

CITIGROUP INC
Form 424B2
March 29, 2018

The information in this pricing supplement is not complete and may be changed. A registration statement relating to these securities has been filed with the Securities and Exchange Commission. This pricing supplement and the accompanying product supplement, underlying supplement, prospectus supplement and prospectus are not an offer to sell these securities, nor are they soliciting an offer to buy these securities, in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED MARCH 28, 2018

April-----, 2018

Medium-Term Senior Notes, Series N

Citigroup Global Markets Holdings Inc.

Pricing Supplement No. 2018-USNCH1096

Filed Pursuant to Rule 424(b)(2)

**Registration Statement Nos. 333-216372 and
333-216372-01**

Autocallable Contingent Coupon Equity Linked Securities Based on the Worst Performing of the Russell 2000[®] Index, the EURO STOXX 50[®] Index and the Shares of the iShares[®] MSCI Emerging Markets ETF Due July-----, 2019

The securities offered by this pricing supplement are unsecured senior debt securities issued by Citigroup Global Markets Holdings Inc. and guaranteed by Citigroup Inc. The securities offer the potential for contingent quarterly coupon payments at an annualized rate that, if all are paid, would produce a yield that is generally higher than the yield on our conventional debt securities of the same maturity. In exchange for this higher potential yield, you must be willing to accept the risks that (i) your actual yield may be lower than the yield on our conventional debt securities of the same maturity because you may not receive one or more, or any, contingent coupon payments; (ii) your actual yield may be negative because you may receive significantly less than the stated principal amount of your securities, and possibly nothing, at maturity; and (iii) the securities may be automatically redeemed prior to maturity. Each of these risks will depend on the performance of the **worst performing** of the Russell 2000[®] Index, the EURO STOXX 50[®] Index and the shares of the iShares[®] MSCI Emerging Markets ETF (each, an “underlying asset”), as described below. You will be subject to risks associated with each of the underlying assets and will be negatively affected by adverse movements in any of the underlying assets regardless of the performance of any other underlying assets. Although you will be exposed to downside risk with respect to the worst performing underlying asset, you will not participate in any appreciation of the underlying assets or receive any dividends paid on the stocks included in or held by, as applicable, any of the underlying assets.

Investors in the securities must be willing to accept (i) an investment that may have limited or no liquidity and (ii) the risk of not receiving any payments due under the securities if we and Citigroup Inc. default on our obligations. **All payments on the securities are subject to the credit risk of Citigroup Global Markets Holdings Inc. and Citigroup Inc.**

KEY TERMS

Issuer: Citigroup Global Markets Holdings Inc., a wholly owned subsidiary of Citigroup Inc.
Guarantee: All payments due on the securities are fully and unconditionally guaranteed by Citigroup Inc.

Underlying assets:	Underlying assets	Starting value*	Coupon barrier value**	Knock-in value***
	Russell 2000 [®] Index			
	EURO STOXX 50 [®] Index			
	Shares of the iShares [®] MSCI Emerging Markets ETF			

* The closing level or closing price of the applicable underlying asset on the pricing date

** For each underlying asset, 70% of its starting value

*** For each underlying asset, 70% of its starting value

Aggregate stated principal amount:

\$

Stated principal amount:

\$1,000 per security

Pricing date: April , 2018 (expected to be April 25, 2018)

Issue date: April , 2018 (three business days after the pricing date). See “Supplemental Plan of Distribution” in this pricing supplement for additional information.

Valuation dates: Expected to be July 25, 2018, October 25, 2018, January 25, 2019, April 25, 2019 and July 25, 2019 (the “final valuation date”), each subject to postponement if such date is not a scheduled trading day for any of the underlying assets or if certain market disruption events occur with respect to any of the underlying assets

Maturity date: Unless earlier redeemed, July , 2019 (expected to be July 30, 2019)

Contingent coupon payment dates:

For each valuation date, the fifth business day after such valuation date, except that the contingent coupon payment date for the final valuation date will be the maturity date

Contingent coupon:

On each quarterly contingent coupon payment date, unless previously redeemed, the securities will pay a contingent coupon equal to 2.50% to 3.00% (10.00% to 12.00% per annum) (to be determined on the pricing date) of the stated principal amount of the securities **if and only if** the closing value of the worst performing underlying asset on the related valuation date is greater than or equal to the applicable coupon barrier value. **If the closing value of the worst performing underlying asset on any quarterly valuation date is less than the applicable coupon barrier value, you will not receive any contingent coupon payment on the related contingent coupon payment date.**

Payment at maturity:

If the securities are not automatically redeemed prior to maturity, you will be entitled to receive at maturity for each security you then hold (in addition to the final contingent coupon payment, if

applicable):

If the closing value of the worst performing underlying asset on the final valuation date is **greater than or equal to** the applicable starting value: \$1,000

If the closing value of the worst performing underlying asset on the final valuation date is **less than** the applicable starting value and a knock-in event **has not** occurred: \$1,000

If the closing value of the worst performing underlying asset on the final valuation date is **less than** the applicable starting value and a knock-in event **has** occurred:

\$1,000 × the underlying asset performance factor of the worst performing underlying asset on the final valuation date

If the closing value of the worst performing underlying asset on the final valuation date is less than the applicable starting value and a knock-in event has occurred, you will receive less than the stated principal amount of your securities, and possibly nothing, at maturity.

Underwriting fee and issue price:	Issue price⁽¹⁾	Underwriting fee⁽²⁾	Proceeds to issuer⁽³⁾
Per security:	\$1,000.00	\$8.75	\$991.25
Total:	\$	\$	\$

(Key Terms continued on next page)

(1) Citigroup Global Markets Holdings Inc. currently expects that the estimated value of the securities on the pricing date will be at least \$925.50 per security, which will be less than the issue price. The estimated value of the securities is based on Citigroup Global Markets Inc.’s (“CGMI”) proprietary pricing models and our internal funding rate. It is not an indication of actual profit to CGMI or other of our affiliates, nor is it an indication of the price, if any, at which CGMI or any other person may be willing to buy the securities from you at any time after issuance. See “Valuation of the Securities” in this pricing supplement.

(2) CGMI, an affiliate of Citigroup Global Markets Holdings Inc. and the underwriter of the sale of the notes, is acting as principal and will receive an underwriting fee of up to \$8.75 for each \$1,000 security sold in this offering. Selected dealers not affiliated with CGMI will receive a selling concession of up to \$8.75 for each security they sell. For more information on the distribution of the securities, see “Supplemental Plan of Distribution” in this pricing supplement. In addition to the underwriting fee, CGMI and its affiliates may profit from expected hedging activity related to this offering, even if the value of the securities declines. See “Use of Proceeds and Hedging” in the accompanying prospectus.

(3) The per security proceeds to Citigroup Global Markets Holdings Inc. indicated above represent the minimum per security proceeds to Citigroup Global Markets Holdings Inc. for any security, assuming the maximum per security underwriting fee of \$8.75. As noted in footnote (2), the underwriting fee is variable.

Investing in the securities involves risks not associated with an investment in conventional debt securities. See “Summary Risk Factors” beginning on page PS-5.

Neither the Securities and Exchange Commission (the “SEC”) nor any state securities commission has approved or disapproved of the securities or determined that this pricing supplement and the accompanying product supplement, underlying supplement, prospectus supplement and prospectus is truthful or complete. Any

representation to the contrary is a criminal offense. *You should read this pricing supplement together with the accompanying product supplement, underlying supplement, prospectus supplement and prospectus, each of which can be accessed via the hyperlinks below:*

Product Supplement No. EA-04-06 dated April 7, 2017

Underlying Supplement No. 6 dated April 7, 2017

Prospectus Supplement and Prospectus each dated April 7, 2017

The securities are not bank deposits and are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other governmental agency, nor are they obligations of, or guaranteed by, a bank.

Citigroup Global Markets Holdings Inc.

Autocallable Contingent Coupon Equity Linked Securities Based on the Worst Performing of the Russell 2000® Index, the EURO STOXX 50® Index and the Shares of the iShares® MSCI Emerging Markets ETF Due July-----, 2019

KEY TERMS (continued)

Automatic early redemption:	If, on any potential redemption date, the closing value of the worst performing underlying asset is greater than or equal to the applicable starting value, each security you then hold will be automatically redeemed on the related contingent coupon payment date for an amount in cash equal to \$1,000 <i>plus</i> the related contingent coupon payment
Potential redemption dates:	Each quarterly valuation date beginning in October 2018 and ending in April 2019
Closing value:	For each underlying asset on any valuation date, its closing level or closing price, as applicable, on that date
Knock-in event:	A knock-in event will occur if, on any trading day during the observation period, the closing value of any underlying asset is less than its knock-in value
Observation period:	The period from but excluding the pricing date to and including the final valuation date
Underlying asset performance factor:	For each underlying asset on any valuation date, the closing value of that underlying asset on that valuation date <i>divided by</i> its starting value
Worst performing underlying asset:	For any valuation date, the underlying asset with the lowest underlying asset performance factor determined on that valuation date
Listing:	The securities will not be listed on any securities exchange
CUSIP / ISIN:	17324CTU0 / US17324CTU08
Underwriter:	CGMI, an affiliate of the issuer, acting as principal

Additional Information

General. The terms of the securities are set forth in the accompanying product supplement, prospectus supplement and prospectus, as supplemented by this pricing supplement. The accompanying product supplement, prospectus supplement and prospectus contain important disclosures that are not repeated in this pricing supplement. For example, certain events may occur that could affect whether you receive a contingent coupon payment on a contingent coupon payment date as well as your payment at maturity. These events, including market disruption events and other events affecting the underlying assets, and their consequences are described in the accompanying product supplement in the sections “Description of the Securities—Certain Additional Terms for Securities Linked to an Underlying Index—Consequences of a Market Disruption Event; Postponement of a Valuation Date” and “—Discontinuance or Material Modification of an Underlying Index” or “—Certain Additional Terms for Securities Linked to Company Shares or ETF Shares—Consequences of a Market Disruption Event; Postponement of a Valuation Date,” “—Dilution and Reorganization Adjustments,” and “—Delisting, Liquidation or Termination of an ETF,” and not in this pricing supplement. The accompanying underlying supplement contains important disclosures regarding each underlying asset that are not

repeated in this pricing supplement. It is important that you read the accompanying product supplement, underlying supplement, prospectus supplement and prospectus together with this pricing supplement before deciding whether to invest in the securities. Certain terms used but not defined in this pricing supplement are defined in the accompanying product supplement.

