁾ | 10,617 | 12% |

⁽¹⁾ Includes 874 employees from the acquisition of Bureau van Dijk. Global revenue of \$4,204.1 million in 2017 increased \$599.9 million, or 17%, compared to 2016 and reflected strong growth in both MIS and MA.

The \$403.0 million increase in MIS revenue primarily reflects strong global leveraged finance rated issuance volumes in CFG as issuers took advantage of favorable market conditions to refinance obligations in 2017 as well as growth in the banking sector within FIG and in CLO issuance in SFG. Additionally, the increase over prior year reflects benefits from changes in the mix of fee type, new fee initiatives and pricing increases. These increases were partially offset by lower U.S. public finance refunding volumes.

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The \$196.9 million increase in MA revenue primarily reflects higher RD&A revenue across all regions driven by growth in credit research subscriptions and licensing of ratings data as well as the contribution from the Bureau van Dijk acquisition of approximately \$92 million (net of an approximate \$36 million reduction relating to a deferred revenue adjustment required as part of acquisition accounting as further described in Note 8 to the financial statements).

Transaction revenue accounted for 50% of global MCO revenue in 2017 compared to 49% in 2016.

U.S. revenue of \$2,348.4 million in 2017 increased \$242.9 million over the prior year, reflecting growth in both reportable segments.

Non-U.S. revenue increased \$357.0 million from 2016 reflecting growth in both reportable segments.

Operating expenses were \$1,216.6 million in 2017, up \$197.0 million from 2016, primarily due to an increase in performance-based expenses (including annual bonuses, a profit sharing contribution and performance-based equity compensation), which is correlated with the strong financial performance of the Company in 2017. This increase also reflects higher salaries and employee benefit expenses resulting from the impact of annual compensation increases and increases in headcount coupled with Bureau van Dijk expenses.

SG&A expenses of \$985.9 million in 2017 increased \$54.7 million from the prior year period primarily due to higher performance-based correlated costs (including annual bonuses, a profit sharing contribution and performance-based equity compensation), which is consistent with the strong financial performance of the Company in 2017 coupled with Bureau van Dijk expenses. These increases were partially offset by the impact of cost management initiatives implemented in 2016 that have benefited 2017 as well as lower legal costs.

D&A increased \$31.6 million primarily due to amortization of intangible assets acquired as part of the Bureau van Dijk acquisition.

Acquisition-Related Expenses represent expenses incurred to complete and integrate the acquisition of Bureau van Dijk.

Operating income of \$1,820.8 million increased \$1,169.9 million from 2016. Operating margin was 43.3% compared to 18.1% in 2016. Operating income and operating margin in 2016 were suppressed by the \$863.8 million Settlement Charge. Adjusted Operating Income was \$2,001.6 million in 2017, an increase of \$348.2 million compared to 2016. Adjusted Operating Margin of 47.6% increased 170 BPS compared to the prior year.

Interest (expense) income, net in 2017 was \$(208.5) million, a \$51.2 million increase in expense compared to 2016 primarily due to: i) interest on the 2017 Senior Notes and 2017 Floating Rate Senior Notes which were issued in the first quarter of 2017 to fund the payment of the 2016 Settlement Charge and repayment of the Series 2007-1 Notes; ii) interest on the 2017 Private Placement Notes Due 2023 and 2028 both issued in June 2017 coupled with interest on the 2017 Term Loan drawn down in August 2017, all of which were issued to fund the acquisition of Bureau van Dijk; and iii) fees on the undrawn 2017 Bridge Credit Facility also related to the acquisition of Bureau van Dijk.

Other non-operating (expense) income, net was \$3.7 million in 2017, a \$60.7 million change compared to 2016 primarily reflecting approximately \$17 million in FX losses in 2017 compared to approximately \$50 million in FX gains in the prior year. The FX gains in 2016 included an approximate \$35 million gain related to the liquidation of a non-U.S. subsidiary.

Additionally, Moody's recognized the \$59.7 million CCXI Gain and the \$111.1 million Purchase Price Hedge Gain in 2017.

The ETR of 43.6% in 2017 includes a net charge of approximately \$246 million in the fourth quarter related to the impacts of corporate tax reform in the U.S. and Belgium partially offset by the non-taxable CCXI Gain and an approximate \$40 million benefit reflecting the adoption on a prospective basis of a new accounting standard relating to Excess Tax Benefits on stock-based compensation. In accordance with a new accounting standard, these Excess Tax Benefits are now recorded to the provision for income taxes, whereas in the prior year were recorded to capital surplus (refer to Note 1 to the consolidated financial statements for further discussion on this new accounting standard). The 2016 ETR of 50.6% included the non-deductible nature of the federal portion of the Settlement Charge. The impact of the aforementioned tax reform in the U.S. is expected to reduce the Company's ETR in years subsequent to 2017. For the full-year ended December 31, 2018, the Company expects the ETR to be between 22% and 23%.

Full year 2017 Diluted EPS of \$5.15 was up from \$1.36 in 2016. Adjusted Diluted EPS of \$6.07 was up 23% from \$4.94 in 2016. Refer to the section entitled "Non-GAAP Financial Measures" of this MD&A for a full list of items excluded in the derivation of Adjusted Diluted EPS.

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Table of Contents**Segment Results****Moody's Investors Service**

The table below provides a summary of revenue and operating results, followed by further insight and commentary:

| | Year Ended December 31, | | % Change Favorable (Unfavorable) |
|---|------------------------------------|-------------|---|
| | 2017 | 2016 | |
| Revenue: | | | |
| Corporate finance (CFG) | \$ 1,392.7 | \$ 1,122.3 | 24% |
| Structured finance (SFG) | 495.5 | 436.8 | 13% |
| Financial institutions (FIG) | 435.8 | 368.9 | 18% |
| Public, project and infrastructure finance (PIIF) | 431.3 | 412.2 | 5% |
| Total ratings revenue | 2,755.3 | 2,340.2 | 18% |
| MIS Other | 18.5 | 30.6 | (40%) |
| Total external revenue | 2,773.8 | 2,370.8 | 17% |
| Intersegment royalty | 111.7 | 100.2 | 11% |
| Total | 2,885.5 | 2,471.0 | 17% |
| Expenses: | | | |
| Operating and SG&A (external) | 1,223.3 | 1,094.3 | (12%) |
| Operating and SG&A (intersegment) | 16.0 | 13.5 | (19%) |
| Adjusted Operating Income | 1,646.2 | 1,363.2 | 21% |
| Restructuring | | 10.2 | NM |
| Depreciation and amortization | 74.7 | 73.8 | (1%) |
| Settlement Charge | | 863.8 | NM |
| Operating income | \$ 1,571.5 | \$ 415.4 | 278% |
| Adjusted Operating Margin | 57.1% | 55.2% | |
| Operating margin | 54.5% | 16.8% | |

The following is a discussion of external MIS revenue and operating expenses:

Global MIS revenue of \$2,773.8 million in 2017 was up 17% compared to 2016, most notably from strong leveraged finance rated issuance volumes within CFG coupled with strong growth in banking-related revenue in FIG and increases across most asset classes in SFG. Also contributing to the growth was the favorable impact of changes in

product mix, new fee initiatives and pricing increases.

Transaction revenue for MIS was 65% in 2017 compared to 61% in 2016.

In the U.S., revenue was \$1,702.8 million in 2017, an increase of \$200.9 million or 13%, compared to 2016 primarily reflecting strong growth in CFG, SFG and FIG revenue being partially offset by declines in PPIF and MIS Other revenue.

Non-U.S. revenue was \$1,071.0 million in 2017, an increase of \$202.1 million or 23%, compared to 2016 reflecting growth across all LOBs excluding MIS Other.

Global CFG revenue of \$1,392.7 million in 2017 was up 24% compared to 2016 primarily due to strength in leveraged finance issuance in the U.S., EMEA and Asia-Pacific as issuers took advantage of favorable market conditions to refinance obligations and fund M&A activity. The growth in leveraged finance revenue also reflects benefits from a favorable product mix in 2017 compared to the prior year where issuance volumes included a greater number of lower-yielding jumbo deals. The increase over the prior year also reflects higher investment-grade corporate debt revenue in the U.S. reflecting continued favorable market conditions and benefits from changes in product mix, new fee initiatives and pricing increases as well as growth in monitoring fees across all regions. Transaction revenue represented 73% of total CFG revenue in 2017, compared to 68% in the prior year period. In the U.S., revenue was \$909.7 million, or 19% higher compared to the prior year. Non-U.S. revenue of \$483.0 million increased 34% compared to the prior year.

Global SFG revenue of \$495.5 million in 2017 increased \$58.7 million, or 13%, compared to 2016. In the U.S., revenue of \$340.1 million increased \$46.8 million over 2016 primarily due to strong growth in CLO issuance reflecting an increase in bank loan supply and favorable market conditions which enabled both new securitizations and a surge in refinancing activity. Non-U.S. revenue in 2017 of \$155.4 million increased \$11.9 million compared to the prior year primarily reflecting growth across most asset classes in the EMEA region. Transaction revenue was 65% of total SFG revenue in 2017 compared to 62% in the prior year.

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Global FIG revenue of \$435.8 million in 2017 increased \$66.9 million, or 18%, compared to 2016. In the U.S., revenue of \$186.1 million increased \$26.0 million compared to the prior year primarily reflecting higher issuance in the banking sector and benefits from changes in product mix, new fee initiatives and price increases. Non-U.S. revenue was \$249.7 million in 2017, up \$40.9 million compared to 2016 primarily due to higher banking revenue in EMEA from opportunistic issuance amidst current favorable market conditions as well as benefits from changes in product mix, new fee initiatives and pricing increases. The non-U.S. growth also reflects strength in banking revenue in the Asia-Pacific region reflecting higher cross-border issuance from Chinese banks and the non-bank financial sector. Transaction revenue was 45% of total FIG revenue in 2017 compared to 37% in 2016.

Global PPIF revenue was \$431.3 million in 2017 and increased \$19.1 million, or 5%, compared to 2016. In the U.S., revenue in 2017 was \$266.4 million and decreased \$9.8 million compared to 2016 primarily due to strong PFG refunding volumes in 2016. These decreases were partially offset by growth in infrastructure finance revenue coupled with benefits from changes in product mix, new fee initiatives and pricing increases. Outside the U.S., PPIF revenue was \$164.9 million and increased \$28.9 million compared to 2016 reflecting strong growth in infrastructure finance revenue in the Asia-Pacific region and growth in public finance revenue in EMEA. Transaction revenue was 65% of total PPIF revenue in 2017 compared to 63% in the prior year.

Operating and SG&A expenses in 2017 increased \$129.0 million compared to 2016 primarily due to growth in performance-based compensation resulting from strong financial performance in 2017 coupled with increased headcount and higher salaries and employee benefits costs reflecting annual compensation increases. These increases were partially offset by lower legal fees and continued cost control initiatives.

Adjusted Operating Income and operating income in 2017, which includes intersegment royalty revenue and intersegment expenses, were \$1,646.2 million and \$1,571.5 million, respectively, and increased \$283.0 million and \$1,156.1 million, respectively, compared to 2016. Adjusted Operating Margin was 57.1% or 190 BPS higher than the prior year. Operating margin was 54.5% in 2017 compared to 16.8% in the prior year. Operating income and operating margin in 2016 were suppressed due to the Settlement Charge.

Moody's Analytics

The table below provides a summary of revenue and operating results, followed by further insight and commentary:

| | Year Ended December 31, | | % Change Favorable (Unfavorable) |
|-------------------------------------|-------------------------|----------|--|
| | 2017 | 2016 | |
| Revenue: | | | |
| Research, data and analytics (RD&A) | \$ 832.7 | \$ 667.6 | 25% |
| Enterprise risk solutions (ERS) | 448.6 | 418.8 | 7% |
| Professional services (PS) | 149.0 | 147.0 | 1% |
| Total external revenue | 1,430.3 | 1,233.4 | 16% |
| Intersegment revenue | 16.0 | 13.5 | 19% |
| Total MA Revenue | 1,446.3 | 1,246.9 | 16% |

Expenses:

| | | | |
|-----------------------------------|-----------------|----------|-------|
| Operating and SG&A (external) | 979.2 | 856.5 | (14%) |
| Operating and SG&A (intersegment) | 111.7 | 100.2 | (11%) |
| Adjusted Operating Income | 355.4 | 290.2 | 22% |
| Restructuring | | 1.8 | NM |
| Acquisition-Related Expenses | 22.5 | | NM |
| Depreciation and amortization | 83.6 | 52.9 | (58%) |
| Operating income | \$ 249.3 | \$ 235.5 | 6% |
| Adjusted Operating Margin | 24.6% | 23.3% | |
| Operating margin | 17.2% | 18.9% | |

The following is a discussion of external MA revenue and operating expenses:

Global MA revenue increased \$196.9 million, or 16%, compared to 2016 primarily due to growth in RD&A (which included approximately \$92 million in revenue, or 7 percentage points of the growth, from the Bureau van Dijk acquisition) coupled with growth in ERS, which included revenue from the first quarter 2016 acquisition of GGY. Additionally, the growth over the prior year reflects benefits from higher fees within MA's recurring revenue base due to enhanced content and continued alignment of usage and licensing parameters. Recurring revenue comprised 78% and 75% of total MA revenue in 2017 and 2016, respectively.

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In the U.S., revenue of \$645.6 million in 2017 increased \$42.0 million, and reflected growth across all LOBs.

Non-U.S. revenue of \$784.7 million in 2017 was \$154.9 million higher than in 2016 reflecting growth in RD&A, which included approximately \$82 million in non-U.S. Bureau van Dijk revenue, and higher ERS revenue.

Global RD&A revenue of \$832.7 million, which comprised 58% and 54% of total external MA revenue in 2017 and 2016, respectively, increased \$165.1 million, or 25%, over the prior year period. In the U.S., revenue of \$424.4 million increased \$35.1 million compared to 2016. Non-U.S. revenue of \$408.3 million increased \$130.0 million compared to the prior year. RD&A revenue in 2017 included approximately \$92 million in revenue, or 14 percentage points of the growth, from the Bureau van Dijk acquisition (net of an approximate \$36 million reduction relating to a deferred revenue adjustment required as part of acquisition accounting as further described in Note 7 to the financial statements). RD&A revenue growth also reflects strong results in the credit research and rating data feeds product lines, where enhanced content and continued alignment of usage and licensing parameters have generated higher fees.

Global ERS revenue of \$448.6 million in 2017 increased \$29.8 million, or 7%, over 2016. The growth is primarily due to higher revenue from risk and finance analytics products coupled with incremental revenue from GGY, which was acquired in March 2016. Additionally, the revenue growth reflects benefits from pricing increases within ERS's recurring revenue base. Revenue in ERS is subject to quarterly volatility resulting from the variable nature of project timing and the concentration of software implementation and license revenue in a relatively small number of engagements. In the U.S., revenue of \$166.6 million increased \$3.7 million compared to the prior year. Non-U.S. revenue of \$282.0 million increased \$26.1 million compared to the prior year.

Global PS revenue of \$149.0 million in 2017 increased 1% compared to 2016 reflecting higher revenue from analytical and research services in the U.S. mostly offset by lower revenue from these services internationally. In the U.S., revenue in 2017 was \$54.6 million, up 6% compared to 2016. Non-U.S. revenue was \$94.4 million, down 1% compared to 2016.

Operating and SG&A expenses in 2017 increased \$122.7 million compared to 2016. The expense growth includes an approximate \$74 million increase in compensation costs reflecting \$32 million in Bureau van Dijk compensation costs coupled with annual salary increases, higher performance-based compensation and higher severance costs partially offset by the impact of cost control initiatives. Non-compensation costs increased approximately \$49 million primarily due to Bureau van Dijk expenses.

There were \$22.5 million in Acquisition-Related Expenses incurred to complete and integrate the acquisition of Bureau van Dijk.

Depreciation and amortization increased \$30.7 million primarily due to the amortization of Bureau van Dijk's intangible assets.

Adjusted Operating Income was \$355.4 million in 2017 and increased \$65.2 million compared to the same period in 2016. Operating income of \$249.3 million in 2017 increased \$13.8 million compared to the same period in 2016. Adjusted Operating Margin in 2017 was 24.6%, up 130BPS from 2016. Operating margin was 17.2% in 2017, down 170BPS from the prior year reflecting the aforementioned \$22.5 million in Bureau van Dijk Acquisition-Related Expenses coupled with approximately \$31 million of higher D&A primarily relating to Bureau van Dijk's intangible assets. Adjusted Operating Income and operating income both include intersegment revenue and expense.

MARKET RISK

Foreign exchange risk:

Moody's maintains a presence in 42 countries. In 2018, approximately 43% of both the Company's revenue and expenses were denominated in functional currencies other than the U.S. dollar, principally in the British pound and the euro. As such, the Company is exposed to market risk from changes in FX rates. As of December 31, 2018, approximately 71% of Moody's assets were located outside the U.S., making the Company susceptible to fluctuations in FX rates. The effects of translating assets and liabilities of non-U.S. operations with non-U.S. functional currencies to the U.S. dollar are charged or credited to OCI.

The effects of revaluing assets and liabilities that are denominated in currencies other than a subsidiary's functional currency are charged to other non-operating income (expense), net in the Company's consolidated statements of operations. Accordingly, the Company enters into foreign exchange forwards to partially mitigate the change in fair value on certain assets and liabilities denominated in currencies other than a subsidiary's functional currency. The following table shows the impact to the fair value of the forward contracts if foreign currencies strengthened against the U.S. dollar:

| Foreign Currency Forwards ⁽¹⁾ | | Impact on fair value of contract if foreign currency strengthened by 10% |
|---|-----------------|---|
| Sell | Buy | |
| U.S. dollar | British pound | \$31 million unfavorable impact |
| U.S. dollar | Canadian dollar | \$11 million unfavorable impact |
| U.S. dollar | Euro | \$21 million unfavorable impact |
| U.S. dollar | Japanese yen | \$2 million unfavorable impact |

⁽¹⁾ Refer to Note 6 to the consolidated financial statements in Item 8 of this Form 10-K for further detail on the forward contracts.

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The change in fair value of the foreign exchange forward contracts would be offset by FX revaluation gains or losses on underlying assets and liabilities denominated in currencies other than a subsidiary's functional currency.

Euro-denominated debt and cross-currency swaps designated as net investment hedges:

The Company has designated 500 million of the 2015 Senior Notes as a net investment hedge to mitigate FX exposure relating to euro denominated net investments in subsidiaries. If the euro were to strengthen 10% relative to the U.S. dollar, there would be an approximate \$57 million unfavorable adjustment to OCI related to this net investment hedge. This adjustment would be offset by favorable translation adjustments on the Company's euro net investment in subsidiaries.

During 2018, the Company entered into cross-currency swaps to exchange an aggregate amount of 710.2 million with corresponding interest based on the floating 3-month EURIBOR for an aggregate amount of \$830.0 million with corresponding interest based on the floating 3-month U.S. LIBOR, which were designated as net investment hedges under ASC Topic 815, *Derivatives and Hedging*. The purpose of these cross-currency swaps is to mitigate FX exposure related to a portion of the Company's euro net investments in certain foreign subsidiaries against changes in euro/USD exchange rates. If the euro were to strengthen 10% relative to the U.S. dollar, there would be an approximate \$81 million unfavorable impact to the fair value of the cross-currency swaps recognized in OCI, which would be offset by favorable currency translation gains on the Company's euro net investment in foreign subsidiaries.

Credit and Interest rate risk:**Interest rate swaps designated as a fair value hedge:**

The Company's interest rate risk management objectives are to reduce the funding cost and volatility to the Company and to alter the interest rate exposure to the desired risk profile. Moody's uses interest rate swaps as deemed necessary to assist in accomplishing these objectives. The Company is exposed to interest rate risk on its various outstanding fixed-rate debt for which the fair value of the outstanding fixed rate debt fluctuates based on changes in interest rates. The Company has entered into interest rate swaps to convert the fixed interest rate on certain of its long-term debt to a floating interest rate based on the 3-month LIBOR. These swaps are adjusted to fair market value based on prevailing interest rates at the end of each reporting period and fluctuations are recorded as a reduction or addition to the carrying value of the borrowing, while net interest payments are recorded as interest expense/income in the Company's consolidated statement of operations. A hypothetical change of 100 BPS in the LIBOR-based swap rate would result in an approximate \$36 million change to the fair value of the swap, which would be offset by the change in fair value of the hedged item.

Additional information on these interest rate swaps is disclosed in Note 6 to the consolidated financial statements located in Item 8 of this Form 10-K.

Moody's cash equivalents consist of investments in high-quality investment-grade securities within and outside the U.S. with maturities of three months or less when purchased. The Company manages its credit risk exposure by allocating its cash equivalents among various money market mutual funds, money market deposit accounts, certificates of deposit and issuers of high-grade commercial paper and by limiting the amount it can invest with any single issuer. Short-term investments primarily consist of certificates of deposit.

LIQUIDITY AND CAPITAL RESOURCES**Cash Flow**

The Company is currently financing its operations, capital expenditures, acquisitions and share repurchases from operating and financing cash flows.

The following is a summary of the changes in the Company's cash flows followed by a brief discussion of these changes:

| | Year Ended December 31, | | | Year Ended December 31, | | |
|---|----------------------------|--------------|---|----------------------------|--------------|---|
| | 2018 | 2017 | \$ Change Favorable (unfavorable) | 2017 | 2016 | \$ Change Favorable (unfavorable) |
| Net cash provided by operating activities | \$ 1,461.1 | \$ 754.6 | \$ 706.5 | \$ 754.6 | \$ 1,259.2 | \$ (504.6) |
| Net cash (used in) provided by investing activities | \$ (406.4) | \$ (3,420.0) | \$ 3,013.6 | \$ (3,420.0) | \$ 102.0 | \$ (3,522.0) |
| Net cash (used in) provided by financing activities | \$ (411.5) | \$ 1,600.1 | \$ (2,011.6) | \$ 1,600.1 | \$ (1,042.9) | \$ 2,643.0 |
| Free Cash Flow ⁽¹⁾ | \$ 1,370.7 | \$ 664.0 | \$ 706.7 | \$ 664.0 | \$ 1,144.0 | \$ (480.0) |

⁽¹⁾ Free Cash Flow is a non-GAAP measure and is defined by the Company as net cash provided by operating activities minus cash paid for capital expenditures. Refer to Non-GAAP Financial Measures of this MD&A for further information on this financial measure.

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Net cash provided by operating activities

Year ended December 31, 2018 compared to the year ended December 31, 2017:

Net cash flows from operating activities increased \$706.5 million compared to the prior year primarily due to the approximate \$864 million payment for the Settlement Charge in 2017. This increase was partially offset by higher incentive compensation payments of approximately \$90 million in 2018 compared to the prior year and a decrease of approximately \$30 million due to timing of tax payments.

Year ended December 31, 2017 compared to the year ended December 31, 2016:

Net cash flows from operating activities decreased \$504.6 million compared to the prior year primarily due to the approximate \$864 million payment for the Settlement Charge in 2017. This was partially offset by an increase in cash flows primarily relating to the Company's strong earnings growth in 2017.

Net cash (used in) provided by investing activities

Year ended December 31, 2018 compared to the year ended December 31, 2017:

The \$3,013.6 million decrease in cash flows used in investing activities compared to 2017 primarily reflects:

- » a net \$3.2 billion decrease in cash paid for acquisitions compared to the prior year primarily reflecting the acquisition of Bureau van Dijk for approximately \$3.5 billion in 2017, partially offset by approximately \$289 million paid in 2018 for the acquisitions of Reis and Omega Performance;

Partially offset by:

- » \$111.1 million of cash received in 2017 relating to the Purchase Price Hedge; and
- » higher net purchases of investments of \$100.8 million in 2018.

Year ended December 31, 2017 compared to the year ended December 31, 2016:

The \$3,522.0 million increase in cash flows used in investing activities compared to 2016 primarily reflects:

- » a \$3.4 billion increase in cash paid for acquisitions compared to the prior year primarily reflecting the acquisition of Bureau van Dijk in the third quarter of 2017;

- » lower net maturities of investments of \$251.2 million in 2017;

Partially offset by:

- » cash received of \$111.1 million relating to the Purchase Price Hedge in 2017.

Net cash (used in) provided by financing activities

Year ended December 31, 2018 compared to the year ended December 31, 2017:

The \$2,011.6 million increase in cash used in financing activities was primarily attributed to:

- » net proceeds of \$158.6 million in 2018 relating to the issuance of the 2018 Senior Notes in June and December 2018, partially offset by repayment of the 2017 Term Loan, the 2017 Floating Rate Senior Notes and net repayments of CP; and
- » net proceeds of \$2.1 billion in 2017, which included debt and commercial paper issued to fund the acquisition of Bureau van Dijk and the payment of the Settlement Charge, partially offset by the early repayment of the 2007-1 Notes and repayments of CP in 2017.

Year ended December 31, 2017 compared to the year ended December 31, 2016:

The \$2,643.0 million increase in cash provided by financing activities was primarily attributed to:

- » proceeds of \$1.5 billion from notes and a term loan issued as well as \$0.1 billion in net proceeds from commercial paper to fund the acquisition of Bureau van Dijk. Additionally, reflects \$0.8 billion of notes issued in the first quarter of 2017 to fund the payment of the 2016 Settlement Charge and the early repayment of the Series 2007-1 Notes;
- » treasury shares repurchased of \$199.7 million in 2017 compared to \$738.8 million in 2016;
partially offset by:
- » repayment of the \$300 million Series 2007-1 Notes in 2017.

Cash and short-term investments held in non-U.S. jurisdictions

The Company's aggregate cash and cash equivalents and short-term investments of \$1.8 billion at December 31, 2018 included approximately \$0.9 billion located outside of the U.S. Approximately 21% of the Company's aggregate cash and cash equivalents and short-term investments is denominated in euros and British pounds. The Company manages both its U.S. and non-U.S. cash flow to maintain sufficient liquidity in all regions to effectively meet its operating needs.

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As a result of the Tax Act, all previously net undistributed foreign earnings have now been subject to U.S. tax. The Company continues to evaluate which entities it will indefinitely reinvest earnings outside the U.S. The Company has provided deferred taxes for those entities whose earnings are not considered indefinitely reinvested. Accordingly, the Company has commenced repatriating a portion of its non-U.S. cash in these subsidiaries and will continue to repatriate certain of its offshore cash in a manner that addresses compliance with local statutory requirements, sufficient offshore working capital and any other factors that may be relevant in certain jurisdictions. Notwithstanding the Tax Act, which generally eliminated federal income tax on future cash repatriation to the U.S., cash repatriation may be subject to state and local taxes or withholding or similar taxes.

Other Material Future Cash Requirements

The Company believes that it has the financial resources needed to meet its cash requirements and expects to have positive operating cash flow in 2019. Cash requirements for periods beyond the next twelve months will depend, among other things, on the Company's profitability and its ability to manage working capital requirements. The Company may also borrow from various sources.

The Company remains committed to using its strong cash flow to create value for shareholders by investing in growing areas of the business, reinvesting in ratings quality initiatives, making selective acquisitions, repurchasing stock and paying a dividend, all in a manner consistent with maintaining sufficient liquidity after giving effect to any additional indebtedness that may be incurred.

Dividends and Share Repurchases

On February 12, 2019, the Board approved the declaration of a quarterly dividend of \$0.50 per share for Moody's common stock, payable March 18, 2019 to shareholders of record at the close of business on February 25, 2019. The continued payment of dividends at this rate, or at all, is subject to the discretion of the Board.

On December 15, 2015, the Board authorized a \$1.0 billion share repurchase program, which at December 31, 2018 had a remaining authority of approximately \$324 million. Additionally, in October 2018, the Board authorized an additional \$1.0 billion share repurchase program, which may commence following the completion of the existing program.

On February 20, 2019, the Company entered into an accelerated share repurchase agreement (ASR) with a financial institution counterparty to repurchase \$500 million of its outstanding common stock. The final settlement of the transaction under the ASR agreement is expected to be completed no later than April 2019. The ASR was entered into pursuant to the Company's existing share repurchase program, as further discussed in Note 18 of the Company's financial statements.

Full-year 2019 total share repurchases (including shares repurchased via the aforementioned ASR) are expected to be approximately \$1 billion, subject to available cash, market conditions and other ongoing capital allocation decisions.

Restructuring

On October 26, 2018, the Company approved a restructuring program that is estimated to result in an annualized savings of approximately \$40 to \$50 million a year, a portion of which will benefit 2019. This restructuring program is estimated to result in total pre-tax charges of approximately \$70 to \$80 million, of which approximately \$35 to \$40 million is estimated to result from personnel-related activities. A majority of the cash outlays for these personnel-related activities will be paid in the year ended December 31, 2019. This restructuring program is more

fully discussed in Note 10 to the consolidated financial statements.

Other cash requirements

The Company has future cash requirements, including operating leases and debt service and payments, as noted in the tables that follow as well as future payments related to the transition tax under the Tax Act.

Indebtedness

At December 31, 2018, Moody's had \$5.7 billion of outstanding debt and approximately \$1 billion of additional capacity available under the Company's CP program, which is backstopped by the 2018 Facility as more fully discussed in Note 17 to the consolidated financial statements. At December 31, 2018, the Company was in compliance with all covenants contained within all of the debt agreements. All of the Company's long-term debt agreements contain cross default provisions which state that default under one of the aforementioned debt instruments could in turn permit lenders under other debt instruments to declare borrowings outstanding under those instruments to be immediately due and payable. At December 31, 2018, there were no such cross defaults.

During 2018, the Company issued \$1.1 billion in unsecured senior notes via public offerings, the terms of which are more fully discussed in Note 17. Additionally, the Company repaid the 2017 Term Loan of \$500 million and the 2017 Floating Rate Senior Notes of \$300 million. Furthermore, in January 2019, the Company also repaid the 2014 Senior Note (5-year) of \$450 million.

The Company has fulfilled its commitment to delever its balance sheet following additional financing obtained in 2017 to partially fund the acquisition of Bureau van Dijk.

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The repayment schedule for the Company's borrowings outstanding at December 31, 2018 is as follows:

| Year Ending | 2010 | 2012 | 2013 | 2014 | 2014 | 2015 | 2017 | 2017 | 2017 | 2018 | 2018 | 2018 | Total |
|--------------|-----------------------|-----------------------|-----------------------|---|---------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-------------------|
| | Senior Notes due 2020 | Senior Notes due 2022 | Senior Notes due 2024 | Senior Notes (5-year) due 2019 ⁽¹⁾ | Senior Notes (30-year) due 2044 | Senior Notes due 2027 | Senior Notes due 2021 | Senior Notes due 2023 | Senior Notes due 2028 | Senior Notes due 2021 | Senior Notes due 2029 | Senior Notes due 2048 | |
| 2019 | \$ | \$ | \$ | \$ 450.0 | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ 450.0 |
| 2020 | 500.0 | | | | | | | | | | | | 500.0 |
| 2021 | | | | | | | 500.0 | | | 300.0 | | | 800.0 |
| 2022 | | 500.0 | | | | | | | | | | | 500.0 |
| 2023 | | | | | | | | 500.0 | | | | | 500.0 |
| Thereafter | | | 500.0 | | 600.0 | 571.6 | | | 500.0 | | 400.0 | 400.0 | 2,971.6 |
| Total | \$ 500.0 | \$ 500.0 | \$ 500.0 | \$ 450.0 | \$ 600.0 | \$ 571.6 | \$ 500.0 | \$ 500.0 | \$ 500.0 | \$ 300.0 | \$ 400.0 | \$ 400.0 | \$ 5,721.6 |

⁽¹⁾ In January 2019, the Company repaid the 2014 Senior Notes (5-year) of \$450 million.

Management may consider pursuing additional long-term financing when it is appropriate in light of cash requirements for operations, share repurchases and other strategic opportunities, which would result in higher financing costs.

Off-Balance Sheet Arrangements

At December 31, 2018, Moody's did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as special purpose or variable interest entities where Moody's is the primary beneficiary, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As such, Moody's is not exposed to any financing, liquidity, market or credit risk that could arise if it had engaged in such relationships.

Contractual Obligations

The following table presents payments due under the Company's contractual obligations as of December 31, 2018:

| (in millions) | Total | Payments Due by Period | | | |
|---------------|-------|------------------------|-----------|-----------|--------------|
| | | Less Than 1 Year | 1-3 Years | 3-5 Years | Over 5 Years |
| | | | | | |

| | | | | | |
|------------------------------------|-------------------|----------|------------|------------|------------|
| Indebtedness ⁽¹⁾ | \$ 7,943.2 | \$ 662.8 | \$ 1,670.8 | \$ 1,270.1 | \$ 4,339.5 |
| Operating lease obligations | 715.7 | 105.9 | 197.9 | 165.4 | 246.5 |
| Purchase obligations | 193.8 | 104.8 | 89.0 | | |
| Pension obligations ⁽²⁾ | 139.0 | 6.9 | 42.7 | 25.5 | 63.9 |
| Total ⁽³⁾ | \$ 8,991.7 | \$ 880.4 | \$ 2,000.4 | \$ 1,461.0 | \$ 4,649.9 |

- (1) Reflects principal payments, related interest and applicable fees due on all indebtedness outstanding as described in Note 17 to the consolidated financial statements.
- (2) Reflects projected benefit payments relating to the Company's U.S. unfunded DBPPs and Retirement and Other Plans described in Note 14 to the consolidated financial statements.
- (3) The table above does not include the Company's net long-term tax liabilities of \$494.6 million relating to UTPs, since the expected cash outflow of such amounts by period cannot be reasonably estimated. Additionally, the table above does not include approximately \$198 million relating to the remaining unpaid deemed repatriation liability resulting from the Tax Act enacted into law in the U.S. in December 2017.

Non-GAAP Financial Measures:

In addition to its reported results, Moody's has included in this MD&A certain adjusted results that the SEC defines as non-GAAP financial measures. Management believes that such non-GAAP 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 can provide greater transparency to investors of supplemental information used by management in its financial and operational decision-making. These non-GAAP measures, as defined by the Company, are not necessarily comparable to similarly defined measures of other companies. Furthermore, these non-GAAP 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. Below are descriptions of the Company's non-GAAP financial measures accompanied by a reconciliation of the non-GAAP measure to its most directly comparable GAAP measure:

Adjusted Operating Income and Adjusted Operating Margin:

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, restructuring, and Acquisition-

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Related Expenses. Depreciation and amortization are excluded because companies utilize productive assets of different ages and use different methods of acquiring and depreciating productive assets. Restructuring charges are excluded as the frequency and magnitude of these charges may vary widely across periods and companies. 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 on an annual basis, which are not expected to recur at this dollar magnitude subsequent to the completion of the multi-year integration effort. Acquisition-Related Expenses from other acquisitions were not material. Management believes that the exclusion of depreciation and amortization, restructuring charges, and Acquisition-Related Expenses, 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.

| | Year Ended December 31, | | |
|----------------------------------|--------------------------------|-------------------|-------------------|
| | 2018 | 2017 | 2016 |
| Operating income | \$ 1,868.2 | \$ 1,820.8 | \$ 650.9 |
| Adjustments: | | | |
| Restructuring | 48.7 | | 12.0 |
| Depreciation and amortization | 191.9 | 158.3 | 126.7 |
| Acquisition-Related Expenses | 8.3 | 22.5 | |
| Settlement Charge | | | 863.8 |
| Adjusted Operating Income | \$ 2,117.1 | \$ 2,001.6 | \$ 1,653.4 |
| Operating margin | 42.1% | 43.3% | 18.1% |
| Adjusted Operating Margin | 47.7% | 47.6% | 45.9% |

Adjusted Net Income and Adjusted Diluted EPS attributable to Moody's common shareholders:

The Company presents Adjusted Net Income and Adjusted Diluted EPS because management deems these metrics to be useful measures to provide additional perspective on the operating performance of Moody's. Adjusted Net Income and Adjusted Diluted EPS exclude the impact of amortization of acquired intangible assets, Acquisition-Related Expenses, restructuring charges, the Purchase Price Hedge Gain, the CCXI Gain, the effects of U.S. tax reform and certain adjustments relating to the Company's non-U.S. UTPs.