Relevant price. With respect to the iShares[®] MSCI Emerging Markets ETF, its starting value, its coupon barrier value and its knock-in value are each a “Relevant Price” for purposes of the section “Description of the Securities—Certain Additional Terms for Securities Linked to ETF Shares or Company Shares—Dilution and Reorganization Adjustments” in the accompanying product supplement. Accordingly, the starting value, the coupon barrier value and the knock-in value with respect to the iShares[®] MSCI Emerging Markets ETF are each subject to adjustment upon the occurrence of any of the events described in that section.

Postponement of a valuation date. If any valuation date is not a scheduled trading day for any of the underlying assets or if a market disruption event occurs with respect to any of the underlying assets on any valuation date, that valuation date will be subject to postponement as described in the accompanying product supplement in the sections “Description of the Securities—Certain Additional Terms for Securities Linked to an Underlying Index—Consequences of a Market Disruption Event; Postponement of a Valuation Date” or “—Certain Additional Terms for Securities Linked to Company Shares or ETF Shares—Consequences of a Market Disruption Event; Postponement of a Valuation Date.” If any valuation date is postponed, the closing value of each of the underlying assets in respect of that valuation date will be determined based on (i) for any underlying asset for which the originally scheduled valuation date is a scheduled trading day and as to which a market disruption event does not occur on the originally scheduled valuation date, the closing value of such underlying asset on the originally scheduled valuation date and (ii) for any other underlying asset, the closing value of such underlying asset on the valuation date as postponed (or, if earlier, the first scheduled trading day for such underlying asset following the originally scheduled valuation date on which a market disruption event did not occur with respect to such underlying asset).

April 2018 PS-2

Citigroup Global Markets Holdings Inc.

Autocallable Contingent Coupon Equity Linked Securities Based on the Worst Performing of the Russell 2000® Index, the EURO STOXX 50® Index and the Shares of the iShares® MSCI Emerging Markets ETF Due July-----, 2019

Hypothetical Examples

The examples below illustrate how to determine whether a contingent coupon will be paid with respect to a quarterly valuation date and how to calculate the payment at maturity on the securities, assuming the securities are not automatically redeemed prior to maturity. You should understand that the term of the securities, and your opportunity to receive the contingent coupon payments on the securities, may be limited to as short as approximately six months if the securities are automatically redeemed prior to the maturity date, which is not reflected in the examples below. Unless earlier redeemed, during the term of the securities, there are five valuation dates. For ease of analysis, figures in the table below may have been rounded.

The examples below are based on the following hypothetical values and assumptions in order to illustrate how the securities work and do not reflect the actual starting values of any of the underlying assets or their applicable coupon barrier values or knock-in values, each of which will be determined on the pricing date:

Underlying asset	Hypothetical starting value	Hypothetical coupon barrier value	Hypothetical knock-in value
Russell 2000® Index	1,500.000	1,050.000 (70% of the applicable hypothetical starting value)	1,050.000 (70% of the applicable hypothetical starting value)
EURO STOXX 50® Index	3,300.00	2,310.000 (70% of the applicable hypothetical starting value)	2,310.000 (70% of the applicable hypothetical starting value)
Shares of the iShares® MSCI Emerging Markets ETF	\$50.00	\$35.000 (70% of the applicable hypothetical starting value)	\$35.000 (70% of the applicable hypothetical starting value)
Contingent coupon rate:		10.00% per annum, paid quarterly	

Hypothetical Examples of Contingent Coupon Payments and any Payment upon Automatic Early Redemption with Respect to a Quarterly Valuation Date that is also a Potential Redemption Date

Set forth below are three hypothetical examples of the calculation of the contingent coupon payment with respect to a hypothetical quarterly valuation date that is also a potential redemption date.

	Hypothetical closing value of the Russell 2000® Index	Hypothetical closing value of the EURO STOXX 50® Index	Hypothetical closing value of the shares of the iShares® MSCI Emerging Markets ETF	Hypothetical contingent coupon payment per security and any payment upon an automatic early redemption
Example 1:	1,800.000	2,805.00	\$37.50	
Hypothetical valuation date 1	(underlying asset performance factor = $1,800.000 / 1,500.000 = 1.20$)	(underlying asset performance factor = $2,805.00 / 3,300.00 = 0.85$)	(underlying asset performance factor = $37.50 / 50.00 = 0.75$)	\$25.00
Example 2:	1,650.000	1,485.00	\$55.00	
Hypothetical valuation date 2	(underlying asset performance factor = $1,650.000 / 1,500.000 = 1.10$)	(underlying asset performance factor = $1,485.00 / 3,300.00 = 0.45$)	(underlying asset performance factor = $55.00 / 50.00 = 1.10$)	\$0.00
Example 3:	1,575.000	3,630.00	\$60.00	
Hypothetical valuation date 3	(underlying asset performance factor = $1,575.000 / 1,500.000 = 1.05$)	(underlying asset performance factor = $3,630.00 / 3,300.00 = 1.10$)	(underlying asset performance factor = $60.00 / 50.00 = 1.20$)	\$1,025.00 (\$1,000 stated principal amount per security plus the related contingent coupon payment)

Example 1: On the hypothetical valuation date, the shares of the iShares® MSCI Emerging Markets ETF have the lowest underlying asset performance factor and, therefore, are the worst performing underlying asset. In this scenario, the closing value of the worst performing underlying asset is **greater than** the applicable coupon barrier value but **less than** the applicable starting value. As a result, investors in the securities would receive the contingent coupon payment of \$25.00 per security on the related contingent coupon payment date and the securities would not be automatically called.

Example 2: On the hypothetical valuation date, the EURO STOXX 50® Index has the lowest underlying asset performance factor and, therefore, is the worst performing underlying asset. In this scenario, the closing value of the worst performing underlying asset is **less than** the applicable coupon barrier value and **less than** the applicable starting value. As a result, investors would not receive any

April 2018 PS-3

Citigroup Global Markets Holdings Inc.

Autocallable Contingent Coupon Equity Linked Securities Based on the Worst Performing of the Russell 2000® Index, the EURO STOXX 50® Index and the Shares of the iShares® MSCI Emerging Markets ETF Due July-----, 2019

payment on the related contingent coupon payment date, even though the other underlying assets have appreciated from their applicable starting values, and the securities would not be automatically called.

Investors in the securities will not receive a contingent coupon payment with respect to a valuation date if, on that valuation date, the closing value of the worst performing underlying asset is less than the applicable coupon barrier value.

Example 3: On the hypothetical valuation date, the hypothetical closing values of all of the underlying assets are **greater than** their applicable coupon barrier values and their applicable starting values. In this scenario, the closing value of the worst performing underlying asset is **greater than** the applicable starting value and the securities would be automatically redeemed on the related contingent coupon payment date for an amount in cash equal to \$1,000 *plus* the related contingent coupon payment, or \$1,025.00. If the hypothetical valuation date were not also a potential redemption date, the securities would not be automatically redeemed.

Hypothetical Examples of the Payment at Maturity on the Securities

The following examples illustrate the hypothetical payment at maturity on the securities as determined based on the applicable closing values of the underlying assets on the final valuation date, assuming the securities have not been earlier automatically redeemed.

	Hypothetical closing value of the Russell 2000® Index	Hypothetical closing value of the EURO STOXX 50® Index	Hypothetical closing value of the shares of the iShares® MSCI Emerging Markets ETF	Has a knock-in event occurred?	Hypothetical payment at maturity per security
Example 4	1,800.000 (underlying asset performance factor = 1,800.000 / 1,500.000 = 1.20)	3,630.00 (underlying asset performance factor = 3,630.00 / 3,300.00 = 1.10)	\$52.50 (underlying asset performance factor = \$52.50 / \$50.00 = 1.05)	No	\$1,025.00

	1,350.000	3,135.00	\$55.00		
Example 5	(underlying asset performance factor = $1,350.000 / 1,500.000 = 0.90$)	(underlying asset performance factor = $3,135.00 / 3,300.00 = 0.95$)	(underlying asset performance factor = $\$55.00 / \$50.00 = 1.10$)	No	\$1,025.00
	1,200.000				
	(underlying asset performance factor = $1,200.000 / 1,500.000 = 0.80$)	990.00	\$60.00		
Example 6	(underlying asset performance factor = $1,200.000 / 1,500.000 = 0.80$)	(underlying asset performance factor = $990.00 / 3,300.00 = 0.30$)	(underlying asset performance factor = $\$60.00 / \$50.00 = 1.20$)	Yes	\$300.00

Example 4: In this example, the shares of the iShares® MSCI Emerging Markets ETF are the worst performing underlying asset. In this scenario, the closing value of the worst performing underlying asset on the final valuation date is **greater than** the applicable starting value. Accordingly, at maturity, you would receive the stated principal amount of the securities *plus* the contingent coupon payment of \$25.00 per security, but you would not participate in the appreciation of any of the underlying assets.

Example 5: In this example, the Russell 2000® Index is the worst performing underlying asset. In this scenario, the closing value of the worst performing underlying asset on the final valuation date is **less than** the applicable starting value and a knock-in event **has not** occurred. Accordingly, at maturity, you would receive a payment per security equal to \$1,000.

Example 6: In this example, the EURO STOXX 50® Index is the worst performing underlying asset. In this scenario, the closing value of the worst performing underlying asset on the final valuation date is **less than** the applicable starting value and a knock-in event **has** occurred. Accordingly, at maturity, you would receive a payment per security calculated as follows:

Payment at maturity = \$1,000 × underlying asset performance factor of the EURO STOXX 50® Index on the final valuation date

= \$1,000 × 0.300

= \$300

In this scenario, because the closing value of the worst performing underlying asset on the final valuation date is less than the applicable starting value and a knock-in event has occurred, you would lose a significant portion of your investment in the securities. In addition, because the closing value of the worst performing underlying asset is below the applicable coupon barrier value, you would not receive any quarterly contingent coupon payment on the maturity date.

A knock-in event may occur on any trading day during the observation period. If a knock-in event occurs, you will have full downside exposure to the worst performing underlying asset if its closing value on the final valuation date is less than its starting value.

April 2018 PS-4

Citigroup Global Markets Holdings Inc.

Autocallable Contingent Coupon Equity Linked Securities Based on the Worst Performing of the Russell 2000® Index, the EURO STOXX 50® Index and the Shares of the iShares® MSCI Emerging Markets ETF Due July-----, 2019

Summary Risk Factors

An investment in the securities is significantly riskier than an investment in conventional debt securities. The securities are subject to all of the risks associated with an investment in our conventional debt securities (guaranteed by Citigroup Inc.), including the risk that we and Citigroup Inc. may default on our obligations under the securities, and are also subject to risks associated with each of the underlying assets. Accordingly, the securities are suitable only for investors who are capable of understanding the complexities and risks of the securities. You should consult your own financial, tax and legal advisors as to the risks of an investment in the securities and the suitability of the securities in light of your particular circumstances.

The following is a summary of certain key risk factors for investors in the securities. You should read this summary together with the more detailed description of risks relating to an investment in the securities contained in the section “Risk Factors Relating to the Securities” beginning on page EA-6 in the accompanying product supplement. You should also carefully read the risk factors included in the accompanying prospectus supplement and in the documents incorporated by reference in the accompanying prospectus, including Citigroup Inc.’s most recent Annual Report on Form 10-K and any subsequent Quarterly Reports on Form 10-Q, which describe risks relating to the business of Citigroup Inc. more generally. Citigroup Inc. will release quarterly earnings on April 13, 2018, which is during the marketing period and prior to the pricing date of these securities.

You may lose some or all of your investment. Unlike conventional debt securities, the securities do not provide for the repayment of the stated principal amount at maturity in all circumstances. If the securities are not automatically redeemed prior to maturity and a knock-in event has occurred, meaning the closing value of at least one of the underlying indices was less than its knock-in value on at least one trading day during the period from but excluding the pricing date to and including the final valuation date, you will be fully exposed to any depreciation of the worst performing underlying asset on the final valuation date. If a knock-in event has occurred, you will lose 1% of the stated principal amount of the securities for every 1% by which the closing value of the worst performing underlying asset on the final valuation date has declined from its starting value, regardless of the performance of the other underlying assets. There is no minimum payment at maturity on the securities, and you may lose up to all of your investment.

You will not receive any contingent coupon payment for any quarter in which the closing value of the worst performing underlying asset is less than the applicable coupon barrier value on the related valuation date. A contingent coupon payment will be made on a contingent coupon payment date if and only if the closing value of the worst performing underlying asset on the related valuation date is greater than or equal to the applicable coupon barrier value. If the closing value of the worst performing underlying asset is less than the applicable coupon barrier value on any quarterly valuation date, you will not receive any contingent coupon payment on the related contingent coupon payment date. If the closing value of the worst performing underlying asset is below the applicable coupon

barrier value on each valuation date, you will not receive any contingent coupon payments over the term of the securities.

The securities are subject to the risks of all of the underlying assets and will be negatively affected if any of the underlying assets performs poorly, even if the other underlying assets perform well. You are subject to risks associated with each of the underlying assets. If any of the underlying assets performs poorly, you will be negatively affected, even if the other underlying assets perform well. The securities are not linked to a basket composed of the underlying assets, where the better performance of one or two could ameliorate the poor performance of the other. Instead, you are subject to the full risks of whichever of the underlying assets is the worst performing underlying asset.

You will not benefit in any way from the performance of the better performing underlying assets. The return on the securities depends solely on the performance of the worst performing underlying asset, and you will not benefit in any way from the performance of the other underlying assets. The securities may underperform a similar alternative investment linked to a basket composed of the underlying assets, since in such case the performance of the better performing underlying assets would be blended with the performance of the worst performing underlying asset, resulting in a better return than the return of the worst performing underlying asset.

You will be subject to risks relating to the relationship among the underlying assets. It is preferable from your perspective for the underlying assets to be correlated with each other, in the sense that they tend to increase or decrease at similar times and by similar magnitudes. By investing in the securities, you assume the risk that the underlying assets will not exhibit this relationship. The less correlated the underlying assets, the more likely it is that any one of the underlying assets will perform poorly over the term of the securities. All that is necessary for the securities to perform poorly is for one of the underlying assets to perform poorly; the performance of the underlying assets that are not the worst performing underlying asset is not relevant to your return on the securities at maturity or upon an earlier automatic redemption. It is impossible to predict what the relationship among the underlying assets will be over the term of the securities. **The Russell 2000® Index represents small capitalization stocks in the United States, the EURO STOXX 50® Index represents large capitalization stocks in the Eurozone and the iShares® MSCI Emerging Markets ETF represents international emerging markets. Accordingly, the underlying assets represent markets that differ in significant ways and, therefore, may not be correlated with each other.**

Higher contingent coupon rates are associated with greater risk. The securities offer contingent coupon payments at an annualized rate that, if all are paid, would produce a yield that is generally higher than the yield on our conventional debt securities of the same maturity. This higher potential yield is associated with greater levels of expected risk as of the pricing date for the securities, including the risk that you may not receive a contingent coupon payment on one or more, or any, contingent coupon

April 2018 PS-5

Citigroup Global Markets Holdings Inc.

Autocallable Contingent Coupon Equity Linked Securities Based on the Worst Performing of the Russell 2000® Index, the EURO STOXX 50® Index and the Shares of the iShares® MSCI Emerging Markets ETF Due July-----, 2019

payment dates and the risk that you may receive significantly less than the stated principal amount of your securities at maturity. The volatility of and the correlation among the underlying assets are important factors affecting these risks. Greater expected volatility of and lower expected correlation among the underlying assets as of the pricing date may result in a higher contingent coupon rate, but would also represent a greater expected likelihood as of the pricing date that the closing value of the worst performing underlying asset on one or more valuation dates will be less than the applicable coupon barrier value, such that you will not receive one or more, or any, contingent coupon payments during the term of the securities, and that the closing value of at least one of the underlying indices will be less than its knock-in value on any trading day during the observation period and less than its starting value on the final valuation date, such that you will not be repaid the stated principal amount of your securities at maturity.

You may not be adequately compensated for assuming the downside risk of the worst performing underlying asset. The potential contingent coupon payments on the securities are the compensation you receive for assuming the downside risk of the worst performing underlying asset, as well as all the other risks of the securities. That compensation is effectively “at risk” and may, therefore, be less than you currently anticipate. First, the actual yield you realize on the securities could be lower than you anticipate because the coupon is “contingent” and you may not receive a contingent coupon payment on one or more, or any, of the contingent coupon payment dates. Second, the contingent coupon payments are the compensation you receive not only for the downside risk of the worst performing underlying asset, but also for all of the other risks of the securities, including the risk that the securities may be automatically redeemed beginning approximately six months after the issue date, interest rate risk and our and Citigroup Inc.’s credit risk. If those other risks increase or are otherwise greater than you currently anticipate, the contingent coupon payments may turn out to be inadequate to compensate you for all the risks of the securities, including the downside risk of the worst performing underlying asset.

The securities may be automatically called prior to maturity, limiting your opportunity to receive contingent coupon payments. On any potential redemption date, beginning in October 2018 and ending in April 2019, the securities will be automatically called if the closing value of the worst performing underlying asset on that potential redemption date is greater than or equal to the applicable starting value. Thus, the term of the securities may be limited to as short as approximately six months. If the securities are called prior to maturity, you will not receive any additional contingent coupon payments. Moreover, you may not be able to reinvest your funds in another investment that provides a similar yield with a similar level of risk.

The securities offer downside exposure to the underlying assets, but no upside exposure to the underlying assets. You will not participate in any appreciation in the value of the underlying assets over the term of the securities. Consequently, your return on the securities will be limited to the contingent coupon payments you receive, if any, and may be significantly less than the return on the underlying assets over the term of the securities. In addition, you will not receive any dividends or other distributions or have any other rights with respect to the underlying assets or the stocks included in or held by, as applicable, any of the underlying assets.

The securities are particularly sensitive to the volatility of the underlying assets. Whether the contingent coupon will be paid for any given quarter and whether the securities will be automatically redeemed prior to maturity will depend on the closing values of the underlying assets solely on the applicable quarterly valuation dates, regardless of the closing values of the underlying assets on other days during the term of the securities. If the securities are not automatically redeemed and a knock-in event occurs on any single trading day during the observation period, the amount you receive at maturity will depend solely on the closing value of the worst performing underlying asset on the final valuation date, and not on any other day during the term of the securities. Because the performance of the securities depends on the closing values of the underlying assets on a limited number of dates, and because a knock-in event may occur on any single day during the observation period, the securities will be particularly sensitive to volatility in the closing values of the underlying assets. You should understand that each of the underlying assets has historically been highly volatile.