The Company excludes 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. Additionally Acquisition-Related Expenses are excluded due to the material nature of these expenses on an annual basis, 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 other acquisitions were not material.

The Company excludes the Purchase Price Hedge Gain, the CCXI Gain and restructuring charges 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.

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 provision for income taxes. The Company excludes these adjustments as well as the impact of 2018 adjustments pursuant to U.S. tax reform and certain adjustments relating to the Company's non-U.S. UTPs, which resulted in significant adjustments to the provision for income taxes in 2018. The Company excludes these items to provide additional perspective when comparing net income and diluted EPS from period to period and across companies as the frequency and magnitude of similar transactions may vary widely across periods.

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

| Amounts in millions | Year ended December 31, | | 2016 |
|---|-------------------------|-------------|-------------|
| | 2018 | 2017 | |
| Net income attributable to Moody's common shareholders | \$ 1,309.6 | \$ 1,000.6 | \$ 266.6 |
| 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 | \$ 8.3 | \$ 22.5 | \$ |
| Tax on Acquisition-Related Expenses | (2.1) | (3.6) | |
| Net Acquisition-Related Expenses ⁽¹⁾ | 6.2 | 18.9 | |
| Pre-Tax Acquisition-Related Intangible Amortization Expenses | \$ 101.7 | \$ 61.4 | \$ 34.2 |
| Tax on Acquisition-Related Intangible Amortization Expenses | (23.0) | (16.2) | (9.8) |
| Net Acquisition-Related Intangible Amortization Expenses | 78.7 | 45.2 | 24.4 |
| | (59.0) | 247.3 | |

Net Impact of U.S. tax reform**Net impact of U.S. tax reform/ Belgium statutory tax rate change on deferred taxes****(1.7)****Increase to non-U.S. UTPs****63.9**

Pre-Tax

Restructuring \$ 48.7 \$ 12.0

Tax on Restructuring (11.9) (3.9)

Net Restructuring**36.8****8.1**

Pre-tax Settlement

Charge \$ 863.8

Tax on Settlement Charge (163.1)

Net Settlement Charge**700.7****FX gain on liquidation of a subsidiary****(34.8)****Adjusted Net Income****\$ 1,436.2****\$ 1,178.3****\$ 965.0**⁽¹⁾ Certain of these Acquisition-Related Expenses are not deductible for tax.

The tax impacts in the table above were calculated using tax rates in effect in the jurisdiction for which the item relates.

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| | Year ended December 31, | | |
|---|-------------------------|---------------|-------------|
| | 2018 | 2017 | 2016 |
| Earnings per share attributable to Moody's common shareholders | \$ 6.74 | \$ 5.15 | \$ 1.36 |
| 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 | \$ 0.04 | \$ 0.12 | \$ |
| Tax on Acquisition-Related Expenses | (0.01) | (0.02) | |
| Net Acquisition-Related Expenses⁽¹⁾ | 0.03 | 0.10 | |
| Pre-Tax Acquisition-Related Intangible Amortization Expenses | \$ 0.52 | \$ 0.32 | \$ 0.18 |
| Tax on Acquisition-Related Intangible Amortization Expenses | (0.12) | (0.09) | (0.05) |
| Net Acquisition-Related Intangible Amortization Expenses | 0.40 | 0.23 | 0.13 |
| Net Impact of U.S. tax reform | (0.30) | 1.28 | |
| Net impact of U.S. tax reform/ Belgium statutory tax rate | | (0.01) | |

| | | | | |
|---|----|-------------|----|---------------|
| change on deferred taxes | | | | |
| Increase to non-U.S. UTPs | | | | |
| | | 0.33 | | |
| Pre-Tax Restructuring | \$ | 0.25 | \$ | 0.06 |
| Tax on Restructuring | | (0.06) | | (0.02) |
| Net Restructuring | | 0.19 | | 0.04 |
| Pre-tax Settlement Charge | | | | |
| | \$ | | \$ | 4.42 |
| Tax on Settlement Charge | | | | (0.83) |
| Net Settlement Charge | | | | 3.59 |
| FX gain on liquidation of a subsidiary | | | | (0.18) |
| Adjusted Diluted EPS | \$ | 7.39 | \$ | 6.07 |
| | | | \$ | 4.94 |

(1) Certain of these Acquisition-Related Expenses are not deductible for tax. The tax impacts in the table above were calculated using tax rates in effect in the jurisdiction for which the item relates.

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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. Below is a reconciliation of the Company's net cash flows from operating activities to Free Cash Flow:

| | Year Ended December 31, | | |
|--|--------------------------------|--------------|--------------|
| | 2018 | 2017 | 2016 |
| Net cash provided by operating activities | \$ 1,461.1 | \$ 754.6 | \$ 1,259.2 |
| Capital additions | (90.4) | (90.6) | (115.2) |
| Free Cash Flow | \$ 1,370.7 | \$ 664.0 | \$ 1,144.0 |
| Net cash (used in) provided by investing activities | \$ (406.4) | \$ (3,420.0) | \$ 102.0 |
| Net cash (used in) provided by financing activities | \$ (411.5) | \$ 1,600.1 | \$ (1,042.9) |

Recently Issued Accounting Pronouncements

Refer to Note 2 to the consolidated financial statements located in Part II, Item 8 on this Form 10-K for a discussion on the impact to the Company relating to recently issued accounting pronouncements.

CONTINGENCIES

For information regarding legal proceedings, see Part II, Item 8 Financial Statements, Note 20 Contingencies in this Form 10-K.

Forward-Looking Statements

Certain statements contained in this quarterly report on Form 10-K are forward-looking statements and are based on future expectations, plans and prospects for the Company's business and operations that involve a number of risks and uncertainties. Such statements involve estimates, projections, goals, forecasts, assumptions and uncertainties that could cause actual results or outcomes to differ materially from those contemplated, expressed, projected, anticipated or implied in the forward-looking statements. Those statements appear at various places throughout this annual report on Form 10-K, including in the sections entitled Contingencies under Item 7, MD&A, commencing on page 31 of this annual report on Form 10-K, under Legal Proceedings in Part I, Item 3, of this Form 10-K, and elsewhere in the context of statements containing the words believe, expect, anticipate, intend, plan, will, predict, potential, strategy, aspire, target, forecast, project, estimate, should, could, may and similar expressions or words thereof relating to the Company's views on future events, trends and contingencies. Stockholders and investors are cautioned not to place undue reliance on these forward-looking statements. The forward-looking statements and other information are made as of the date of this annual report on Form 10-K, and the Company undertakes no obligation (nor does it intend) to publicly supplement, update or revise such statements on a going-forward basis, whether as a

result of subsequent developments, changed expectations or otherwise, except as required by law. In connection with the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, the Company is identifying examples of factors, risks and uncertainties 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, credit market disruptions or economic slowdowns, 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 planned withdrawal 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 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 inquiries 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

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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 data protection and privacy laws, 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 such 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, 2018, 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.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information in response to this item is set forth under the caption "Market Risk" in Part II, item 7 on page 49 of this annual report on Form 10-K.

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ITEM 8. FINANCIAL STATEMENTS

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Schedules are omitted as not required or inapplicable or because the required information is provided in the consolidated financial statements, including the notes thereto.

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MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of Moody's Corporation is responsible for establishing and maintaining adequate internal control over financial reporting and for the assessment of the effectiveness of internal control over financial reporting. As defined by the SEC in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, internal control over financial reporting is a process designed by, or under the supervision of, the Company's principal executive and principal financial officers, or persons performing similar functions, and effected by the Company's Board, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Moody's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of Moody's management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management of the Company has undertaken an assessment of the design and operational effectiveness of the Company's internal control over financial reporting as of December 31, 2018 based on criteria established in the Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based on the assessment performed, management has concluded that Moody's maintained effective internal control over financial reporting as of December 31, 2018.

The effectiveness of our internal control over financial reporting as of December 31, 2018 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report which appears herein.

/s/ RAYMOND W. MCDANIEL, JR.

Raymond W. McDaniel, Jr.

President and Chief Executive Officer

/s/ MARK KAYE

Mark Kaye

Senior Vice President and Chief Financial Officer

February 22, 2019

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Report of Independent Registered Public Accounting Firm

The Shareholders and Board of Directors of Moody's Corporation:

Opinions on the Consolidated Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Moody's Corporation (the Company) as of December 31, 2018 and 2017, and the related consolidated statements of operations, comprehensive income, shareholders' equity (deficit), and cash flows for each of the years in the three-year period ended December 31, 2018, and the related notes (collectively, the consolidated financial statements). We also have audited the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for revenue recognition effective January 1, 2018 due to the adoption of Accounting Standard Update (ASU) 2014-019 and all related amendments, which established the Accounting Standard Codification (ASC) Topic 606, *Revenue - Revenue from Contracts with Customers*.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used

and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP

We have served as the Company's auditor since 2008.

New York, New York

February 22, 2019

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MOODY S CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(Amounts in millions, except per share data)

| | Year Ended December 31, | | |
|---|-------------------------|-------------------|-----------------|
| | 2018 | 2017 | 2016 |
| Revenue | \$ 4,442.7 | \$ 4,204.1 | \$ 3,604.2 |
| Expenses | | | |
| Operating | 1,245.5 | 1,216.6 | 1,019.6 |
| Selling, general and administrative | 1,080.1 | 985.9 | 931.2 |
| Restructuring | 48.7 | | 12.0 |
| Depreciation and amortization | 191.9 | 158.3 | 126.7 |
| Acquisition-Related Expenses | 8.3 | 22.5 | |
| Settlement Charge | | | 863.8 |
| Total expenses | 2,574.5 | 2,383.3 | 2,953.3 |
| Operating income | 1,868.2 | 1,820.8 | 650.9 |
| Non-operating (expense) income, net | | | |
| Interest expense, net | (216.0) | (208.5) | (157.3) |
| Other non-operating income, net | 18.8 | 3.7 | 64.4 |
| Purchase Price Hedge Gain | | 111.1 | |
| CCXI Gain | | 59.7 | |
| Non-operating (expense) income, net | (197.2) | (34.0) | (92.9) |
| Income before provision for income taxes | 1,671.0 | 1,786.8 | 558.0 |
| Provision for income taxes | 351.6 | 779.1 | 282.2 |
| Net income | 1,319.4 | 1,007.7 | 275.8 |
| Less: Net income attributable to noncontrolling interests | 9.8 | 7.1 | 9.2 |
| Net income attributable to Moody's | \$ 1,309.6 | \$ 1,000.6 | \$ 266.6 |
| Earnings per share | | | |
| Basic | \$ 6.84 | \$ 5.24 | \$ 1.38 |

| | | | | | | |
|--|----|--------------|----|--------------|----|--------------|
| Diluted | \$ | 6.74 | \$ | 5.15 | \$ | 1.36 |
| Weighted average shares outstanding | | | | | | |
| Basic | | 191.6 | | 191.1 | | 192.7 |
| Diluted | | 194.4 | | 194.2 | | 195.4 |

The accompanying notes are an integral part of the consolidated financial statements

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MOODY S CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in millions)

| | Year Ended December 31, 2018 | | | Year Ended December 31, 2017 | | | Year Ended December 31, 2016 | | |
|--|---------------------------------|----------------|----------------------|---------------------------------|----------------|----------------------|---------------------------------|----------------|----------------------|
| | Pre-tax amounts | Tax amounts | After-tax amounts | Pre-tax amounts | Tax amounts | After-tax amounts | Pre-tax amounts | Tax amounts | After-tax amounts |
| Net Income | | | \$ 1,319.4 | | | \$ 1,007.7 | | | \$ 275.8 |
| Other Comprehensive | | | | | | | | | |
| Income (Loss): | | | | | | | | | |
| Foreign Currency | | | | | | | | | |
| Adjustments: | | | | | | | | | |
| Foreign currency translation adjustments, net | \$ (274.0) | \$ (7.2) | (281.2) | \$ 166.2 | \$ 23.1 | 189.3 | \$ (22.2) | \$ (5.4) | (27.6) |
| Reclassification of losses (gains) included in net income | 0.2 | | 0.2 | | | | (36.6) | | (36.6) |
| Cash Flow Hedges: | | | | | | | | | |
| Net realized and unrealized (losses) gains on cash flow hedges | (0.9) | 0.3 | (0.6) | 9.6 | (3.7) | 5.9 | (1.4) | 0.5 | (0.9) |
| Reclassification of (gains) losses included in net income | (0.4) | 0.2 | (0.2) | (11.5) | 4.8 | (6.7) | 6.0 | (2.3) | 3.7 |
| Available for Sale | | | | | | | | | |
| Securities: | | | | | | | | | |
| Net unrealized gains on available for sale securities | | | | 2.0 | | 2.0 | 2.6 | | 2.6 |
| Reclassification of gains included in net income | | | | (3.5) | | (3.5) | | | |
| Pension and Other | | | | | | | | | |
| Retirement Benefits: | | | | | | | | | |
| Amortization of actuarial losses and prior service costs included in net income | 5.6 | (1.4) | 4.2 | 8.7 | (3.3) | 5.4 | 9.7 | (3.7) | 6.0 |
| Net actuarial gains and prior service costs | 5.7 | (1.5) | 4.2 | 20.9 | (8.3) | 12.6 | 0.3 | (0.1) | 0.2 |

| | | | | | | | | | |
|---|------------|-------------------|---------------|----------|---------|------------|-----------|-----------|-----------|
| Total Other Comprehensive (Loss) Income | \$ (263.8) | \$ (9.6) | \$ (273.4) | \$ 192.4 | \$ 12.6 | \$ 205.0 | \$ (41.6) | \$ (11.0) | \$ (52.6) |
| Comprehensive Income | | 1,046.0 | | | | 1,212.7 | | | 223.2 |
| Less: comprehensive (loss) income attributable to noncontrolling interests | | | (11.8) | | | 19.4 | | | (18.0) |
| Comprehensive Income Attributable to Moody s | | \$ 1,057.8 | | | | \$ 1,193.3 | | | \$ 241.2 |

The accompanying notes are an integral part of the consolidated financial statements.

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MOODY S CORPORATION

CONSOLIDATED BALANCE SHEETS

(Amounts in millions, except share and per share data)

| | December 31, | |
|---|-------------------|-------------------|
| | 2018 | 2017 |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 1,685.0 | \$ 1,071.5 |
| Short-term investments | 132.5 | 111.8 |
| Accounts receivable, net of allowances of \$43.5 in 2018 and \$36.6 in 2017 | 1,287.1 | 1,147.2 |
| Other current assets | 282.3 | 250.1 |
| Total current assets | 3,386.9 | 2,580.6 |
| Property and equipment, net | 320.4 | 325.1 |
| Goodwill | 3,781.3 | 3,753.2 |
| Intangible assets, net | 1,566.1 | 1,631.6 |
| Deferred tax assets, net | 197.2 | 143.8 |
| Other assets | 274.3 | 159.9 |
| Total assets | \$ 9,526.2 | \$ 8,594.2 |
| LIABILITIES, NONCONTROLLING INTERESTS AND SHAREHOLDERS' EQUITY (DEFICIT) | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 695.2 | \$ 750.3 |
| Commercial paper | | 129.9 |
| Current portion of long-term debt | 449.9 | 299.5 |
| Deferred revenue | 953.4 | 883.6 |
| Total current liabilities | 2,098.5 | 2,063.3 |
| Non-current portion of deferred revenue | 122.3 | 140.0 |
| Long-term debt | 5,226.1 | 5,111.1 |
| Deferred tax liabilities, net | 351.7 | 341.6 |
| Uncertain tax positions | 494.6 | 389.1 |
| Other liabilities | 576.5 | 664.0 |
| Total liabilities | 8,869.7 | 8,709.1 |

Contingencies (Note 20)

Shareholders' equity (deficit):

Preferred stock, par value \$.01 per share; 10,000,000 shares authorized; no shares issued and outstanding

Series common stock, par value \$.01 per share; 10,000,000 shares authorized; no shares issued and outstanding

Common stock, par value \$.01 per share; 1,000,000,000 shares authorized; 342,902,272 shares issued at December 31, 2018 and December 31, 2017, respectively.

| | | |
|--|-------------------|------------|
| | 3.4 | 3.4 |
| Capital surplus | 600.9 | 528.6 |
| Retained earnings | 8,594.4 | 7,465.4 |
| Treasury stock, at cost; 151,598,695 and 151,932,157 shares of common stock at December 31, 2018 and December 31, 2017, respectively | (8,312.5) | (8,152.9) |
| Accumulated other comprehensive loss | (426.3) | (172.2) |
| Total Moody's shareholders' equity (deficit) | 459.9 | (327.7) |
| Noncontrolling interests | 196.6 | 212.8 |
| Total shareholders' equity (deficit) | 656.5 | (114.9) |
| Total liabilities, noncontrolling interests and shareholders' equity | \$ 9,526.2 | \$ 8,594.2 |

The accompanying notes are an integral part of the consolidated financial statements.

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MOODY S CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in millions)

| | Year Ended December 31, | | |
|--|-------------------------|--------------|----------------|
| | 2018 | 2017 | 2016 |
| Cash flows from operating activities | | | |
| Net income | \$ 1,319.4 | \$ 1,007.7 | \$ 275.8 |
| Reconciliation of net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 191.9 | 158.3 | 126.7 |
| Stock-based compensation | 130.3 | 122.9 | 98.1 |
| CCXI Gain | | (59.7) | |
| Purchase Price Hedge Gain | | (111.1) | |
| FX gain relating to liquidation and sale of subsidiaries | | | (36.6) |
| Deferred income taxes | (98.9) | 88.3 | (153.1) |
| Legacy Tax Matters | | | (1.6) |
| Changes in assets and liabilities: | | | |
| Accounts receivable | (136.1) | (148.1) | (104.8) |
| Other current assets | (8.4) | (70.3) | 37.0 |
| Other assets | (16.6) | 12.1 | 6.6 |
| Accounts payable and accrued liabilities | (134.0) | (638.4) | 902.4 |
| Restructuring liability | 41.9 | (5.9) | 6.3 |
| Deferred revenue | 138.9 | 72.9 | 74.9 |
| Uncertain tax positions and other non-current tax liabilities | 58.6 | 63.0 | 2.2 |
| Other liabilities | (25.9) | 262.9 | 25.3 |
| Net cash provided by operating activities | 1,461.1 | 754.6 | 1,259.2 |
| Cash flows from investing activities | | | |
| Capital additions | (90.4) | (90.6) | (115.2) |
| Purchases of investments | (193.0) | (170.1) | (379.9) |
| Sales and maturities of investments | 160.6 | 238.5 | 699.5 |
| Receipts from Purchase Price Hedge | | 111.1 | |
| Cash paid for acquisitions, net of cash acquired | (289.3) | (3,511.0) | (80.8) |
| | | 2.1 | 3.8 |

| | | | |
|---|----------------|------------------|------------------|
| Receipts from settlements of net investment hedges | | | |
| Payments for settlements of net investment hedges | | | (26.9) |
| Cash received upon disposal of a subsidiary, net of cash transferred to purchaser | 5.7 | | 1.5 |
| Net cash (used in) provided by investing activities | (406.4) | (3,420.0) | 102.0 |
| Cash flows from financing activities | | | |
| Issuance of notes | 1,089.9 | 2,291.9 | |
| Repayment of notes | (800.0) | (300.0) | |
| Issuance of commercial paper | 988.7 | 1,837.1 | |
| Repayment of commercial paper | (1,120.0) | (1,707.2) | |
| Proceeds from stock-based compensation plans | 46.9 | 55.6 | 77.8 |
| Repurchase of shares related to stock-based compensation | (62.2) | (48.8) | (44.4) |
| Treasury shares | (202.6) | (199.7) | (738.8) |
| Dividends | (337.2) | (290.4) | (285.1) |
| Dividends to noncontrolling interests | (4.4) | (3.2) | (6.7) |
| Payment for noncontrolling interest | | (8.5) | (45.4) |
| Contingent consideration | | | (0.2) |
| Debt issuance costs, extinguishment costs and related fees | (10.6) | (26.7) | (0.1) |
| Net cash (used in) provided by financing activities | (411.5) | 1,600.1 | (1,042.9) |
| Effect of exchange rate changes on cash and cash equivalents | (29.7) | 85.3 | (24.2) |
| Increase (decrease) in cash and cash equivalents | 613.5 | (980.0) | 294.1 |
| Cash and cash equivalents, beginning of period | 1,071.5 | 2,051.5 | 1,757.4 |
| Cash and cash equivalents, end of period | \$ 1,685.0 | \$ 1,071.5 | \$ 2,051.5 |

The accompanying notes are an integral part of the consolidated financial statements

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MOODY S CORPORATION

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT)

(Amounts in millions)

| Shareholders' of Moody's Corporation | | | | | | Accumulated Other Comprehensive Loss | Total Moody's Shareholders' Deficit | Contr Int |
|--------------------------------------|--------|--------------------|----------------------|----------------|--------------|---|---|--------------|
| Common Stock | | Capital Surplus | Retained Earnings | Treasury Stock | | | | |
| Shares | Amount | | | Shares | Amount | | | |
| 342.9 | \$ 3.4 | 451.3 | \$ 6,709.0 | (146.8) | \$ (7,389.2) | (339.5) | \$ (565.0) | \$ |
| | | | 266.6 | | | | 266.6 | |
| | | | (286.7) | | | | (286.7) | |
| | | 98.4 | | | | | 98.4 | |
| | | (65.0) | | 2.3 | 98.4 | | 33.4 | |
| | | 32.0 | | | | | 32.0 | |
| | | (39.5) | | | | | (39.5) | |
| | | | | (7.7) | (738.8) | | (738.8) | |
| | | | | | | (34.2) | (34.2) | |

| | | | | | | | | | | | | | |
|--------------|-----------|------------|--------------|-----------|----------------|----------------|-----------|------------------|-----------|----------------|-----------|------------------|-----------|
| | | | | | | 0.2 | 0.2 | | | | | | |
| | | | | | | 6.0 | 6.0 | | | | | | |
| | | | | | | (0.2) | (0.2) | | | | | | |
| | | | | | | 2.8 | 2.8 | | | | | | |
| 342.9 | \$ | 3.4 | 477.2 | \$ | 6,688.9 | (152.2) | \$ | (8,029.6) | \$ | (364.9) | \$ | (1,225.0) | \$ |

The accompanying notes are an integral part of the consolidated financial statements.

(continued on next page)

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MOODY S CORPORATION

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY (DEFICIT) *continued*

(Amounts in millions)

| Shareholders of Moody s Corporation | | | | | | Accumulated Other Comprehensive Loss | Total Moody s Shareholders Deficit | Contr Int |
|-------------------------------------|--------|--------------------|----------------------|----------------|--------------|---|--|--------------|
| Common Stock | | Capital Surplus | Retained Earnings | Treasury Stock | | | | |
| Shares | Amount | | | | | Shares | Amount | |
| 342.9 | \$ 3.4 | \$ 477.2 | \$ 6,688.9 | (152.2) | \$ (8,029.6) | \$ (364.9) | \$ (1,225.0) | |
| | | | 1,000.6 | | | | 1,000.6 | |
| | | | (219.5) | | | | (219.5) | |
| | | | (4.6) | | | | (4.6) | |
| | | 123.2 | | | | | 123.2 | |
| | | (67.1) | | 1.9 | 76.4 | | 9.3 | |
| | | (4.7) | | | | | (4.7) | |
| | | | | (1.6) | (199.7) | | (199.7) | |
| | | | | | | 176.3 | 176.3 | |

12.6 12.6

5.4 5.4

(0.8) (0.8)

(0.8) (0.8)

342.9 \$ 3.4 \$ 528.6 \$ 7,465.4 (151.9) \$ (8,152.9) \$ (172.2) \$ (327.7) \$

The accompanying notes are an integral part of the consolidated financial statements.

(continued on next page)

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MOODY S CORPORATION

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY (DEFICIT) *continued*

(Amounts in millions)

| Shareholders of Moody s Corporation | | | | | | Accumulated Other Comprehensive Loss | Total Moody s Shareholders (Deficit) Equity | Contr Int |
|-------------------------------------|--------|--------------------|----------------------|----------------|--------------|---|--|--------------|
| Common Stock | | Capital Surplus | Retained Earnings | Treasury Stock | | | | |
| Shares | Amount | | | | | Shares | Amount | |
| 342.9 | \$ 3.4 | \$ 528.6 | \$ 7,465.4 | (151.9) | \$ (8,152.9) | \$ (172.2) | \$ (327.7) | |
| | | | 1,309.6 | | | | 1,309.6 | |
| | | | (339.0) | | | | (339.0) | |
| | | | 156.1 | | | | 156.1 | |
| | | | 2.3 | | | (2.3) | | |
| | | 130.7 | | | | | 130.7 | |
| | | (58.4) | | 1.5 | 43.0 | | (15.4) | |
| | | | | (1.2) | (202.6) | | (202.6) | |
| | | | | | | (259.4) | (259.4) | |

4.2 4.2

4.2 4.2

(0.8) (0.8)

342.9 \$ 3.4 \$ 600.9 \$ 8,594.4 (151.6) \$ (8,312.5) \$ (426.3) \$ 459.9 \$

The accompanying notes are an integral part of the consolidated financial statements.

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MOODY S CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(tabular dollar and share amounts in millions, except per share data)

NOTE 1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Moody's is a provider of (i) credit ratings; (ii) credit, capital markets and economic research, data and analytical tools; (iii) software solutions that support financial risk management activities; (iv) quantitatively derived credit scores; (v) learning solutions and certification services; (vi) offshore financial research and analytical services; and (vii) company information and business intelligence products. Moody's reports in two reportable segments: MIS and MA.

MIS, the credit rating agency, publishes credit ratings on a wide range of debt obligations and the entities that issue such obligations in markets worldwide. Revenue is primarily derived from the originators and issuers of such transactions who use MIS ratings in the distribution of their debt issues to investors. Additionally, MIS earns revenue from certain non-ratings-related operations which consist primarily of financial instrument pricing services in the Asia-Pacific region as well as revenue from ICRA's non-ratings operations. The revenue from these operations is included in the MIS Other LOB and is not material to the results of the MIS segment.

The MA segment develops a wide range of products and services that support financial analysis and risk management activities of institutional participants in global financial markets. Within its RD&A business, MA offers subscription based research, data and analytical products, including credit ratings produced by MIS, credit research, quantitative credit scores and other analytical tools, economic research and forecasts, business intelligence and company information products, and commercial real estate data and analytical tools. Within its ERS business, MA provides software solutions as well as related risk management services. The PS business provides offshore analytical and research services along with learning solutions and certification programs.

Certain reclassifications have been made to prior period amounts to conform to the current presentation.

Adoption of New Accounting Standards

In the first quarter of 2017, the Company adopted ASU No. 2016-16, Income Taxes (Topic 740): Intra-Entity Asset Transfers of Assets Other than Inventory. Under previous guidance, the tax effects of intra-entity asset transfers (intercompany sales) were deferred until the transferred asset was sold to a third party or otherwise recovered through use. The new guidance eliminates the exception for all intra-entity sales of assets other than inventory. Upon adoption, a cumulative-effect adjustment is recorded in retained earnings as of the beginning of the period of adoption. The net impact upon adoption is a reduction to retained earnings of \$4.6 million. The Company does not expect any material impact on its future operations as a result of the adoption of this guidance.

In the first quarter of 2017, the Company adopted ASU No. 2016-09 Compensation Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. As required by ASU No. 2016-09, Excess Tax Benefits or shortfalls recognized on stock-based compensation are reflected in the consolidated statement of operations as a component of the provision for income taxes on a prospective basis. Prior to the adoption of this ASU, Excess Tax Benefits and shortfalls were recorded to capital surplus within shareholders' equity (deficit). The impact of this adoption was a \$38.1 million and a \$39.5 million benefit to the provision for income taxes for the years end

December 31, 2018 and December 31, 2017, respectively.

Additionally, in accordance with this ASU, Excess Tax Benefits or shortfalls recognized on stock-based compensation are classified as operating cash flows in the consolidated statement of cash flows, and the Company has applied this provision on a retrospective basis. Under previous accounting guidance, the Excess Tax Benefits or shortfalls were shown as a reduction to operating activity and an increase to financing activity. Furthermore, the Company has elected to continue to estimate the number of stock-based awards expected to vest, rather than accounting for award forfeitures as they occur, to determine the amount of stock-based compensation cost recognized in each period. As a result of the change, net cash provided by operating activities was higher and net cash used in financing activities was lower by \$38.1 million and \$39.5 million for the years ended December 31, 2018 and December 31, 2017, respectively, than would have been reported under the previous guidance. The impact to the Company's statement of cash flows for the year prior to the adoption of this provision of the ASU is set forth in the table below:

| | As Reported | | December 31, 2016 |
|---|--------------------------|-------------------------|--------------------------|
| | December 31, 2016 | Reclassification | December 31, 2016 |
| | | | As Adjusted |
| Net cash provided by operating activities | \$ 1,226.1 | \$ 33.1 | \$ 1,259.2 |
| Net cash used in financing activities | \$ (1,009.8) | \$ (33.1) | \$ (1,042.9) |

On January 1, 2018, the Company adopted ASU No. 2014-09, Revenue from Contracts with Customers (ASC Topic 606) using the modified retrospective approach, which Moody's has elected to apply only to those contracts which were not completed as of

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January 1, 2018. Additionally, the Company has not retrospectively restated contract positions for contract modifications made prior to the adoption. ASU No. 2014-09 also includes updates related to the accounting for the deferral of incremental costs of obtaining or fulfilling a contract with a customer (ASC Subtopic 340-40). Hereunder, discussion of the provisions of ASC Topic 606 and ASC Subtopic 340-40 are both individually and collectively referred to as the New Revenue Accounting Standard. Results for reporting periods beginning on January 1, 2018 are presented under the guidance set forth in the New Revenue Accounting Standard, while prior period amounts have not been adjusted and continue to be reported in accordance with the previous accounting guidance.

The most significant impacts to the Company's financial statements from adopting the New Revenue Accounting Standard are primarily related to: i) the accounting for certain installed software subscription revenue in MA whereby the license rights within the arrangement are recognized at the inception of the contract based on SSP with the remainder recognized over the subscription period (compared to ASC Topic 605 whereby all installed software subscription revenue was previously recognized over the subscription period); ii) the accounting for certain ERS and ESA revenue arrangements where VSOE was not available under ASC Topic 605 now results in the acceleration of revenue recognition (compared to ASC Topic 605 whereby revenue was deferred due to lack of VSOE until all elements without VSOE had been delivered); iii) sales commissions incurred in the MA segment will be capitalized and amortized over an extended period which is generally based upon the average economic life of products/services sold and incorporates anticipated subscription renewals (compared to previous accounting guidance whereby capitalized sales commissions were amortized over the committed subscription period only); iv) the immediate expensing of software implementation project costs to fulfill a contract for its ERS and ESA businesses, which under previous accounting guidance were capitalized and expensed when related project revenue was recognized; v) the capitalization of work-in-process costs for in-progress MIS ratings at the end of each reporting period, which under ASC Topic 605 were expensed as incurred; vi) the timing of when revenue for certain MIS ratings products is recognized; and vii) the estimation of variable consideration at contract inception whereas under ASC Topic 605 companies were not required to consider the amount of consideration for which it expected to be entitled.

The table below provides detail relating to the adjustment to the Company's retained earnings balance upon adoption of the New Revenue Accounting Standard:

| | Benefit to / (reduction of) January 1, 2018 Retained | |
|---|---|--|
| Transition adjustment | Earnings | Corresponding Balance Sheet Line Item |
| Recognition of MA deferred revenue / increase in MA unbilled receivables ⁽¹⁾ | \$108 | Deferred revenue, Non-current portion of deferred revenue, Accounts receivable, Other assets |
| Increase to capitalized MA sales commissions ⁽²⁾ | \$78 | Other current assets, Other assets, Accounts payable and accrued liabilities |
| Capitalization of work-in-process for in-progress ratings | \$9 | Other current assets |
| Net impact of all other adjustments | \$4 | Various |
| Net increase in tax liability on the above | <u>(\$43)</u> | Deferred tax liabilities, net |
| Total post-tax adjustment | <u>\$156</u> | |

- (1) Represents deferred revenue as of December 31, 2017 as well as amounts then unbilled that would have been recognized as revenue in 2017 or earlier if the New Revenue Accounting Standard was then in effect. These amounts will not be recognized as revenue in future statements of operations. Conversely, revenue will be recorded to the Company's statement of operations in 2018 under the New Revenue Accounting Standard, which otherwise would have been recognized in periods subsequent to 2018 if accounted for under ASC Topic 605.

- (2) Represents sales commissions that would have been capitalized as of December 31, 2017 if the New Revenue Accounting Standard was then in effect, but had previously been expensed by the Company under the previous accounting guidance. These sales commissions, as well as sales commissions incurred in 2018 related to new sales and renewals, will be amortized to expense in the statements of operations beginning in 2018 over an extended period generally based upon the average economic life of the products sold or over the period in which implementation and advisory services will be provided.