The securities are subject to the credit risk of Citigroup Global Markets Holdings Inc. and Citigroup Inc. If we default on our obligations under the securities and Citigroup Inc. defaults on its guarantee obligations, you may not receive any amounts owed to you under the securities.

The securities will not be listed on any securities exchange and you may not be able to sell them prior to maturity. The securities will not be listed on any securities exchange. Therefore, there may be little or no secondary market for the securities. CGMI currently intends to make a secondary market in relation to the securities and to provide an indicative bid price for the securities on a daily basis. Any indicative bid price for the securities provided by CGMI will be determined in CGMI's sole discretion, taking into account prevailing market conditions and other relevant factors, and will not be a representation by CGMI that the securities can be sold at that price, or at all. CGMI may suspend or terminate making a market and providing indicative bid prices without notice, at any time and for any reason. If CGMI suspends or terminates making a market, there may be no secondary market at all for the securities because it is likely that CGMI will be the only broker-dealer that is willing to buy your securities prior to maturity. Accordingly, an investor must be prepared to hold the securities until maturity.

The estimated value of the securities on the pricing date, based on CGMI's proprietary pricing models and our internal funding rate, will be less than the issue price. The difference is attributable to certain costs associated with selling, structuring and hedging the securities that are included in the issue price. These costs include (i) the selling concessions paid in connection with the offering of the securities, (ii) hedging and other costs incurred by us and our affiliates in connection with the offering of the securities and (iii) the expected profit (which may be more or less than actual profit) to CGMI or other of our affiliates in connection

April 2018 PS-6

Citigroup Global Markets Holdings Inc.

Autocallable Contingent Coupon Equity Linked Securities Based on the Worst Performing of the Russell 2000[®] Index, the EURO STOXX 50[®] Index and the Shares of the iShares[®] MSCI Emerging Markets ETF Due July-----, 2019

with hedging our obligations under the securities. These costs adversely affect the economic terms of the securities because, if they were lower, the economic terms of the securities would be more favorable to you. The economic terms of the securities are also likely to be adversely affected by the use of our internal funding rate, rather than our secondary market rate, to price the securities. See “The estimated value of the securities would be lower if it were calculated based on our secondary market rate” below.

The estimated value of the securities was determined for us by our affiliate using proprietary pricing models.

CGMI derived the estimated value disclosed on the cover page of this pricing supplement from its proprietary pricing models. In doing so, it may have made discretionary judgments about the inputs to its models, such as the volatility of and correlation among the underlying assets, dividend yields on the stocks included in or held by, as applicable, the underlying assets and interest rates. CGMI’s views on these inputs may differ from your or others’ views, and as an underwriter in this offering, CGMI’s interests may conflict with yours. Both the models and the inputs to the models may prove to be wrong and therefore not an accurate reflection of the value of the securities. Moreover, the estimated value of the securities set forth on the cover page of this pricing supplement may differ from the value that we or our affiliates may determine for the securities for other purposes, including for accounting purposes. You should not invest in the securities because of the estimated value of the securities. Instead, you should be willing to hold the securities to maturity irrespective of the initial estimated value.

The estimated value of the securities would be lower if it were calculated based on our secondary market rate.

The estimated value of the securities included in this pricing supplement is calculated based on our internal funding rate, which is the rate at which we are willing to borrow funds through the issuance of the securities. Our internal funding rate is generally lower than our secondary market rate, which is the rate that CGMI will use in determining the value of the securities for purposes of any purchases of the securities from you in the secondary market. If the estimated value included in this pricing supplement were based on our secondary market rate, rather than our internal funding rate, it would likely be lower. We determine our internal funding rate based on factors such as the costs associated with the securities, which are generally higher than the costs associated with conventional debt securities, and our liquidity needs and preferences. Our internal funding rate is not the same as the coupon that is payable on the securities.

Because there is not an active market for traded instruments referencing our outstanding debt obligations, CGMI determines our secondary market rate based on the market price of traded instruments referencing the debt obligations of Citigroup Inc., our parent company and the guarantor of all payments due on the securities, but subject to adjustments that CGMI makes in its sole discretion. As a result, our secondary market rate is not a market-determined measure of our creditworthiness, but rather reflects the market’s perception of our parent company’s creditworthiness as adjusted for discretionary factors such as CGMI’s preferences with respect to purchasing the securities prior to maturity.

The estimated value of the securities is not an indication of the price, if any, at which CGMI or any other person may be willing to buy the securities from you in the secondary market. Any such secondary market price will fluctuate over the term of the securities based on the market and other factors described in the next risk factor. Moreover, unlike the estimated value included in this pricing supplement, any value of the securities determined for purposes of a secondary market transaction will be based on our secondary market rate, which will likely result in a lower value for the securities than if our internal funding rate were used. In addition, any secondary market price for the securities will be reduced by a bid-ask spread, which may vary depending on the aggregate stated principal amount of the securities to be purchased in the secondary market transaction, and the expected cost of unwinding related hedging transactions. As a result, it is likely that any secondary market price for the securities will be less than the issue price.

The value of the securities prior to maturity will fluctuate based on many unpredictable factors. The value of your securities prior to maturity will fluctuate based on the value and volatility of the underlying assets and a number of other factors, including the price and volatility of the stocks included in or held by, as applicable, the underlying assets, the correlation among the underlying assets, dividend yields on the stocks included in or held by, as applicable, the underlying assets, interest rates generally, changes in the exchange rate between the U.S. dollar and the euro, the correlation between that exchange rate and the level of the EURO STOXX 50[®] Index, changes in the exchange rate between the U.S. dollar and each of the currencies in which the stocks that are held by the iShares[®] MSCI Emerging Markets ETF trade, the time remaining to maturity and our and Citigroup Inc.'s creditworthiness, as reflected in our secondary market rate. Changes in the values of the underlying assets may not result in a comparable change in the value of your securities. You should understand that the value of your securities at any time prior to maturity may be significantly less than the issue price.

Immediately following issuance, any secondary market bid price provided by CGMI, and the value that will be indicated on any brokerage account statements prepared by CGMI or its affiliates, will reflect a temporary upward adjustment. The amount of this temporary upward adjustment will steadily decline to zero over the temporary adjustment period. See "Valuation of the Securities" in this pricing supplement.

The securities are linked to the Russell 2000[®] Index and will be subject to risks associated with small capitalization stocks. The stocks that constitute the Russell 2000[®] Index are issued by companies with relatively small market capitalization. The stock prices of smaller companies may be more volatile than stock prices of large capitalization companies. These companies tend to be less well-established than large market capitalization companies. Small capitalization companies may be less able to withstand adverse economic, market, trade and competitive conditions relative to larger companies. Small capitalization

Citigroup Global Markets Holdings Inc.

Autocallable Contingent Coupon Equity Linked Securities Based on the Worst Performing of the Russell 2000® Index, the EURO STOXX 50® Index and the Shares of the iShares® MSCI Emerging Markets ETF Due July-----, 2019

companies are less likely to pay dividends on their stocks, and the presence of a dividend payment could be a factor that limits downward stock price pressure under adverse market conditions.

The EURO STOXX 50® Index is subject to risks associated with non-U.S. markets. Investments in securities linked to the value of non-U.S. stocks involve risks associated with the securities markets in those countries, including risks of volatility in those markets, governmental intervention in those markets and cross-shareholdings in companies in certain countries. Also, there is generally less publicly available information about companies in some of these jurisdictions than about U.S. companies that are subject to the reporting requirements of the SEC. Further, non-U.S. companies are generally subject to accounting, auditing and financial reporting standards and requirements and securities trading rules that are different from those applicable to U.S. reporting companies. The prices of securities in foreign markets may be affected by political, economic, financial and social factors in those countries, or global regions, including changes in government, economic and fiscal policies and currency exchange laws. Moreover, the economies in such countries may differ favorably or unfavorably from the economy of the United States in such respects as growth of gross national product, rate of inflation, capital reinvestment, resources and self-sufficiency.

The performance of the EURO STOXX 50® Index will not be adjusted for changes in the exchange rate between the euro and the U.S. dollar. The EURO STOXX 50® Index is composed of stocks traded in euro, the value of which may be subject to a high degree of fluctuation relative to the U.S. dollar. However, the performance of the EURO STOXX 50® Index and the value of your securities will not be adjusted for exchange rate fluctuations. If the euro appreciates relative to the U.S. dollar over the term of the securities, the performance of the EURO STOXX 50® Index as measured for purposes of the securities will be less than it would have been if it offered exposure to that appreciation in addition to the change in the prices of the underlying stocks.

Investing in the securities exposes investors to risks associated with emerging markets equity securities. The stocks composing the iShares® MSCI Emerging Markets ETF and that are generally tracked by the iShares® MSCI Emerging Markets ETF have been issued by companies in various emerging markets. Investments in securities linked to the value of foreign equity securities involve risks associated with the securities markets in those countries, including risks of volatility in those markets, governmental intervention in those markets and cross-shareholdings in companies in certain countries. Also, there is generally less publicly available information about foreign companies than about U.S. companies that are subject to the reporting requirements of the SEC, and foreign companies are subject to accounting, auditing and financial reporting standards and requirements different from those applicable to U.S. reporting companies. The prices of securities in foreign markets may be affected by political, economic, financial and social factors in those countries, or global regions, including changes in government, economic and fiscal policies and currency exchange laws. Countries with emerging markets may have relatively unstable governments, present the risks of nationalization of businesses, have restrictions on foreign ownership and prohibitions on the repatriation of assets and have less protection of property rights than more developed countries. The economies of countries with emerging markets may be based on only a few industries, be highly vulnerable to changes in local or global trade conditions and suffer from extreme and volatile debt burdens or inflation rates. Local securities markets may trade a small number of securities and be unable to respond effectively to increases in trading volume, potentially making prompt liquidation of holdings difficult or impossible at times. Moreover, the economies in such countries may differ

favorably or unfavorably from the economy in the United States in such respects as growth of gross national product, rate of inflation, capital reinvestment, resources and self-sufficiency.