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The table below presents the cumulative effect of the changes made to the Company's consolidated balance sheet at January 1, 2018 for the adoption of the New Revenue Accounting Standard:

| | As Reported December 31, 2017 | Adjustment Due to New Revenue Accounting Standard | Balance at January 1, 2018 |
|--|----------------------------------|---|-------------------------------|
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 1,071.5 | \$ | \$ 1,071.5 |
| Short-term investments | 111.8 | | 111.8 |
| Accounts receivable, net of allowances | 1,147.2 | 16.8 | 1,164.0 |
| Other current assets | 250.1 | 32.9 | 283.0 |
| Total current assets | 2,580.6 | 49.7 | 2,630.3 |
| Property and equipment, net | 325.1 | | 325.1 |
| Goodwill | 3,753.2 | | 3,753.2 |
| Intangible assets, net | 1,631.6 | | 1,631.6 |
| Deferred tax assets, net | 143.8 | | 143.8 |
| Other assets | 159.9 | 71.3 | 231.2 |
| Total assets | \$ 8,594.2 | \$ 121.0 | \$ 8,715.2 |
| LIABILITIES, NONCONTROLLING INTERESTS AND SHAREHOLDERS (DEFICIT)/EQUITY | | | |
| Current liabilities: | | | |
| Accounts payable and accrued liabilities | \$ 750.3 | \$ (0.8) | \$ 749.5 |
| Commercial paper | 129.9 | | 129.9 |
| Current portion of long-term debt | 299.5 | | 299.5 |
| Deferred revenue | 883.6 | (69.3) | 814.3 |
| Total current liabilities | 2,063.3 | (70.1) | 1,993.2 |
| Non-current portion of deferred revenue | 140.0 | (8.0) | 132.0 |
| Long-term debt | 5,111.1 | | 5,111.1 |
| Deferred tax liabilities, net | 341.6 | 42.7 | 384.3 |
| Unrecognized tax benefits | 389.1 | | 389.1 |
| Other liabilities | 664.0 | 0.3 | 664.3 |
| Total liabilities | 8,709.1 | (35.1) | 8,674.0 |
| Shareholders' (deficit) equity: | | | |
| Common stock | 3.4 | | 3.4 |

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| | | | |
|--|------------|----------|------------|
| Capital surplus | 528.6 | | 528.6 |
| Retained earnings | 7,465.4 | 156.1 | 7,621.5 |
| Treasury stock | (8,152.9) | | (8,152.9) |
| Accumulated other comprehensive loss | (172.2) | | (172.2) |
| Total Moody's shareholders' (deficit) equity | (327.7) | 156.1 | (171.6) |
| Noncontrolling interests | 212.8 | | 212.8 |
| Total shareholders' (deficit) equity | (114.9) | 156.1 | 41.2 |
| Total liabilities, noncontrolling interests and shareholders' (deficit) equity | \$ 8,594.2 | \$ 121.0 | \$ 8,715.2 |

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The below table presents the impacts on the Company's statement of operations for the current reporting period from applying the provisions of the New Revenue Accounting Standard compared to the accounting standard in effect before the change:

For the Year Ended December 31, 2018

| | As Reported | Under previous accounting guidance | Effect of Change Higher/(Lower) |
|---|------------------------|---|--|
| Revenue | \$ 4,442.7 | \$ 4,429.3 | \$ 13.4 |
| Expenses | | | |
| Operating | 1,245.5 | 1,247.0 | (1.5) |
| Selling, general and administrative | 1,080.1 | 1,088.9 | (8.8) |
| Restructuring | 48.7 | 48.7 | |
| Depreciation and amortization | 191.9 | 191.9 | |
| Acquisition-Related Expenses | 8.3 | 8.3 | |
| Total expenses | 2,574.5 | 2,584.8 | (10.3) |
| Operating income | 1,868.2 | 1,844.5 | 23.7 |
| Non-operating (expense) income, net | | | |
| Interest expense, net | (216.0) | (216.0) | |
| Other non-operating income, net | 18.8 | 18.8 | |
| Total non-operating (expense) income, net | (197.2) | (197.2) | |
| Income before provision for income taxes | 1,671.0 | 1,647.3 | 23.7 |
| Provision for income taxes | 351.6 | 346.7 | 4.9 |
| Net income | 1,319.4 | 1,300.6 | 18.8 |
| Less: Net income attributable to noncontrolling interests | 9.8 | 9.8 | |
| Net income attributable to Moody's | \$ 1,309.6 | \$ 1,290.8 | \$ 18.8 |
| Earnings per share | | | |
| Basic | \$ 6.84 | \$ 6.74 | \$ 0.10 |
| Diluted | \$ 6.74 | \$ 6.64 | \$ 0.10 |

Weighted average shares outstanding

| | | |
|---------|-------|-------|
| Basic | 191.6 | 191.6 |
| Diluted | 194.4 | 194.4 |

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The below table presents the impacts on the Company's consolidated balance sheet at the end of the current reporting period from applying the provisions of the New Revenue Accounting Standard compared to the accounting standard in effect before the change:

| | As Reported December 31, 2018 | Under previous accounting guidance December 31, 2018 | Effect of Change Higher/(Lower) |
|--|--|---|--|
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 1,685.0 | \$ 1,685.0 | \$ |
| Short-term investments | 132.5 | 132.5 | |
| Accounts receivable, net of allowances | 1,287.1 | 1,243.2 | 43.9 |
| Other current assets | 282.3 | 282.0 | 0.3 |
| Total current assets: | 3,386.9 | 3,342.7 | 44.2 |
| Property and equipment, net | 320.4 | 320.4 | |
| Goodwill | 3,781.3 | 3,781.3 | |
| Intangible assets, net | 1,566.1 | 1,566.1 | |
| Deferred tax assets, net | 197.2 | 197.2 | |
| Other assets | 274.3 | 191.4 | 82.9 |
| Total assets | \$ 9,526.2 | \$ 9,399.1 | \$ 127.1 |
| LIABILITIES, NONCONTROLLING INTERESTS AND SHAREHOLDERS EQUITY | | | |
| Accounts payable and accrued liabilities | \$ 695.2 | \$ 694.5 | \$ 0.7 |
| Current portion of long-term debt | 449.9 | 449.9 | |
| Deferred revenue | 953.4 | 1,012.7 | (59.3) |
| Total current liabilities | 2,098.5 | 2,157.1 | (58.6) |
| Non-current portion of deferred revenue | 122.3 | 127.7 | (5.4) |
| Long-term debt | 5,226.1 | 5,226.1 | |
| Deferred tax liabilities, net | 351.7 | 333.0 | 18.7 |
| Unrecognized tax benefits | 494.6 | 494.6 | |
| Other liabilities | 576.5 | 576.4 | 0.1 |
| Total liabilities | 8,869.7 | 8,914.9 | (45.2) |
| Shareholders equity: | | | |
| Common stock | 3.4 | 3.4 | |
| Capital surplus | 600.9 | 600.9 | |

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| | | | |
|---|------------|------------|----------|
| Retained earnings | 8,594.4 | 8,422.1 | 172.3 |
| Treasury stock | (8,312.5) | (8,312.5) | |
| Accumulated other comprehensive loss | (426.3) | (426.3) | |
| Total Moody s shareholders equity | 459.9 | 287.6 | 172.3 |
| Noncontrolling interests | 196.6 | 196.6 | |
| Total shareholders equity | 656.5 | 484.2 | 172.3 |
| Total liabilities, noncontrolling interests and shareholders equity | \$ 9,526.2 | \$ 9,399.1 | \$ 127.1 |

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The below table presents the impacts on various line items within the operating cash flow within the Company's statement of cash flows for the current reporting period from applying the provisions of the New Revenue Accounting Standard compared to the accounting standard in effect before the change.

| | Year Ended December 31, 2018 | | |
|--|-------------------------------------|---|-----------------------------|
| | As Reported | Under previous accounting guidance | Effect of Change |
| Cash flows from operating activities | | | |
| Net income | \$ 1,319.4 | \$ 1,300.6 | \$ 18.8 |
| Reconciliation of net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 191.9 | 191.9 | |
| Stock-based compensation | 130.3 | 130.3 | |
| Deferred income taxes | (98.9) | (76.7) | (22.2) |
| Changes in assets and liabilities: | | | |
| Accounts receivable | (136.1) | (109.0) | (27.1) |
| Other current assets | (8.4) | (41.0) | 32.6 |
| Other assets | (16.6) | (5.0) | (11.6) |
| Accounts payable and accrued liabilities | (134.0) | (132.9) | (1.1) |
| Restructuring liability | 41.9 | 41.9 | |
| Deferred revenue | 138.9 | 126.3 | 12.6 |
| Unrecognized tax benefits and other non-current tax liabilities | 58.6 | 58.6 | |
| Other liabilities | (25.9) | (23.9) | (2.0) |
| Net cash provided by operating activities | \$ 1,461.1 | \$ 1,461.1 | \$ |

The New Revenue Accounting Standard did not have any impact on individual line items within investing or financing cash flows in the Company's consolidated statement of cash flows.

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On January 1, 2018, the Company adopted ASU No. 2017-07, Compensation Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. As required by this ASU, the components of net periodic pension costs were disaggregated in the statement of operations on a retrospective basis. The Company has continued to reflect the service cost component in either Operating or SG&A expenses in Moody's statements of operations. The other components of net benefit cost are presented within non-operating (expense) income, net, within the statements of operations. The adoption of this ASU has no impact on Net Income in the Company's statements of operations. The impact to the Company's statements of operations for the years ended December 31, 2018, 2017 and 2016 related to the adoption of this ASU are set forth in the table below:

| | Year Ended December 31, 2018 | | | Year Ended December 31, 2017 | | |
|---|---------------------------------|---|---------------------|---------------------------------|--|---------------------|
| | As Reported | Under previous accounting guidance | Effect of Change | As Adjusted | Under previous accounting guidance | Effect of Change |
| Operating expenses | \$ 1,245.5 | \$ 1,250.3 | \$ (4.8) | \$ 1,216.6 | \$ 1,222.8 | \$ (6.2) |
| Selling, general and administrative expenses | 1,080.1 | 1,084.3 | (4.2) | 985.9 | 991.4 | (5.5) |
| Operating income | 1,868.2 | 1,859.2 | 9.0 | 1,820.8 | 1,809.1 | 11.7 |
| Interest expense, net | (216.0) | (196.7) | (19.3) | (208.5) | (188.4) | (20.1) |
| Other non-operating income (expense), net | 18.8 | 8.5 | 10.3 | 3.7 | (4.7) | 8.4 |

| | Year Ended December 31, 2016 | | |
|---|---------------------------------|---|------------------------|
| | As Adjusted | Under previous accounting guidance | Effect of Change |
| Operating expenses | \$ 1,019.6 | \$ 1,026.6 | \$ (7.0) |
| Selling, general and administrative expenses | 931.2 | 936.4 | (5.2) |
| Operating income | 650.9 | 638.7 | 12.2 |
| Interest expense, net | (157.3) | (137.8) | (19.5) |
| Other non-operating income (expense), net | 64.4 | 57.1 | 7.3 |

On January 1, 2018, the Company adopted ASU No. 2016-01 Financial Instruments Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities (ASU 2016-01). The amendments in this ASU update various aspects of recognition, measurement, presentation and disclosures relating to financial instruments. Upon adoption, the Company recorded a \$2.3 million cumulative adjustment to reclassify net unrealized gains on investments in equity securities previously classified as available-for-sale under the previous guidance from AOCI to retained earnings. Beginning on January 1, 2018, the Company will measure equity investments with readily determinable fair values (except those accounted for under the equity method, those that result in consolidation of the investee and certain other investments) at fair value and recognize any changes in fair

value in net income. The adoption of this ASU did not have a material impact on the Company's financial statements for the year ended December 31, 2018.

In March 2018, the FASB issued ASU No. 2018-05, *Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118*. This ASU adds SEC paragraphs to the codification pursuant to the SEC Staff Accounting Bulletin No. 118, which address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to finalize the calculations for the 2017 income tax effects of the Tax Act. This ASU provided entities with a one year measurement period from the December 22, 2017 enactment date, in order to complete the accounting for the effects of the Tax Act. The Company recorded a provisional estimate for the transition tax relating to the Tax Act in its financial statements for the year ended December 31, 2017, and subsequently refined its determination of the transition tax during the measurement period in 2018. The impact of the Company's accounting for the Tax Act is more fully described in Note 16.

On January 1, 2018, the Company adopted ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a Consensus of the Emerging Issues Task Force)* on a retrospective basis. This ASU reduces diversity in practice in how certain transactions are reflected in the statement of cash flows. Pursuant to the adoption of this ASU, the Company reclassified \$7.1 million in cash paid in 2017 relating to a Make-Whole provision upon the repayment of the Series 2007-1 Notes from cash flows used in operations to cash flows provided by financing activities.

During the second quarter of 2018, the Company early adopted ASU No. 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*. This ASU fosters enhanced transparency relating to risk management activities

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and simplifies the application of hedge accounting in certain circumstances. The adoption of this ASU did not have an impact on the Company's financial statements at the date of adoption. Refer to Note 6 for further discussion on the prospective impact of this ASU on the Company's financial statements.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Basis of Consolidation**

The consolidated financial statements include those of Moody's Corporation and its majority- and wholly-owned subsidiaries. The effects of all intercompany transactions have been eliminated. Investments in companies for which the Company has significant influence over operating and financial policies but not a controlling interest are accounted for on an equity basis whereby the Company records its proportional share of the investment's net income or loss as part of other non-operating income (expense), net and any dividends received reduce the carrying amount of the investment. The Company applies the guidelines set forth in Topic 810 of the ASC in assessing its interests in variable interest entities to decide whether to consolidate that entity. The Company has reviewed the potential variable interest entities and determined that there are no consolidation requirements under Topic 810 of the ASC. The Company consolidates its ICRA subsidiaries on a three month lag.

Cash and Cash Equivalents

Cash equivalents principally consist of investments in money market mutual funds and money market deposit accounts as well as high-grade commercial paper and certificates of deposit with maturities of three months or less when purchased.

Short-term Investments

Short-term investments are securities with maturities greater than 90 days at the time of purchase that are available for operations in the next 12 months. The Company's short-term investments primarily consist of certificates of deposit and their cost approximates fair value due to the short-term nature of the instruments. Interest and dividends on these investments are recorded into income when earned.

Property and Equipment

Property and equipment are stated at cost and are depreciated using the straight-line method over their estimated useful lives. Expenditures for maintenance and repairs that do not extend the economic useful life of the related assets are charged to expense as incurred.

Research and Development Costs

All research and development costs are expensed as incurred. These costs primarily reflect the development of credit processing software and quantitative credit risk assessment products sold by the MA segment.

Research and development costs were \$51.1 million, \$42.0 million, and \$40.1 million for the years ended December 31, 2018, 2017 and 2016, respectively, and are included in operating expenses within the Company's consolidated statements of operations. These costs generally consist of professional services provided by third parties and compensation costs of employees.

Costs for internally developed computer software that will be sold, leased or otherwise marketed are capitalized when technological feasibility has been established. These costs primarily relate to the development or enhancement of products in the ERS business and generally consist of professional services provided by third parties and compensation costs of employees that develop the software. Judgment is required in determining when technological feasibility of a product is established and the Company believes that technological feasibility for its software products is reached after all high-risk development issues have been resolved through coding and testing. Generally, this occurs shortly before the products are released to customers. Accordingly, costs for internally developed computer software that will be sold, leased or otherwise marketed that were eligible for capitalization under Topic 985 of the ASC were immaterial for the years ended December 31, 2018, 2017 and 2016.

Computer Software Developed or Obtained for Internal Use

The Company capitalizes costs related to software developed or obtained for internal use. These assets, included in property and equipment in the consolidated balance sheets, relate to the Company's financial, website and other systems. Such costs generally consist of direct costs for third-party license fees, professional services provided by third parties and employee compensation, in each case incurred either during the application development stage or in connection with upgrades and enhancements that increase functionality. Such costs are depreciated over their estimated useful lives on a straight-line basis. Costs incurred during the preliminary project stage of development as well as maintenance costs are expensed as incurred.

Long-Lived Assets, Including Goodwill and Other Acquired Intangible Assets

Moody's evaluates its goodwill for impairment at the reporting unit level, defined as an operating segment (i.e., MIS and MA), or one level below an operating segment (i.e., a component of an operating segment), annually as of July 31 or more frequently if impairment indicators arise in accordance with ASC Topic 350.

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The Company evaluates the recoverability of goodwill using a two-step impairment test approach at the reporting unit level. In the first step, the Company assesses various qualitative factors to determine whether the fair value of a reporting unit may be less than its carrying amount. If a determination is made that, based on the qualitative factors, an impairment does not exist, the Company is not required to perform further testing. If the aforementioned qualitative assessment results in the Company concluding that it is more likely than not that the fair value of a reporting unit may be less than its carrying amount, the fair value of the reporting unit will be determined and compared to its carrying value including goodwill. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is not impaired and the Company is not required to perform further testing. If the fair value of the reporting unit is less than the carrying value, the Company will recognize the difference as an impairment charge.

The Company evaluates its reporting units for impairment on an annual basis, or more frequently if there are changes in the reporting structure of the Company due to acquisitions or realignments or if there are indicators of potential impairment. For the reporting units where the Company is consistently able to conclude that an impairment does not exist using only a qualitative approach, the Company's accounting policy is to perform the second step of the aforementioned goodwill impairment assessment at least once every three years. Goodwill is assigned to a reporting unit at the date when an acquisition is integrated into one of the established reporting units, and is based on which reporting unit is expected to benefit from the synergies of the acquisition.

For purposes of assessing the recoverability of goodwill, the Company has eight primary reporting units at December 31, 2018: two within the Company's ratings business (one for the ICRA business and one that encompasses all of Moody's other ratings operations) and six reporting units within MA: Content, ERS, MALS, MAKS, Bureau van Dijk, and Reis.

Amortizable intangible assets are reviewed for recoverability whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Rent Expense

The Company records rent expense on a straight-line basis over the life of the lease. In cases where there is a free rent period or future fixed rent escalations the Company will record a deferred rent liability. Additionally, the receipt of any lease incentives will be recorded as a deferred rent liability, which will be amortized over the lease term as a reduction of rent expense.

Stock-Based Compensation

The Company records compensation expense for all share-based payment award transactions granted to employees based on the fair value of the equity instrument at the time of grant. This includes shares issued under stock option and restricted stock plans.

Derivative Instruments and Hedging Activities

Based on the Company's risk management policy, from time to time the Company may use derivative financial instruments to reduce exposure to changes in foreign exchange rates and interest rates. The Company does not enter into derivative financial instruments for speculative purposes. All derivative financial instruments are recorded on the balance sheet at their respective fair values on a gross basis. The changes in the value of derivatives that qualify as fair value hedges are recorded in the same income statement line item in earnings in which the corresponding adjustment to the carrying value of the hedged item is presented. The entire change in the fair value of derivatives that qualify as cash flow hedges is recorded to OCI and such amounts are reclassified from AOCI to the same income statement line

in earnings in the same period or periods during which the hedged transaction affects income. Effective with the Company's early adoption of ASC 2017-12, the Company changed the method by which it assesses effectiveness for net investment hedges from the forward-method to the spot-method. The Company considers the spot-method an improved method of assessing hedge effectiveness, as spot rate changes relating to the hedging instrument's notional amount perfectly offset the currency translation adjustment on the hedged net investment in the Company's foreign subsidiaries. The entire change in the fair value of derivatives that qualify as net investment hedges is initially recorded to OCI. Those changes in fair value attributable to components included in the assessment of hedge effectiveness in a net investment hedge are recorded in the currency translation adjustment component of OCI and remain in AOCI until the period in which the hedged item affects earnings. Those changes in fair value attributable to components excluded from the assessment of hedge effectiveness in a net investment hedge are recorded to OCI and amortized to earnings using a systematic and rational method over the duration of the hedge. Any changes in the fair value of derivatives that the Company does not designate as hedging instruments under Topic 815 of the ASC are recorded in the consolidated statements of operations in the period in which they occur.

Revenue Recognition and Costs to Obtain or Fulfill a Contract with a Customer

Revenue recognition:

Revenue is recognized when control of promised goods or services is transferred to the customer, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services.

When contracts with customers contain multiple performance obligations, the Company accounts for individual performance obligations separately if they are distinct. The transaction price is allocated to each distinct performance obligation on a relative SSP basis. The Company determines the SSP by using the price charged for a deliverable when sold separately or uses management's best

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estimate of SSP for goods or services not sold separately using estimation techniques that maximize observable data points, including: internal factors relevant to its pricing practices such as costs and margin objectives; standalone sales prices of similar products; pricing policies; percentage of the fee charged for a primary product or service relative to a related product or service; and customer segment and geography. Additional consideration is also given to market conditions such as competitor pricing strategies and market trends.

Sales, usage-based, value added and other taxes are excluded from revenues.

MIS Revenue

In the MIS segment, revenue arrangements with multiple elements are generally comprised of two distinct performance obligations, an initial rating and the related monitoring service. Revenue attributed to initial ratings of issued securities is generally recognized when the rating is delivered to the issuer. Revenue attributed to monitoring of issuers or issued securities is recognized ratably over the period in which the monitoring is performed, generally one year. In the case of certain structured finance products, primarily CMBS, issuers can elect to pay all of the annual monitoring fees upfront. These fees are deferred and recognized over the future monitoring periods based on the expected lives of the rated securities.

MIS arrangements generally have standard contractual terms for which the stated payments are due at conclusion of the ratings process for initial ratings and either upfront or in arrears for monitoring services; and are signed by customers either on a per issue basis or at the beginning of the relationship with the customer. In situations when customer fees for an arrangement may be variable, the Company estimates the variable consideration at inception using the expected value method based on analysis of similar contracts in the same line of business, which is constrained based on the Company's assessment of the realization of the adjustment amount.

The Company allocates the transaction price within arrangements that include multiple elements based upon the relative SSP of each service. The Company generally uses management's best estimate of SSP for its initial ratings and considers all available data points. The Company generally provides initial ratings only in transactions that include monitoring services. The SSP for monitoring fees in these arrangements are generally based upon directly observable selling prices where the monitoring service is sold separately.

MA Revenue

In the MA segment, products and services offered by the Company include hosted research and data subscriptions, installed software subscriptions, perpetual installed software licenses and related maintenance, or PCS, and professional services. Subscription and PCS contracts are generally invoiced in advance of the contractual coverage period, which is principally one year, but can range from 3-5 years; while perpetual software licenses are generally invoiced upon delivery and professional services are invoiced as those services are provided. Payment terms and conditions vary by contract type, but primarily include a requirement of payment within 30 to 60 days.

Revenue from research, data and other hosted subscriptions is recognized ratably over the related subscription period. A large portion of these services are invoiced in the months of November, December and January.

Revenue from the sale of a software license, when considered distinct from the related software implementation services, is generally recognized at the time the product master or first copy is delivered or transferred to the customer. However, in instances where the software license (perpetual or subscription) and related implementation services are considered to be one combined performance obligation, revenue is recognized on a percentage-of-completion basis (input method) as implementation services are performed over time, which is consistent with the pattern of recognition

for the software implementation services if considered to be a separate distinct performance obligation. The Company exercises judgment in determining the level of integration and interdependency between the promise to grant the software license and the promise to deliver the related implementation services. This determination influences whether the software license is considered distinct and accounted for separately, or not distinct and accounted for together with the implementation services and recognized over time. PCS is generally recognized ratably over the contractual period commencing when the software license is fully delivered. Revenue from installed software subscriptions, which includes PCS, is bifurcated into a software license performance obligation and a PCS performance obligation, which follow the patterns of recognition described above.

For implementation services and other service projects within the ERS and ESA LOBs for which fees are fixed, the Company determined progress towards completion is most accurately measured on a percentage-of-completion basis (input method) as this approach utilizes the most directly observable data points and is therefore used to recognize the related revenue. For implementation services where price varies based on time expended, a time-based measure of progress towards completion of the performance obligation is utilized.

Revenue from professional services rendered within the PS LOB is generally recognized as the services are performed over time.

Products and services offered within the MA segment are sold either stand-alone or together in various combinations. In instances where an arrangement contains multiple performance obligations, the Company accounts for the individual performance obligations separately if they are considered distinct. Revenue is generally allocated to all performance obligations based upon the relative SSP at contract inception. Judgment is often required to determine the SSP for each distinct performance obligation. Revenue is recognized for each performance obligation based upon the conditions for revenue recognition noted above.

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In the MA segment, customers usually pay a fixed fee for the products and services based on signed contracts. However, accounting for variable consideration is applied mainly for: i) estimates for cancellation rights and price concessions and ii) T&M based services.

The Company estimates the variable consideration associated with cancellation rights and price concessions based on the expected amount to be provided to customers and reduces the amount of revenue to be recognized. T&M based contracts represent about half of MA's service projects within the ERS and ESA LOBs. The Company provides agreed upon services at a contracted daily or hourly rate. The commitment represents a series of goods and services that are substantially the same and have the same pattern of transfer to the customer. As such, if T&M services are sold with other MA products, the Company allocates the variable consideration entirely to the T&M performance obligation if the services are sold at standard pricing or at a similar discount level compared to other performance obligations in the same revenue contract. If these criteria are not met, the Company estimates variable consideration for each performance obligation upfront. Each form of variable consideration is included in the transaction price only to the extent that it is probable that a significant reversal of any incremental revenue will not occur.

Costs to Obtain or Fulfill a Contract with a Customer:

Costs incurred to obtain customer contracts, such as sales commissions, are deferred and recorded within other current assets and other assets when such costs are determined to be incremental to obtaining a contract, would not have been incurred otherwise and the Company expects to recover those costs. These costs are amortized to expense consistent with the recognition pattern of the related revenue over time. Depending on the line of business to which the contract relates, this may be based upon the average economic life of the products sold or average period for which services are provided, inclusive of anticipated contract renewals. Determining the estimated economic life of the products sold requires judgment with respect to anticipated future technological changes. The Company had a balance of \$109.6 million in such deferred costs as of December 31, 2018 and recognized \$38.0 million of related amortization during the year ended December 31, 2018, which is included within SG&A expenses in the consolidated statement of operations. Costs incurred to obtain customer contracts are only in the MA segment.

Costs incurred to fulfill customer contracts, are deferred and recorded within other current assets and other assets when such costs relate directly to a contract, generate or enhance resources of the Company that will be used in satisfying performance obligations in the future and the Company expects to recover those costs.

The Company capitalizes work-in-process costs for in-progress MIS ratings, which is recognized consistent with the rendering of the related services to the customers, as ratings are issued. The Company had a balance of \$10.6 million in such deferred costs as of December 31, 2018 and recognized \$40.4 million of amortization of the costs during the year ended December 31, 2018, respectively, which is included within operating expenses in the consolidated statement of operations.

In addition, within the MA segment, the Company capitalizes royalty costs related to third-party information data providers associated with hosted company information and business intelligence products. These costs are amortized to expense consistent with the recognition pattern of the related revenue over time. The Company had a balance of \$35.0 million in such deferred costs as of December 31, 2018 and recognized \$54.0 million of related amortization during the year ended December 31, 2018, respectively, which is included within operating expenses in the consolidated statement of operations.

Accounts Receivable Allowances and Contract Assets

Moody's records variable consideration in respect of estimated future adjustments to customer billings as an adjustment to revenue using the expected value method based on analysis of similar contracts in the same line of business. Such amounts are reflected as additions to the accounts receivable allowance or to contract assets. Additionally, estimates of uncollectible accounts are recorded as bad debt expense and are reflected as additions to the accounts receivable allowance. Actual billing adjustments are recorded against the allowance or the contract asset, depending on the nature of the adjustment. Actual uncollectible account write-offs are recorded against the allowance. Moody's evaluates its accounts receivable allowance by reviewing and assessing historical collection and adjustment experience and the current status of customer accounts. Moody's also considers the economic environment of the customers, both from an industry and geographic perspective, in evaluating the need for allowances. Based on its analysis, Moody's adjusts its allowance as considered appropriate in the circumstances.

Contingencies

Moody's is involved in legal and tax proceedings, governmental, regulatory and legislative investigations and inquiries, claims and litigation that are incidental to the Company's business, including claims based on ratings assigned by MIS. Moody's is also subject to ongoing tax audits in the normal course of business. Management periodically assesses the Company's liabilities and contingencies in connection with these matters based upon the latest information available. Moody's discloses material pending legal proceedings pursuant to SEC rules and other pending matters as it may determine to be appropriate.

For claims, litigation and proceedings and governmental investigations and inquiries not related to income taxes, where it is both probable that a liability has been incurred and the amount of loss can be reasonably estimated, the Company records liabilities in the consolidated financial statements and periodically adjusts these as appropriate. When the reasonable estimate of the loss is within a range

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of amounts, the minimum amount of the range is accrued unless some higher amount within the range is a better estimate than another amount within the range. In other instances, where a loss is reasonably possible, management may not record a liability because of uncertainties related to the probable outcome and/or the amount or range of loss, but discloses the contingency if significant. As additional information becomes available, the Company adjusts its assessments and estimates of such matters accordingly. In view of the inherent difficulty of predicting the outcome of litigation, regulatory, governmental investigations and inquiries, enforcement and similar matters, particularly where the claimants seek large or indeterminate damages or where the parties assert novel legal theories or the matters involve a large number of parties, the Company cannot predict what the eventual outcome of the pending matters will be or the timing of any resolution of such matters. The Company also cannot predict the impact (if any) that any such matters may have on how its business is conducted, on its competitive position or on its financial position, results of operations or cash flows. As the process to resolve any pending matters progresses, management will continue to review the latest information available and assess its ability to predict the outcome of such matters and the effects, if any, on its operations and financial condition. However, in light of the large or indeterminate damages sought in some of them, the absence of similar court rulings on the theories of law asserted and uncertainties regarding apportionment of any potential damages, an estimate of the range of possible losses cannot be made at this time.

The Company's wholly-owned insurance subsidiary insures the Company against certain risks including but not limited to deductibles for worker's compensation, employment practices litigation and employee medical claims and terrorism, for which the claims are not material to the Company. In addition, for claim years 2008 and 2009, the insurance subsidiary insured the Company for defense costs related to professional liability claims. For matters insured by the Company's insurance subsidiary, Moody's records liabilities based on the estimated total claims expected to be paid and total projected costs to defend a claim through its anticipated conclusion. The Company determines liabilities based on an assessment of management's best estimate of claims to be paid and legal defense costs as well as actuarially determined estimates. Defense costs for matters not self-insured by the Company's wholly-owned insurance subsidiary are expensed as services are provided.

Operating Expenses

Operating expenses include costs associated with the development and production of the Company's products and services and their delivery to customers. These expenses principally include employee compensation and benefits and travel costs that are incurred in connection with these activities. Operating expenses are charged to income as incurred, except for certain costs related to software implementation services, which may be deferred until related revenue is recognized. Additionally, certain costs incurred to develop internal use software are capitalized and depreciated over their estimated useful life.

Selling, General and Administrative Expenses

SG&A expenses include such items as compensation and benefits for corporate officers and staff and compensation and other expenses related to sales. They also include items such as office rent, business insurance, professional fees and gains and losses from sales and disposals of assets. SG&A expenses are charged to income as incurred, except for certain expenses incurred to develop internal use software (which are capitalized and depreciated over their estimated useful life) and the deferral of sales commissions in the MA segment (which are recognized in the period in which the related revenue is recognized).

Foreign Currency Translation

For all operations outside the U.S. where the Company has designated the local currency as the functional currency, assets and liabilities are translated into U.S. dollars using end of year exchange rates, and revenue and expenses are

translated using average exchange rates for the year. For these foreign operations, currency translation adjustments are recorded to other comprehensive income.

Comprehensive Income

Comprehensive income represents the change in net assets of a business enterprise during a period due to transactions and other events and circumstances from non-owner sources including foreign currency translation impacts, net actuarial losses and net prior service costs related to pension and other retirement plans, gains and losses on derivative instruments designated as net investment hedges or cash flow hedges and unrealized gains and losses on securities designated as available-for-sale under ASC Topic 320 (for periods prior to January 1, 2018). Comprehensive income items, including cumulative translation adjustments of entities that are less-than-wholly-owned subsidiaries, will be reclassified to noncontrolling interests and thereby, adjusting accumulated other comprehensive income proportionately in accordance with the percentage of ownership interest of the NCI shareholder.

Income Taxes

The Company accounts for income taxes under the asset and liability method in accordance with ASC Topic 740. Therefore, income tax expense is based on reported income before income taxes and deferred income taxes reflect the effect of temporary differences between the amounts of assets and liabilities that are recognized for financial reporting purposes and the amounts that are recognized for income tax purposes.

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The Company classifies interest related to unrecognized tax benefits as a component of interest expense in its consolidated statements of operations. Penalties are recognized in other non-operating expenses. For UTPs, the Company first determines whether it is more-likely-than-not (defined as a likelihood of more than fifty percent) that a tax position will be sustained based on its technical merits as of the reporting date, assuming that taxing authorities will examine the position and have full knowledge of all relevant information. A tax position that meets this more-likely-than-not threshold is then measured and recognized at the largest amount of benefit that is greater than fifty percent likely to be realized upon effective settlement with a taxing authority.

On December 22, 2017, the Tax Act was signed into law, resulting in all previously undistributed foreign earnings being subject to U.S. tax. The Company has provided non-U.S. deferred taxes for those entities whose earnings are not considered indefinitely reinvested.

Fair Value of Financial Instruments

The Company's financial instruments include cash, cash equivalents, trade receivables and payables, and certain short-term investments consisting primarily of certificates of deposit, all of which are short-term in nature and, accordingly, approximate fair value.

The Company also has certain investments in mutual funds in India, which are accounted for as equity securities with readily determinable fair values under ASC Topic 321. Beginning in the first quarter of 2018, the Company will measure these investments at fair value with both realized gains and losses and unrealized holding gains and losses for these investments included in net income.

Prior to January 1, 2018, the investments in mutual funds in India were designated as available for sale under Topic 320 of the ASC. Accordingly, unrealized gains and losses on these investments were recorded to other comprehensive income and were reclassified out of accumulated other comprehensive income to the statement of operations when the investment matured or was sold using a specific identification method.

Also, the Company uses derivative instruments to manage certain financial exposures that occur in the normal course of business. These derivative instruments are carried at fair value on the Company's consolidated balance sheets.

Fair value is defined by the ASC 820 as the price that would be received from selling an asset or paid to transfer a liability (i.e., an exit price) in an orderly transaction between market participants at the measurement date. The determination of this fair value is based on the principal or most advantageous market in which the Company could commence transactions and considers assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions and risk of nonperformance. Also, determination of fair value assumes that market participants will consider the highest and best use of the asset.

The ASC establishes a fair value hierarchy whereby the inputs contained in valuation techniques used to measure fair value are categorized into three broad levels as follows:

Level 1: quoted market prices in active markets that the reporting entity has the ability to access at the date of the fair value measurement;

Level 2: inputs other than quoted market prices described in Level 1 that are observable for the asset or liability, either directly or indirectly, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities;

Level 3: unobservable inputs that are supported by little or no market activity and that are significant to the fair value measurement of the assets or liabilities.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentration of credit risk principally consist of cash and cash equivalents, short-term investments, trade receivables and derivatives.

The Company manages its credit risk exposure by allocating its cash equivalents among various money market mutual funds, money market deposit accounts, certificates of deposits and high-grade commercial paper. Short-term investments primarily consist of certificates of deposit as of December 31, 2018 and 2017. The Company manages its credit risk exposure on cash equivalents and short-term investments by limiting the amount it can invest with any single entity. No customer accounted for 10% or more of accounts receivable at December 31, 2018 or 2017.

Earnings (Loss) per Share of Common Stock

Basic shares outstanding is calculated based on the weighted average number of shares of common stock outstanding during the reporting period. Diluted shares outstanding is calculated giving effect to all potentially dilutive common shares, assuming that such shares were outstanding and dilutive during the reporting period.

Pension and Other Retirement Benefits

Moody's maintains various noncontributory DBPPs as well as other contributory and noncontributory retirement plans. The expense and assets/liabilities that the Company reports for its pension and other retirement benefits are dependent on many assumptions

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concerning the outcome of future events and circumstances. These assumptions represent the Company's best estimates and may vary by plan. The differences between the assumptions for the expected long-term rate of return on plan assets and actual experience is spread over a five-year period to the market-related value of plan assets, which is used in determining the expected return on assets component of annual pension expense. All other actuarial gains and losses are generally deferred and amortized over the estimated average future working life of active plan participants.

The Company recognizes as an asset or liability in its consolidated balance sheet the funded status of its defined benefit retirement plans, measured on a plan-by-plan basis. Changes in the funded status due to actuarial gains/losses are recorded as part of other comprehensive income during the period the changes occur.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates. Estimates are used for, but not limited to, revenue recognition, accounts receivable allowances, income taxes, contingencies, valuation and useful lives of long-lived and intangible assets, goodwill, pension and other retirement benefits, stock-based compensation, restructuring and depreciable lives for property and equipment and computer software.

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* requiring lessees to recognize a right-of-use asset and lease liability for all leases with terms of more than 12 months. Recognition, measurement and presentation of expenses and cash flows will depend on classification as either a finance or operating lease. During July 2018, the FASB issued additional updates to the new lease accounting standard. ASU No. 2018-10, *Codification Improvements to Topic 842, Leases* clarifies certain aspects of the new lease accounting standard. In addition, ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements* provides companies with the option to apply the provisions of the new lease accounting standard on the date of adoption (effective date of January 1, 2019 for Moody's), and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption, without adjusting the comparative periods presented, as initially required.

The Company will adopt the new lease accounting standard as of January 1, 2019 and has elected to apply the provisions of the standard on the date of adoption. Accordingly, the Company will not restate prior year comparative periods for the impact of the new lease accounting standard. The Company will elect the package of practical expedients permitted under the transition guidance within the new lease accounting standard, which permits the Company not to reassess the following for any expired or existing contracts: i) whether any contracts contain leases; ii) lease classification (i.e. operating lease or finance/capital lease); and iii) initial direct costs.

The Company is in the process of finalizing the implementation of a software solution, which will support the accounting under the new lease accounting standard.

The Company anticipates that the adoption of the new lease accounting standard will result in the recognition of right-of-use assets and lease liabilities of approximately \$520 million and \$625 million, respectively, at January 1, 2019, consisting primarily of operating leases relating to real estate. Pursuant to this transition adjustment, the Company also anticipates recognizing approximately \$150 million and approximately \$125 million in additional deferred tax assets and liabilities, respectively. The Company does not anticipate that the new lease accounting standard will materially impact its statement of operations or statement of cash flows in periods subsequent to

adoption. The aforementioned estimates related to the adoption of the new lease accounting standard are based on the Company's assessment and best estimates to date.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The amendments in this ASU require the use of an expected credit loss impairment model for most financial assets reported at amortized cost, which will require entities to estimate expected credit losses over the lifetime of the instrument. This may result in the earlier recognition of allowances for losses. For available-for-sale debt securities with unrealized losses, an allowance for credit losses will be recognized as a contra account to the amortized cost carrying value of the asset rather than a direct reduction to the carrying value, with changes in the allowance impacting earnings. In November 2018, the FASB issued ASU No. 2018-19

Codification Improvements to Topic 326, Financial Instruments - Credit Losses, which clarifies that receivables arising from operating leases are not within the scope of Subtopic 326-20, but instead should be accounted for in accordance with Topic 842, *Leases*.

ASU No. 2016-13 is effective for annual and interim reporting periods beginning after December 15, 2019, with early adoption permitted in annual and interim reporting periods beginning after December 15, 2018. Entities will apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first effective reporting period. The Company is currently evaluating the impact of this ASU on its financial statements. Currently, the Company believes that the most notable impact of this ASU will relate to its processes around the assessment of the adequacy of its allowance for doubtful accounts on accounts receivable.

In February 2018, FASB issued ASU No. 2018-02, *Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. Under current GAAP, adjustments to deferred tax assets and liabilities related to a change in tax laws or rates are included in

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income from continuing operations, even in situations where the related items were originally recognized in OCI (commonly referred to as a stranded tax effect). The provisions of this ASU permit the reclassification of the stranded tax effect related to the Tax Act from AOCI to retained earnings. This ASU is effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with early adoption permitted. Adoption of this ASU is to be applied either in the period of adoption or retrospectively to each period in which the effect of the Tax Act were recognized. The Company expects to make adjustments to its opening retained earnings and AOCI balances as of January 1, 2019, to reclassify approximately \$20 million of tax benefits from AOCI to retained earnings relating to the aforementioned stranded tax effect of the Tax Act.

In June 2018, the FASB issued ASU No. 2018-07, Compensation Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting, which simplifies the accounting for nonemployee share-based payment transactions. The amendments specify that ASC Topic 718 applies to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in a grantor's own operations by issuing share-based payment awards. The ASU is effective for all entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years, with early adoption permitted. The Company does not anticipate that the adoption of this ASU will have a significant impact on its consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-15, Intangibles Goodwill and Other Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract, which requires implementation costs incurred by customers in cloud computing arrangements (i.e., hosting arrangements) to be capitalized under the same premises of authoritative guidance for internal-use software, and deferred over the non-cancellable term of the cloud computing arrangements plus any option renewal periods that are reasonably certain to be exercised by the customer or for which the exercise is controlled by the service provider. The ASU is effective for all entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years, with early adoption permitted. The Company is currently evaluating the impact of this ASU on its financial statements.

In August 2018, the FASB issued ASU No. 2018-14, Compensation Retirement Benefits Defined Benefit Plans General (Subtopic 715-20): Disclosure Framework Changes to the Disclosure Requirements for Defined Benefit Plans. This ASU eliminates requirements for certain disclosures and requires additional disclosures under defined benefit pension plans and other postretirement plans. The ASU is effective for all entities for fiscal years beginning after December 15, 2020 on a retrospective basis to all periods presented, with early adoption permitted. The Company is currently evaluating the impact of this ASU on its financial statements.

In October 2018, the FASB issued ASU No. 2018-16, Derivatives and Hedging (Topic 815): Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes. The amendments in this ASU permit the use of the OIS rate based on SOFR as a U.S. benchmark interest rate for hedge accounting purposes under ASC 815, in addition to the currently permissible benchmark interest rates. This ASU will provide the Company the ability to utilize the OIS rate based on SOFR as the benchmark interest rate on certain hedges of interest rate risk. For entities, such as the Company, that have already adopted ASU 2017-12, this ASU is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with early adoption permitted. The ASU is to be adopted on a prospective basis for qualifying new or redesignated hedging relationships entered into on or after the date of adoption. The Company does not anticipate that the adoption of this ASU will have a significant impact on its consolidated financial statements.

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The following table presents the Company's revenues disaggregated by LOB:

| | Year Ended December 31, | | |
|---|--------------------------------|---------------------------|---------------------------|
| | 2018 | 2017⁽¹⁾ | 2016⁽¹⁾ |
| MIS: | | | |
| Corporate finance (CFG) | | | |
| Investment-grade | \$ 253.3 | \$ 301.0 | \$ 262.3 |
| High-yield | 175.4 | 254.0 | 181.3 |
| Bank loans | 371.7 | 349.3 | 246.2 |
| Other accounts ⁽²⁾ | 533.7 | 488.4 | 432.5 |
| Total CFG | 1,334.1 | 1,392.7 | 1,122.3 |
| Structured finance (SFG) | | | |
| Asset-backed securities | 106.3 | 96.6 | 94.3 |
| Residential mortgage backed securities | 98.0 | 89.5 | 85.0 |
| Commercial real estate finance | 123.5 | 142.7 | 133.3 |
| Structured credit | 196.4 | 164.7 | 121.9 |
| Other accounts | 2.3 | 2.0 | 2.3 |
| Total SFG | 526.5 | 495.5 | 436.8 |
| Financial institutions (FIG) | | | |
| Banking | 290.4 | 299.5 | 239.5 |
| Insurance | 114.1 | 102.1 | 102.4 |
| Managed investments | 24.1 | 21.6 | 16.7 |
| Other accounts | 13.1 | 12.6 | 10.3 |
| Total FIG | 441.7 | 435.8 | 368.9 |
| Public, project and infrastructure finance (PPIF) | | | |
| Public finance / sovereign | 184.8 | 218.0 | 224.6 |
| Project and infrastructure | 206.3 | 213.3 | 187.6 |
| Total PPIF | 391.1 | 431.3 | 412.2 |
| Total ratings revenue | 2,693.4 | 2,755.3 | 2,340.2 |

| | | | |
|-------------------------------------|-------------------|------------|------------|
| MIS Other | 19.0 | 18.5 | 30.6 |
| Total external revenue | 2,712.4 | 2,773.8 | 2,370.8 |
| Intersegment royalty | 124.0 | 111.7 | 100.2 |
| Total MIS | 2,836.4 | 2,885.5 | 2,471.0 |
| MA: | | | |
| Research, data and analytics (RD&A) | 1,134.1 | 832.7 | 667.6 |
| Enterprise risk solutions (ERS) | 437.4 | 448.6 | 418.8 |
| Professional services (PS) | 158.8 | 149.0 | 147.0 |
| Total external revenue | 1,730.3 | 1,430.3 | 1,233.4 |
| Intersegment revenue | 12.3 | 16.0 | 13.5 |
| Total MA | 1,742.6 | 1,446.3 | 1,246.9 |
| Eliminations | (136.3) | (127.7) | (113.7) |
| Total MCO | \$ 4,442.7 | \$ 4,204.1 | \$ 3,604.2 |

- (1) Prior period amounts have not been adjusted under the modified retrospective method of adoption for the New Revenue Accounting Standard.
- (2) Other includes: recurring monitoring fees of a rated debt obligation and/or entities that issue such obligations as well as fees from programs such as commercial paper, medium term notes, and ICRA corporate finance revenue.

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The following table presents the Company's revenues disaggregated by LOB and geographic area:

| | Year Ended December 31, 2018 | | | Year Ended December 31, 2017 ⁽¹⁾ | | |
|---|------------------------------|------------|------------|---|------------|------------|
| | U.S. | Non-U.S. | Total | U.S. | Non-U.S. | Total |
| MIS: | | | | | | |
| Corporate finance (CFG) \$ | 852.3 | \$ 481.8 | \$ 1,334.1 | \$ 909.7 | \$ 483.0 | \$ 1,392.7 |
| Structured finance (SFG) | 342.9 | 183.6 | 526.5 | 340.1 | 155.4 | 495.5 |
| Financial institutions (FIG) | 194.6 | 247.1 | 441.7 | 186.1 | 249.7 | 435.8 |
| Public, project and infrastructure finance (PIIF) | 228.8 | 162.3 | 391.1 | 266.4 | 164.9 | 431.3 |
| Total ratings revenue | 1,618.6 | 1,074.8 | 2,693.4 | 1,702.3 | 1,053.0 | 2,755.3 |
| MIS Other | 0.6 | 18.4 | 19.0 | 0.5 | 18.0 | 18.5 |
| Total MIS | 1,619.2 | 1,093.2 | 2,712.4 | 1,702.8 | 1,071.0 | 2,773.8 |
| MA: | | | | | | |
| Research, data and analytics (RD&A) | 480.4 | 653.7 | 1,134.1 | 424.4 | 408.3 | 832.7 |
| Enterprise risk solutions (ERS) | 170.0 | 267.4 | 437.4 | 166.6 | 282.0 | 448.6 |
| Professional services (PS) | 60.0 | 98.8 | 158.8 | 54.6 | 94.4 | 149.0 |
| Total MA | 710.4 | 1,019.9 | 1,730.3 | 645.6 | 784.7 | 1,430.3 |
| Total MCO \$ | 2,329.6 | \$ 2,113.1 | \$ 4,442.7 | \$ 2,348.4 | \$ 1,855.7 | \$ 4,204.1 |

Year Ended December 31, 2016 ⁽¹⁾

| | U.S. | Non-U.S. | Total |
|-------------|------|----------|-------|
| MIS: | | | |

| | | | | | | |
|---|----|---------|----|---------|----|---------|
| Corporate finance (CFG) | \$ | 762.9 | \$ | 359.4 | \$ | 1,122.3 |
| Structured finance (SFG) | | 293.3 | | 143.5 | | 436.8 |
| Financial institutions (FIG) | | 160.1 | | 208.8 | | 368.9 |
| Public, project and infrastructure finance (PPIF) | | 276.2 | | 136.0 | | 412.2 |
| Total ratings revenue | | 1,492.5 | | 847.7 | | 2,340.2 |
| MIS Other | | 9.4 | | 21.2 | | 30.6 |
| Total MIS | | 1,501.9 | | 868.9 | | 2,370.8 |
| MA: | | | | | | |
| Research, data and analytics (RD&A) | | 389.3 | | 278.3 | | 667.6 |
| Enterprise risk solutions (ERS) | | 162.9 | | 255.9 | | 418.8 |
| Professional services (PS) | | 51.4 | | 95.6 | | 147.0 |
| Total MA | | 603.6 | | 629.8 | | 1,233.4 |
| Total MCO | \$ | 2,105.5 | \$ | 1,498.7 | \$ | 3,604.2 |

(1) Prior period amounts have not been adjusted under the modified retrospective method of adoption for the New Revenue Accounting Standard.

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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 fees 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 perpetual software license fees and revenue from software implementation services, risk management advisory projects, training and certification services, and outsourced research and analytical engagements.

| | Year Ended December 31, | | | | | |
|--|-------------------------|--------------|------------|---------------------|--------------|------------|
| | 2018 | | | 2017 ⁽²⁾ | | |
| | Transaction | Relationship | Total | Transaction | Relationship | Total |
| Corporate Finance | \$ 918.1 | \$ 416.0 | \$ 1,334.1 | \$ 1,012.0 | \$ 380.7 | \$ 1,392.7 |
| | 69% | 31% | 100% | 73% | 27% | 100% |
| Structured Finance | \$ 341.0 | \$ 185.5 | \$ 526.5 | \$ 320.2 | \$ 175.3 | \$ 495.5 |
| | 65% | 35% | 100% | 65% | 35% | 100% |
| Financial Institutions | \$ 187.2 | \$ 254.5 | \$ 441.7 | \$ 194.7 | \$ 241.1 | \$ 435.8 |
| | 42% | 58% | 100% | 45% | 55% | 100% |
| Public, Project and Infrastructure Finance | \$ 237.6 | \$ 153.5 | \$ 391.1 | \$ 278.4 | \$ 152.9 | \$ 431.3 |
| | 61% | 39% | 100% | 65% | 35% | 100% |
| MIS Other | \$ 2.2 | \$ 16.8 | \$ 19.0 | \$ 2.5 | \$ 16.0 | \$ 18.5 |
| | 12% | 88% | 100% | 14% | 86% | 100% |
| Total MIS | \$ 1,686.1 | \$ 1,026.3 | \$ 2,712.4 | \$ 1,807.8 | \$ 966.0 | \$ 2,773.8 |
| | 62% | 38% | 100% | 65% | 35% | 100% |
| Moody's Analytics | \$ 275.2 ⁽¹⁾ | \$ 1,455.1 | \$ 1,730.3 | \$ 312.7 | \$ 1,117.6 | \$ 1,430.3 |
| | 16% | 84% | 100% | 22% | 78% | 100% |
| Total Moody's | \$ 1,961.3 | \$ 2,481.4 | \$ 4,442.7 | \$ 2,120.5 | \$ 2,083.6 | \$ 4,204.1 |

| Corporation | 44% | 56% | 100% | 50% | 50% | 100% |
|--|--|---------|---------------------|---------|--------------|---------|
| | Year Ended December 31, 2016 ⁽²⁾ | | | | | |
| | Transaction | | Relationship | | Total | |
| Corporate Finance | \$ | 765.5 | \$ | 356.8 | \$ | 1,122.3 |
| | | 68% | | 32% | | 100% |
| Structured Finance | \$ | 269.4 | \$ | 167.4 | \$ | 436.8 |
| | | 62% | | 38% | | 100% |
| Financial Institutions | \$ | 137.3 | \$ | 231.6 | \$ | 368.9 |
| | | 37% | | 63% | | 100% |
| Public, Project and Infrastructure Finance | \$ | 257.9 | \$ | 154.3 | \$ | 412.2 |
| | | 63% | | 37% | | 100% |
| MIS Other | \$ | 10.9 | \$ | 19.7 | \$ | 30.6 |
| | | 36% | | 64% | | 100% |
| Total MIS | \$ | 1,441.0 | \$ | 929.8 | \$ | 2,370.8 |
| | | 61% | | 39% | | 100% |
| Moody's Analytics | \$ | 314.0 | \$ | 919.4 | \$ | 1,233.4 |
| | | 25% | | 75% | | 100% |
| Total Moody's Corporation | \$ | 1,755.0 | \$ | 1,849.2 | \$ | 3,604.2 |
| | | 49% | | 51% | | 100% |

(1) Revenue from software implementation services and risk management advisory projects, while classified by management as transactional revenue, is recognized over time under the New Revenue Accounting Standard (please also refer to the table below).

(2) Prior period amounts have not been adjusted under the modified retrospective method of adoption for the New Revenue Accounting Standard.

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The following table presents the timing of revenue recognition:

| | Year Ended December 31, 2018 | | |
|---------------------------------------|------------------------------|-------------------|-------------------|
| | MIS | MA | Total |
| Revenue recognized at a point in time | \$ 1,686.1 | \$ 98.9 | \$ 1,785.0 |
| Revenue recognized over time | 1,026.3 | 1,631.4 | 2,657.7 |
| Total | \$ 2,712.4 | \$ 1,730.3 | \$ 4,442.7 |

Unbilled Receivables, Deferred Revenue and Remaining Performance Obligations**Unbilled receivables**

At December 31, 2018, accounts receivable included approximately \$311.8 million of unbilled receivables related to the MIS segment. Certain MIS arrangements contain contractual terms whereby the customers are billed in arrears for annual monitoring services and rating fees, requiring revenue to be accrued as an unbilled receivable as such services are provided.

In addition, for certain MA arrangements, the timing of when the Company has the unconditional right to consideration and recognizes revenue occurs prior to invoicing the customer. Consequently, at December 31, 2018, accounts receivable included approximately \$59.5 million of unbilled receivables related to the MA segment.

Deferred revenue

The Company recognizes deferred revenue when a contract requires a customer to pay consideration to the Company in advance of when revenue is recognized. This deferred revenue is relieved when the Company satisfies the related performance obligation and revenue is recognized.

Significant changes in the deferred revenue balances during the year ended December 31, 2018 are as follows:

| | Year Ended December 31, 2018 | | |
|---|------------------------------|----------|----------|
| | MIS | MA | Total |
| Balance at January 1, 2018 (after New Revenue Accounting Standard transition adjustment) | \$ 334.7 | \$ 611.6 | \$ 946.3 |
| Changes in deferred revenue | | | |
| Revenue recognized that was included in the deferred revenue balance at the beginning of the period | (218.1) | (589.6) | (807.7) |
| Increases due to amounts billable excluding amounts recognized as revenue during the period | 215.7 | 730.1 | 945.8 |
| Increases due to Reis and Omega acquisitions during the period | | 16.4 | 16.4 |

| | | | |
|--|--------------|--------------|--------------|
| Effect of exchange rate changes | (6.9) | (18.2) | (25.1) |
| Total changes in deferred revenue | (9.3) | 138.7 | 129.4 |
| Balance at December 31, 2018 | \$ 325.4 | \$ 750.3 | \$ 1,075.7 |
| Deferred revenue current | \$ 207.2 | \$ 746.2 | \$ 953.4 |
| Deferred revenue noncurrent | \$ 118.2 | \$ 4.1 | \$ 122.3 |

For the MA segment, for the year ended December 31, 2018, the increase in the deferred revenue balance was primarily due to organic growth and the Reis acquisition in the fourth quarter of 2018.

Remaining performance obligations

The following tables include the expected recognition period for the remaining performance obligations for each reportable segment as of December 31, 2018:

MIS

| Total | Less than 1 year | 1 5 years | 6 10 Years | 11 15 years | 16-20 years | Over 20 Years |
|-----------------|-----------------------------|------------------|-------------------|--------------------|--------------------|----------------------|
| \$ 149.6 | \$ 23.2 | \$ 68.6 | \$ 41.3 | \$ 6.8 | \$ 4.1 | \$ 5.6 |

The balances in the MIS table above largely reflect deferred revenue related to monitoring fees for certain structured finance products, primarily CMBS, where the issuers can elect to pay the monitoring fees for the life of the security in advance. With respect to the

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remaining performance obligations for the MIS segment, the Company has applied a practical expedient set forth in ASC Topic 606 permitting the omission from the table above for unsatisfied performance obligations relating to contracts with an original expected length of one year or less.

| MA | | | |
|-------------------|-------------------|-----------------|-----------------|
| Total | Less than 1 Year | 1 2 Years | Over 2 Years |
| \$ 1,776.6 | \$ 1,353.5 | \$ 300.0 | \$ 123.1 |

The balances in the MA table above include both amounts recorded as deferred revenue on the balance sheet as of December 31, 2018 as well as amounts not yet invoiced to customers as of December 31, 2018 largely reflecting future revenue related to signed multi-year arrangements for hosted and installed subscription based products.

NOTE 4 RECONCILIATION OF WEIGHTED AVERAGE SHARES OUTSTANDING

Below is a reconciliation of basic to diluted shares outstanding:

| | Year Ended December 31, | | |
|---|-------------------------|-------|-------|
| | 2018 | 2017 | 2016 |
| Basic | 191.6 | 191.1 | 192.7 |
| Dilutive effect of shares issuable under stock-based compensation plans | 2.8 | 3.1 | 2.7 |
| Diluted | 194.4 | 194.2 | 195.4 |

Antidilutive options to purchase common shares and restricted stock as well as contingently issuable restricted stock which are excluded from the table above

| | | |
|-----|-----|-----|
| 0.4 | 0.6 | 0.6 |
|-----|-----|-----|

The calculation of diluted EPS requires certain assumptions regarding the use of both cash proceeds and assumed proceeds that would be received upon the exercise of stock options and vesting of restricted stock outstanding as of December 31, 2018, 2017 and 2016. The assumed proceeds in 2018 and in 2017 do not include Excess Tax Benefits pursuant to the prospective adoption of ASU 2016-09 in the first quarter of 2017. The assumed proceeds in 2016 include Excess Tax Benefits.

NOTE 5 CASH EQUIVALENTS AND INVESTMENTS

The table below provides additional information on the Company's cash equivalents and investments:

As of December 31, 2018

| | Cost | Gross Unrealized Gains | Fair Value | Balance sheet location | | |
|---|------------|------------------------------|------------|------------------------------------|---------------------------|-----------------|
| | | | | Cash and cash equivalents | Short-term investments | Other assets |
| Money market mutual funds | \$ 15.2 | \$ | \$ 15.2 | \$ 15.2 | \$ | \$ |
| Certificates of deposit and money market deposit accounts ⁽¹⁾ | \$ 1,022.4 | \$ | \$ 1,022.4 | \$ 904.3 | \$ 115.8 | \$ 2.3 |
| Open ended mutual funds | \$ 29.5 | \$ 3.8 | \$ 33.3 | \$ | \$ 16.7 | \$ 16.6 |

As of December 31, 2017

| | Cost | Gross Unrealized Gains | Fair Value | Balance sheet location | | |
|---|----------|------------------------------|---------------|------------------------------|---------------------------|-----------------|
| | | | | Cash and cash equivalents | Short-term investments | Other assets |
| Money market mutual funds | \$ 42.2 | \$ | \$ 42.2 | \$ 42.2 | \$ | \$ |
| Certificates of deposit and money market deposit accounts ⁽¹⁾ | \$ 351.4 | \$ | \$ 351.4 | \$ 238.6 | \$ 111.8 | \$ 1.0 |
| Fixed maturity and open ended mutual funds ⁽²⁾ | \$ 16.8 | \$ 4.3 | \$ 21.1 | \$ | \$ | \$ 21.1 |

(1) Consists of time deposits and money market deposit accounts. The remaining contractual maturities for the certificates of deposits classified as short-term investments were one to 12 months at December 31, 2018 and at December 31, 2017. The remaining contractual maturities for the certificates of deposits classified in other assets are 14 to 36 months at December 31, 2018 and 15 to 48 months at December 31, 2017. Time deposits with a maturity of less than 90 days at time of purchase are classified as cash and cash equivalents.

(2) At December 31, 2017, the remaining contractual maturities for the fixed maturity instruments were six months to seven months.

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As a result of the adoption of ASU 2016-01, as further discussed in Note 1 and Note 2, the money market mutual funds and the fixed maturity and open-ended mutual funds in the table above are deemed to be equity securities with readily determinable fair values with changes in the fair value recognized through net income under ASC Topic 321. The fair value of these instruments is determined using Level 1 inputs as defined in ASC 820.

NOTE 6 DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company is exposed to global market risks, including risks from changes in FX rates and changes in interest rates. Accordingly, the Company uses derivatives in certain instances to manage the aforementioned financial exposures that occur in the normal course of business. The Company does not hold or issue derivatives for speculative purposes.

Derivatives and non-derivative instruments designated as accounting hedges:***Interest Rate Swaps Designated as Fair Value Hedges***

The Company has entered into interest rate swaps to convert the fixed interest rate on certain of its long-term debt to a floating interest rate based on the 3-month LIBOR. The purpose of these hedges is to mitigate the risk associated with changes in the fair value of the long-term debt, thus the Company has designated these swaps as fair value hedges. The fair value of the swaps is adjusted quarterly with a corresponding adjustment to the carrying value of the debt. The changes in the fair value of the swaps and the underlying hedged item generally offset and the net cash settlements on the swaps are recorded each period within interest expense, net in the Company's consolidated statement of operations.

The following table summarizes the Company's interest rate swaps designated as fair value hedges:

| Hedged Item | Nature of Swap | Notional Amount | | Floating Interest Rate |
|----------------------------|----------------------------|--------------------------------|-------------|-------------------------------|
| | | As of December 31, 2018 | 2017 | |
| 2010 Senior Notes due 2020 | Pay Floating/Receive Fixed | \$ 500.0 | \$ 500.0 | 3-month LIBOR |
| 2012 Senior Notes due 2022 | Pay Floating/Receive Fixed | \$ 330.0 | \$ 80.0 | 3-month LIBOR |
| 2014 Senior Notes due 2019 | Pay Floating/Receive Fixed | \$ | \$ 450.0 | 3-month LIBOR |
| 2017 Senior Notes due 2021 | Pay Floating/Receive Fixed | \$ 500.0 | \$ | 3-month LIBOR |

In the fourth quarter of 2018, the Company terminated the interest rate swaps associated with the 2014 Senior Notes Due 2019 in advance of the early repayment of the notes in January 2019.

Refer to Note 17 for information on the cumulative amount of fair value hedging adjustments included in the carrying amount of the above hedged items.

The following table summarizes the impact to the statement of operations of the Company's interest rate swaps designated as fair value hedges:

**Amount of Income
Recognized in the Consolidated
Statements of Operations
Year Ended December 31,**

2018 2017 2016

| Total amounts of financial statement line item presented in the statements of operations in which the effects of fair value hedges are recorded | | | | |
|--|--|-------------|-------------|-------------|
| | | 2018 | 2017 | 2016 |
| Interest expense, net | | \$ (216.0) | \$ (208.5) | \$ (157.3) |
| Descriptions | Location on Statement of Operations | | | |
| Net interest settlements and accruals on interest rate swaps | Interest expense, net | \$ (2.4) | \$ 6.7 | \$ 11.2 |
| Fair value changes on interest rate swaps | Interest expense, net | 2.2 | (9.2) | (5.5) |
| Fair value changes on hedged debt | Interest expense, net | \$ (2.2) | \$ 9.2 | \$ 5.5 |
| Cash flow hedges | | | | |

In conjunction with the issuance of the 2015 Senior Notes, the Company entered into a cross-currency swap to exchange 100 million for U.S. dollars on the date of the settlement of the notes. The purpose of this cross-currency swap was to mitigate FX risk on the remaining principal balance on the 2015 Senior Notes that initially was not designated as a net investment hedge. Under the terms of the swap, the Company paid the counterparty interest on the \$110.5 million received at 3.945% per annum and the counterparty paid the Company interest on the 100 million paid at 1.75% per annum. These interest payments were settled in March of each year,

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beginning in 2016, until early termination of the cross-currency swap in 2017, which was at the discretion of the Company. In March 2016, the Company designated these cross-currency swaps as cash flow hedges. Accordingly, changes in fair value subsequent to the date the swaps were designated as cash flow hedges were recognized in OCI. Gains and losses on the swaps initially recognized in OCI were reclassified to the statement of operations in the period in which changes in the underlying hedged item affected net income. On December 18, 2017, when the Company terminated the cross-currency swap, it designated the full 500 million principal of the 2015 Senior Notes as a net investment hedge as discussed below.

In the fourth quarter of 2018, the Company entered into and settled \$250 million notional amount treasury rate locks, which were designated as cash flow hedges and used to manage the Company's interest rate risk associated with the anticipated issuance of the 2018 Senior Notes Due 2029, which are more fully discussed in Note 17. The Company settled these treasury rate locks in December 2018 in connection with the issuance of the 2018 Senior Notes Due 2029. The loss on these treasury rate locks was recorded in comprehensive income (see tables below relating to gains and losses on cash flow and net investment hedges) and will be amortized to interest expense over the term of the 2018 Senior Notes Due 2029.

Net Investment Hedges

The Company has entered into cross-currency swaps to mitigate FX exposure related to a portion of the Company's euro net investment in certain foreign subsidiaries against changes in euro/USD exchange rates.

The Company has designated 500 million of the 2015 Senior Notes Due 2027 as a net investment hedge. This hedge is designated as an accounting hedge under the applicable sections of ASC Topic 815 and will end upon the repayment of the notes in 2027, unless terminated early at the discretion of the Company.

In 2018, the Company entered into cross-currency swaps to exchange an aggregate amount of 710.2 million with corresponding interest based on the floating 3-month EURIBOR for an aggregate amount of \$830.0 million with corresponding interest based on the floating 3-month U.S. LIBOR. These hedges were designated as net investment hedges under ASC Topic 815 and the purpose of these hedges is to mitigate FX exposure related to a portion of the Company's euro net investments in certain foreign subsidiaries against changes in euro/USD exchange rates. These hedges will expire and be settled in 2021 and 2022 for 422.5 million and 287.7 million of the total notional amount, respectively, unless terminated early at the discretion of the Company.

Beginning in 2018 with the Company's initial application of ASU 2017-12, net periodic interest settlements and accruals on the cross currency swaps (which would include any cross-currency basis spread adjustment) are reported directly in interest expense, net. Changes in the fair value of the cross-currency swaps resulting from changes in the foreign exchange spot rate will continue to be recorded within the cumulative translation component of OCI.

The following table provides information on the gains/(losses) on the Company's net investment and cash flow hedges:

| Amount of Gain/(Loss) Recognized in AOCI on Derivative, net of Tax | Amount of Gain/(Loss) Reclassified from AOCI into Income, net of tax | Gain/(Loss) Recognized in Income on Derivative (Amount Excluded from Effectiveness Testing) |
|---|---|--|
|---|---|--|

Derivatives and Non-Derivative Instruments in Net

| | Year Ended December 31, | | | Year Ended December 31, | | | Year Ended December 31, | | |
|---|-------------------------|----------------------------|----------------------------|-------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| Investment Hedging Relationships | 2018 | 2017 ⁽¹⁾ | 2016 ⁽¹⁾ | 2018 | 2017 ⁽¹⁾ | 2016 ⁽¹⁾ | 2018 ⁽²⁾ | 2017 ⁽³⁾ | 2016 ⁽³⁾ |
| Cross currency swaps | \$ 12.3 | \$ | \$ | \$ | \$ | \$ | \$ 11.0 | \$ | \$ |
| FX forwards | | 1.2 | (12.0) | | | | | | |
| Long-term debt | 21.6 | (37.2) | 7.8 | | | | | | |
| Total net investment hedges | \$ 33.9 | \$ (36.0) | \$ (4.2) | \$ | \$ | \$ | \$ 11.0 | \$ | \$ |

Derivatives in Cash Flow Hedging Relationships

| | | | | | | | | | |
|-------------------------------|----------------|------------------|-----------------|---------------|---------------|-----------------|----------------|-----------|-----------|
| Cross currency swap | \$ 1.5 | \$ 6.3 | \$ (0.9) | \$ 0.3 | \$ 7.8 | \$ (3.7) | \$ | \$ | \$ |
| Interest rate contracts | (2.1) | (0.4) | | (0.1) | (1.1) | | | | |
| Total cash flow hedges | (0.6) | 5.9 | (0.9) | 0.2 | 6.7 | (3.7) | | | |
| Total | \$ 33.3 | \$ (30.1) | \$ (5.1) | \$ 0.2 | \$ 6.7 | \$ (3.7) | \$ 11.0 | \$ | \$ |

- (1) For the years ended December 31, 2017 and 2016, amount of gain or (loss) represents only the effective portion of the hedging relationship as this period was prior to the Company's 2018 initial application of ASU 2017-12.
- (2) Effective with the adoption of ASU 2017-12, the Company has elected to assess the effectiveness of its net investment hedges based on changes in spot exchange rates. Accordingly, amounts recognized directly into Net Income during the year ended December 31, 2018 related to its cross-currency swaps represent net periodic interest settlements and accruals, which are recognized in interest expense, net.
- (3) For the year ended December 31, 2017 and 2016, amount of gain or (loss) recognized directly into income represents the ineffective portion of the hedging relationship. No hedging instruments for which ineffectiveness was recognized directly into Net Income in 2017 or in years prior were outstanding at the date of adoption of ASU 2017-12.

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The cumulative amount of net investment hedge and cash flow hedge gains (losses) remaining in AOCI is as follows:

| | Cumulative Gains/(Losses), net of tax | |
|--------------------------------------|---------------------------------------|-------------------|
| | December 31, 2018 | December 31, 2017 |
| <i>Net investment hedges</i> | | |
| Cross currency swaps | \$ 12.3 | \$ |
| FX forwards | 23.5 | 23.5 |
| Long-term debt | (3.1) | (24.7) |
| Total net investment hedges | \$ 32.7 | \$ (1.2) |
| <i>Cash flow hedges</i> | | |
| Interest rate contracts | \$ (2.4) | \$ (0.4) |
| Cross currency swap | 2.5 | 1.3 |
| Total cash flow hedges | 0.1 | 0.9 |
| Total net gain (loss) in AOCI | \$ 32.8 | \$ (0.3) |

Derivatives not designated as accounting hedges:*Foreign exchange forwards*

The Company also enters into foreign exchange forward contracts to mitigate the change in fair value on certain assets and liabilities denominated in currencies other than a subsidiary's functional currency. These forward contracts are not designated as accounting hedges under the applicable sections of Topic 815 of the ASC. Accordingly, changes in the fair value of these contracts are recognized immediately in other non-operating (expense) income, net in the Company's consolidated statements of operations along with the FX gain or loss recognized on the assets and liabilities denominated in a currency other than the subsidiary's functional currency. These contracts have expiration dates at various times through April 2019.

The following table summarizes the notional amounts of the Company's outstanding foreign exchange forwards:

| Notional Amount of Currency Pair: | December 31, 2018 | | December 31, 2017 | |
|---|-------------------|-----------|-------------------|-----------|
| | Sell | Buy | Sell | Buy |
| Contracts to sell USD for GBP | \$ 310.3 | £ 241.2 | \$ 484.7 | £ 362.3 |
| Contracts to sell USD for Japanese yen | \$ 14.3 | ¥ 1,600.0 | \$ 24.3 | ¥ 2,700.0 |
| Contracts to sell USD for Canadian dollars | \$ 99.0 | C\$ 130.0 | \$ 51.7 | C\$ 64.0 |
| Contracts to sell USD for Singapore dollars | \$ | S\$ | \$ 39.2 | S\$ 53.0 |
| Contracts to sell USD for EUR | \$ 212.8 | 184.6 | \$ 465.2 | 390.0 |

NOTE: € = Euro, £ = British pound, S\$ = Singapore dollar, \$ = U.S. dollar, ¥ = Japanese yen, C\$ = Canadian dollar

Foreign Exchange Options and forward contracts relating to the acquisition of Bureau van Dijk

The Company entered into a foreign currency collar in 2017 consisting of option contracts to economically hedge the Bureau van Dijk euro denominated purchase price (as discussed further in Note 8 of the financial statements). These option contracts were not designated as accounting hedges under the applicable sections of Topic 815 of the ASC. The foreign currency option contracts consisted of separate put and call options each in the aggregate notional amount of 2.7 billion. This collar was settled at the end of July 2017, in advance of the August 10, 2017 closing of the Bureau van Dijk acquisition.

The Company entered into foreign exchange forwards to hedge the Bureau van Dijk purchase price for the period from the settlement of the aforementioned foreign currency collar until the closing date on August 10, 2017. These forward contracts were not designated as accounting hedges under the applicable sections of Topic 815 of the ASC. The foreign exchange contracts were to sell \$2.8 billion and buy 2.4 billion and sell \$41 million and buy £31 million.

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The following table summarizes the impact to the consolidated statements of operations relating to the net gain (loss) on the Company's derivatives which are not designated as hedging instruments:

| Derivatives Not Designated as Accounting Hedges | Location on Statement of Operations | Year Ended December 31, | | |
|---|--|--------------------------------|-------------|-------------|
| | | 2018 | 2017 | 2016 |
| Foreign exchange forwards | Other non-operating income, net | \$ (52.3) | \$ 21.5 | \$ (7.2) |
| FX collar relating to Bureau van Dijk acquisition | Purchase Price Hedge Gain | | 100.8 | |
| Foreign exchange forwards relating to Bureau van Dijk acquisition | Purchase Price Hedge Gain | | 10.3 | |
| | | \$ (52.3) | \$ 132.6 | \$ (7.2) |

The table below shows the classification between assets and liabilities on the Company's consolidated balance sheets for the fair value of the derivative instrument as well as the carrying value of its non-derivative debt instruments designated and qualifying as net investment hedges:

| | Derivative and Non-derivative Instruments | December 31, | |
|--|--|-------------------------------|--------------------------|
| | | Balance Sheet Location | December 31, 2018 |
| Assets: | | | |
| Derivatives designated as accounting hedges: | | | |
| Cross-currency swaps designated as net investment hedges | Other assets | \$ 19.4 | \$ 0.5 |
| Interest rate swaps | Other assets | 7.5 | 0.5 |
| Total derivatives designated as accounting hedges | | 26.9 | 0.5 |
| Derivatives not designated as accounting hedges: | | | |
| FX forwards on certain assets and liabilities | Other current assets | 1.4 | 12.5 |
| Total assets | | \$ 28.3 | \$ 13.0 |
| Liabilities: | | | |

Derivatives designated as accounting hedges:

| | | | | |
|--|-------------------|----|-----|--------|
| Cross-currency swaps designated as net investment hedges | Other liabilities | \$ | 2.9 | |
| Interest rate swaps | Other liabilities | | 5.3 | \$ 3.5 |
| Total derivatives designated as accounting hedges | | | 8.2 | 3.5 |

Non-derivative instrument designated as accounting hedge:

| | | | | |
|---|----------------|--|-------|-------|
| Long-term debt designated as net investment hedge | Long-term debt | | 571.6 | 600.4 |
|---|----------------|--|-------|-------|

Derivatives not designated as accounting hedges:

| | | | | |
|---|--|--|-----|-----|
| FX forwards on certain assets and liabilities | Accounts payable and accrued liabilities | | 8.2 | 2.0 |
|---|--|--|-----|-----|

| | | | | |
|--------------------------|--|----|--------------|----------|
| Total liabilities | | \$ | 588.0 | \$ 605.9 |
|--------------------------|--|----|--------------|----------|

NOTE 7 PROPERTY AND EQUIPMENT, NET

Property and equipment, net consisted of:

| | December 31, | |
|---|--------------|----------|
| | 2018 | 2017 |
| Office and computer equipment (3 – 10 year estimated useful life) | \$ 242.0 | \$ 219.5 |
| Office furniture and fixtures (3 – 10 year estimated useful life) | 52.6 | 50.5 |
| Internal-use computer software (1 – 10 year estimated useful life) | 573.6 | 520.3 |
| Leasehold improvements and building (1 – 25 year estimated useful life) | 242.4 | 240.8 |
| Total property and equipment, at cost | 1,110.6 | 1,031.1 |
| Less: accumulated depreciation and amortization | (790.2) | (706.0) |
| Total property and equipment, net | \$ 320.4 | \$ 325.1 |

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Depreciation and amortization expense related to the above assets was \$90.2 million, \$96.9 million, and \$92.5 million for the years ended December 31, 2018, 2017 and 2016, respectively.