Fluctuations in exchange rates will affect the price of the iShares® MSCI Emerging Markets ETF. Because the iShares® MSCI Emerging Markets ETF invests in stocks that are traded in non-U.S. currencies, while the net asset value of the iShares® MSCI Emerging Markets ETF is based on the U.S. dollar value of those stocks, holders of the securities will be exposed to currency exchange rate risk with respect to each of the currencies in which those stocks trade. If the U.S. dollar generally strengthens against the currencies in which those stocks trade, the price of shares of the iShares® MSCI Emerging Markets ETF will be adversely affected for that reason alone and the payment at maturity on the securities may be reduced.

Exchange rate movements for a particular currency are volatile and are the result of numerous factors specific to the relevant country, including the supply of, and the demand for, those currencies, as well as government policy, intervention or actions, but are also influenced significantly from time to time by political or economic developments, and by macroeconomic factors and speculative actions related to each applicable region. An investor's net exposure will depend on the extent to which the currencies of the applicable countries strengthen or weaken against the U.S. dollar and the relative weight of each currency. Of particular importance to potential currency exchange risk are: existing and expected rates of inflation; existing and expected interest rate levels; the balance of payments; and the extent of governmental surpluses or deficits in the applicable countries and the United States. All of these factors are in turn sensitive to the monetary, fiscal and trade policies pursued by the governments of the applicable countries and the United States and other countries important to international trade and finance.

Changes that affect the underlying assets may affect the value of your securities. The sponsors of the Russell 2000® Index, the EURO STOXX 50® Index or the index underlying the iShares® MSCI Emerging Markets ETF may add, delete or substitute the stocks that constitute those indexes or make other methodological changes that could affect the levels of those indexes. In addition, the investment adviser to the iShares® MSCI Emerging Markets ETF may change the manner in which the iShares® MSCI Emerging Markets ETF operates or its investment objectives at any time. We are not affiliated with any such index sponsor or investment advisor and, accordingly, we have no control over any changes any such index sponsor or investment adviser may make. Such changes could be made at any time and could adversely affect the performance of the underlying assets and the value of and your payment at maturity on the securities.

April 2018 PS-8

Citigroup Global Markets Holdings Inc.

Autocallable Contingent Coupon Equity Linked Securities Based on the Worst Performing of the Russell 2000® Index, the EURO STOXX 50® Index and the Shares of the iShares® MSCI Emerging Markets ETF Due July-----, 2019

Even if the issuer of the iShares® MSCI Emerging Markets ETF pays a dividend that it identifies as special or extraordinary, no adjustment will be required under the securities for that dividend unless it meets the criteria specified in the accompanying product supplement. In general, an adjustment will not be made under the terms of the securities for any cash dividend paid on shares of the iShares® MSCI Emerging Markets ETF unless the amount of the dividend per share, together with any other dividends paid in the same quarter, exceeds the dividend paid per share in the most recent quarter by an amount equal to at least 10% of the closing price of the shares of the iShares® MSCI Emerging Markets ETF on the date of declaration of the dividend. Any dividend will reduce the closing price of the shares of the iShares® MSCI Emerging Markets ETF by the amount of the dividend per share. If the issuer of the iShares® MSCI Emerging Markets ETF pays any dividend for which an adjustment is not made under the terms of the securities, holders of the securities will be adversely affected. See “Description of the Securities—Certain Additional Terms for Securities Linked to ETF Shares or Company Shares—Dilution and Reorganization Adjustments—Certain Extraordinary Cash Dividends” in the accompanying product supplement.

An adjustment will not be made for all events that may have a dilutive effect on or otherwise adversely affect the market price of the iShares® MSCI Emerging Markets ETF. For example, we will not make any adjustment for ordinary dividends or extraordinary dividends that do not meet the criteria described above. Moreover, the adjustments we do make may not fully offset the dilutive or adverse effect of the particular event. Investors in the securities may be adversely affected by such an event in a circumstance in which a direct holder of shares of the iShares® MSCI Emerging Markets ETF would not.

The securities may become linked to shares of an issuer other than the original issuer of the iShares® MSCI Emerging Markets ETF upon the occurrence of a reorganization event or upon the delisting of the shares of the iShares® MSCI Emerging Markets ETF. For example, if the iShares® MSCI Emerging Markets ETF enters into a merger agreement that provides for holders of the shares of the iShares® MSCI Emerging Markets ETF to receive shares of another entity, the shares of such other entity will become the applicable underlying asset for all purposes of the securities upon consummation of the merger. Additionally, if the shares of the iShares® MSCI Emerging Markets ETF are delisted, or the iShares® MSCI Emerging Markets ETF is otherwise terminated, the calculation agent may, in its sole discretion, select shares of another ETF to be the applicable underlying asset. See “Description of the Securities—Certain Additional Terms for Securities Linked to ETF Shares or Company Shares—Dilution and Reorganization Adjustments” and “—Delisting, Liquidation or Termination of an Underlying ETF” in the accompanying product supplement.

The price and performance of the iShares® MSCI Emerging Markets ETF may not completely track the performance of its underlying index or its net asset value per share. The iShares® MSCI Emerging Markets ETF does not fully replicate the underlying index that it seeks to track and may hold securities different from those included in its underlying index. In addition, the performance of the iShares® MSCI Emerging Markets ETF reflect additional transaction costs and fees that are not included in the calculation of its underlying index. All of these factors may lead to a lack of correlation between the performance of the iShares® MSCI Emerging Markets ETF and its underlying index. In addition, corporate actions with respect to the equity securities constituting the iShares® MSCI Emerging Markets ETF’s underlying index or held by the iShare® MSCI Emerging Markets ETF (such as mergers and spin-offs) may impact the variance between the performance of the iShares® MSCI Emerging Markets

ETF and its underlying index. Finally, because shares of the iShares[®] MSCI Emerging Markets ETF are traded on NYSE Arca, Inc. and are subject to market supply and investor demand, the market value of the iShares[®] MSCI Emerging Markets ETF may differ from its net asset value per share.

During periods of market volatility, securities underlying the iShares[®] MSCI Emerging Markets ETF may be unavailable in the secondary market, market participants may be unable to calculate accurately the net asset value per share of the iShares[®] MSCI Emerging Markets ETF and the liquidity of the iShares[®] MSCI Emerging Markets ETF may be adversely affected. This kind of market volatility may also disrupt the ability of market participants to create and redeem shares of the iShares[®] MSCI Emerging Markets ETF. Further, market volatility may adversely affect, sometimes materially, the price at which market participants are willing to buy and sell the iShares[®] MSCI Emerging Markets ETF. As a result, under these circumstances, the market value of the iShares[®] MSCI Emerging Markets ETF may vary substantially from its net asset value per share. For all of the foregoing reasons, the performance of the iShares[®] MSCI Emerging Markets ETF might not correlate with the performance of its underlying index and/or its net asset value per share, which could materially and adversely affect the value of the securities in the secondary market and/or reduce your payment at maturity.

Our offering of the securities is not a recommendation of any underlying asset. The fact that we are offering the securities does not mean that we believe that investing in an instrument linked to the underlying assets is likely to achieve favorable returns. In fact, as we are part of a global financial institution, our affiliates may have positions (including short positions) in the stocks included in or held by the underlying assets or in instruments related to the underlying assets or the stocks included in or held by the underlying assets, and may publish research or express opinions, that in each case are inconsistent with an investment linked to the underlying assets. These and other activities of our affiliates' may affect the values of the underlying assets in a way that has a negative impact on your interests as a holder of the securities.

The level or price of an underlying asset may be adversely affected by our or our affiliates' hedging and other trading activities. We expect to hedge our obligations under the securities through CGMI or other of our affiliates, who may take positions directly in the stocks included in the Russell 2000[®] Index and the EURO STOXX 50[®] Index and in the shares of the iShares[®] MSCI Emerging Markets ETF and other financial instruments related to the underlying assets or the stocks included in or held by the underlying assets and may adjust such positions during the term of the securities. Our affiliates also trade the stocks included in the Russell 2000[®] Index, the EURO STOXX 50[®] Index and the shares of the iShares[®] MSCI Emerging Markets ETF and other

April 2018 PS-9

Citigroup Global Markets Holdings Inc.

Autocallable Contingent Coupon Equity Linked Securities Based on the Worst Performing of the Russell 2000® Index, the EURO STOXX 50® Index and the Shares of the iShares® MSCI Emerging Markets ETF Due July-----, 2019

related financial instruments on a regular basis (taking long or short positions or both), for their accounts, for other accounts under their management or to facilitate transactions on behalf of customers. These activities could affect the level or price, as applicable, of the underlying assets in a way that negatively affects the value of the securities. They could also result in substantial returns for us or our affiliates while the value of the securities declines.

We and our affiliates may have economic interests that are adverse to yours as a result of our affiliates' business activities. Our affiliates may currently or from time to time engage in business with the companies included in or held by the underlying assets or with the iShares® MSCI Emerging Markets ETF, including extending loans to, making equity investments in or providing advisory services to such companies or the iShares® MSCI Emerging Markets ETF. In the course of this business, we or our affiliates may acquire non-public information which we will not disclose to you. Moreover, if any of our affiliates is or becomes a creditor of any such company, they may exercise any remedies against such company that are available to them without regard to your interests.