NOTE 8 ACQUISITIONS

The business combinations described below are accounted for using the acquisition method of accounting whereby assets acquired and liabilities assumed were recognized at fair value on the date of the transaction. Any excess of the purchase price over the fair value of the assets acquired and liabilities assumed was recorded to goodwill. Goodwill typically results through expected synergies from combining operations of an acquiree and an acquirer, anticipated new customer acquisition and products, as well as from intangible assets that do not qualify for separate recognition. For all acquisitions excluding Bureau van Dijk, the Company has not presented pro forma combined results for these acquisitions because the impact on previously reported statements of operations would not have been material. Additionally, for all acquisitions excluding Bureau van Dijk, the impact to the Company's operations from the acquisition date through the end of the fiscal year in which each acquisition was completed was not material.

Reis

On October 15, 2018, a subsidiary of the Company acquired 100% of Reis, Inc., a provider of commercial real estate market information and analytical tools to real estate professionals. The cash payment of \$278.0 million was funded with cash on hand. The acquisition further expands Moody's Analytics' network of data and analytics providers in the commercial real estate space.

Shown below is the preliminary purchase price allocation, which summarizes the fair value of the assets and liabilities assumed, at the date of acquisition:

| | |
|---|-----------|
| (Amounts in millions) | |
| Current assets | \$ 31.6 |
| Property and equipment | 3.7 |
| Intangible assets: | |
| Customer relationships (14 year weighted average life) | \$ 77.1 |
| Database (5 year weighted average life) | 12.6 |
| Product technology (7 year weighted average life) | 10.3 |
| Trade name (10 year weighted average life) | 3.5 |
| Total intangible assets (12 year weighted average life) | 103.5 |
| Goodwill | 186.0 |
| Deferred tax assets | 11.5 |
| Other assets | 0.1 |
| Liabilities: | |
| Deferred revenue | \$ (14.3) |
| Accounts payable and accrued liabilities | (19.5) |
| Deferred tax liabilities | (24.6) |
| Total liabilities | (58.4) |

Net assets acquired \$ 278.0

The Company has performed a preliminary valuation analysis of the fair market value of assets and liabilities of the Reis business. The final purchase price allocation will be determined when the Company has completed and fully reviewed the detailed valuations. The final allocation could differ materially from the preliminary allocation. The final allocation may include changes in allocations to acquired intangible assets as well as goodwill and other changes to assets and liabilities including deferred tax liabilities. The estimated useful lives of acquired intangibles assets are also preliminary.

Current assets in the table above include acquired cash of \$23.9 million. Additionally, current assets include accounts receivable of approximately \$6 million.

Goodwill

The goodwill recognized as a result of this acquisition includes, among other things, the value of combining the complementary product portfolios of the Company and Reis, which is expected to extend the Company's reach to new and evolving market segments as well as cost savings synergies, expected new customer acquisitions and products.

Goodwill, which has been assigned to the MA segment, is not deductible for tax purposes.

Reis will be a separate reporting unit for the purposes of the Company's annual goodwill impairment assessment.

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Transaction costs directly related to the Reis acquisition were not material.

Omega Performance

On August 16, 2018, the Company acquired 100% of Omega Performance, a provider of online credit training. The aggregate purchase price was not material and the near term impact to the Company's operations and cash flows is not expected to be material. This business operates in the MA reportable segment and goodwill related to this acquisition has been allocated to the MALS reporting unit.

Bureau van Dijk

On August 10, 2017, a subsidiary of the Company acquired 100% of Yellow Maple I B.V., an indirect parent company of Bureau van Dijk Electronic Publishing B.V., a global provider of business intelligence and company information products. The cash payment of \$3,542.0 million was funded with a combination of cash on hand, primarily offshore, and new debt financing. The acquisition extends Moody's position as a leader in risk data and analytical insight.

Shown below is the final purchase price allocation, which summarizes the fair value of the assets and liabilities assumed, at the date of acquisition:

| (Amounts in millions) | |
|---|------------|
| Current assets | \$ 158.4 |
| Property and equipment | 4.2 |
| Intangible assets: | |
| Customer relationships (23 year weighted average life) | \$ 998.7 |
| Product technology (12 year weighted average life) | 258.5 |
| Trade name (18 year weighted average life) | 82.3 |
| Database (10 year weighted average life) | 12.9 |
| Total intangible assets (21 year weighted average life) | 1,352.4 |
| Goodwill | 2,614.7 |
| Other assets | 5.9 |
| Liabilities: | |
| Deferred revenue | \$(101.1) |
| Accounts payable and accrued liabilities | (44.3) |
| Deferred tax liabilities, net | (329.8) |
| Other liabilities | (118.4) |
| Total liabilities | (593.6) |
| Net assets acquired | \$ 3,542.0 |

The Company completed the valuation analysis of the fair market value of assets and liabilities of the Bureau van Dijk business. Current assets in the table above include acquired cash of \$36.0 million. Additionally, current assets include accounts receivable of approximately \$88.0 million (net of an allowance for uncollectible accounts of \$3.7 million).

The acquired deferred revenue balance of approximately \$154 million was reduced by \$53 million as part of acquisition accounting to establish the fair value of deferred revenue. This reduced reported revenue by \$53 million over the remaining contractual period of in-progress customer arrangements assumed as of the acquisition date, and resulted in approximately \$17 million and \$36 million less in reported revenue in the years ended December 31, 2018 and 2017, respectively. Amortization of acquired intangible assets was \$71.4 million and \$28.0 million for the year ended December 31, 2018 and 2017, respectively.

Goodwill

The goodwill recognized as a result of this acquisition includes, among other things, the value of combining the complementary product portfolios of the Company and Bureau van Dijk, which is expected to extend the Company's reach to new and evolving market segments as well as cost savings synergies, expected new customer acquisitions and products.

Goodwill, which has been assigned to the MA segment, is not deductible for tax purposes.

Bureau van Dijk is a separate reporting unit for purposes of the Company's annual goodwill impairment assessment.

Table of Contents*Other Liabilities Assumed*

In connection with the acquisition, the Company assumed liabilities relating to UTPs as well as deferred tax liabilities which relate to acquired intangible assets. UTPs are included in other liabilities in the table above.

Supplementary Unaudited Pro Forma Information

Supplemental information on an unaudited pro forma basis is presented below for the years ended December 31, 2017 and 2016 as if the acquisition of Bureau van Dijk occurred on January 1, 2016. The pro forma financial information is presented for comparative purposes only and is based on certain estimates and assumptions, which the Company believes to be reasonable but not necessarily indicative of future results of operations or the results that would have been reported if the acquisition had been completed at January 1, 2016. The unaudited pro forma information includes amortization of acquired intangible assets based on the purchase price allocation and an estimate of useful lives reflected above, and incremental financing costs resulting from the acquisition, net of income tax, which was estimated using the weighted average statutory tax rates in effect in the jurisdiction for which the pro forma adjustment relates.

| <i>(Amounts in millions)</i> | For the year ended December 31, 2017 | For the year ended December 31, 2016 |
|--|---|---|
| Pro forma Revenue | \$ 4,414.8 | \$ 3,825.8 |
| Pro forma Net Income attributable to Moody's | \$ 1,011.6 | \$ 240.6 |

The unaudited pro forma results do not include any anticipated cost savings or other effects of the planned integration of Bureau van Dijk. Accordingly, the pro forma results above are not necessarily indicative of the results that would have been reported if the acquisition had occurred on the dates indicated, nor are the pro forma results indicative of results which may occur in the future. The Bureau van Dijk results included in the table above have been converted to U.S. GAAP from IFRS as issued by the IASB and have been translated to USD at rates in effect for the periods presented. As the unaudited pro forma results give effect to the acquisition of Bureau van Dijk as if it had occurred on January 1, 2016, the Bureau van Dijk amounts in the pro forma results include a reduction in revenue of approximately \$58 million and \$1 million relating to a fair value adjustment to deferred revenue required as part of acquisition accounting for the year ended December 31, 2016 and 2017, respectively. In addition, a corresponding pro forma adjustment was included to add back the approximate \$36 million reduction to reported revenue for the period from August 10, 2017 to December 31, 2017 relating to the deferred revenue adjustment required as part of acquisition accounting as of the actual August 10, 2017 acquisition date.

SCDM Financial

On February 13, 2017, a subsidiary of the Company acquired the structured finance data and analytics business of SCDM Financial. The aggregate purchase price was not material and the near term impact to the Company's operations and cash flow is not expected to be material. This business unit operates in the MA reportable segment and goodwill related to this acquisition has been allocated to the RD&A reporting unit.

Korea Investor Service (KIS)

In July 2016, a subsidiary of the Company acquired the non-controlling interest of KIS and additional shares of KIS Pricing. The aggregate purchase price was not material and the near term impact to the Company's operations and cash

flow is not expected to be material. KIS and KIS Pricing are a part of the MIS segment.

Gilliland Gold Young (GGY)

On March 1, 2016, subsidiaries of the Company acquired 100% of GGY, a leading provider of advanced actuarial software for the life insurance industry. The cash payments noted in the table below were funded with cash on hand. The acquisition of GGY will allow MA to provide an industry-leading enterprise risk offering for global life insurers and reinsurers.

The table below details the total consideration relating to the acquisition:

| | |
|---|----------------|
| Cash paid at closing | \$ 83.4 |
| Additional consideration paid to sellers in the third quarter 2016 ⁽¹⁾ | 3.1 |
| Total consideration | \$ 86.5 |

⁽¹⁾ Represents additional consideration paid to the sellers for amounts withheld at closing pending the completion of certain administrative matters

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Shown below is the purchase price allocation, which summarizes the fair value of the assets and liabilities assumed, at the date of acquisition:

| | |
|---|---------|
| Current assets | \$ 11.7 |
| Property and equipment | 2.0 |
| Indemnification assets | 1.5 |
| Intangible assets: | |
| Software (7 year weighted average life) | \$ 16.6 |
| Customer relationships (21 year weighted average life) | 13.8 |
| Trade name (19 year weighted average life) | 3.7 |
| Total intangible assets (14 year weighted average life) | 34.1 |
| Goodwill | 59.4 |
| Liabilities | (22.2) |
| Net assets acquired | \$ 86.5 |

Current assets in the table above include acquired cash of \$7.5 million. Additionally, current assets include accounts receivable of \$2.9 million. Goodwill, which has been assigned to the MA segment, is not deductible for tax.

In connection with the acquisition, the Company assumed liabilities relating to UTPs and certain other tax exposures which are included in the liabilities assumed in the table above. The sellers have contractually indemnified the Company against any potential payments that may have to be made regarding these amounts. Accordingly, the Company carries an indemnification asset on its consolidated balance sheet at December 31, 2018 and December 31, 2017.

GGY is part of the ERS reporting unit for purposes of the Company's annual goodwill impairment assessment.

NOTE 9 GOODWILL AND OTHER ACQUIRED INTANGIBLE ASSETS

The following table summarizes the activity in goodwill:

| | | Year Ended December 31, 2018 | | | | | | | |
|----|----------------|-------------------------------|--------------|----------------|-------------------------------|--------------|----------------|-------------------------------|--------------|
| | | MIS | | | MA | | | Consolidated | |
| | Gross goodwill | Accumulated impairment charge | Net goodwill | Gross goodwill | Accumulated impairment charge | Net goodwill | Gross goodwill | Accumulated impairment charge | Net goodwill |
| \$ | 285.2 | \$ | \$ 285.2 | \$ | 3,480.2 | \$ | (12.2) | \$ | 3,468.0 |
| | | | | | 211.5 | | 211.5 | | 211.5 |

| | | | | | | | | | | | | | | |
|-------------------------------------|-----------------|--------------------|-----------------|-----------------|--------------------|-----------------|---------------------|--------------------|-----------------|-----------------|--------------------|-----------------|-----------------|--------------------|
| | (27.4) | | (27.4) | (156.0) | | (156.0) | (183.4) | | | | | | | |
| \$ | 257.8 | \$ | 257.8 | \$ | 3,535.7 | \$ | (12.2) | \$ | 3,523.5 | \$ | 3,793.5 | \$ | (12.2) | |
| Year Ended December 31, 2017 | | | | | | | | | | | | | | |
| | MIS | | | MA | | | Consolidated | | | | | | | |
| | Gross | Accumulated | Net | Gross | Accumulated | Net | Gross | Accumulated | Net | Gross | Accumulated | Net | Gross | Accumulated |
| | goodwill | impairment | goodwill | goodwill | impairment | goodwill | goodwill | impairment | goodwill | goodwill | impairment | goodwill | goodwill | impairment |
| ng | \$ | 277.0 | \$ | 277.0 | \$ | 758.8 | \$ | (12.2) | \$ | 746.6 | \$ | 1,035.8 | \$ | (12.2) |
| ents | | | | | | 2,622.6 | | | | 2,622.6 | | 2,622.6 | | |
| | 8.2 | | 8.2 | 98.8 | | 98.8 | 107.0 | | | | | | | |
| \$ | 285.2 | \$ | 285.2 | \$ | 3,480.2 | \$ | (12.2) | \$ | 3,468.0 | \$ | 3,765.4 | \$ | (12.2) | |

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The 2018 additions/adjustments for the MA segment in the table above primarily relate to the acquisitions of Omega Performance and Reis.

The 2017 additions/adjustments for the MA segment in the table above relate to the acquisition of Bureau van Dijk and the structured finance data and analytics business of SCDM.

Acquired intangible assets and related amortization consisted of:

| | December 31, | |
|--|-------------------|-------------------|
| | 2018 | 2017 |
| Customer relationships | \$ 1,367.5 | \$ 1,345.1 |
| Accumulated amortization | (214.2) | (159.9) |
| Net customer relationships | 1,153.3 | 1,185.2 |
| Trade secrets | 29.8 | 30.2 |
| Accumulated amortization | (28.2) | (28.1) |
| Net trade secrets | 1.6 | 2.1 |
| Software/product technology | 353.3 | 358.6 |
| Accumulated amortization | (101.8) | (78.0) |
| Net software/product technology | 251.5 | 280.6 |
| Trade names | 155.1 | 161.6 |
| Accumulated amortization | (34.1) | (26.7) |
| Net trade names | 121.0 | 134.9 |
| Other ⁽¹⁾ | 70.4 | 57.4 |
| Accumulated amortization | (31.7) | (28.6) |
| Net other | 38.7 | 28.8 |
| Total | \$ 1,566.1 | \$ 1,631.6 |

⁽¹⁾ Other intangible assets primarily consist of databases, covenants not to compete, and acquired ratings methodologies and models.

Amortization expense relating to acquired intangible assets is as follows:

| | Year Ended December 31, | | |
|----------------------|--------------------------------|-------------|-------------|
| | 2018 | 2017 | 2016 |
| Amortization expense | \$ 101.7 | \$ 61.4 | \$ 34.2 |

Estimated future annual amortization expense for intangible assets subject to amortization is as follows:

| Year Ending December 31, | |
|--|-------------------|
| 2019 | \$ 103.3 |
| 2020 | 101.0 |
| 2021 | 100.8 |
| 2022 | 100.8 |
| 2023 | 97.9 |
| Thereafter | 1,062.3 |
| Total estimated future amortization | \$ 1,566.1 |

Amortizable intangible assets are reviewed for recoverability whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the estimated undiscounted future cash flows are lower than the carrying amount of the related asset, a loss is recognized for the difference between the carrying amount and the estimated fair value of the asset. There were no impairments to intangible assets during 2018, 2017 or 2016.

NOTE 10 RESTRUCTURING

On October 26, 2018, the chief executive officer of Moody's approved a restructuring program (the 2018 Restructuring Program) that the Company estimates will result in annualized savings of approximately \$40 to \$50 million a year, a portion of which will benefit

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2019. The 2018 Restructuring Program is estimated to result in total pre-tax charges of \$70 to \$80 million, of which approximately \$49 million was recorded in the fourth quarter 2018. The Program is expected to be substantially completed by June 30, 2019. The 2018 Restructuring Program includes relocation of certain functions from high-cost to lower-cost jurisdictions, a reduction of staff, including from recent acquisitions and pursuant to a review of the business criticality of certain positions, and the rationalization and exit of certain real estate leases due to consolidation of various business activities. The exit from certain leased office space began in the fourth quarter of 2018 and will entail approximately \$35 to \$40 million of the charges to either terminate or sublease the affected real estate leases. The 2018 Restructuring Program is anticipated also to represent approximately \$35 to \$40 million of personnel-related restructuring charges, an amount that includes severance and related costs primarily determined under the Company's existing severance plans. Cash outlays associated with the employee termination cost component of the 2018 Restructuring Program are anticipated to be approximately \$35 to \$40 million, the majority of which will be paid in 2019.

In September 2016, the Company approved a restructuring program (the 2016 Restructuring Program) relating to cost management initiatives in the MIS segment as well as in certain corporate overhead functions. This restructuring program consisted solely of headcount reductions. Actions under these plans were substantially complete at September 30, 2016.

Total expenses included in the accompanying consolidated statements of operations relating to each of the aforementioned restructuring plans are as follows:

| | Year Ended December 31, | | |
|----------------------------|-------------------------|------|---------|
| | 2018 | 2017 | 2016 |
| 2016 Restructuring Program | \$ | \$ | \$ 12.0 |
| 2018 Restructuring Program | 48.7 | \$ | \$ |

Changes to the restructuring liability were as follows:

| | Employee Termination Costs | Contract Termination Costs | Total Restructuring Liability |
|--|----------------------------|----------------------------|-------------------------------|
| Balance as of December 31, 2015 | \$ | \$ | \$ |
| <i>2016 Restructuring Program:</i> | | | |
| Cost incurred and adjustments | 12.0 | | 12.0 |
| Cash payments and adjustments | (5.7) | | (5.7) |
| Balance as of December 31, 2016 | \$ 6.3 | \$ | \$ 6.3 |

2016 Restructuring

Program:

| | | | | |
|--|-----------|------------|-----------|------------|
| Cost incurred and adjustments | | | | |
| Cash payments and adjustments | | (5.9) | | (5.9) |
| Balance as of December 31, 2017 | \$ | 0.4 | \$ | 0.4 |

2016 Restructuring Program:

| | | | | |
|-------------------------------|--|-------|--|-------|
| Cost incurred and adjustments | | | | |
| Cash payments and adjustments | | (0.4) | | (0.4) |

2018 Restructuring Program:

| | | | | |
|-------------------------------|--|-------|---------------------|---------------------|
| Cost incurred and adjustments | | 32.8 | 12.4 ⁽¹⁾ | 45.2 ⁽¹⁾ |
| Cash payments and adjustments | | (2.9) | | (2.9) |

| | | | | | | |
|--|-----------|-------------|-----------|-------------|-----------|-------------|
| Balance as of December 31, 2018 | \$ | 29.9 | \$ | 12.4 | \$ | 42.3 |
|--|-----------|-------------|-----------|-------------|-----------|-------------|

2016 Restructuring Program:

| | | | | |
|--|-----------|-------------|-----------|--|
| Cumulative expense incurred to date | \$ | 12.0 | \$ | |
|--|-----------|-------------|-----------|--|

2018 Restructuring Program:

| | | | | |
|--|-----------|-------------|-----------|-------------|
| Cumulative expense incurred to date | \$ | 32.8 | \$ | 15.9 |
|--|-----------|-------------|-----------|-------------|

⁽¹⁾ Excludes \$3.5 million of non-cash acceleration of amortization of leasehold improvements relating to the rationalization and exit of certain real estate leases.

As of December 31, 2018, majority of the remaining \$42 million restructuring liability is expected to be paid out during the year ending December 31, 2019.

Table of Contents**NOTE 11 FAIR VALUE**

The table below presents information about items which are carried at fair value on a recurring basis at December 31, 2018 and December 31, 2017:

| Description | Fair Value Measurement as of December 31, 2018 | | |
|---------------------------|--|----------------|----------------|
| | Balance | Level 1 | Level 2 |
| Assets: | | | |
| Derivatives (1) | \$ 28.3 | \$ | \$ 28.3 |
| Money market mutual funds | 15.2 | 15.2 | |
| Open ended mutual funds | 33.3 | 33.3 | |
| Total | \$ 76.8 | \$ 48.5 | \$ 28.3 |

Liabilities:

| | | | |
|--------------------|----------------|-----------|----------------|
| Derivatives (1) | \$ 16.4 | \$ | \$ 16.4 |
| Total | \$ 16.4 | \$ | \$ 16.4 |

| Description | Fair Value Measurement as of December 31, 2017 | | |
|--|--|----------------|----------------|
| | Balance | Level 1 | Level 2 |
| Assets: | | | |
| Derivatives (1) | \$ 13.0 | \$ | \$ 13.0 |
| Money market mutual funds | 42.2 | 42.2 | |
| Fixed maturity and open ended mutual funds | 21.1 | 21.1 | |
| Total | \$ 76.3 | \$ 63.3 | \$ 13.0 |

Liabilities:

| | | | |
|--------------------|--------|----|--------|
| Derivatives (1) | \$ 5.5 | \$ | \$ 5.5 |
|--------------------|--------|----|--------|

| | | | | | |
|-------|----|-----|----|----|-----|
| Total | \$ | 5.5 | \$ | \$ | 5.5 |
|-------|----|-----|----|----|-----|

(1) Information on the Company's derivative instruments is more fully described in Note 6 to the consolidated financial statements.

The following are descriptions of the methodologies utilized by the Company to estimate the fair value of its derivative contracts, fixed maturity plans, and money market mutual funds:

Derivatives:

In determining the fair value of the derivative contracts in the table above, the Company utilizes industry standard valuation models. Where applicable, these models project future cash flows and discount the future amounts to a present value using spot rates, forward points, currency volatilities, interest rates as well as the risk of non-performance of the Company and the counterparties with whom it has derivative contracts. The Company established strict counterparty credit guidelines and only enters into transactions with financial institutions that adhere to these guidelines. Accordingly, the risk of counterparty default is deemed to be minimal.

Fixed maturity and open-ended mutual funds:

As a result of the adoption of ASU 2016-01, as further discussed in Note 1 and Note 2, the fixed maturity and open-ended mutual funds in the table above are deemed to be equity securities with readily determinable fair values with changes in the fair value recognized through net income under ASC Topic 321. Prior to the Company's adoption of ASU No. 2016-01, any unrealized gains and losses were recognized through OCI until the instruments matured or were sold. The fair value of these instruments is determined using Level 1 inputs as defined in the ASC.

Money market mutual funds:

Similar to fixed maturity and open-ended mutual funds, the money market mutual funds in the table above are deemed to be equity securities with readily determinable fair values with changes in the fair value recognized through net income under ASC Topic 321 as required by ASU 2016-01. The money market mutual funds represent publicly traded funds with a stable \$1 net asset value.

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The following tables contain additional detail related to certain balance sheet captions:

| | December 31, | |
|--|---------------------|-----------------|
| | 2018 | 2017 |
| Other current assets: | | |
| Prepaid taxes | \$ 100.1 | \$ 94.9 |
| Prepaid expenses | 102.0 | 91.7 |
| Capitalized costs to obtain and fulfill sales contracts ⁽¹⁾ | 77.2 | 50.5 |
| Other | 3.0 | 13.0 |
| Total other current assets | \$ 282.3 | \$ 250.1 |

| | December 31, | |
|--|---------------------|-----------------|
| | 2018 | 2017 |
| Other assets: | | |
| Investments in non-consolidated affiliates | \$ 104.6 | \$ 99.1 |
| Deposits for real-estate leases | 13.5 | 12.3 |
| Indemnification assets related to acquisitions | 16.1 | 17.0 |
| Mutual funds and fixed deposits | 18.9 | 22.1 |
| Costs to obtain sales contracts ⁽¹⁾ | 78.0 | |
| Other | 43.2 | 9.4 |
| Total other assets | \$ 274.3 | \$ 159.9 |

⁽¹⁾ The 2018 amount reflects capitalized costs to obtain sales contracts (sales commissions) pursuant to the adoption of the New Revenue Accounting Standard, which are amortized over an average 7 year period as well as costs incurred and capitalized for in process ratings (current assets only).

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| | December 31, | |
|---|---------------------|-----------------|
| | 2018 | 2017 |
| Accounts payable and accrued liabilities: | | |
| Salaries and benefits | \$ 112.5 | \$ 129.6 |
| Incentive compensation | 154.5 | 246.7 |
| Customer credits, advanced payments and advanced billings | 20.4 | 22.2 |
| Self-insurance reserves | 10.6 | 8.1 |
| Dividends | 6.5 | 6.2 |
| Professional service fees | 47.7 | 47.1 |
| Interest accrued on debt | 70.5 | 73.9 |
| Accounts payable | 30.1 | 21.8 |
| Income taxes | 71.4 | 79.2 |
| Pension and other retirement employee benefits | 6.4 | 5.9 |
| Accrued royalties | 25.1 | 26.4 |
| Foreign exchange forwards on certain assets and liabilities | 8.2 | 2.0 |
| Restructuring liability | 35.5 | 0.4 |
| Other | 95.8 | 80.8 |
| Total accounts payable and accrued liabilities | \$ 695.2 | \$ 750.3 |

| | December 31, | |
|---|---------------------|-----------------|
| | 2018 | 2017 |
| Other liabilities: | | |
| Pension and other retirement employee benefits | \$ 249.2 | \$ 244.5 |
| Deferred rent-non-current portion | 94.3 | 103.1 |
| Interest accrued on UTPs | 69.6 | 54.7 |
| Other tax matters | 1.3 | 1.3 |
| Income tax liability non-current ⁽²⁾ | 125.3 | 232.2 |
| Interest rate swaps | 5.3 | 3.5 |
| Restructuring liability | 6.8 | |
| Other | 24.7 | 24.7 |
| Total other liabilities | \$ 576.5 | \$ 664.0 |

⁽²⁾ Primarily reflects the transition tax pursuant to the Tax Act, which was enacted into law in December 2017. Changes in the Company's self-insurance reserves for claims insured by the Company's wholly-owned insurance subsidiary, which primarily relate to legal defense costs for claims from prior years, are as follows:

| | Year Ended December 31, | | |
|-----------------------------|--------------------------------|----------------|----------------|
| | 2018 | 2017 | 2016 |
| Balance January 1, | \$ 8.1 | \$ 11.1 | \$ 19.7 |
| Accruals (reversals), net | 7.2 | 9.6 | 12.1 |
| Payments | (4.7) | (12.6) | (20.7) |
| Balance December 31, | \$ 10.6 | \$ 8.1 | \$ 11.1 |

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Table of Contents**NOTE 13. COMPREHENSIVE INCOME AND ACCUMULATED OTHER COMPREHENSIVE INCOME**

The following table provides details about the reclassifications out of AOCI:

| | Year Ended December 31, | | | Location in the consolidated statement of operations |
|---|-------------------------|------------|-------------|--|
| | 2018 | 2017 | 2016 | |
| (Losses) Gains on currency translation adjustments | | | | |
| Liquidation/sale of foreign subsidiary | \$ (0.2) | \$ | \$ 36.6 | Other non-operating income (expense), net |
| Total (losses) gains on currency translation adjustments | (0.2) | | 36.6 | |
| Gains (losses) on cash flow hedges | | | | |
| Cross-currency swap | 0.5 | 12.6 | (6.0) | Other non-operating income (expense), net |
| Interest rate contract | (0.1) | (1.1) | | Interest expense, net |
| Total before income taxes | 0.4 | 11.5 | (6.0) | |
| Income tax effect of item above | (0.2) | (4.8) | 2.3 | Provision for income taxes |
| Total net gains (losses) on cash flow hedges | 0.2 | 6.7 | (3.7) | |
| Gains on available for sale securities: | | | | |
| Gains on available for sale securities | | 1.8 | | Other non-operating income (expense), net |
| Income tax effect of item above | | | | Provision for income taxes |
| Total gains on available for sale securities | | 1.8 | | |
| Pension and other retirement benefits | | | | |
| Amortization of actuarial losses and prior service costs | (3.7) | (5.5) | (5.8) | Operating expense |

| | | | | |
|--|-----------------|---------------|----------------|----------------------------|
| included in net income | | | | |
| Amortization of actuarial losses and prior service costs included in net income | (1.9) | (3.2) | (3.9) | SG&A expense |
| Total before income taxes | (5.6) | (8.7) | (9.7) | |
| Income tax effect of item above | 1.4 | 3.3 | 3.7 | Provision for income taxes |
| Total pension and other retirement benefits | (4.2) | (5.4) | (6.0) | |
| Total (losses) gains included in Net Income attributable to reclassifications out of AOCI | \$ (4.2) | \$ 3.1 | \$ 26.9 | |

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The following table shows changes in AOCI by component (net of tax):

| | Year Ended December 31, 2018 | | | | | Total |
|--|---|---------------------------|---|--|--|-------------------|
| | Gains / (Losses) | | | | | |
| | Pension and Other Retirement Benefits | on Cash Flow Hedges | Foreign Current Translation Adjustments | Gains on Available for Sale Securities | | |
| Balance December 31, 2017 | \$ (61.5) | \$ 0.9 | \$ (113.9) | \$ 2.3 | | \$ (172.2) |
| Adoption of ASU 2016-01 (Refer to Note 1 and Note 2) | | | | (2.3) | | (2.3) |
| Other comprehensive income/(loss) before reclassifications | 4.2 | (0.6) | (259.4) | | | (255.8) |
| Amounts reclassified | | | | | | |
| from AOCI | 4.2 | (0.2) | | | | 4.0 |
| Other comprehensive income/(loss) | 8.4 | (0.8) | (259.4) | (2.3) | | (254.1) |
| Balance December 31, 2018 | \$ (53.1) | \$ 0.1 | \$ (373.3) | \$ | | \$ (426.3) |
| | | | | | | |
| | Year Ended December 31, 2017 | | | | | Total |
| | Gains / (Losses) | | | | | |
| | Pension and Other Retirement Benefits | on Cash Flow Hedges | Foreign Current Translation Adjustments | Gains on Available for Sale Securities | | |
| Balance December 31, 2016 | \$ (79.5) | \$ 1.7 | \$ (290.2) | \$ 3.1 | | \$ (364.9) |
| Other comprehensive income/(loss) before reclassifications | 12.6 | 5.9 | 176.3 | 1.0 | | 195.8 |
| Amounts reclassified | | | | | | |
| from AOCI | 5.4 | (6.7) | | (1.8) | | (3.1) |
| Other comprehensive income/(loss) | 18.0 | (0.8) | 176.3 | (0.8) | | 192.7 |
| Balance December 31, 2017 | \$ (61.5) | \$ 0.9 | \$ (113.9) | \$ 2.3 | | \$ (172.2) |
| | | | | | | |
| | Year Ended December 31, 2016 | | | | | Total |
| | Gains / (Losses) | | | | | |
| | Pension and Other Retirement Benefits | on Cash Flow Hedges | Foreign Current Translation Adjustments | Gains on Available for Sale Securities | | |
| Balance December 31, 2015 | \$ (85.7) | \$ (1.1) | \$ (256.0) | \$ 3.3 | | \$ (339.5) |
| Other comprehensive income/(loss) before reclassifications | 0.2 | (0.9) | 2.4 | (0.2) | | 1.5 |
| Amounts reclassified | | | | | | |
| from AOCI | 6.0 | 3.7 | (36.6) | | | (26.9) |
| Other comprehensive income/(loss) | 6.2 | 2.8 | (34.2) | (0.2) | | (25.4) |

| | | | | | |
|----------------------------------|-----------|--------|------------|--------|------------|
| Balance December 31, 2016 | \$ (79.5) | \$ 1.7 | \$ (290.2) | \$ 3.1 | \$ (364.9) |
|----------------------------------|-----------|--------|------------|--------|------------|

NOTE 14 PENSION AND OTHER RETIREMENT BENEFITS**U.S. Plans**

Moody's maintains funded and unfunded noncontributory Defined Benefit Pension Plans. The U.S. plans provide defined benefits using a cash balance formula based on years of service and career average salary or final average pay for selected executives. The Company also provides certain healthcare and life insurance benefits for retired U.S. employees. The retirement healthcare plans are contributory; the life insurance plans are noncontributory. Moody's funded and unfunded U.S. pension plans, the U.S. retirement healthcare plans and the U.S. retirement life insurance plans are collectively referred to herein as the Retirement Plans. The U.S. retirement healthcare plans and the U.S. retirement life insurance plans are collectively referred to herein as the Other Retirement Plans. Effective at the Distribution Date, Moody's assumed responsibility for the pension and other retirement benefits relating to its active employees. New D&B has assumed responsibility for the Company's retirees and vested terminated employees as of the Distribution Date.

Through 2007, substantially all U.S. employees were eligible to participate in the Company's DBPPs. Effective January 1, 2008, the Company no longer offers DBPPs to U.S. employees hired or rehired on or after January 1, 2008 and new hires in the U.S. instead will receive a retirement contribution in similar benefit value under the Company's Profit Participation Plan. Current participants of the Company's Retirement Plans and Other Retirement Plans continue to accrue benefits based on existing plan benefit formulas.