\$(77.8) \$(12.7) (90.5)

Foreign currency translation adjustments - reclassification of gains included in net income

(0.1) (0.1)

Cash flow hedges:

Net unrealized gain on cash flow hedges

2.0 (0.8) 1.2

Reclassification of gains included in net income

(2.2) 0.8 (1.4)

Available for sale securities:

Net unrealized gains on available for sale securities

0.6 0.6 1.1 1.1

Pension and Other Retirement Benefits:

Amortization of actuarial losses and prior service costs included in net income

2.6 (1.0) 1.6 3.8 (1.5) 2.3

Total other comprehensive income (loss)

\$51.5 **\$(13.5)** **38.0** \$(73.0) \$(14.2) (87.2)

Comprehensive income

224.6 144.1

Less: comprehensive income attributable to noncontrolling interests

2.2 1.2

Comprehensive income attributable to Moody's

\$222.4 \$142.9

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

Table of Contents

MOODY S CORPORATION
CONSOLIDATED BALANCE SHEETS (UNAUDITED)

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

ASSETS	March 31, 2016	December 31, 2015
Current assets:		
Cash and cash equivalents	\$ 1,576.1	\$ 1,757.4
Short-term investments	490.6	474.8
Accounts receivable, net of allowances of \$27.6 in 2016 and \$27.5 in 2015	852.1	802.0
Deferred tax assets, net		29.3
Other current assets	166.5	179.6
Total current assets	3,085.3	3,243.1
Property and equipment, net of accumulated depreciation of \$541.6 in 2016 and \$518.9 in 2015	310.5	306.4
Goodwill	1,050.9	976.3
Intangible assets, net	329.2	299.1
Deferred tax assets, net	176.2	137.7
Other assets	162.8	140.4
Total assets	\$ 5,114.9	\$ 5,103.0
LIABILITIES AND SHAREHOLDERS DEFICIT		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 391.5	\$ 566.6
Deferred tax liabilities, net		16.7
Deferred revenue	760.4	635.2
Total current liabilities	1,151.9	1,218.5
Non-current portion of deferred revenue	135.1	132.5
Long-term debt	3,428.6	3,380.6
Deferred tax liabilities, net	118.6	83.8
Unrecognized tax benefits	209.9	203.4
Other liabilities	422.3	417.2
Total liabilities	5,466.4	5,436.0
Contingencies (Note 14)		
Shareholders' 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 March 31, 2016 and December 31, 2015, respectively.	3.4	3.4
Capital surplus	431.7	451.3
Retained earnings	6,895.1	6,709.0
Treasury stock, at cost; 148,575,058 and 146,826,744 shares of common stock at March 31, 2016 and December 31, 2015, respectively	(7,610.3)	(7,389.2)
Accumulated other comprehensive loss	(301.5)	(339.5)

Edgar Filing: CITIGROUP INC - Form 424B2

Total Moody's shareholders' deficit	(581.6)	(565.0)
Noncontrolling interests	230.1	232.0
Total shareholders' deficit	(351.5)	(333.0)
Total liabilities and shareholders' deficit	\$ 5,114.9	\$ 5,103.0

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

Table of Contents**MOODY S CORPORATION****CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

(Amounts in millions)

	Three Months Ended March 31,	
	2016	2015
Cash flows from operating activities		
Net income	\$ 186.6	\$ 231.3
Reconciliation of net income to net cash provided by operating activities:		
Depreciation and amortization	29.9	28.6
Stock-based compensation expense	25.4	22.7
Deferred income taxes	11.3	7.6
Excess tax benefits from stock-based compensation plans	(16.3)	(37.4)
Changes in assets and liabilities:		
Accounts receivable	(45.5)	(62.7)
Other current assets	13.6	2.9
Other assets	1.5	(13.9)
Accounts payable and accrued liabilities	(99.0)	(72.8)
Deferred revenue	122.6	127.9
Unrecognized tax benefits and other non-current tax liabilities	5.3	7.4
Other liabilities	1.9	20.2
Net cash provided by operating activities	237.3	261.8
Cash flows from investing activities		
Capital additions	(26.3)	(19.0)
Purchases of investments	(134.6)	(167.9)
Sales and maturities of short-term investments	126.1	116.8
Acquisitions, net of cash acquired	(75.9)	
Settlement of net investment hedges	2.3	20.8
Net cash used in investing activities	(108.4)	(49.3)
Cash flows from financing activities		
Issuance of notes		552.8
Proceeds from stock-based compensation plans	24.3	34.8
Repurchase of shares for payroll tax withholdings related to stock-based compensation	(42.7)	(58.7)
Cost of treasury shares repurchased	(262.1)	(365.8)
Excess tax benefits from settlement of stock-based compensation plans	16.3	37.4
Payment of dividends	(72.1)	(68.7)
Payment of dividends to noncontrolling interests	(2.9)	(3.7)
Debt issuance costs and related fees		(4.2)
Net cash (used in) provided by financing activities	(339.2)	123.9
Effect of exchange rate changes on cash and cash equivalents	29.0	(46.0)
Net (decrease) increase in cash and cash equivalents	(181.3)	290.4
Cash and cash equivalents, beginning of the period	1,757.4	1,219.5

Cash and cash equivalents, end of the period	\$ 1,576.1	\$ 1,509.9
---	-------------------	-------------------

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

Table of Contents**MOODY S CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

(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 and related risk management services, (iv) quantitative credit risk measures, financial services training and certification services and (v) outsourced research and analytical services. Moody's has 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 the distribution of research and fixed income pricing services in the Asia-Pacific region and outsourced services. 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 Research, Data and Analytics business, MA distributes research and data developed by MIS as part of its ratings process, including in-depth research on major debt issuers, industry studies and commentary on topical credit-related events. The RD&A business also produces economic research as well as data and analytical tools such as quantitative credit risk scores. Within its Enterprise Risk Solutions business, MA provides software solutions as well as related risk management services. The Professional Services business provides outsourced research and analytical services along with financial training and certification programs.

These interim financial statements have been prepared in accordance with the instructions to Form 10-Q and should be read in conjunction with the Company's consolidated financial statements and related notes in the Company's 2015 annual report on Form 10-K filed with the SEC on February 25, 2016. The results of interim periods are not necessarily indicative of results for the full year or any subsequent period. In the opinion of management, all adjustments (including normal recurring accruals) considered necessary for a fair presentation of financial position, results of operations and cash flows at the dates and for the periods presented have been included. The year-end consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

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

In the first quarter of 2016, the Company adopted ASU No. 2015-17 Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes on a prospective basis, and accordingly, prior year comparative periods have not been adjusted. This ASU requires the classification of all deferred income tax assets and liabilities as noncurrent on the balance sheet.

In the first quarter of 2016, the Company adopted ASU No. 2015-03, Simplifying the Presentation of Debt Issuance Costs on a retrospective basis. This ASU requires a company to present debt issuance costs in the balance sheet as a reduction of debt rather than as an asset. The impact to the Company's balance sheet as of December 31, 2015 and March 31, 2016 relating to the adoption of this ASU is set forth in the table below:

	As reported December 31, 2015	Reclassification	December 31, 2015 As adjusted	As reported March 31, 2016	Reclassification	March 31, 2016 Under previous accounting guidance
Long-term debt	\$ 3,401.0	\$ (20.4)	\$ 3,380.6	\$ 3,428.6	\$ 19.9	\$ 3,448.5
Other assets	\$ 160.8	\$ (20.4)	\$ 140.4	\$ 162.8	\$ 19.9	\$ 182.7

Table of Contents**NOTE 2. STOCK-BASED COMPENSATION**

Presented below is a summary of the stock-based compensation cost and associated tax benefit included in the accompanying consolidated statements of operations:

	Three Months Ended March 31,	
	2016	2015
Stock-based compensation cost	\$ 25.4	\$ 22.7
Tax benefit	\$ 8.4	\$ 7.9

During the first three months of 2016, the Company granted 0.5 million employee stock options, which had a weighted average grant date fair value of \$22.93 per share based on the Black-Scholes option-pricing model. The Company also granted 1.2 million shares of restricted stock in the first three months of 2016, which had a weighted average grant date fair value of \$80.83 per share. Both the employee stock options and restricted stock generally vest ratably over a four-year period. Additionally, the Company granted approximately 0.2 million shares of performance-based awards whereby the number of shares that ultimately vest are based on the achievement of certain non-market based performance metrics of the Company over a three-year period. The weighted average grant date fair value of these awards was \$76.45 per share.

The following weighted average assumptions were used in determining the fair value for options granted in 2016:

Expected dividend yield	1.83%
Expected stock volatility	32.3%
Risk-free interest rate	1.60%
Expected holding period	6.8 years
Grant date fair value	\$ 22.93

Unrecognized compensation expense at March 31, 2016 was \$16.0 million and \$172.5 million for stock options and unvested restricted stock, respectively, which is expected to be recognized over a weighted average period of 1.5 years and 1.9 years, respectively. Additionally, there was \$23.8 million of unrecognized compensation expense relating to the aforementioned non-market based performance-based awards, which is expected to be recognized over a weighted average period of 1.2 years.

The following tables summarize information relating to stock option exercises and restricted stock vesting:

	Three Months Ended March 31,	
	2016	2015
Exercise of stock options:		
Proceeds from stock option exercises	\$ 22.8	\$ 33.5
Aggregate intrinsic value	\$ 11.0	\$ 32.1
Tax benefit realized upon exercise	\$ 3.9	\$ 11.9
Number of shares exercised	0.4	0.7

	Three Months Ended March 31,	
	2016	2015
Vesting of restricted stock:		
Fair value of shares vested	\$ 89.3	\$ 108.9
Tax benefit realized upon vesting	\$ 29.5	\$ 35.9
Number of shares vested	1.0	1.1

	Three Months Ended March 31,	
	2016	2015
Vesting of performance-based restricted stock:		
Fair value of shares vested	\$ 23.6	\$ 43.1

Edgar Filing: CITIGROUP INC - Form 424B2

Tax benefit realized upon vesting	\$ 8.4	\$ 16.1
Number of shares vested	0.2	0.5

Table of Contents**NOTE 3. INCOME TAXES**

Moody's effective tax rate was 32.3% and 32.9% for the three months ended March 31, 2016 and 2015, respectively. The decrease in the ETR compared to the first quarter of 2015 was primarily due to a reduction in UTBs resulting from a change in New York City tax law relating to income apportionment.

The Company classifies interest related to UTBs in interest expense, net in its consolidated statements of operations. Penalties, if incurred, would be recognized in other non-operating (expense) income, net. The Company had an increase in its UTBs of \$6.5 million (\$6.2 million net of federal tax benefit) during the first quarter of 2016.

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 the years 2011 through 2012 are under examination and its returns for 2013 through 2014 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 2013 is currently under examination. The Company's U.K. tax return for 2012 is currently under examination and its returns for 2013 and 2014 remain open to examination.

For ongoing audits, it is possible the balance of UTBs could decrease in the next twelve months as a result of the 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 could necessitate increases to the balance of UTBs. As the Company is unable to predict the timing or outcome of these audits, it is therefore unable to estimate the amount of changes to the balance of UTBs at this time. However, the Company believes that it has adequately provided for its financial exposure relating to all open tax years by tax jurisdiction in accordance with the applicable provisions of Topic 740 of the ASC regarding UTBs.

The following table shows the amount the Company paid for income taxes:

	Three Months Ended	
	March 31,	
	2016	2015
Income taxes paid	\$ 22.0	\$ 31.4

NOTE 4. WEIGHTED AVERAGE SHARES OUTSTANDING

Below is a reconciliation of basic to diluted shares outstanding:

	Three Months Ended	
	March 31,	
	2016	2015
Basic	195.0	202.7
Dilutive effect of shares issuable under stock-based compensation plans	2.9	3.8
Diluted	197.9	206.5
Anti-dilutive options to purchase common shares and restricted stock as well as contingently issuable restricted stock excluded from the table above	1.5	1.0

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 March 31, 2016 and 2015. These assumed proceeds include Excess Tax Benefits and any unrecognized compensation of the awards.

The decrease in the diluted shares outstanding primarily reflects treasury share repurchases under the Company's Board authorized share repurchase program.

Table of Contents**NOTE 5. CASH EQUIVALENTS AND INVESTMENTS**

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

	As of March 31, 2016					
	Cost	Gross Unrealized Gains	Fair Value	Balance sheet location		
				Cash and cash equivalents	Short-term investments	Other assets
Money market mutual funds	\$ 228.6	\$	\$ 228.6	\$ 228.6	\$	\$
Certificates of deposit and money market deposit accounts ⁽¹⁾	\$ 1,097.4	\$	\$ 1,097.4	\$ 583.9	\$ 490.6	\$ 22.9
Fixed maturity and open ended mutual funds ⁽²⁾	\$ 28.5	\$ 3.7	\$ 32.2	\$	\$	\$ 32.2

	As of December 31, 2015					
	Cost	Gross Unrealized Gains	Fair Value	Balance sheet location		
				Cash and cash equivalents	Short-term investments	Other assets
Money market mutual funds	\$ 188.3	\$	\$ 188.3	\$ 188.3	\$	\$
Certificates of deposit and money market deposit accounts ⁽¹⁾	\$ 1,307.3	\$	\$ 1,307.3	\$ 809.4	\$ 474.8	\$ 23.1
Fixed maturity and open ended mutual funds ⁽²⁾	\$ 28.7	\$ 3.2	\$ 31.9	\$	\$	\$ 31.9

⁽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 month to 13 months at March 31, 2016 and one month to 12 months at December 31, 2015. The remaining contractual maturities for the certificates of deposits classified in other assets are one month to 24 months at March 31, 2016 and one month to 27 months at December 31, 2015. Time deposits with a maturity of less than 90 days at time of purchase are classified as cash and cash equivalents.

⁽²⁾ Consists of investments in fixed maturity mutual funds and open-ended mutual funds. The remaining contractual maturities for the fixed maturity instruments range from eight months to 28 months and 11 months to 31 months at March 31, 2016 and December 31, 2015 respectively.

The money market mutual funds as well as the fixed maturity and open ended mutual funds in the table above are deemed to be available for sale under ASC Topic 320 and the fair value of these instruments is determined using Level 1 inputs as defined in the ASC.

Table of Contents**NOTE 6. ACQUISITIONS**

The business combination described below is 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. The Company has not presented proforma combined results because the impact on previously reported statements of operations would not have been material. Additionally, the near term impact to the Company's operations and cash flows is not material.

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 payment of \$83.4 million made at closing was 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 to be paid to sellers in 2016 ⁽¹⁾	3.5
Total consideration	\$ 86.9

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

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	\$ 11.9
Property and equipment, net	2.1
Indemnification assets	1.5
Intangible assets:	
Trade name (19 year weighted average life)	\$ 3.7
Client relationships (21 year weighted average life)	13.8
Software (7 year weighted average life)	16.6
Total intangible assets (14 year weighted average life)	34.1
Goodwill	58.8
Liabilities	(21.5)
Net assets acquired	\$ 86.9

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 March 31, 2016.

Edgar Filing: CITIGROUP INC - Form 424B2

The Company incurred \$0.9 million of costs directly related to the GGY acquisition of which \$0.6 million was incurred in 2015 and \$0.3 million was incurred in the first quarter of 2016. These costs are recorded within selling, general and administrative expenses in the Company's consolidated statements of operations.

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

Table of Contents**NOTE 7. 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***

In the second quarter of 2014, the Company entered into interest rate swaps with a total notional amount of \$250 million to convert the fixed interest rate on the 2010 Senior Notes to a floating interest rate based on the 3-month LIBOR. In the third quarter of 2014, the Company entered into interest rate swaps with a total notional amount of \$250 million to convert the fixed interest rate on the remaining balance of the 2010 Senior Notes 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 2010 Senior Notes, 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 2010 Senior Notes. The changes in the fair value of the hedges and the underlying hedged item generally offset and the net cash settlements on the swaps are recorded each period within interest income (expense), net, in the Company's consolidated statement of operations.

In the third quarter of 2014, the Company entered into interest rate swaps with a total notional amount of \$250 million to convert the fixed interest rate on a portion of the 2014 Senior Notes (5-year) to a floating interest rate based on the 3-month LIBOR. In the first quarter of 2015, the Company entered into interest rate swaps with a total notional amount of \$200 million to convert the fixed interest rate on the remaining balance of the 2014 Senior Notes (5-year) 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 2014 Senior Notes (5-year), 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 2014 Senior Notes (5-year). The changes in the fair value of the hedges and the underlying hedged item generally offset and the net cash settlements on the swaps are recorded each period within interest income (expense), net, in the Company's consolidated statement of operations.

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

Derivatives designated as fair value accounting hedges	Location on Statement of Operations	Three Months Ended	
		March 31,	
		2016	2015
Interest rate swaps	Interest income (expense), net	\$ 3.0	\$ 3.5
<i>Cross-currency swaps</i>			

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 is to mitigate FX risk on the remaining principal balance on the 2015 Senior Notes that was not designated as a net investment hedge as more fully discussed below. Under the terms of the swap, the Company will pay the counterparty interest on the \$110.5 million received at 3.945% per annum and the counterparty will pay the Company interest on the 100 million paid at 1.75% per annum. These interest payments will be settled in March of each year, beginning in 2016, until either the maturity of the cross-currency swap in 2027 or upon early termination at the discretion of the Company. The principal payments on this cross currency swap will be settled in 2027, concurrent with the repayment of the 2015 Senior Notes at maturity or upon early termination 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 will initially be recognized in OCI. Gains and losses on the swaps initially recognized in OCI will be reclassified to the statement of operations in the period in which changes in the underlying hedged item affects net income. Ineffectiveness, if any, will be recognized in other non-operating (expense), income, net in the Company's consolidated statement of operations.

Table of Contents**Net investment hedges**

The Company enters into foreign currency forward contracts which are designated as net investment hedges and has designated 400 million of the 2015 Senior Notes as a net investment hedge. These hedges are intended to mitigate FX exposure related to non-U.S. dollar net investments in certain foreign subsidiaries against changes in foreign exchange rates. These net investment hedges are designated as accounting hedges under the applicable sections of Topic 815 of the ASC.

Hedge effectiveness is assessed based on the overall changes in the fair value of the hedge. For hedges that meet the effectiveness requirements, changes in the fair value are recorded in AOCI in the foreign currency translation account. Any change in the fair value of these hedges that is the result of ineffectiveness is recognized immediately in other non-operating (expense) income in the Company's consolidated statement of operations.

The following table summarizes the notional amounts of the Company's outstanding net investment hedges:

	March 31, 2016	December 31, 2015
Notional amount of net investment hedges:		
Long-term debt designated as net investment hedge	400.0	400.0
Contracts to sell GBP for euros	£ 21.5	£ 21.2
Contracts to sell Japanese yen for USD	¥ 19,400	¥ 19,400

The outstanding contracts to sell Japanese yen for USD expire in November 2016. The outstanding contracts to sell GBP for euros expire in June 2016. The hedge relating to the portion of the 2015 Senior Notes that was designated as a net investment hedge will end upon the repayment of the notes in 2027 unless terminated earlier at the discretion of the Company.