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Following is a summary of changes in benefit obligations and fair value of plan assets for the Retirement Plans for the years ended December 31:

| | Pension Plans | | Other Retirement Plans | |
|--|-------------------|-------------------|------------------------|-----------|
| | 2018 | 2017 | 2018 | 2017 |
| Change in benefit obligation: | | | | |
| Benefit obligation, beginning of the period | \$ (518.1) | \$ (489.5) | \$ (31.2) | \$ (29.5) |
| Service cost | (18.7) | (18.4) | (3.0) | (2.5) |
| Interest cost | (17.6) | (18.5) | (1.1) | (1.1) |
| Plan participants' contributions | | | (0.5) | (0.4) |
| Benefits paid | 11.4 | 15.0 | 1.0 | 1.4 |
| Actuarial gain (loss) | 0.4 | 7.4 | (0.1) | (0.1) |
| Assumption changes | 35.0 | (14.1) | 3.1 | 1.0 |
| Benefit obligation, end of the period | \$ (507.6) | \$ (518.1) | \$ (31.8) | \$ (31.2) |
| Change in plan assets: | | | | |
| Fair value of plan assets, beginning of the period | \$ 357.4 | \$ 297.1 | \$ | \$ |
| Actual return on plan assets | (18.0) | 44.3 | | |
| Benefits paid | (11.4) | (15.0) | (1.0) | (1.4) |
| Employer contributions | 20.2 | 31.0 | 0.5 | 1.0 |
| Plan participants' contributions | | | 0.5 | 0.4 |
| Fair value of plan assets, end of the period | \$ 348.2 | \$ 357.4 | \$ | \$ |
| Funded Status of the plans | \$ (159.4) | \$ (160.7) | \$ (31.8) | \$ (31.2) |
| Amounts recorded on the consolidated balance sheets: | | | | |
| Pension and retirement benefits liability current | \$ (5.4) | \$ (4.9) | \$ (1.0) | \$ (1.0) |
| Pension and retirement benefits liability non-current | (154.0) | (155.8) | (30.8) | (30.2) |
| Net amount recognized | \$ (159.4) | \$ (160.7) | \$ (31.8) | \$ (31.2) |
| Accumulated benefit obligation, end of the period | \$ (457.8) | \$ (461.5) | | |

The following information is for those pension plans with an accumulated benefit obligation in excess of plan assets:

| | December 31, | |
|--|---------------------|-------------|
| | 2018 | 2017 |
| Aggregate projected benefit obligation | \$ 507.6 | \$ 518.1 |
| Aggregate accumulated benefit obligation | \$ 457.8 | \$ 461.5 |
| Aggregate fair value of plan assets | \$ 348.2 | \$ 357.4 |

The following table summarizes the pre-tax net actuarial losses and prior service cost recognized in AOCI for the Company's Retirement Plans as of December 31:

| | Pension Plans | | Other Retirement Plans | |
|---------------------------------|----------------------|-------------|-------------------------------|-------------|
| | 2018 | 2017 | 2018 | 2017 |
| Net actuarial losses | \$ (95.7) | \$ (104.0) | \$ | \$ (3.0) |
| Net prior service costs | 4.2 | 4.5 | 0.3 | 0.6 |
| Total recognized in AOCI pretax | \$ (91.5) | \$ (99.5) | \$ 0.3 | \$ (2.4) |

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The following table summarizes the estimated pre-tax net actuarial losses and prior service cost for the Company's Retirement Plans that will be amortized from AOCI and recognized as components of net periodic expense during the next fiscal year:

| | Pension Plans | Other Retirement Plans |
|---|----------------------|-------------------------------|
| Net actuarial losses | \$ 3.6 | \$ |
| Net prior service costs | (0.4) | (0.3) |
| Total to be recognized as components of net periodic expense | \$ 3.2 | \$ (0.3) |

Net periodic benefit expenses recognized for the Retirement Plans for years ended December 31:

| | Pension Plans | | | Other Retirement Plans | | |
|--|----------------------|----------------|----------------|-------------------------------|---------------|---------------|
| | 2018 | 2017 | 2016 | 2018 | 2017 | 2016 |
| Components of net periodic expense | | | | | | |
| Service cost | \$ 18.7 | \$ 18.4 | \$ 20.1 | \$ 3.0 | \$ 2.5 | \$ 2.2 |
| Interest cost | 17.6 | 18.5 | 18.2 | 1.1 | 1.1 | 1.0 |
| Expected return on plan assets | (15.2) | (16.5) | (17.0) | | | |
| Amortization of net actuarial loss from earlier periods | 6.1 | 8.8 | 9.8 | | 0.1 | 0.2 |
| Amortization of net prior service costs from earlier periods | (0.3) | | 0.1 | (0.3) | (0.3) | (0.3) |
| Net periodic expense | \$ 26.9 | \$ 29.2 | \$ 31.2 | \$ 3.8 | \$ 3.4 | \$ 3.1 |

The following table summarizes the pre-tax amounts recorded in OCI related to the Company's Retirement Plans for the years ended December 31:

| | Pension Plans | | | Other Retirement Plans | | |
|--|---------------|---------|---------|------------------------|--------|--------|
| | 2018 | 2017 | 2016 | 2018 | 2017 | 2016 |
| Amortization of net actuarial losses | \$ 6.1 | \$ 8.8 | \$ 9.8 | \$ 0.1 | \$ 0.2 | |
| Amortization of prior service costs | (0.3) | | 0.1 | (0.3) | (0.3) | (0.3) |
| Net actuarial gain arising during the period | 2.2 | 21.1 | 0.8 | 3.0 | 0.9 | 0.2 |
| Total recognized in OCI pre-tax | \$ 8.0 | \$ 29.9 | \$ 10.7 | \$ 2.7 | \$ 0.7 | \$ 0.1 |

ADDITIONAL INFORMATION:*Assumptions Retirement Plans*

Weighted-average assumptions used to determine benefit obligations at December 31:

| | Pension Plans | | Other Retirement Plans | |
|-------------------------------|---------------|-------|------------------------|-------|
| | 2018 | 2017 | 2018 | 2017 |
| Discount rate | 4.07% | 3.46% | 4.10% | 3.45% |
| Rate of compensation increase | 3.69% | 3.71% | | |

Weighted-average assumptions used to determine net periodic benefit expense for years ended December 31:

| | Pension Plans | | | Other Retirement Plans | | |
|--------------------------------|---------------|-------|-------|------------------------|-------|-------|
| | 2018 | 2017 | 2016 | 2018 | 2017 | 2016 |
| Discount rate | 3.46% | 3.89% | 4.04% | 3.45% | 3.85% | 4.00% |
| Expected return on plan assets | 4.50% | 5.40% | 6.10% | | | |
| Rate of compensation increase | 3.71% | 3.72% | 3.74% | | | |

The expected rate of return on plan assets represents the Company's best estimate of the long-term return on plan

assets and is determined by using a building block approach, which generally weighs the underlying long-term expected rate of return for each major

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asset class based on their respective allocation target within the plan portfolio, net of plan paid expenses. As the assumption reflects a long-term time horizon, the plan performance in any one particular year does not, by itself, significantly influence the Company's evaluation. For 2018, the expected rate of return used in calculating the net periodic benefit costs was 4.50%. For 2019, the Company's expected rate of return assumption is 5.65% to reflect the Company's current view of long-term capital market outlook. In addition, the Company has updated its mortality assumption by adopting the newly released mortality improvement scale MP-2018 to accompany the RP-2014 mortality tables to reflect the latest information regarding future mortality expectations by the Society of Actuaries. Additionally, the assumed healthcare cost trend rate assumption is not material to the valuation of the other retirement plans.

Plan Assets

Moody's investment objective for the assets in the funded pension plan is to earn total returns that will minimize future contribution requirements over the long-term within a prudent level of risk. The Company works with its independent investment consultants to determine asset allocation targets for its pension plan investment portfolio based on its assessment of business and financial conditions, demographic and actuarial data, funding characteristics, and related risk factors. Other relevant factors, including historical and forward looking views of inflation and capital market returns, are also considered. Risk management practices include monitoring plan asset performance, diversification across asset classes and investment styles, and periodic rebalancing toward asset allocation targets. The Company's Asset Management Committee is responsible for overseeing the investment activities of the plan, which includes selecting acceptable asset classes, defining allowable ranges of holdings by asset class and by individual investment managers, defining acceptable securities within each asset class, and establishing investment performance expectations. Ongoing monitoring of the plan includes reviews of investment performance and managers on a regular basis, annual liability measurements, and periodic asset/liability studies.

The Company's investment policy uses risk-controlled investment strategies by increasing the plan's asset allocation to fixed income securities and specifying ranges of acceptable target allocation by asset class based on different levels of the plan's accounting funded status. In addition, the investment policy also requires the investment-grade fixed income assets be rebalanced between shorter and longer duration bonds as the interest rate environment changes. This investment policy is designed to help protect the plan's funded status and to limit volatility of the Company's contributions. Based on the policy, the Company's current target asset allocation is approximately 49% (range of 44% to 54%) in equity securities, 45% (range of 40% to 50%) in fixed income securities and 6% (range of 3% to 9%) in other investments and the plan will use a combination of active and passive investment strategies and different investment styles for its investment portfolios within each asset class. The plan's equity investments are diversified across U.S. and non-U.S. stocks of small, medium and large capitalization. The plan's fixed income investments are diversified principally across U.S. and non-U.S. government and corporate bonds, which are expected to help reduce plan exposure to interest rate variation and to better align assets with obligations. The plan also invests in other fixed income investments such as debts rated below investment grade, emerging market debt, and convertible securities. The plan's other investment, which is made through a private real estate debt fund, is expected to provide additional diversification benefits and absolute return enhancement to the plan assets.

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Fair value of the assets in the Company's funded pension plan by asset category at December 31, 2018 and 2017 are as follows:

| Asset Category | Fair Value Measurement as of December 31, 2018 | | | | % of total assets |
|--|--|-------------|--------------|---|-------------------|
| | Balance | Level 1 | Level 2 | Measured using NAV practical expedient ⁽¹⁾ | |
| Cash and cash equivalent | \$ 0.8 | \$ | \$ 0.8 | \$ | 0% |
| Common/collective trust funds equity securities | | | | | |
| U.S. large-cap | 122.0 | | 122.0 | | 35% |
| U.S. small and mid-cap | 16.3 | | 16.3 | | 5% |
| Emerging markets | 22.8 | | 22.8 | | 7% |
| Total equity investments | 161.1 | | 161.1 | | 47% |
| Emerging markets bond fund | 13.1 | | | 13.1 | 4% |
| Common/collective trust funds fixed income securities | | | | | |
| Intermediate-term investment grade U.S. government/ corporate bonds | 109.5 | | 109.5 | | 31% |
| Mutual fund U.S. Treasury Inflation-Protected Securities (TIPs) | 21.0 | 21.0 | | | 6% |
| Private investment fund convertible securities | 10.7 | | | 10.7 | 3% |
| Private investment fund high yield securities | 10.6 | | | 10.6 | 3% |
| Total fixed-income investments | 164.9 | 21.0 | 109.5 | 34.4 | 47% |

| | | | | | | | | | |
|--|-----------|--------------|-----------|-------------|-------------|--------------|-----------|-------------|-------------|
| Other investment private real estate fund | | 21.4 | | | 21.4 | 6% | | | |
| Total Assets | \$ | 348.2 | \$ | 21.0 | \$ | 271.4 | \$ | 55.8 | 100% |

Fair Value Measurement as of December 31, 2017

| Asset Category | Balance | Level 1 | Level 2 | Measured using NAV practical expedient ⁽¹⁾ | % of total assets |
|---|----------------|----------------|----------------|--|--------------------------|
| Cash and cash equivalent | \$ 16.5 | \$ | \$ 16.5 | \$ | 4% |
| Common/collective trust funds equity securities | | | | | |
| U.S. large-cap | 140.3 | | 140.3 | | 39% |
| U.S. small and mid-cap | 23.3 | | 23.3 | | 7% |
| Emerging markets | 28.1 | | 28.1 | | 8% |
| Total equity investments | 191.7 | | 191.7 | | 54% |
| Emerging markets bond fund | 12.1 | 12.1 | | | 3% |
| Common/collective trust funds fixed income securities | | | | | |
| Intermediate-term investment grade U.S. government/ corporate bonds | 83.7 | | 83.7 | | 23% |
| U.S. Treasury Inflation-Protected Securities (TIPs) | 13.4 | | 13.4 | | 4% |
| Private investment fund convertible securities | 9.9 | | | 9.9 | 3% |
| Private investment fund high yield securities | 9.7 | | | 9.7 | 3% |
| Total fixed-income investments | 128.8 | 12.1 | 97.1 | 19.6 | 36% |

| | | | | | | | | |
|--------------------------------|-----------|--------------|-----------|-------------|-----------|--------------|-----------|-------------|
| Other | | | | | | | | |
| investment private real | | | | | | | | |
| estate debt fund | | 20.4 | | | | 20.4 | | 6% |
| Total Assets | \$ | 357.4 | \$ | 12.1 | \$ | 305.3 | \$ | 40.0 |
| | | | | | | | | 100% |

(1) Investments are measured using the net asset value per share (or its equivalent) practical expedient and have not been categorized in the fair value hierarchy. The fair value amounts presented in the table are intended to permit a reconciliation of the fair value hierarchy to the value of the total plan assets.

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Cash and cash equivalents are primarily comprised of investments in money market mutual funds. In determining fair value, Level 1 investments are valued based on quoted market prices in active markets. Investments in common/collective trust funds are valued using the net asset value (NAV) per unit in each fund. The NAV is based on the value of the underlying investments owned by each trust, minus its liabilities, and then divided by the number of shares outstanding. Common/collective trust funds are categorized in Level 2 to the extent that they are considered to have a readily determinable fair value. Investments for which fair value is estimated by using the NAV per share (or its equivalent) as a practical expedient are not categorized in the fair value hierarchy.

Except for the Company's U.S. funded pension plan, all of Moody's Retirement Plans are unfunded and therefore have no plan assets.

Cash Flows

The Company contributed \$15.6 million and \$25.9 million to its U.S. funded pension plan during the years ended December 31, 2018 and 2017, respectively. The Company made payments of \$4.6 million and \$5.1 million related to its U.S. unfunded pension plan obligations during the years ended December 31, 2018 and 2017, respectively. The Company made payments of \$0.5 million and \$1.0 million to its Other Retirement Plans during the years ended December 31, 2018 and 2017, respectively. The Company is currently evaluating whether to make a contribution to its funded pension plan in 2019, and anticipates making payments of \$5.4 million related to its unfunded U.S. pension plans and \$1.0 million related to its Other Retirement Plans during the year ended December 31, 2019.

Estimated Future Benefits Payable

Estimated future benefits payments for the Retirement Plans are as follows as of year ended December 31, 2018:

| Year Ending December 31, | Pension Plans | Other Retirement Plans |
|---------------------------------|----------------------|-------------------------------|
| 2019 | \$ 13.3 | \$ 1.0 |
| 2020 | 15.7 | 1.1 |
| 2021 | 43.9 | 1.3 |
| 2022 | 19.6 | 1.4 |
| 2023 | 27.1 | 1.6 |
| 2024 - 2028 | \$ 141.2 | \$ 11.3 |

Defined Contribution Plans

Moody's has a Profit Participation Plan covering substantially all U.S. employees. The Profit Participation Plan provides for an employee salary deferral and the Company matches employee contributions, equal to 50% of employee contribution up to a maximum of 3% of the employee's pay. Moody's also makes additional contributions to the Profit Participation Plan based on year-to-year growth in the Company's EPS (i.e. profit sharing contribution). The Company did not make this profit sharing contribution in 2018. Effective January 1, 2008, all new hires are automatically enrolled in the Profit Participation Plan when they meet eligibility requirements unless they decline participation. As the Company's U.S. DBPPs are closed to new entrants effective January 1, 2008, all eligible new hires will instead receive a retirement contribution into the Profit Participation Plan in value similar to the pension benefits. Additionally, effective January 1, 2008, the Company implemented a deferred compensation plan in the U.S.,

which is unfunded and provides for employee deferral of compensation and Company matching contributions related to compensation in excess of the IRS limitations on benefits and contributions under qualified retirement plans. Total expenses associated with U.S. defined contribution plans were \$26.9 million, \$43.3 million and \$28.3 million in 2018, 2017, and 2016, respectively. The full year 2018 expense included an accrued profit sharing contribution.

Effective January 1, 2008, Moody's has designated the Moody's Stock Fund, an investment option under the Profit Participation Plan, as an Employee Stock Ownership Plan and, as a result, participants in the Moody's Stock Fund may receive dividends in cash or may reinvest such dividends into the Moody's Stock Fund. Moody's paid approximately \$0.7 million during each of the years ended December 31, 2018, 2017 and 2016, respectively, for the Company's common shares held by the Moody's Stock Fund. The Company records the dividends as a reduction of retained earnings in the Consolidated Statements of Shareholders' Equity (Deficit). The Moody's Stock Fund held approximately 435,500 and 457,000 shares of Moody's common stock at December 31, 2018 and 2017, respectively.

Non-U.S. Plans

Certain of the Company's non-U.S. operations provide pension benefits to their employees. The non-U.S. defined benefit pension plans are immaterial. For defined contribution plans, company contributions are primarily determined as a percentage of employees' eligible compensation. Moody's also makes contributions to non-U.S. employees under a profit sharing plan which is based on year-to-year growth in the Company's diluted EPS. The Company did not make this profit sharing contribution in 2018. Expenses related to these defined contribution plans for the years ended December 31, 2018, 2017 and 2016 were \$26.0 million, \$23.9 million and \$24.5 million, respectively.

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Under the 1998 Plan, 33.0 million shares of the Company's common stock have been reserved for issuance. The 2001 Plan, which is shareholder approved, permits the granting of up to 50.6 million shares, of which not more than 14.0 million shares are available for grants of awards other than stock options. The Stock Plans also provide for the granting of restricted stock. The Stock Plans provide that options are exercisable not later than ten years from the grant date. The vesting period for awards under the Stock Plans is generally determined by the Board at the date of the grant and has been four years except for employees who are at or near retirement eligibility, as defined, for which vesting is between one and four years. Additionally, the vesting period is three years for certain performance-based restricted stock that contain a condition whereby the number of shares that ultimately vest are based on the achievement of certain non-market based performance metrics of the Company. Options may not be granted at less than the fair market value of the Company's common stock at the date of grant.

The Company maintains the Directors' Plan for its Board, which permits the granting of awards in the form of non-qualified stock options, restricted stock or performance shares. The Directors' Plan provides that options are exercisable not later than ten years from the grant date. The vesting period is determined by the Board at the date of the grant and is generally one year for both options and restricted stock. Under the Directors' Plan, 1.7 million shares of common stock were reserved for issuance. Any director of the Company who is not an employee of the Company or any of its subsidiaries as of the date that an award is granted is eligible to participate in the Directors' Plan.

Presented below is a summary of the stock-based compensation expense and associated tax benefit in the accompanying Consolidated Statements of Operations:

| | Year Ended December 31, | | |
|----------------------------------|--------------------------------|------------------------|-------------|
| | 2018 | 2017 | 2016 |
| Stock-based compensation expense | \$ 130.3 | \$ 122.9 | \$ 98.1 |
| Tax benefit | \$ 31.9 | \$ 13.3 ⁽¹⁾ | \$ 31.9 |

⁽¹⁾ Amount includes a decrease in deferred tax assets resulting from a future reduction in the U.S. federal corporate income tax rate in accordance with the Tax Act, more fully described in Note 16.

The fair value of each employee stock option award is estimated on the date of grant using the Black-Scholes option-pricing model that uses the assumptions noted below. The expected dividend yield is derived from the annual dividend rate on the date of grant. The expected stock volatility is based on an assessment of historical weekly stock prices of the Company as well as implied volatility from Moody's traded options. The risk-free interest rate is based on U.S. government zero coupon bonds with maturities similar to the expected holding period. The expected holding period was determined by examining historical and projected post-vesting exercise behavior activity.

The following weighted average assumptions were used for options granted:

| | Year Ended December 31, | | |
|---------------------------|--------------------------------|-------------|-------------|
| | 2018 | 2017 | 2016 |
| Expected dividend yield | 1.05% | 1.34% | 1.83% |
| Expected stock volatility | 26% | 27% | 32% |

| | | | |
|-----------------------------------|-----------------|----------|----------|
| Risk-free interest rate | 2.82% | 2.19% | 1.60% |
| Expected holding period -in years | 6.2 | 6.5 | 6.8 |
| Grant date fair value | \$ 45.73 | \$ 30.00 | \$ 22.98 |

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A summary of option activity as of December 31, 2018 and changes during the year then ended is presented below:

| Options | Shares | Weighted Average Exercise Price Per Share | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value |
|---|---------------|--|--|--|
| Outstanding, December 31, 2017 | 2.9 | \$ 57.48 | | |
| Granted | 0.2 | \$ 167.12 | | |
| Exercised | (0.9) | \$ 45.79 | | |
| Outstanding, December 31, 2018 | 2.2 | \$ 69.86 | 4.7 years | \$ 160.2 |
| Vested and expected to vest, December 31, 2018 | 2.2 | \$ 69.30 | 4.7 years | \$ 159.2 |
| Exercisable, December 31, 2018 | 1.6 | \$ 51.81 | 3.5 years | \$ 137.8 |

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between Moody's closing stock price on the last trading day of the year ended December 31, 2018 and the exercise prices, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options as of December 31, 2018. This amount varies based on the fair value of Moody's stock. As of December 31, 2018 there was \$5.8 million of total unrecognized compensation expense related to options. The expense is expected to be recognized over a weighted average period of 2.1 years.

The following table summarizes information relating to stock option exercises:

| | Year Ended December 31, | | |
|--------------------------------------|--------------------------------|-------------|-------------|
| | 2018 | 2017 | 2016 |
| Proceeds from stock option exercises | \$ 38.3 | \$ 48.8 | \$ 71.8 |
| Aggregate intrinsic value | \$ 98.9 | \$ 88.3 | \$ 71.3 |
| Tax benefit realized upon exercise | \$ 24.2 | \$ 31.2 | \$ 24.3 |

A summary of nonvested restricted stock activity for the year ended December 31, 2018 is presented below:

| Nonvested Restricted Stock | Shares | Weighted Average Grant Date Fair Value Per Share |
|-----------------------------------|---------------|---|
| Balance, December 31, 2017 | 2.3 | \$ 97.17 |
| Granted | 0.8 | \$ 167.18 |

| | | | |
|----------------------------|-------|----|--------|
| Vested | (0.9) | \$ | 93.83 |
| Forfeited | (0.1) | \$ | 96.36 |
| Balance, December 31, 2018 | 2.1 | \$ | 123.13 |

As of December 31, 2018, there was \$140.0 million of total unrecognized compensation expense related to nonvested restricted stock. The expense is expected to be recognized over a weighted average period of 2.4 years.

The following table summarizes information relating to the vesting of restricted stock awards:

| | Year Ended December 31, | | |
|-----------------------------------|-------------------------|----------|---------|
| | 2018 | 2017 | 2016 |
| Fair value of shares vested | \$ 150.6 | \$ 110.5 | \$ 92.9 |
| Tax benefit realized upon vesting | \$ 34.6 | \$ 34.9 | \$ 29.4 |

A summary of performance-based restricted stock activity for the year ended December 31, 2018 is presented below:

| Performance-based restricted stock | Shares | Weighted Average Grant | |
|------------------------------------|--------|------------------------|-----------|
| | | Date Fair Value | Per Share |
| Balance, December 31, 2017 | 0.7 | \$ | 94.30 |
| Granted | 0.1 | \$ | 162.09 |
| Vested | (0.1) | \$ | 94.01 |
| Balance, December 31, 2018 | 0.7 | \$ | 103.74 |

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The following table summarizes information relating to the vesting of the Company's performance-based restricted stock awards:

| | Year Ended December 31, | | |
|-----------------------------------|-------------------------|---------|---------|
| | 2018 | 2017 | 2016 |
| Fair value of shares vested | \$ 23.0 | \$ 19.5 | \$ 23.6 |
| Tax benefit realized upon vesting | \$ 5.5 | \$ 6.9 | \$ 8.4 |

As of December 31, 2018, there was \$27.3 million of total unrecognized compensation expense related to this plan. The expense is expected to be recognized over a weighted average period of 1.6 years.

The Company has a policy of issuing treasury stock to satisfy shares issued under stock-based compensation plans.

In addition, the Company also sponsors the ESPP. Under the ESPP, 6.0 million shares of common stock were reserved for issuance. The ESPP allows eligible employees to purchase common stock of the Company on a monthly basis at a discount to the average of the high and the low trading prices on the New York Stock Exchange on the last trading day of each month. This discount was 5% in 2018, 2017 and 2016 resulting in the ESPP qualifying for non-compensatory status under Topic 718 of the ASC. Accordingly, no compensation expense was recognized for the ESPP in 2018, 2017, and 2016. The employee purchases are funded through after-tax payroll deductions, which plan participants can elect from one percent to ten percent of compensation, subject to the annual federal limit.

NOTE 16 INCOME TAXES

Components of the Company's income tax provision are as follows:

| | Year Ended December 31, | | |
|---|-------------------------|----------|----------|
| | 2018 | 2017 | 2016 |
| Current: | | | |
| Federal | \$ 167.7 | \$ 453.8 | \$ 292.9 |
| State and Local | 49.8 | 30.0 | 39.5 |
| Non-U.S. | 233.0 | 207.0 | 102.9 |
| Total current | 450.5 | 690.8 | 435.3 |
| Deferred: | | | |
| Federal | (59.1) | 155.5 | (125.8) |
| State and Local | (1.8) | 17.5 | (20.3) |
| Non-U.S. | (38.0) | (84.7) | (7.0) |
| Total deferred | (98.9) | 88.3 | (153.1) |
| Total provision for income taxes | \$ 351.6 | \$ 779.1 | \$ 282.2 |

A reconciliation of the U.S. federal statutory tax rate to the Company's effective tax rate on income before provision for income taxes is as follows:

| | Year Ended December 31, | | |
|---|--------------------------------|-------------|-------------|
| | 2018 | 2017 | 2016 |
| U.S. statutory tax rate | 21.0% | 35.0% | 35.0% |
| State and local taxes, net of federal tax benefit | 2.2 | 1.9 | 2.2 |
| Benefit of foreign operations | 1.8 | (9.9) | (13.3) |
| Settlement Charge | | | 27.4 |
| Legacy tax items | | | (0.1) |
| U.S. Tax Act impact | (2.8) | 17.0 | |
| Other | (1.2) | (0.4) | (0.6) |
| Effective tax rate | 21.0% | 43.6% | 50.6% |
| Income tax paid | \$ 442.1 | \$ 366.4 | \$ 355.7 |

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The source of income before provision for income taxes is as follows:

| | Year Ended December 31, | | |
|---|-------------------------|-------------------|-----------------|
| | 2018 | 2017 | 2016 |
| U.S. | \$ 935.5 | \$ 1,098.5 | \$ 37.2 |
| Non-U.S. | 735.5 | 688.3 | 520.8 |
| Income before provision for income taxes | \$ 1,671.0 | \$ 1,786.8 | \$ 558.0 |

The components of deferred tax assets and liabilities are as follows:

| | December 31, | |
|---|-----------------|-----------------|
| | 2018 | 2017 |
| Deferred tax assets: | | |
| Account receivable allowances | \$ 6.0 | \$ 6.0 |
| Accumulated depreciation and amortization | 1.1 | 1.2 |
| Stock-based compensation | 45.8 | 39.6 |
| Accrued compensation and benefits | 75.3 | 79.2 |
| Deferred rent and construction allowance | 22.6 | 21.2 |
| Deferred revenue | 40.6 | 41.9 |
| Net operating loss | 32.9 | 13.3 |
| Restructuring | 4.8 | 0.2 |
| Uncertain tax positions | 81.5 | 28.6 |
| Self-insured related reserves | 7.9 | 7.5 |
| Capitalized cost | 3.9 | 4.3 |
| Other | 9.7 | 20.2 |
| Total deferred tax assets | \$ 332.1 | \$ 263.2 |
| Deferred tax liabilities: | | |
| Accumulated depreciation and amortization of intangible assets and capitalized software | \$ (394.6) | \$ (408.8) |
| Capital gains | (23.7) | (25.6) |
| Self-insured related income | (7.9) | (7.5) |
| Stock based compensation | (2.2) | (3.3) |
| New revenue accounting standard - ASC 606 | (18.7) | |
| Unrealized gain on net investment hedges - OCI | (10.2) | |
| Other liabilities | (6.9) | (3.0) |
| Total deferred tax liabilities | (464.2) | (448.2) |

| | | |
|------------------------------------|------------|------------|
| Net deferred tax liabilities | (132.1) | (185.0) |
| Valuation allowance | (22.4) | (12.8) |
| Total net deferred tax liabilities | \$ (154.5) | \$ (197.8) |

On December 22, 2017, the Tax Act was signed into law, which resulted in significant changes to U.S. corporate tax laws. The Tax Act includes a mandatory one-time deemed repatriation tax (transition tax) on previously untaxed accumulated earnings of foreign subsidiaries and beginning in 2018 reduces the statutory federal corporate income tax rate from 35% to 21%. Due to the complexities of the Tax Act, the SEC issued guidance requiring that companies provide a reasonable estimate of the impact of the Tax Act to the extent such reasonable estimate has been determined. Accordingly, as of December 31, 2017 the Company recorded a provisional estimate for the transition tax of \$247.3 million. In September, 2018, the Company filed its 2017 federal income tax return and revised its determination of the transition tax to \$236.4 million, a reduction of \$10.9 million from the estimate at December 31, 2017. The reduction is primarily due to proposed regulations issued by the Internal Revenue Service and the finalization of earnings and profits calculations. A portion of the transition tax will be payable over eight years, starting in 2018, and will not accrue interest. The above revised determination of transition tax may be impacted by a number of additional considerations, including but not limited to the issuance of additional regulations.

As a result of the Tax Act, all previously net undistributed foreign earnings have now been subject to U.S. tax. The Company regularly evaluates which entities it will indefinitely reinvest earnings. The Company has provided deferred taxes for those entities whose earnings are not considered indefinitely reinvested.

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The Company has recorded reductions in its income tax provision of approximately \$38 million, or 233BPS, for the full-year of 2018, and approximately \$40 million, or 220BPS, for the full-year of 2017, relating to Excess Tax Benefits on stock-based compensation.

The Company had valuation allowances of \$22.4 million and \$12.8 million at December 31, 2018 and 2017, respectively, related to foreign net operating losses for which realization is uncertain.

As of December 31, 2018 the Company had \$494.6 million of UTPs of which \$443.4 million represents the amount that, if recognized, would impact the effective tax rate in future periods. The increase in UTPs primarily resulted from the additional reserves established for non-U.S. tax exposures and an adjustment to the transition tax under U.S. tax reform. The Company has recorded a deferred tax asset in the amount of \$48.1 million for potential transition tax benefits if certain non-U.S. UTPs are not sustained.

A reconciliation of the beginning and ending amount of UTPs is as follows:

| | Year Ended December 31, | | |
|---|--------------------------------|-------------|-------------|
| | 2018 | 2017 | 2016 |
| Balance as of January 1 | \$ 389.1 | \$ 199.8 | \$ 203.4 |
| Additions for tax positions related to the current year | 79.9 | 86.3 | 21.9 |
| Additions for tax positions of prior years | 88.9 | 120.2 | 12.4 |
| Reductions for tax positions of prior years | (12.8) | (4.1) | (27.6) |
| Settlements with taxing authorities | (2.0) | (2.2) | (8.3) |
| Lapse of statute of limitations | (48.5) | (10.9) | (2.0) |
| Balance as of December 31 | \$ 494.6 | \$ 389.1 | \$ 199.8 |

The Company classifies interest related to UTPs in interest expense in its consolidated statements of operations. Penalties, if incurred, would be recognized in other non-operating expenses. During the years ended December 31, 2018 and 2017, the Company incurred a net interest expense of \$15.2 million and \$15.3 million respectively, related to UTPs. As of December 31, 2018 and 2017, the amount of accrued interest recorded in the Company's consolidated balance sheets related to UTPs was \$69.6 million and \$54.7 million, respectively.

Moody's Corporation and subsidiaries are subject to U.S. federal income tax as well as income tax in various state, local and foreign jurisdictions. The Company's U.S. federal income tax returns for 2013 and 2015 through 2017 remain open to examination. The Company's New York State tax returns for 2011 through 2014 are currently under examination and the Company's New York City tax return for 2014 is currently under examination. The Company's U.K. tax return for 2012 is currently under examination and its returns for 2013 through 2017 remain open to examination.

For current ongoing audits related to open tax years, the Company estimates that it is possible that the balance of UTPs could decrease in the next twelve months as a result of the effective settlement of these audits, which might involve the payment of additional taxes, the adjustment of certain deferred taxes and/or the recognition of tax benefits. It is also possible that new issues might be raised by tax authorities which might necessitate increases to the balance of UTPs. As the Company is unable to predict the timing of conclusion of these audits, the Company is unable to estimate the amount of changes to the balance of UTPs at this time.

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The following table summarizes total indebtedness:

| | December 31, 2018 | | | | |
|---|-----------------------------|---|---|--|---------------------------|
| | Principal Amount | Fair Value of Interest Rate Swaps ⁽¹⁾ | Unamortized (Discount) Premium | Unamortized Debt Issuance Costs | Carrying Value |
| Notes Payable: | | | | | |
| 5.50% 2010 Senior Notes, due 2020 | \$ 500.0 | \$ (3.7) | \$ (0.6) | \$ (0.7) | \$ 495.0 |
| 4.50% 2012 Senior Notes, due 2022 | 500.0 | 1.9 | (1.6) | (1.4) | 498.9 |
| 4.875% 2013 Senior Notes, due 2024 | 500.0 | | (1.5) | (2.0) | 496.5 |
| 2.75% 2014 Senior Notes (5-Year), due 2019 | 450.0 | | (0.1) | | 449.9 |
| 5.25% 2014 Senior Notes (30-Year), due 2044 | 600.0 | | 3.2 | (5.5) | 597.7 |
| 1.75% 2015 Senior Notes, due 2027 | 571.6 | | | (3.1) | 568.5 |
| 2.75% 2017 Senior Notes, due 2021 | 500.0 | 4.0 | (1.0) | (2.4) | 500.6 |
| 2.625% 2017 Senior Notes, due 2023 | 500.0 | | (0.9) | (2.8) | 496.3 |
| 3.25% 2017 Senior Notes, due 2028 | 500.0 | | (4.7) | (3.7) | 491.6 |
| 3.25% 2018 Senior Notes, due 2021 | 300.0 | | (0.4) | (1.5) | 298.1 |
| 4.25% 2018 Senior Notes, due 2029 | 400.0 | | (3.0) | (3.3) | 393.7 |
| 4.875% 2018 Senior Notes, due 2048 | 400.0 | | (6.7) | (4.1) | 389.2 |
| Total debt | \$ 5,721.6 | \$ 2.2 | \$ (17.3) | \$ (30.5) | \$ 5,676.0 |
| Current portion | | | | | (449.9) |
| Total long-term debt | | | | | \$ 5,226.1 |

| | December 31, 2017 | | | | |
|---|-----------------------------|---|---|--|---------------------------|
| | Principal Amount | Fair Value of Interest Rate Swaps ⁽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 Senior Notes, due 2023 | 500.0 | | (1.1) | (3.5) | 495.4 |
| 3.25% 2017 Senior 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 |

- ⁽¹⁾ The Company has entered into interest rate swaps on the 2010 Senior Notes, the 2012 Senior Notes, the 2014 Senior Notes (5-Year) and the 2017 Senior Notes due 2021 which are more fully discussed in Note 6 above. These amounts represent the cumulative amount of fair value hedging adjustments included in the carrying amount of the hedged debt.

Term Loan Facility

On June 6, 2017, the Company entered into a three-year term loan facility with the capacity to borrow up to \$500.0 million. At the Company's election, interest on borrowings under the 2017 Term Loan was payable at rates that were based on either (a) Alternate Base Rate (as defined in the 2017 Term Loan Facility agreement) plus an applicable rate (ranging from 0 BPS to 50 BPS per annum) or (b) the Adjusted LIBO Rate (as defined in the 2017 Term Loan Facility agreement) plus an applicable rate (ranging from 87.5 BPS to 150 BPS per annum), in each case, depending on the Company's index debt rating, as set forth in the 2017 Term Loan agreement.

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The 2017 Term Loan contained covenants that, among other things, restricted the ability of the Company to engage in mergers, consolidations, asset sales, transactions with affiliates, sale and leaseback transactions or to incur liens, with exceptions as set forth in the 2017 Term Loan Facility agreement. The 2017 Term Loan also contained a financial covenant that required the Company to maintain a debt to EBITDA ratio of not more than: (i) 4.5 to 1.0 as of the end of each fiscal quarter ending on September 30, 2017, December 31, 2017 and March 31, 2018 and (ii) 4.0 to 1.0 as of the end of the fiscal quarter ended on June 30, 2018. The 2017 Term Loan also contained customary events of default.

The \$500 million borrowed under the 2017 Term Loan as of December 31, 2017 was fully repaid during 2018.

Credit Facility

On May 11, 2015, the Company entered into a five-year senior, unsecured revolving credit facility with the capacity to borrow up to

\$1 billion. On June 6, 2017, the Company entered into an amendment to the 2015 Facility. Pursuant to the amendment, the applicable rate for borrowings under the 2015 Facility ranged from 0 BPS to 32.5 BPS per annum for Alternate Base Rate loans (as defined in the 2015 Facility agreement) and 79.5 BPS to 132.5 BPS per annum for Eurocurrency loans (as defined in the 2015 Facility agreement) depending on the Company's ratio of total debt to EBITDA. In addition, the Company also paid quarterly facility fees, regardless of borrowing activity under the 2015 Facility. Pursuant to the amendment, the facility fee paid by the Company ranged from 8 BPS to 17.5 BPS on the daily amount of commitments (whether used or unused), in each case, depending on the Company's index debt rating. The amendment also modified, among other things, the existing financial covenant, so that, the Company's debt to EBITDA ratio shall not exceed 4.5 to 1.0 as of the end of each fiscal quarter ending on September 30, 2017, December 31, 2017 and March 31, 2018 and shall not exceed 4.0 to 1.0 as of the end of the fiscal quarter ended on June 30, 2018 and each fiscal quarter thereafter. Upon the occurrence of certain financial or economic events, significant corporate events or certain other events of default constituting a default under the 2015 Facility, all loans outstanding under the 2015 Facility (including accrued interest and fees payable thereunder) may be declared immediately due and payable and all lending commitments under the 2015 Facility may be terminated. In addition, certain other events of default under the 2015 Facility would automatically result in amounts outstanding becoming immediately due and payable and the termination of all lending commitments. In the fourth quarter of 2018, the 2015 Facility was terminated and replaced with the 2018 Facility.

On November 14, 2018, the Company entered into a five-year senior, unsecured revolving credit facility with the capacity to borrow up to \$1 billion, which expires November 2023. The 2018 Facility replaces the terminated \$1 billion five-year 2015 Facility that was scheduled to expire in May 2020. Interest on borrowings under the Facility may range from 0 BPS to 22.5 BPS per annum for Alternate Base Rate loans (as defined in the 2018 Facility agreement) or payable at rates that are based on the London InterBank Offered Rate (LIBOR) plus a premium that can range from 80.5 BPS to 122.5 BPS depending on the Company's index debt ratings, as set forth in the Facility agreement. The Company also pays quarterly facility fees, regardless of borrowing activity under the Facility. The quarterly fees for the 2018 Facility can range from 7 BPS of the Facility amount to 15 BPS, depending on the Company's index debt ratings. The 2018 Facility contains covenants that, among other things, restrict the ability of the Company and its subsidiaries, without the approval of the lenders, to engage in mergers, consolidations, asset sales, transactions with affiliates, sale and leaseback transactions or to incur liens, as set forth in the 2018 Facility agreement. The 2018 Facility also contains a financial covenant that requires the Company to maintain a total debt to EBITDA ratio of (i) not more than 4 to 1 at the end of any fiscal quarter or (ii) not more than 4.5 to 1 as of the end of the first three consecutive quarters immediately following any acquisition with consideration in excess of \$ 500,000,000, subject to certain conditions as set forth in the 2018 Facility agreement. Upon the occurrence of certain financial or economic events, significant corporate events or certain other events of default constituting an event of

default under the 2018 Facility, all loans outstanding under the 2018 Facility (including accrued interest and fees payable thereunder) may be declared immediately due and payable and all commitments under the 2018 Facility may be terminated. In addition, certain other events of default under the 2018 Facility would automatically result in amounts due becoming immediately due and payable and all commitments being terminated. There were no outstanding borrowings under the 2018 Facility as of December 31, 2018.

Commercial Paper

On August 3, 2016, the Company entered into a private placement commercial paper program under which the Company may issue CP notes up to a maximum amount of \$1.0 billion. Borrowings under the CP Program are backstopped by the 2018 Facility. Amounts under the CP Program may be re-borrowed. The maturity of the CP Notes will vary, but may not exceed 397 days from the date of issue. The CP Notes are sold at a discount from par, or alternatively, sold at par and bear interest at rates that will vary based upon market conditions. The rates of interest will depend on whether the CP Notes will be a fixed or floating rate. The interest on a floating rate may be based on the following: (a) certificate of deposit rate; (b) commercial paper rate; (c) the federal funds rate; (d) the LIBOR; (e) prime rate; (f) Treasury rate; or (g) such other base rate as may be specified in a supplement to the private placement agreement. The CP Program contains certain events of default including, among other things: non-payment of principal, interest or fees; entrance into any form of moratorium; and bankruptcy and insolvency events, subject in certain instances to cure periods. At December 31, 2017, the weighted average remaining maturity and interest rate on CP outstanding was 15 days and 1.76% respectively. As of December 31, 2018, the Company has no CP borrowings outstanding.

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On August 19, 2010, the Company issued \$500 million aggregate principal amount of senior unsecured notes in a public offering. The 2010 Senior Notes bear interest at a fixed rate of 5.50% and mature on September 1, 2020. Interest on the 2010 Senior Notes is due semi-annually on September 1 and March 1 of each year, commencing March 1, 2011. The Company may prepay the 2010 Senior Notes, in whole or in part, at any time at a price equal to 100% of the principal amount being prepaid, plus accrued and unpaid interest and a Make-Whole Amount. Additionally, at the option of the holders of the notes, the Company may be required to purchase all or a portion of the notes upon occurrence of a Change of Control Triggering Event, as defined in the 2010 Indenture, at a price equal to 101% of the principal amount thereof, plus accrued and unpaid interest to the date of purchase. The 2010 Indenture contains covenants that limit the ability of the Company and certain of its subsidiaries to, among other things, incur or create liens and enter into sale and leaseback transactions. In addition, the 2010 Indenture contains a covenant that limits the ability of the Company to consolidate or merge with another entity or to sell all or substantially all of its assets to another entity. The 2010 Indenture contains customary default provisions. In addition, an event of default will occur if the Company or certain of its subsidiaries fail to pay the principal of any indebtedness (as defined in the 2010 Indenture) when due at maturity in an aggregate amount of \$50 million or more, or a default occurs that results in the acceleration of the maturity of the Company's or certain of its subsidiaries' indebtedness in an aggregate amount of \$50 million or more. Upon the occurrence and during the continuation of an event of default under the 2010 Indenture, the notes may become immediately due and payable either automatically or by the vote of the holders of more than 25% of the aggregate principal amount of all of the notes then outstanding.

On November 4, 2011, in connection with the acquisition of Copal, a subsidiary of the Company issued a \$14.2 million non-interest bearing note to the sellers which represented a portion of the consideration transferred to acquire the Copal entities. If a seller subsequently transfers to the Company all of its shares, the Company must repay the seller its proportion of the principal on the later of (i) the fourth anniversary date of the note or (ii) within a time frame set forth in the acquisition agreement relating to the resolution of certain income tax uncertainties pertaining to the transaction. The Company has the right to offset payment of the note against certain indemnification assets associated with UTPs related to the acquisition. Accordingly, the Company has offset the liability for this note against the indemnification asset, thus no balance for this note is carried on the Company's consolidated balance sheet at December 31, 2018 and 2017. In the event that the Company would not be required to settle amounts related to the UTPs, the Company would be required to pay the sellers the principal in accordance with the note agreement. The Company may prepay the note in accordance with certain terms set forth in the acquisition agreement.

On August 20, 2012, the Company issued \$500 million aggregate principal amount of unsecured notes in a public offering. The 2012 Senior Notes bear interest at a fixed rate of 4.50% and mature on September 1, 2022. Interest on the 2012 Senior Notes is due semi-annually on September 1 and March 1 of each year, commencing March 1, 2013. The Company may prepay the 2012 Senior Notes, in whole or in part, at any time at a price equal to 100% of the principal amount being prepaid, plus accrued and unpaid interest and a Make-Whole Amount. Additionally, at the option of the holders of the notes, the Company may be required to purchase all or a portion of the notes upon occurrence of a Change of Control Triggering Event, as defined in the 2012 Indenture, at a price equal to 101% of the principal amount thereof, plus accrued and unpaid interest to the date of purchase. The 2012 Indenture contains covenants that limit the ability of the Company and certain of its subsidiaries to, among other things, incur or create liens and enter into sale and leaseback transactions. In addition, the 2012 Indenture contains a covenant that limits the ability of the Company to consolidate or merge with another entity or to sell all or substantially all of its assets to another entity. The 2012 Indenture contains customary default provisions. In addition, an event of default will occur if the Company or certain of its subsidiaries fail to pay the principal of any indebtedness (as defined in the 2012 Indenture) when due at maturity in an aggregate amount of \$50 million or more, or a default occurs that results in the acceleration of the maturity of the Company's or certain of its subsidiaries' indebtedness in an aggregate amount of

\$50 million or more. Upon the occurrence and during the continuation of an event of default under the 2012 Indenture, the 2012 Senior notes may become immediately due and payable either automatically or by the vote of the holders of more than 25% of the aggregate principal amount of all of the notes then outstanding.

On August 12, 2013, the Company issued \$500 million aggregate principal amount of senior unsecured notes in a public offering. The 2013 Senior Notes bear interest at a fixed rate of 4.875% and mature on February 15, 2024. Interest on the 2013 Senior Notes is due semi-annually on February 15 and August 15 of each year, commencing February 15, 2014. The Company may prepay the 2013 Senior Notes, in whole or in part, at any time at a price equal to 100% of the principal amount being prepaid, plus accrued and unpaid interest and a Make-Whole Amount. Notwithstanding the immediately preceding sentence, the Company may redeem the 2013 Senior Notes, in whole or in part, at any time or from time to time on or after November 15, 2023 (three months prior to their maturity), at a redemption price equal to 100% of the principal amount of the notes to be redeemed, plus accrued and unpaid interest, if any, to, but excluding the redemption date. Additionally, at the option of the holders of the notes, the Company may be required to purchase all or a portion of the notes upon occurrence of a Change of Control Triggering Event, as defined in the 2013 Indenture, at a price equal to 101% of the principal amount thereof, plus accrued and unpaid interest to the date of purchase. The 2013 Indenture contains covenants that limit the ability of the Company and certain of its subsidiaries to, among other things, incur or create liens and enter into

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sale and leaseback transactions. In addition, the 2013 Indenture contains a covenant that limits the ability of the Company to consolidate or merge with another entity or to sell all or substantially all of its assets to another entity. The 2013 Indenture contains customary default provisions. In addition, an event of default will occur if the Company or certain of its subsidiaries fail to pay the principal of any indebtedness (as defined in the 2013 Indenture) when due at maturity in an aggregate amount of \$50 million or more, or a default occurs that results in the acceleration of the maturity of the Company's or certain of its subsidiaries' indebtedness in an aggregate amount of \$50 million or more. Upon the occurrence and during the continuation of an event of default under the 2013 Indenture, the 2013 Senior Notes may become immediately due and payable either automatically or by the vote of the holders of more than 25% of the aggregate principal amount of all of the notes then outstanding.

On July 16, 2014, the Company issued \$300 million aggregate principal amount of senior unsecured notes in a public offering. The 2014 Senior Notes (30-year) bear interest at a fixed rate of 5.25% and mature on July 15, 2044. Interest on the 2014 Senior Notes (30-year) is due semi-annually on January 15 and July 15 of each year, commencing January 15, 2015. The Company may prepay the 2014 Senior Notes (30-year), in whole or in part, at any time at a price equal to 100% of the principal amount being prepaid, plus accrued and unpaid interest and a Make-Whole Amount. Additionally, at the option of the holders of the notes, the Company may be required to purchase all or a portion of the notes upon occurrence of a Change of Control Triggering Event, as defined in the 2014 Indenture, at a price equal to 101% of the principal amount thereof, plus accrued and unpaid interest to the date of purchase. The 2014 Indenture contains covenants that limit the ability of the Company and certain of its subsidiaries to, among other things, incur or create liens and enter into sale and leaseback transactions. In addition, the 2014 Indenture contains a covenant that limits the ability of the Company to consolidate or merge with another entity or to sell all or substantially all of its assets to another entity. The 2014 Indenture contains customary default provisions. In addition, an event of default will occur if the Company or certain of its subsidiaries fail to pay the principal of any indebtedness (as defined in the 2014 Indenture) when due at maturity in an aggregate amount of \$50 million or more, or a default occurs that results in the acceleration of the maturity of the Company's or certain of its subsidiaries' indebtedness in an aggregate amount of \$50 million or more. Upon the occurrence and during the continuation of an event of default under the 2014 Indenture, the 2014 Senior Notes (30-year) may become immediately due and payable either automatically or by the vote of the holders of more than 25% of the aggregate principal amount of all of the notes then outstanding. On November 13, 2015, the Company issued an additional \$300 million aggregate principal amount of the 2014 Senior Notes (30-year) in a public offering. This issuance constitutes an additional issuance of, and a single series with, the \$300 million 2014 Senior Notes (30-year) issued on July 16, 2014 and have the same terms as the 2014 Senior Notes (30-year).

On July 16, 2014, the Company issued \$450 million aggregate principal amount of senior unsecured notes in a public offering. The 2014 Senior Notes (5-year) bear interest at a fixed rate of 2.75% and mature July 15, 2019. Interest on the 2014 Senior Notes (5-year) is due semi-annually on January 15 and July 15 of each year, commencing January 15, 2015. The Company may prepay the 2014 Senior Notes (5-year), in whole or in part, at any time at a price prior to June 15, 2019, equal to 100% of the principal amount being prepaid, plus accrued and unpaid interest and a Make-Whole Amount. Notwithstanding the immediately preceding sentence, the Company may redeem the 2014 Senior Notes (5-year), in whole or in part, at any time or from time to time on or after June 15, 2019 (one month prior to their maturity), at a redemption price equal to 100% of the principal amount of the notes to be redeemed, plus accrued and unpaid interest, if any, to, but excluding the redemption date. Additionally, at the option of the holders of the notes, the Company may be required to purchase all or a portion of the notes upon occurrence of a Change of Control Triggering Event, as defined in the 2014 Indenture, at a price equal to 101% of the principal amount thereof, plus accrued and unpaid interest to the date of purchase. The 2014 Indenture contains covenants that limit the ability of the Company and certain of its subsidiaries to, among other things, incur or create liens and enter into sale and leaseback transactions. In addition, the 2014 Indenture contains a covenant that limits the ability of the Company to consolidate or merge with another entity or to sell all or substantially all of its assets to another entity. The 2014

Indenture contains customary default provisions. In addition, an event of default will occur if the Company or certain of its subsidiaries fail to pay the principal of any indebtedness (as defined in the 2014 Indenture) when due at maturity in an aggregate amount of \$50 million or more, or a default occurs that results in the acceleration of the maturity of the Company's or certain of its subsidiaries' indebtedness in an aggregate amount of \$50 million or more. Upon the occurrence and during the continuation of an event of default under the 2014 Indenture, the 2014 Senior Notes (5-year) may become immediately due and payable either automatically or by the vote of the holders of more than 25% of the aggregate principal amount of all of the notes then outstanding. On January 3, 2019, the Company fully repaid the \$450 million aggregate principal amount of the 2014 Senior Notes (5-year).

On March 9, 2015, the Company issued \$500 million aggregate principal amount of senior unsecured notes in a public offering. The 2015 Senior Notes bear interest at a fixed rate of 1.75% and mature on March 9, 2027. Interest on the 2015 Senior Notes is due annually on March 9 of each year, commencing March 9, 2016. The Company may prepay the 2015 Senior Notes, in whole or in part, at any time at a price equal to 100% of the principal amount being prepaid, plus accrued and unpaid interest and a Make-Whole Amount. Additionally, at the option of the holders of the notes, the Company may be required to purchase all or a portion of the notes upon occurrence of a Change of Control Triggering Event, as defined in the 2015 Indenture, at a price equal to 101% of the principal amount thereof, plus accrued and unpaid interest to the date of purchase. The 2015 Indenture contains covenants that limit the ability

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of the Company and certain of its subsidiaries to, among other things, incur or create liens and enter into sale and leaseback transactions. In addition, the 2015 Indenture contains a covenant that limits the ability of the Company to consolidate or merge with another entity or to sell all or substantially all of its assets to another entity. The 2015 Indenture contains customary default provisions. In addition, an event of default will occur if the Company or certain of its subsidiaries fail to pay the principal of any indebtedness (as defined in the 2015 Indenture) when due at maturity in an aggregate amount of \$50 million or more, or a default occurs that results in the acceleration of the maturity of the Company's or certain of its subsidiaries' indebtedness in an aggregate amount of \$50 million or more. Upon the occurrence and during the continuation of an event of default under the 2015 Indenture, the 2015 Senior Notes may become immediately due and payable either automatically or by the vote of the holders of more than 25% of the aggregate principal amount of all of the notes then outstanding. The Company has designated the entire balance of the 2015 Senior Notes as a net investment hedge as more fully discussed in Note 6.

On March 2, 2017, the Company issued \$500 million aggregate principal amount of senior unsecured notes in a public offering. The 2017 Senior Notes bear interest at a fixed rate of 2.750% and mature on December 15, 2021. Interest on the 2017 Senior Notes is due semiannually on June 15 and December 15 of each year, commencing June 15, 2017. The Company may redeem the 2017 Senior Notes, in whole or in part, at any time at a price equity to 100% of the principal amount being redeemed, plus accrued and unpaid interest and a Make-Whole Amount.

On March 2, 2017, the Company issued \$300 million aggregate principal amount of senior unsecured floating rate notes in a public offering. The 2017 Floating Rate Senior Notes bore interest at a floating rate which was calculated by Wells Fargo Bank, National Association, equal to three-month LIBOR as determined on the interest determination date plus 0.35%. The interest determination date for an interest period was the second London business day preceding the first day of such interest period. Interest on the 2017 Floating Rate Senior Notes accrued from March 2, 2017, and was payable quarterly in arrears on June 4, 2017, September 4, 2017, December 4, 2017, March 4, 2018, June 4, 2018 and on the maturity date, to the record holders at the close of business on the business date preceding the interest payment date. The 2017 Floating Rate Senior Notes were not redeemable prior to their maturity. The 2017 Floating Rate Senior Notes were repaid in the third quarter of 2018.

On June 12, 2017, the Company issued and sold through a private placement transaction, \$500 million aggregate principal amount of its 2017 Private Placement Notes Due 2023 and \$500 million aggregate principal amount of its 2017 Private Placement Notes Due 2028. The 2017 Private Placement Notes Due 2023 bear interest at the fixed rate of 2.625% per year and mature on January 15, 2023. The 2017 Private Placement Notes Due 2028 bear interest at the fixed rate of 3.250% per year and mature on January 15, 2028. Interest on each tranche of notes will be due semiannually on January 15 and July 15 of each year, commencing January 15, 2018. The Company entered into a registration rights agreement, dated as of June 12, 2017, with the representatives of the initial purchasers of the notes, which sets forth, among other things, the Company's obligations to register the notes under the Securities Act, within 365 days of issuance. The net proceeds of the note offering were used to finance, in part, the acquisition of Bureau van Dijk. In addition, the Company may redeem each of the notes in whole or in part, at any time at a price equity to 100% of the principal amount being redeemed, plus accrued interest and a Make-Whole Amount.

For the 2017 Floating Rate Notes, 2017 Senior Notes, 2017 Private Placement Notes Due 2023 and 2017 Private Placement Notes Due 2028, at the option of the holders of the notes, the Company may be required to purchase all or a portion of the notes upon occurrence of a Change of Control Triggering Event, as defined in the 2017 Indenture, at a price equal to 101% of the principal amount, thereof, plus accrued and unpaid interest to the date of purchase. The 2017 Indenture contains covenants that limit the ability of the Company and certain of its subsidiaries to, among other things, incur or create liens and enter into sale and leaseback transactions. In addition, the 2017 Indenture contains a covenant that limits the ability of the Company to consolidate or merge with another entity or to sell all or substantially all of its assets to another entity. The 2017 Indenture also contains customary default provisions. In

addition, an event of default will occur if the Company or certain of its subsidiaries fail to pay the principal of any indebtedness (as defined in the 2017 Indenture) when due at maturity in an aggregate amount of \$50 million or more, or a default occurs that results in the acceleration of the maturity of the Company's or certain of its subsidiaries indebtedness in an aggregate amount of \$50 million or more. Upon the occurrence and during the continuation of an event of default under the 2017 Indenture, all the aforementioned notes may become immediately due and payable either automatically or by the vote of the holders of more than 25% of the aggregate principal amount of all of the notes of the applicable series then outstanding.

On June 1, 2018, the Company issued \$300 million aggregate principal amount of senior unsecured notes in a public offering. The 2018 Senior Notes bear interest at the annual fixed rate of 3.250% and mature on June 7, 2021. Interest on the notes will be due semi-annually on June 7 and December 7 of each year, commencing December 7, 2018. The Company may redeem in whole or in part, at any time prior to June 7, 2021 at the redemption prices as well as any accrued and unpaid interest up to, but not including, the redemption date. Notwithstanding the immediately preceding sentence, the Company may redeem the 2018 Senior Notes (3-year), in whole or in part, at any time on or after May 1, 2021 (one month prior to their maturity) at a redemption price equal to 100% of the principal amount of the notes to be redeemed, plus the accrued and unpaid interest, if any, to, but excluding, the redemption date.

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Additionally, at the option of the holders of the notes, the Company may be required to purchase all or a portion of the notes upon occurrence of a Change of Control Triggering Event, as defined in the Eight Supplemental Indenture dated June 7, 2018, at the price equal to 101% of the aggregate principal amount of the notes repurchased, including any accrued and unpaid interest up to, but not including, the repurchase date. The indenture contains covenants that limit the ability of the Company and certain of its subsidiaries to, among other things, incur or create liens and enter into sale and leaseback transactions. In addition, the indenture contains a covenant that limits the ability of the Company to consolidate or merge with another entity or to sell all or substantially all of its assets to another entity. The indenture contains customary default provisions. In addition, an event of default will occur if the Company or certain of its subsidiaries fail to pay the principal of any indebtedness (as defined in the indenture) when due at maturity in an aggregate amount of \$50 million or more, or a default occurs that results in the acceleration of the maturity of the Company's or certain of its subsidiaries' Indebtedness in an aggregate amount of \$50 million or more. Upon the occurrence and during the continuation of an event of default under the indenture, the notes may become immediately due and payable either automatically or by the vote of the holders of more than 25% of the aggregate principal amount of all of the notes then outstanding.

On December 17, 2018, the Company issued \$400 million aggregate principal amount of senior unsecured rate notes in a public offering. The 2018 Senior Notes due 2029 bear interest at the annual fixed rate of 4.250% and mature on February 1, 2029. Interest on the notes will be due semiannually on February 1 and August 1 of each year, commencing February 1, 2019. The Company may redeem, in whole or in part, the notes at any time, at a price equal to the greater of (i) 100% of the principal amount being prepaid, plus accrued and unpaid interest, if any, to, but excluding, the redemption date, and (ii) the make-whole redemption price set forth in the relevant series of notes, plus accrued and unpaid interest, if any, to, but excluding, the redemption date. Notwithstanding the preceding sentence, the Company may redeem all or a portion of the 2018 Senior Notes Due 2029 at its option at any time on or after November 1, 2028 (three months prior to their maturity) at a redemption price equal to 100% of the principal amount of the notes to be redeemed, plus accrued and unpaid interest, if any, to, but excluding, the redemption date.

On December 17, 2018, the Company issued \$400 million aggregate principal amount of senior unsecured rate notes in a public offering. The 2018 Senior Notes due 2048 bear interest at the annual fixed rate of 4.875% and mature on December 17, 2048. Interest on the notes will be due semiannually on June 17 and December 17 of each year, commencing June 17, 2019. The Company may redeem, in whole or in part, the notes at any time, at a price equal to the greater of (i) 100% of the principal amount being prepaid, plus accrued and unpaid interest, if any, to, but excluding, the redemption date, and (ii) the make-whole redemption price set forth in the relevant series of notes, plus accrued and unpaid interest, if any, to, but excluding, the redemption date. Notwithstanding the preceding sentence, the Company may redeem all or a portion of the 2018 Senior Notes Due 2048 at its option at any time on or after June 17, 2048 (six months prior to their maturity) at a redemption price equal to 100% of the principal amount of the notes to be redeemed, plus accrued and unpaid interest, if any, to, but excluding, the redemption date.

For the 2018 Senior Notes due 2029 and 2018 Senior Notes due 2048, at the option of the holders of the notes, the Company may be required to purchase all or a portion of the notes upon occurrence of a Change of Control Triggering Event, as defined in the Ninth Supplemental Indenture dated December 17, 2018, at the price equal to 101% of the aggregate principal amount of the notes repurchased, including any accrued and unpaid interest up to, but not including, the repurchase date. The indenture contains covenants that limit the ability of the Company and certain of its subsidiaries to, among other things, incur or create liens and enter into sale and leaseback transactions. In addition, the indenture contains a covenant that limits the ability of the Company to consolidate or merge with another entity or to sell all or substantially all of its assets to another entity. The indenture contains customary default provisions. In addition, an event of default will occur if the Company or certain of its subsidiaries fail to pay the principal of any indebtedness (as defined in the indenture) when due at maturity in an aggregate amount of \$50 million or more, or a default occurs that results in the acceleration of the maturity of the Company's or certain of its subsidiaries'

indebtedness in an aggregate amount of \$50 million or more. Upon the occurrence and during the continuation of an event of default under the indenture, the notes may become immediately due and payable either automatically or by the vote of the holders of more than 25% of the aggregate principal amount of all of the notes then outstanding.

At December 31, 2018, the Company was in compliance with all covenants contained within all of the debt agreements. All the debt agreements contain cross default provisions which state that default under one of the aforementioned debt instruments could in turn permit lenders under other debt instruments to declare borrowings outstanding under those instruments to be immediately due and payable. As of December 31, 2018, there were no such cross defaults.

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The repayment schedule for the Company's borrowings is as follows:

| Year Ending December 31, | 2010 | 2012 | 2013 | 2014 | 2014 | 2015 | 2017 | 2017 | 2017 | 2018 | 2018 | 2018 | Total |
|-----------------------------|--------------------------------|--------------------------------|--------------------------------|--|---|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|-------------------|
| | Senior Notes due 2020 | Senior Notes due 2022 | Senior Notes due 2024 | Senior Notes (5-year) due 2019 | Senior Notes (30-year) due 2044 | Senior Notes due 2027 | Senior Notes due 2021 | Senior Notes due 2023 | Senior Notes due 2028 | Senior Notes due 2021 | Senior Notes due 2029 | Senior Notes due 2048 | |
| 2019 | \$ | \$ | \$ | \$ 450.0 | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ 450.0 |
| 2020 | 500.0 | | | | | | | | | | | | 500.0 |
| 2021 | | | | | | | 500.0 | | | 300.0 | | | 800.0 |
| 2022 | | 500.0 | | | | | | | | | | | 500.0 |
| 2023 | | | | | | | | 500.0 | | | | | 500.0 |
| Thereafter | | | 500.0 | | 600.0 | 571.6 | | | 500.0 | | 400.0 | 400.0 | 2,971.6 |
| Total | \$ 500.0 | \$ 500.0 | \$ 500.0 | \$ 450.0 | \$ 600.0 | \$ 571.6 | \$ 500.0 | \$ 500.0 | \$ 500.0 | \$ 300.0 | \$ 400.0 | \$ 400.0 | \$ 5,721.6 |

(1) In January 2019, the Company repaid the 2014 Senior Notes (5-Year) of \$450 million.

INTEREST EXPENSE, NET

The following table summarizes the components of interest as presented in the consolidated statements of operations:

| | Year Ended December 31, | | |
|--|-------------------------|-------------------|-------------------|
| | 2018 | 2017 | 2016 |
| Income | \$ 14.7 | 16.0 | 10.9 |
| Expense on borrowings | (197.4) | (190.1) | (141.9) |
| Expense on UTPs and other tax related liabilities | (15.4) | (15.3) | (7.8) |
| Net periodic pension costs interest component ⁽¹⁾ | (19.3) | (20.1) | (19.5) |
| Legacy Tax ⁽²⁾ | | | 0.2 |
| Capitalized | 1.4 | 1.0 | 0.8 |
| Total | \$ (216.0) | \$ (208.5) | \$ (157.3) |
| Interest paid ⁽³⁾ | \$ 183.0 | 158.2 | 136.7 |

(1) The Company adopted ASU No. 2017-07 in the first quarter of 2018, whereby all components of pension expense except for the service cost component are required to be presented in non-operating (expense) income, net. The service cost component continues to be reported as an operating expense.

(2) Represents a reduction of accrued interest related to the favorable resolution of Legacy Tax Matters.

(3) Interest paid includes net settlements on interest rate swaps more fully discussed in Note 6.

The Company's debt is recorded at its carrying amount, which represents the issuance amount plus or minus any issuance premium or discount, except for the 2010 Senior Notes, the 2014 Senior Notes (5-Year), the 2012 Senior Notes and 2017 Senior Notes due 2021, which are recorded at the carrying amount adjusted for the fair value of an interest rate swap used to hedge the fair value of the note.

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The fair value and carrying value of the Company's debt (excluding Commercial Paper) as of December 31, 2018 and 2017 are as follows:

| | December 31, 2018 | | December 31, 2017 | |
|---|-------------------|----------------------|-------------------|----------------------|
| | Carrying Amount | Estimated Fair Value | Carrying Amount | Estimated Fair Value |
| 5.50% 2010 Senior Notes, due 2020 | \$ 495.0 | \$ 517.7 | \$ 497.8 | \$ 537.9 |
| 4.50% 2012 Senior Notes, due 2022 | 498.9 | 513.7 | 495.5 | 535.6 |
| 4.875% 2013 Senior Notes, due 2024 | 496.5 | 522.4 | 495.8 | 547.8 |
| 2.75% 2014 Senior Notes (5-Year), due 2019 | 449.9 | 449.9 | 446.5 | 452.8 |
| 5.25% 2014 Senior Notes (30-Year), due 2044 | 597.7 | 638.1 | 597.6 | 722.4 |
| 1.75% 2015 Senior Notes, due 2027 | 568.5 | 585.3 | 596.8 | 617.7 |
| 2.75% 2017 Senior Notes, due 2021 | 500.6 | 489.7 | 495.5 | 500.0 |
| 2017 Floating Rate Senior Notes, due 2018 | | | 299.5 | 300.2 |
| 2.625% 2017 Senior Notes, due 2023 | 496.3 | 476.9 | 495.4 | 494.8 |
| 3.25% 2017 Senior Notes, due 2028 | 491.6 | 472.8 | 490.9 | 493.6 |
| 2017 Term Loan Facility, due 2020 | | | 499.3 | 499.3 |
| 3.25% 2018 Senior Notes, due 2021 | 298.1 | 298.6 | | |
| 4.250% 2018 Senior Notes, due 2029 | 393.7 | 407.6 | | |
| 4.875% 2018 Senior Notes, due 2048 | 389.2 | 409.8 | | |
| Total | \$ 5,676.0 | \$ 5,782.5 | \$ 5,410.6 | \$ 5,702.1 |

The fair value of the Company's debt is estimated based on quoted market prices for similar instruments. Accordingly, the inputs used to estimate the fair value of the Company's long-term debt are classified as Level 2 inputs within the fair value hierarchy.

NOTE 18 CAPITAL STOCK**Authorized Capital Stock**

The total number of shares of all classes of stock that the Company has authority to issue under its Restated Certificate of Incorporation is 1.02 billion shares with a par value of \$0.01, of which 1.0 billion are shares of common stock, 10.0 million are shares of preferred stock and 10.0 million are shares of series common stock. The preferred stock and series common stock can be issued with varying terms, as determined by the Board.

Share Repurchase Program

The Company implemented a systematic share repurchase program in the third quarter of 2005 through an SEC Rule 10b5-1 program. Moody's may also purchase opportunistically when conditions warrant. As a result, Moody's share repurchase activity will continue to vary from quarter to quarter. The table below summarizes the Company's remaining authority under its share repurchase program as of December 31, 2018:

| Date Authorized | Amount Authorized | Remaining Authority |
|----------------------------------|--------------------------|----------------------------|
| October 22, 2018 | \$ 1,000.0 | \$ 1,000.0 |
| December 15, 2015 | \$ 1,000.0 | 324.3 |
| Total Remaining Authority | | \$ 1,324.3 |

During 2018, Moody's repurchased 1.2 million shares of its common stock under its share repurchase program and issued a net 1.5 million shares under employee stock-based compensation plans.

On February 20, 2019, the Company entered into an accelerated share repurchase agreement (ASR) with a financial institution counterparty to repurchase \$500 million of its outstanding common stock.

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The Company's cash dividends were:

| | Dividends Per Share | | | | | |
|-----------------------|-------------------------|----------------|----------|---------|----------|---------|
| | Year ended December 31, | | | | | |
| | 2018 | | 2017 | | 2016 | |
| | Declared | Paid | Declared | Paid | Declared | Paid |
| First quarter | \$ 0.44 | \$ 0.44 | \$ | \$ 0.38 | \$ | \$ 0.37 |
| Second quarter | 0.44 | 0.44 | 0.38 | 0.38 | 0.37 | 0.37 |
| Third quarter | 0.44 | 0.44 | 0.38 | 0.38 | 0.37 | 0.37 |
| Fourth quarter | 0.44 | 0.44 | 0.38 | 0.38 | 0.75 | 0.37 |
| Total | \$ 1.76 | \$ 1.76 | \$ 1.14 | \$ 1.52 | \$ 1.49 | \$ 1.48 |

On February 12, 2019, the Board approved the declaration of a quarterly dividend of \$0.50 per share of Moody's common stock, payable on March 18, 2019 to shareholders of record at the close of business on February 25, 2019. The continued payment of dividends at the rate noted above, or at all, is subject to the discretion of the Board.

NOTE 19 LEASE COMMITMENTS

Moody's operates its business from various leased facilities, which are under operating leases that expire over the next 9 years. Moody's also leases certain computer and other equipment under operating leases that expire over the next five years. Rent expense, including lease incentives, is amortized on a straight-line basis over the related lease term. Rent expense under operating leases for the years ended December 31, 2018, 2017 and 2016 was \$103.2 million, \$97.0 million and \$95.4 million, respectively.

The 21-year operating lease (at inception) for the Company's headquarters at 7WTC, which commenced on October 20, 2006 contains a total of 20 years of renewal options. These renewal options apply to both the original lease as well as additional floors leased by the Company beginning in 2014. Additionally, the 17.5 year operating lease for the Company's London, England office, which commenced on February 6, 2008, contains a total of 15 years of renewal options.

The minimum rent for operating leases at December 31, 2018 is as follows:

(in millions)

| Year Ending December 31, | Operating Leases |
|---------------------------------|-------------------------|
| 2019 | \$ 105.9 |
| 2020 | 102.3 |
| 2021 | 95.6 |

| | | |
|------------------------------|----|-------|
| 2022 | | 84.4 |
| 2023 | | 81.0 |
| Thereafter | | 246.5 |
| Total minimum lease payments | \$ | 715.7 |

NOTE 20 CONTINGENCIES

Given the nature of their activities, Moody's and its subsidiaries are subject to legal and tax proceedings, governmental, regulatory and legislative investigations, subpoenas and other inquiries, and claims and litigation by governmental and private parties that are based on ratings assigned by MIS or that are otherwise incidental to the Company's business. Moody's and MIS also are subject to periodic reviews, inspections, examinations and investigations by regulators in the U.S. and other jurisdictions, any of which may result in claims, legal proceedings, assessments, fines, penalties or restrictions on business activities. Moody's also is subject to ongoing tax audits as addressed in Note 16 to the financial statements.

In May 2013, the Company and five subsidiaries (collectively, the Company Defendants) were served with a qui tam complaint filed by a former employee (Plaintiff) in New York Supreme Court (the Court) on behalf of New York State (the State) and New York City (the City) asserting purported claims under the New York False Claims Act (NYFCA). Both the State and the City were given an opportunity to intervene as plaintiffs in the action but declined to do so. In August 2013, Plaintiff filed an Amended Complaint adding Marsh & McLennan Companies, Inc. as a defendant. Plaintiff's central allegation against the Company Defendants is that their treat-

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ment of the Company's wholly-owned captive insurance subsidiary, Moody's Assurance Company, Inc. (MAC), in their State and City tax filings between 2002 and 2014 was contrary to the State and City tax codes. Plaintiff also asserts a cause of action for retaliation under the NYFCA and alleges that his employment was improperly terminated after he reported his concerns regarding MAC's tax treatment internally. Plaintiff alleges that the Company underpaid State and City taxes by more than \$120 million (which the Company believes is unsupported as a matter of fact and law), and requests statutory damages of triple that amount, as well as unspecified damages related to the retaliation claim. In December 2016, the Court issued a decision largely denying the Company Defendants' motion to dismiss. The Company Defendants appealed, and in August 2018, the Appellate Division of the New York Supreme Court upheld the Court's decision. Discovery is ongoing and, absent earlier disposition, the Company expects the case to go to trial no earlier than late 2019. The Company is unable to estimate a range of loss, and is contesting Plaintiff's claims, which it believes are meritless.

Management periodically assesses the Company's liabilities and contingencies in connection with these matters based upon the latest information available. For claims, litigation and proceedings and governmental investigations and inquiries not related to income taxes, the Company records liabilities in the consolidated financial statements when it is both probable that a liability has been incurred and the amount of loss can be reasonably estimated and periodically adjusts these as appropriate. When the reasonable estimate of the loss is within a range of amounts, the minimum amount of the range is accrued unless some higher amount within the range is a better estimate than another amount within the range. In instances when a loss is reasonably possible but uncertainties exist related to the probable outcome and/or the amount or range of loss, management does not record a liability but discloses the contingency if material. As additional information becomes available, the Company adjusts its assessments and estimates of such matters accordingly. Moody's also discloses material pending legal proceedings pursuant to SEC rules and other pending matters as it may determine to be appropriate.

In view of the inherent difficulty of assessing the potential outcome of legal proceedings, governmental, regulatory and legislative investigations and inquiries, claims and litigation and similar matters and contingencies, particularly when the claimants seek large or indeterminate damages or assert novel legal theories or the matters involve a large number of parties, the Company often cannot predict what the eventual outcome of the pending matters will be or the timing of any resolution of such matters. The Company also may be unable to predict the impact (if any) that any such matters may have on how its business is conducted, on its competitive position or on its financial position, results of operations or cash flows. As the process to resolve any pending matters progresses, management will continue to review the latest information available and assess its ability to predict the outcome of such matters and the effects, if any, on its operations and financial condition and to accrue for and disclose such matters as and when required. However, because such matters are inherently unpredictable and unfavorable developments or resolutions can occur, the ultimate outcome of such matters, including the amount of any loss, may differ from those estimates.

NOTE 21 SEGMENT INFORMATION

The Company is organized into two operating segments: MIS and MA and accordingly, the Company reports in two reportable segments: MIS and MA.

The MIS segment consists of five LOBs. The CFG, SFG, FIG and PPIF LOBs generate revenue principally from fees for the assignment and ongoing monitoring of credit ratings on debt obligations and the entities that issue such obligations in markets worldwide. The MIS Other LOB primarily consists of financial instruments pricing services in the Asia-Pacific region as well as ICRA non-ratings revenue.

The MA segment develops a wide range of products and services that support the risk management activities of institutional participants in global financial markets. The MA segment consists of three LOBs RD&A, ERS and PS.

In August 2017, a subsidiary of the Company acquired Yellow Maple I B.V., an indirect parent of Bureau van Dijk. Bureau van Dijk is part of the MA reportable segment and its revenue is included in the RD&A LOB. In 2018, the Company acquired Omega Performance and Reis, Inc. and both are part of the MA reportable segment. Omega's revenue is included in the PS LOB and Reis' revenue is included in the RD&A LOB. Refer to Note 8 for further discussion on these acquisitions.

Revenue for MIS and expenses for MA include an intersegment royalty charged to MA for the rights to use and distribute content, data and products developed by MIS. The royalty rate charged by MIS approximates the fair value of the aforementioned content, data and products and is generally based on comparable market transactions. Also, revenue for MA and expenses for MIS include an intersegment fee charged to MIS from MA for certain MA products and services utilized in MIS's ratings process. These fees charged by MA are generally equal to the costs incurred by MA to produce these products and services. Additionally, overhead costs and corporate expenses of the Company that exclusively benefit only one segment are fully charged to that segment. Overhead costs and corporate expenses of the Company that benefit both segments are allocated to each segment based on a revenue-split methodology. Accordingly, a reportable segment's share of these costs will increase as its proportion of revenue relative to Moody's total revenue increases. Overhead expenses include costs such as rent and occupancy, information technology and support staff such as finance, human resources and legal. Eliminations in the table below represent intersegment revenue/expense. Moody's does not report the Company's assets by

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reportable segment, as this metric is not used by the chief operating decision maker to allocate resources to the segments. Consequently, it is not practical to show assets by reportable segment.

Financial Information by Segment

The table below shows revenue, Adjusted Operating Income and operating income by reportable segment. Adjusted Operating Income is a financial metric utilized by the Company's chief operating decision maker to assess the profitability of each reportable segment. Refer to Note 3 for further details on the components of the Company's revenue.

| | Year Ended December 31, | | | | | | | |
|-------------------------------|-------------------------|-------------------|--------------|--------------|--------------------|-------------------|--------------|-----------------------------|
| | 2018 | | | | 2017 | | | |
| | MIS | MA ⁽¹⁾ | Eliminations | Consolidated | MIS ⁽¹⁾ | MA ⁽¹⁾ | Eliminations | Consolidated ⁽¹⁾ |
| Revenue | \$ 2,836.4 | \$ 1,742.6 | \$ (136.3) | \$ 4,442.7 | \$ 2,885.5 | \$ 1,446.3 | \$ (127.7) | \$ 4,204.1 |
| Operating, SG&A | 1,179.0 | 1,282.9 | (136.3) | 2,325.6 | 1,239.3 | 1,090.9 | (127.7) | 2,202.5 |
| Adjusted Operating Income | 1,657.4 | 459.7 | | 2,117.1 | 1,646.2 | 355.4 | | 2,001.6 |
| Less: | | | | | | | | |
| Depreciation and amortization | 64.9 | 127.0 | | 191.9 | 74.7 | 83.6 | | 158.3 |
| Restructuring | 32.2 | 16.5 | | 48.7 | | | | |
| Acquisition-Related Expenses | | 8.3 | | 8.3 | | 22.5 | | 22.5 |
| Operating income | \$ 1,560.3 | \$ 307.9 | \$ | \$ 1,868.2 | \$ 1,571.5 | \$ 249.3 | \$ | \$ 1,820.8 |

| | 2016 | | | |
|-------------------------------|--------------------|-------------------|--------------|-----------------------------|
| | MIS ⁽¹⁾ | MA ⁽¹⁾ | Eliminations | Consolidated ⁽¹⁾ |
| Revenue | \$ 2,471.0 | \$ 1,246.9 | \$ (113.7) | \$ 3,604.2 |
| Operating, SG&A | 1,107.8 | 956.7 | (113.7) | 1,950.8 |
| Adjusted Operating Income | 1,363.2 | 290.2 | | 1,653.4 |
| Less: | | | | |
| Depreciation and amortization | 73.8 | 52.9 | | 126.7 |
| Restructuring | 10.2 | 1.8 | | 12.0 |
| Settlement Charge | 863.8 | | | 863.8 |
| Operating income | \$ 415.4 | \$ 235.5 | \$ | \$ 650.9 |

- (1) Pursuant to the adoption of a new accounting standard relating to pension accounting as more fully discussed in Note 1, only the service cost component of net periodic pension expense will be classified within operating and SG&A expenses with the remaining components being classified as non-operating expenses. Prior period segment results have been restated to reflect this reclassification. Accordingly, operating and SG&A expenses for MIS and MA were reduced by \$7.6 million and \$4.1 million, respectively, for the year ended December 31, 2017. For the year ended December 31, 2016, operating and SG&A expenses for MIS and MA were reduced by \$7.8 million and \$4.4 million, respectively.

The cumulative restructuring charges relating to the 2018 Restructuring Program and the 2016 Restructuring Program, as more fully discussed in Note 10, for the MIS reportable segment are \$32.2 million and \$10.2 million, respectively, and for the MA reportable segment are \$16.5 million and \$1.8 million, respectively. The total costs expected to be incurred related to the 2018 Restructuring Program for MIS and MA are approximately \$43 million to \$48 million and \$27 million to \$32 million, respectively. The 2016 Restructuring Program was completed in 2016.

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| | Year Ended December 31, | | |
|--|-------------------------|-------------------|-------------------|
| | 2018 | 2017 | 2016 |
| Revenue: | | | |
| U.S. | \$ 2,329.6 | 2,348.4 | \$ 2,105.5 |
| Non-U.S.: | | | |
| EMEA | 1,377.0 | 1,131.7 | 904.4 |
| Asia-Pacific | 493.2 | 471.4 | 373.2 |
| Americas | 242.9 | 252.6 | 221.1 |
| Total Non-U.S. | 2,113.1 | 1,855.7 | 1,498.7 |
| Total | \$ 4,442.7 | \$ 4,204.1 | \$ 3,604.2 |
| Long-lived assets at December 31: | | | |
| U.S. | \$ 982.4 | \$ 672.5 | \$ 681.9 |
| Non-U.S. | 4,685.4 | 5,037.4 | 964.0 |
| Total | \$ 5,667.8 | \$ 5,709.9 | \$ 1,645.9 |

NOTE 22 VALUATION AND QUALIFYING ACCOUNTS

Accounts receivable allowances primarily represent adjustments to customer billings that are estimated when the related revenue is recognized and also represents an estimate for uncollectible accounts. The valuation allowance on deferred tax assets relates to foreign net operating tax losses for which realization is uncertain. Below is a summary of activity:

| Year Ended December 31, | Balance at Beginning of the Year | Charged to costs and expenses | Deductions ⁽¹⁾ | Balance at End of the Year |
|---|-------------------------------------|-------------------------------------|---------------------------|----------------------------------|
| 2018 | | | | |
| Accounts receivable allowance | \$ (36.6) | \$ (18.8) | \$ 11.9 | \$ (43.5) |
| Deferred tax assets valuation allowance | \$ (12.8) | \$ (10.3) | \$ 0.7 | \$ (22.4) |
| 2017 | | | | |
| Accounts receivable allowance | \$ (25.7) | \$ (19.6) | \$ 8.7 | \$ (36.6) |
| Deferred tax assets valuation allowance | \$ (3.2) | \$ (9.9) | \$ 0.3 | \$ (12.8) |
| 2016 | | | | |
| Accounts receivable allowance | \$ (27.5) | \$ (6.2) | \$ 8.0 | \$ (25.7) |
| Deferred tax assets valuation allowance | \$ (4.3) | \$ (0.9) | \$ 2.0 | \$ (3.2) |

(1) Reflects write-off of uncollectible accounts receivable or expiration of foreign net operating tax losses

NOTE 23 OTHER NON-OPERATING (EXPENSE) INCOME, NET

The following table summarizes the components of other non-operating (expense) income, net as presented in the consolidated statements of operations:

| | Year Ended December 31, | | |
|--|-------------------------|-----------|---------|
| | 2018 | 2017 | 2016 |
| FX (loss) gain ⁽¹⁾ | \$ (11.4) | \$ (16.8) | \$ 50.1 |
| Net periodic pension costs other components ⁽²⁾ | 10.3 | 8.4 | 7.3 |
| Income from investments in non-consolidated affiliates | 13.8 | 13.3 | 11.4 |
| Legacy Tax ⁽³⁾ | | | 1.6 |
| Other | 6.1 | (1.2) | (6.0) |
| Total | \$ 18.8 | \$ 3.7 | \$ 64.4 |

(1) The FX gain in 2016 includes an approximate \$35 million net gain relating to the substantial liquidation/sale of certain non-U.S. subsidiaries. Pursuant to ASC 830, cumulative translation gains relating to these subsidiaries were reclassified to other non-operating income, net in the consolidated statement of operations.

(2) The Company adopted ASU No. 2017-07 in the first quarter of 2018, whereby all components of pension expense except for the service cost component are required to be presented in non-operating (expense) income, net. The service cost component continues to be reported as an operating expense.

(3) The 2016 amount relate to the expiration of a statute of limitations for Legacy Tax Matters.

Table of Contents**NOTE 24 RELATED PARTY TRANSACTIONS**

Moody's Corporation made grants of \$12 million and \$4 million to The Moody's Foundation during the years ended December 31, 2017 and 2016, respectively. The Company did not make a grant to the Foundation in 2018. The Foundation carries out philanthropic activities primarily in the areas of education and health and human services. Certain members of Moody's senior management are on the board of the Foundation.

NOTE 25 QUARTERLY FINANCIAL DATA (UNAUDITED)

| (amounts in millions, except EPS) | Three Months Ended | | | |
|---|--------------------|------------|--------------|-------------|
| | March 31 | June 30 | September 30 | December 31 |
| 2018 | | | | |
| Revenue | \$ 1,126.7 | \$ 1,175.1 | \$ 1,080.8 | \$ 1,060.1 |
| Operating income | \$ 490.8 | \$ 534.0 | \$ 466.8 | \$ 376.6 |
| Net income attributable to Moody's | \$ 372.9 | \$ 376.2 | \$ 310.2 | \$ 250.3 |
| EPS: | | | | |
| Basic | \$ 1.95 | \$ 1.96 | \$ 1.62 | \$ 1.31 |
| Diluted | \$ 1.92 | \$ 1.94 | \$ 1.59 | \$ 1.29 |
| 2017 | | | | |
| Revenue | \$ 975.2 | \$ 1,000.5 | \$ 1,062.9 | \$ 1,165.5 |
| Operating income ⁽¹⁾ | \$ 446.7 | \$ 460.1 | \$ 448.5 | \$ 465.5 |
| Net income attributable to Moody's | \$ 345.6 | \$ 312.2 | \$ 317.3 | \$ 25.5 |
| EPS: | | | | |
| Basic | \$ 1.81 | \$ 1.63 | \$ 1.66 | \$ 0.13 |
| Diluted | \$ 1.78 | \$ 1.61 | \$ 1.63 | \$ 0.13 |

⁽¹⁾ Pursuant to the adoption of a new accounting standard relating to pension accounting as more fully discussed in Note 1, only the service component of net periodic expense is classified within operating and SG&A expenses with the remaining components being classified as non-operating expenses. Prior period results have been restated to reflect this classification.

Basic and diluted EPS are computed for each of the periods presented. The number of weighted average shares outstanding changes as common shares are issued pursuant to employee stock-based compensation plans and for other purposes or as shares are repurchased. Therefore, the sum of basic and diluted EPS for each of the four quarters may not equal the full year basic and diluted EPS.

Net Income attributable to Moody's in the three months ended September 30, 2018 includes a \$64.7 million net benefit related to the net impact of U.S. tax reform and a \$63.9 million charge related to an increase to non-U.S. UTPs. Net Income attributable to Moody's in the three months ended December 31, 2018 includes a charge of \$48.7 million (\$36.8 million net of tax) relating to the 2018 Restructuring Program.

Net Income attributable to Moody's for the three months ended March 31, 2017 includes the \$59.7 million CCXI gain. Net Income attributable to Moody's for the three months ended June 30, 2017 and September 30, 2017 include \$41.2 million (\$25.3 million net of tax) and \$69.9 million (\$44.4 million net of tax), respectively, related to gains from

FX collars and forward contracts executed to hedge against variability in the euro-denominated purchase price for Bureau van Dijk. Net Income attributable to Moody's in the three months ended December 31, 2017 includes a net charge of \$ 245.6 million relating to the U.S. corporate tax reform and changes in statutory tax rates in Belgium as more fully discussed in Note 16.

NOTE 26 SUBSEQUENT EVENTS

On February 12, 2019, the Board approved the declaration of a quarterly dividend of \$0.50 per share for Moody's common stock, payable March 18, 2019 to shareholders of record at the close of business on February 25, 2019.

In addition, on January 3, 2019, the Company fully repaid \$450 million of the 2014 Senior Notes (5-year).

On February 20, 2019, the Company entered into an accelerated share repurchase agreement (ASR) with a financial institution counterparty to repurchase \$500 million of its outstanding common stock. The final settlement of the transaction under the ASR agreement is expected to be completed no later than April 2019. The ASR was entered into pursuant to the Company's existing share repurchase program, as further discussed in Note 18 of the Company's financial statements.

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company carried out an evaluation, as required by Rule 13a-15(b) under the Exchange Act, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures, as defined in Rule 13a-15(e) of the Exchange Act, as of the end of the period covered by this report (the Evaluation Date). Based on such evaluation, such officers have concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the communication to the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes In Internal Control Over Financial Reporting

Information in response to this Item is set forth under the caption "Management's Report on Internal Control Over Financial Reporting", in Part II, Item 8 of this annual report on Form 10-K.

Except as described below, the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, has determined that there were no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, these internal controls over financial reporting during the three-month period ended December 31, 2018.

During the fiscal year ended December 31, 2017, the Company acquired Bureau van Dijk, and in the fiscal year ended December 31, 2018, Moody's integrated the acquired entity into the Company's financial reporting processes and procedures and internal controls over financial reporting. Additionally, during the fiscal year ended December 31, 2018, the Company implemented internal controls relating to the adoption and assessment of the impact of the new accounting standard relating to leases, which will be adopted by Moody's on January 1, 2019.

ITEM 9B. OTHER INFORMATION

Not applicable.

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PART III

Except for the information relating to the executive officers of the Company set forth in Part I of this annual report on Form 10-K, the information called for by Items 10-14 is contained in the Company's definitive proxy statement for use in connection with its annual meeting of stockholders scheduled to be held on April 16, 2019, and is incorporated herein by reference.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

ITEM 11. EXECUTIVE COMPENSATION

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

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PART IV

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES
LIST OF DOCUMENTS FILED AS PART OF THIS REPORT.**

(1) Financial Statements.

See Index to Financial Statements on page 59, in Part II. Item 8 of this Form 10-K.

(2) Financial Statement Schedules.

None.

(3) Exhibits.

INDEX TO EXHIBITS

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| | |
|---|--|
| 2 | <p>Plan Of Acquisition, Reorganization, Arrangement, Liquidation or Succession</p> <p>.1 <u>Securities Purchase Agreement, dated as of May 15, 2017, among Moody s Corporation, Moody s Holdings NL B.V., Yellow Maple I B.V., Yellow Maple Syrup I B.V., Yellow Maple Syrup II B.V. and the Sellers identified therein (incorporated by reference to Exhibit 2.1 to the Report on Form 8-K of the Registrant, file number 1-14037, filed May 15, 2017)</u></p> <p>.2 <u>Warranty Agreement, dated as of May 15, 2017, between Moody s Holdings NL B.V. and the Warrantors identified therein (incorporated by reference to Exhibit 2.2 to the Report on Form 8-K of the Registrant, file number 1-14037, filed May 15, 2017)</u></p> |
| 3 | <p>Articles Of Incorporation And By-laws</p> <p>.1 <u>Restated Certificate of Incorporation of the Registrant, effective April 17, 2013 (incorporated by reference to Exhibit 3.4 to the Report on Form 8-K of the Registrant, file number 1-14037, filed April 22, 2013)</u></p> <p>.2 <u>Amended and Restated By-laws of Moody s Corporation, effective April 17, 2013 (incorporated by reference to Exhibit 3.2 to the Report on Form 8-K of the Registrant, file number 1-14037, filed April 22, 2013)</u></p> |

Instruments Defining The Rights Of Security Holders, Including Indentures

- .1 Specimen Common Stock certificate (incorporated by reference to Exhibit 4.1 to the Report on Form 8-K of the Registrant, file number 1-14037, filed October 4, 2000)
- .2 Note Purchase Agreement, dated as of September 7, 2007, by and among Moody's Corporation and the note purchasers party thereto, including the form of the 6.06% Series 2007-1 Senior Unsecured Note due 2017 (incorporated by reference to Exhibit 4.1 to the Report on Form 8-K of the Registrant, file number 1-14037, filed September 13, 2007)
- .3.1 Indenture, dated as of August 19, 2010, between Moody's Corporation and Wells Fargo, National Association, as trustee (incorporated by reference to Exhibit 4.1 to the Report on Form 8-K of the Registrant, file number 1-14037, filed August 19, 2010)
- .3.2 Supplemental Indenture, dated as of August 19, 2010, between Moody's Corporation and Wells Fargo, National Association, as trustee, including the form of the 5.50% Senior Notes due 2020 (incorporated by reference to Exhibit 4.2 to the Report on Form 8-K of the Registrant, file number 1-14037, filed August 19, 2010)

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- .3.3 Second Supplemental Indenture, dated as of August 20, 2012, between Moody's Corporation and Wells Fargo, National Association, as trustee, including the form of the 4.50% Senior Notes due 2022 (incorporated by reference to Exhibit 4.1 to the Report on Form 8-K of the Registrant, file number 1-14037, filed August 20, 2012)
- .3.4 Third Supplemental Indenture, dated as of August 12, 2013, between Moody's Corporation and Wells Fargo, National Association, as trustee, including the form of the 4.875% Senior Notes due 2023 (incorporated by reference to Exhibit 4.1 to the Report on Form 8-K of the Registrant, file number 1-14037, filed August 12, 2013)
- .3.5 Fourth Supplemental Indenture, dated July 16, 2014, between the Company and Wells Fargo Bank, National Association, as trustee, including the form of 2.750% Senior Notes due 2019 and the form of 5.250% Senior Notes due 2044 (incorporated by reference to Exhibit 4.1 to the Report on Form 8-K of the Registrant, file number 1-14037, filed July 16, 2014)
- .3.6 Fifth Supplemental Indenture, dated March 9, 2015, between the Company, Wells Fargo Bank, National Association, as trustee and Elavon Financial Services Limited, UK Branch as paying agent and transfer agent and Elavon Financial Services Limited as registrar, including the form or 1.75% Senior Notes due 2027 (incorporated by reference to Exhibit 4.1 to the Report on Form 8-K of the Registrant, file number 1-14037, filed March 10, 2015)
- .3.7 Sixth Supplemental Indenture, dated as of March 2, 2017, between the Company and Wells Fargo Bank, National Association, as trustee, including the form of 2.750% Senior Notes due 2021 and form of Floating Rate Senior Notes due 2018 (incorporated by reference to Exhibit 4.1 to the Report on Form 8-K of the Registrant, file number 1-14037, filed March 3, 2017)
- .3.8 Seventh Supplemental Indenture, dated as of June 12, 2017, between Moody's Corporation and Wells Fargo, National Association, as trustee, including the form of 2.625% Senior Notes due 2023 and the form of 3.250% Senior Notes due 2028 (incorporated by reference to Exhibit 4.3 to the Report on Form 8-K of the Registrant, file number 1-14037, filed June 12, 2017)
- .3.9 Eighth Supplement Indenture, dated as of June 7, 2018, between the Company and Wells Fargo, National Association, as trustee, including the form of 3.250% Senior Note due 2021 (incorporated by reference to Exhibit 4.1 to the Report on Form 8-K of the Registrant, file number 1-14037, filed June 7, 2018).

- .3.10 Ninth Supplemental Indenture, dated as of December 17, 2018, between the Company and Wells Fargo Bank, National Association, as Trustee, including the form of 4.250% Senior Note due 2029 and the form of 4.875% Senior Note due 2048 (incorporated by reference to Exhibit 4.1 to the Report on Form 8-K of the Registrant, file number 1-14037, filed December 21, 2018).
- .4 Five-Year Credit Agreement dated as of November 14, 2018, among Moody's Corporation, the Borrowing Subsidiaries Party Thereto, the Lenders Party Thereto, JPMorgan Chase Bank, N.A., as Administrative Agent, Bank of America, N.A. and Citibank, N.A. as Co-Syndication Agents, and Barclays Bank plc, MUFG Bank, Ltd. and TD Bank, N.A. as Co-Documentation Agents (incorporated by reference to Exhibit 4.1 to the Report on Form 8-K of the Registrant, file number 1-14037, filed November 20, 2018).
- .5 Loan Agreement, dated as of June 6, 2017, among Moody's Corporation, the Lenders party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent (incorporated by reference to Exhibit 4.1 to the Report on Form 8-K of the Registrant, file number 1-14037, filed June 12, 2017)
- .6 Registration Rights Agreement, dated as of June 12, 2017, between Moody's Corporation and the representatives of the initial purchasers of the notes (incorporated by reference to Exhibit 4.6 to the Report on Form 8-K of the Registrant, file number 1-14037, filed June 12, 2017)

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Material Contracts

- .1 1998 Moody's Corporation Key Employees Stock Incentive Plan (incorporated by reference to Exhibit 10.16 to the Registrant's Quarterly Report on Form 10-Q, file number 1-14037, filed November 14, 2000)
- .2.1 1998 Moody's Corporation Non-Employee Directors Stock Incentive Plan (Adopted September 8, 2000; Amended and Restated as of December 11, 2012, October 20, 2015, December 14, 2015 and December 18, 2017)

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- .2.2 [Form of Non-Employee Director Restricted Stock Grant Agreement \(for awards granted prior to 2018\) for the 1998 Moody's Corporation Non-Employee Directors Stock Incentive Plan \(as amended on April 23, 2001\) \(incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q, file number 1-14037, filed November 3, 2004\)](#)
- .2.3 [Form of Non-Employee Director Restricted Stock Unit Grant Agreement \(for awards after 2017\) for the 1998 Moody's Corporation Non-Employee Directors Stock Incentive Plan \(Adopted September 8, 2000; Amended and Restated as of December 11, 2012, October 20, 2015, December 14, 2015 and December 18, 2017\).](#)
- .3 [Moody's Corporation 1999 Employee Stock Purchase Plan \(as amended and restated December 15, 2008\) \(formerly, The Dun & Bradstreet Corporation 1999 Employee Stock Purchase Plan\) \(incorporated by reference to Exhibit 10.38 to the Registrant's Annual Report on Form 10-K, file number 1-14037, filed March 2, 2009\)](#)
- .4.1 [Amended and Restated 2001 Moody's Corporation Key Employees Stock Incentive Plan \(as amended, December 18, 2017\)](#)
- .4.2 [Form of Employee Non-Qualified Stock Option and Restricted Stock Grant Agreement \(for awards granted prior to 2017\) for the Amended and Restated 2001 Moody's Corporation Key Employees Stock Incentive Plan \(incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q, file number 1-14037, filed November 3, 2004\)](#)
- .4.3 [Form of Employee Non-Qualified Stock Option Grant Agreement for the Amended and Restated 2001 Moody's Corporation Key Employees Stock Incentive Plan \(incorporated by reference to Exhibit 10.17 to the Registrant's Annual Report on Form 10-K, file number 1-14037, filed February 24, 2017\)](#)
- .4.4 [Form of Performance Share Award Letter \(for awards granted prior to 2017\) for the Amended and Restated 2001 Moody's Corporation Key Employees Stock Incentive Plan \(incorporated by reference to Exhibit 10.48 to the Registrant's Annual Report on Form 10-K, file number 1-14037, filed February 28, 2011\)](#)
- .4.5 [Form of Performance Share Award Letter \(for awards granted in 2017\) for the Amended and Restated 2001 Moody's Corporation Key Employees Stock Incentive Plan \(incorporated by reference to Exhibit 10.16 to the Registrant's Annual Report on Form 10-K, file number 1-14037, filed February 24, 2017\)](#)
- .4.6

- Form of Performance Share Award Letter (for awards granted after 2017) for the Amended and Restated 2001 Moody s Corporation Key Employees Stock Incentive Plan
- .4.7 Form of Restricted Stock Unit Grant Agreement for the Amended and Restated 2001 Moody s Corporation Key Employees Stock Incentive Plan (incorporated by reference to Exhibit 10.18 to the Registrant s Annual Report on Form 10-K, file number 1-14037, filed February 24, 2017)
- .5.1 2004 Moody s Corporation Covered Employee Cash Incentive Plan (as amended on February 10, 2015) (incorporated by reference to Exhibit 10.15 to the Registrant s Annual Report on Form 10-K, file number 1-14037, filed February 26, 2015)
- .6 Moody s Corporation Deferred Compensation Plan, effective as of January 1, 2008 (incorporated by reference to Exhibit 10.1 to the Report on Form 8-K of the Registrant, file number 1-14037, filed October 26, 2007)
- .7 Supplemental Executive Benefit Plan of Moody s Corporation, amended and restated as of January 1, 2008 (incorporated by reference to Exhibit 10.38 to the Registrant s Annual Report on Form 10-K, file number 1-14037, filed February 29, 2008)
- .8 Pension Benefit Equalization Plan of Moody s Corporation, amended and restated as of January 1, 2008 (incorporated by reference to Exhibit 10.39 to the Registrant s Annual Report on Form 10-K, file number 1-14037, filed February 29, 2008)
- .9.1 Moody s Corporation Cafeteria Plan, effective January 1, 2008 (incorporated by reference to Exhibit 10.46 to the Registrant s Annual Report on Form 10-K, file number 1-14037, filed March 2, 2009)
- .9.2 First Amendment to the Moody s Corporation Cafeteria Plan (incorporated by reference to Exhibit 10.3 to the Registrant s Quarterly Report on form 10-Q, file number 1-14037, filed July 31, 2014)
- .9.3 Second Amendment to the Moody s Corporation Cafeteria Plan (incorporated by reference to Exhibit 10.33 to the Registrant s Annual Report on Form 10-K, file number 1-14037, filed February 26, 2015)
- .10 Moody s Corporation Change in Control Severance Plan (as amended December 18, 2017).

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- .11.1 [Moody's Corporation Retirement Account, amended and restated as of December 18, 2013 \(incorporated by reference to Exhibit 10.25 to the Registrant's Annual Report on Form 10-K, file number 1-14037, filed February 27, 2014\)](#)
- .11.2 [First Amendment to the Moody's Corporation Retirement Account, amended and restated as of December 18, 2013 \(incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q, file number 1-14037, filed July 30, 2015\)](#)
- .12.1 [Profit Participation Plan of Moody's Corporation \(amended and restated as of January 1, 2014\) \(incorporated by reference to Exhibit 10.26 to the Registrant's Annual Report on Form 10-K, file number 1-14037, filed February 26, 2015\)](#)
- .12.2 [First Amendment to the Profit Participation Plan of Moody's Corporation \(amended and restated as of January 1, 2014\) \(incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on form 10-Q, file number 1-14037, filed May 4, 2015\)](#)
- .12.3 [Second Amendment to the Profit Participation Plan of Moody's Corporation \(incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q, file number 1-14037, filed May 4, 2016\)](#)
- .12.4 [Profit Participation Plan of Moody's Corporation \(amended and restated as of January 1, 2018\) \(incorporated by reference to Exhibit 4.3 to the Registrant's Registration Statement on Form S-8, file number 333-228577, filed November 28, 2018\)](#)
- .13 [The Moody's Corporation Nonfunded Deferred Compensation Plan for Non-Employee Directors \(as amended and restated October 20, 2015\) \(incorporated by reference to Exhibit 10.3 to the Registrant's Annual Report on Form 10-K, file number 1-14037, filed February 25, 2016\)](#)
- .14.1 [Amended and Restated Moody's Corporation Career Transition Plan \(incorporated by reference to Exhibit 10.33 to Registrant's Annual Report on Form 10-K, file number 1-14037, filed February 24, 2017\)](#)
- .14.2 [Form of Separation Agreement and General Release used by the Registrant with its Career Transition Plan \(incorporated by reference to Exhibit 99.1 to the Report on Form 8-K of the Registrant, file number 1-14037, filed November 20, 2007\)](#)
- .15 [Separation Agreement and General Release between the Company and Linda S. Huber, dated January 26, 2018 \(incorporated by reference to Exhibit 10.1 to the Registrant's](#)

- Report on Form 8-K, file number 1-14037, filed January 29, 2018)
- .16 Agreement of Lease, dated September 7, 2006, between Moody's Corporation and 7 World Trade Center, LLC (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q, file number 1-14037, filed November 2, 2006)
- .17.1 Agreement for Lease, dated February 6, 2008, among CWCB Properties (DS7) Limited, CWCB Properties (DS7) Limited and CW Leasing DS7F Limited, Canary Wharf Holdings Limited, Moody's Investors Service Limited, and Moody's Corporation (incorporated by reference to Exhibit 10.1 to the Report on Form 8-K of the Registrant, file number 1-14037, filed February 12, 2008)
- .17.2 Storage Agreement for Lease dated February 6, 2008 among Canary Wharf (Car Parks) Limited, Canary Wharf Holdings Limited, Canary Wharf Management Limited, Moody's Investors Service Limited, and Moody's Corporation (incorporated by reference to Exhibit 10.2 to the Report on Form 8-K of the Registrant file number 1-14037, filed February 12, 2008)
- .18 Form Commercial Paper Dealer Agreement between Moody's Corporation, as Issuer, and the Dealer party thereto (incorporated by reference to Exhibit 10.1 to the Report on Form 8-K of the Registrant, file number 1-14037, filed August 3, 2016)
- .19 Settlement Agreement dated January 13, 2017 between (1) Moody's Corporation, Moody's Investors Service, Inc. and Moody's Analytics, Inc., and (2) the United States, acting through the United States Department of Justice and the United States Attorney's Office for the District of New Jersey, along with various States and the District of Columbia, acting through their respective Attorneys General (incorporated by reference to the Report on Form 8-K of the Registrant, file number 1-14037, filed January 17, 2017)
- .20 Form Indemnification Agreement (incorporated by reference to Exhibit 10.1 to the Report on Form 8-K of the Registrant, file number 1-14037, filed December 22, 2017)

Table of Contents**S-K EXHIBIT NUMBER**

| | | |
|-----|-------|--|
| | .21 | <u>Employment Offer Letter between Moody's Corporation and Mark Kaye, dated July 18, 2018 (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q of the Registrant, file number 1-14037, filed on October 31, 2018).</u> |
| | .22* | <u>Supplemental Executive Disability Benefit Plan of Moody's Corporation, effective as of January 1, 2019</u> |
| 21* | | <u>Subsidiaries of the Registrant List of Active Subsidiaries as of December 31, 2018</u> |
| 23 | | Consent of Independent Registered Public Accounting Firm |
| | .1* | <u>Consent of KPMG LLP</u> |
| 31 | | Certifications Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| | .1* | <u>Chief Executive Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u> |
| | .2* | <u>Chief Financial Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u> |
| 32 | | Certifications Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| | .1* | <u>Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (The Company has furnished this certification and does not intend for it to be considered filed under the Securities Exchange Act of 1934 or incorporated by reference into future filings under the Securities Act of 1933 or the Securities Exchange Act of 1934)</u> |
| | .2* | <u>Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (The Company has furnished this certification and does not intend for it to be considered filed under the Securities Exchange Act of 1934 or incorporated by reference into future filings under the Securities Act of 1933 or the Securities Exchange Act of 1934)</u> |
| 101 | | XBRL |
| | .DEF* | XBRL Definitions Linkbase Document |
| | .INS* | XBRL Instance Document |
| | .SCH* | XBRL Taxonomy Extension Schema Document |
| | .CAL* | XBRL Taxonomy Extension Calculation Linkbase Document |
| | .LAB* | XBRL Taxonomy Extension Labels Linkbase Document |
| | .PRE* | XBRL Taxonomy Extension Presentation Linkbase Document |

* Filed herewith

Management contract of compensatory plan or arrangement

ITEM 16. FORM 10-K SUMMARY

None.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MOODY S CORPORATION

(Registrant)

By: /s/ RAYMOND W. MCDANIEL, JR.

Raymond W. McDaniel, Jr.

President and Chief Executive Officer

Date: February 22, 2019

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

/s/ RAYMOND W. MCDANIEL, JR.

Raymond W. McDaniel, Jr.,

President and Chief Executive Officer

(principal executive officer)

/s/ MARK KAYE

Mark Kaye,

Senior Vice President and Chief Financial Officer

(principal financial officer)

/s/ CAROLINE SULLIVAN

Caroline Sullivan,

Senior Vice President and Corporate Controller

(principal accounting officer)

/s/ BASIL L. ANDERSON

Basil L. Anderson,

Director

/s/ JORGE A. BERMUDEZ

Jorge A. Bermudez,

Director

/s/ GERRIT ZALM

Gerrit Zalm,

Director

/s/ KATHRYN M. HILL

Kathryn M. Hill,

Director

/s/ VINCENT A. FORLENZA

Vincent A. Forlenza,

Director

/s/ HENRY A. MCKINNEL, JR. PH.D.

Henry A. McKinnell, Jr. Ph.D.,

Chairman

/s/ LESLIE F. SEIDMAN

Leslie F. Seidman,

Director

/s/ BRUCE VAN SAUN

Bruce Van Saun,

Director

Date: February 22, 2019