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

Derivatives and non-derivative instruments in Net Investment Hedging Relationships	Amount of Gain/(Loss) Recognized		Location of Gain/(Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain/(Loss)	
	in AOCI on Derivative			Reclassified from AOCI into	
	(Effective Portion), net of tax			Income (Effective Portion)	
	Three Months Ended March 31,			March 31,	
	2016	2015		2016	2015
FX forwards	\$ (4.6)	\$ 11.3	N/A	\$	\$
Long-term debt	(13.1)	7.6	N/A		
Total net investment hedges	\$ (17.7)	\$ 18.9	N/A	\$	\$
Derivatives in cash flow hedging relationships					
Cross currency swap	\$ 1.2	\$	Other non-operating income, net	\$ 1.4	\$
Total	\$ (16.5)	\$ 18.9	Total	\$ 1.4	\$

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

Edgar Filing: CITIGROUP INC - Form 424B2

	Gains (Losses), net of tax	
	March 31, 2016	December 31, 2015
<i>Net investment hedges</i>		
FX forwards	\$ 29.7	\$ 34.3
Long-term debt	(8.4)	4.7
Total gains (losses) on net investment hedges	\$ 21.3	\$ 39.0
<i>Cash flow hedges</i>		
Treasury rate lock	\$ (1.1)	\$ (1.1)
Cross currency swap	(0.2)	
Total losses on cash flow hedges	(1.3)	(1.1)
Total net gains in AOCI	\$ 20.0	\$ 37.9

Table of Contents**Derivatives not designated as accounting hedges:*****Foreign exchange forwards***

The Company also enters into foreign exchange forwards 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 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 June 2016.

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

	March 31, 2016	December 31, 2015
Notional amount of currency pair:		
Contracts to purchase USD with euros	\$ 0.5	\$
Contracts to sell USD for euros	\$ 71.2	\$ 70.1
Contracts to purchase euros with other foreign currencies	34.1	35.5
Contracts to sell euros for other foreign currencies		1.4
Contracts to sell euros for GBP	38.2	23.1

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	Three Months Ended	
		March 31, 2016	March 31, 2015
Foreign exchange forwards	Other non-operating income (expense), net	\$ 0.5	\$ (4.4)

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 nonderivative debt instruments designated and qualifying as net investment hedges:

	Derivative and Non-derivative Instruments Balance Sheet Location	March 31,	December 31,
		2016	2015
Assets:			
<i>Derivatives not designated as accounting hedges:</i>			
FX forwards on certain assets and liabilities	Other current assets	\$ 1.8	\$ 0.1
<i>Derivatives designated as accounting hedges:</i>			
FX forwards on net investment in certain foreign subsidiaries	Other current assets	\$ 0.3	\$ 0.4
Interest rate swaps	Other assets	32.3	12.1
Total derivatives designated as accounting hedges		32.6	12.5
Total assets		\$ 34.4	\$ 12.6
Liabilities:			
<i>Derivatives designated as accounting hedges:</i>			
Cross-currency swap		\$ 0.4	\$

Edgar Filing: CITIGROUP INC - Form 424B2

	Other non-current liabilities		
FX forwards on net investment in certain foreign subsidiaries	Accounts payable and accrued liabilities	12.1	1.2
Interest rate swaps	Other non-current liabilities		0.3
Total derivatives designated as accounting hedges		\$ 12.5	\$ 1.5
<i>Non-derivative instrument designated as accounting hedge</i>			
Long-term debt designated as net investment hedge	Long-term debt	\$ 455.8	\$ 434.5
<i>Derivatives not designated as accounting hedges:</i>			
Cross-currency swap	Other non-current liabilities		9.0
FX forwards on certain assets and liabilities	Accounts payable and accrued liabilities	1.0	1.9
Total liabilities		\$ 469.3	\$ 446.9

Table of Contents**NOTE 8. GOODWILL AND OTHER ACQUIRED INTANGIBLE ASSETS**

The following table summarizes the activity in goodwill for the periods indicated:

	Three Months Ended March 31, 2016								
	MIS			MA			Consolidated		
	Gross goodwill	Accumulated impairment charge	Net goodwill	Gross goodwill	Accumulated impairment charge	Net goodwill	Gross goodwill	Accumulated impairment charge	Net goodwill
Balance at beginning of year	\$ 284.4	\$	\$ 284.4	\$ 704.1	\$ (12.2)	\$ 691.9	\$ 988.5	\$ (12.2)	\$ 976.3
Additions/adjustments				58.8		58.8	58.8		58.8
Foreign currency translation adjustments	0.1		0.1	15.7		15.7	15.8		15.8
Ending balance	\$ 284.5	\$	\$ 284.5	\$ 778.6	\$ (12.2)	\$ 766.4	\$ 1,063.1	\$ (12.2)	\$ 1,050.9

	Year ended December 31, 2015								
	MIS			MA			Consolidated		
	Gross goodwill	Accumulated impairment charge	Net goodwill	Gross goodwill	Accumulated impairment charge	Net goodwill	Gross goodwill	Accumulated impairment charge	Net goodwill
Balance at beginning of year	\$ 298.7	\$	\$ 298.7	\$ 734.6	\$ (12.2)	\$ 722.4	\$ 1,033.3	\$ (12.2)	\$ 1,021.1
Additions/adjustments	3.7		3.7	5.0		5.0	8.7		8.7
Foreign currency translation adjustments	(18.0)		(18.0)	(35.5)		(35.5)	(53.5)		(53.5)
Ending balance	\$ 284.4	\$	\$ 284.4	\$ 704.1	\$ (12.2)	\$ 691.9	\$ 988.5	\$ (12.2)	\$ 976.3

The 2016 additions/adjustments for the MA segment in the table above relate to the acquisition of GGY. The 2015 additions/adjustments for the MIS segment in the table above relate to the acquisition of Equilibrium. The 2015 additions/adjustments for the MA segment primarily reflect an adjustment to an indemnification asset recognized as part of the Copal acquisition, goodwill acquired from the acquisition of a business from BlackBox Logic and adjustments to deferred revenue balances and deferred tax assets recognized as part of the Lewtan acquisition.

The accumulated impairment charge in the table above reflects an impairment charge recognized in 2012 relating to the FSTC reporting unit within MA. This impairment charge reflected a contraction in spending for training and certification services for many individuals and global financial institutions in 2012 due to macroeconomic uncertainties at the time. The fair value of the FSTC reporting unit utilized in this impairment assessment was estimated using a discounted cash flow methodology and comparable public company and precedent transaction multiples.

Table of Contents

Acquired intangible assets and related amortization consisted of:

	March 31, 2016	December 31, 2015
Customer relationships	\$ 316.2	\$ 298.4
Accumulated amortization	(114.8)	(110.0)
Net customer relationships	201.4	188.4
Trade secrets	30.1	29.7
Accumulated amortization	(23.8)	(23.1)
Net trade secrets	6.3	6.6
Software	93.6	74.7
Accumulated amortization	(51.4)	(47.7)
Net software	42.2	27.0
Trade names	76.4	72.4
Accumulated amortization	(17.1)	(16.2)
Net trade names	59.3	56.2
Other	44.2	44.3
Accumulated amortization	(24.2)	(23.4)
Net other	20.0	20.9
Total acquired intangible assets, net	\$ 329.2	\$ 299.1

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:

	Three Months Ended March 31,	
	2016	2015
Amortization expense	\$ 7.9	\$ 8.5

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

Year Ending December 31,	
2016 (after March 31)	\$ 25.3
2017	32.3
2018	26.3

Edgar Filing: CITIGROUP INC - Form 424B2

2019	23.4
2020	22.3
Thereafter	199.6
Total estimated future amortization	\$ 329.2

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 the three months ended March 31, 2016 and 2015.

Table of Contents**NOTE 9. FAIR VALUE**

The table below presents information about items that are carried at fair value at March 31, 2016 and December 31, 2015:

Description	Fair Value Measurement as of March 31, 2016		
	Balance	Level 1	Level 2
Assets:			
Derivatives ^(a)	\$ 34.4	\$	\$ 34.4
Money market mutual funds	228.6	228.6	
Fixed maturity and open ended mutual funds ^(b)	32.2	32.2	
Total	\$ 295.2	\$ 260.8	\$ 34.4
Liabilities:			
Derivatives ^(a)	\$ 13.5	\$	\$ 13.5
Total	\$ 13.5	\$	\$ 13.5
Fair Value Measurement as of December 31, 2015			
Description	Balance	Level 1	Level 2
Assets:			
Derivatives ^(a)	\$ 12.6	\$	\$ 12.6
Money market mutual funds	188.3	188.3	
Fixed maturity and open ended mutual funds ^(b)	31.9	31.9	
Total	\$ 232.8	\$ 220.2	\$ 12.6
Liabilities:			
Derivatives ^(a)	\$ 12.4	\$	\$ 12.4
Total	\$ 12.4	\$	\$ 12.4

(a) Represents FX forwards, interest rate swaps and cross-currency swaps as more fully described in Note 7 to the financial statements.

(b) Consists of investments in fixed maturity mutual funds and open-ended mutual funds.

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

Derivatives:

In determining the fair value of the derivative contracts, 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:

Edgar Filing: CITIGROUP INC - Form 424B2

The fixed maturity mutual funds and open ended mutual funds primarily represent exchange traded funds in India and are classified as securities available-for-sale. Accordingly, any unrealized gains and losses are recognized through OCI until the instruments mature or are sold.

Money market mutual funds:

The money market mutual funds represent publicly traded funds with a stable \$1 net asset value.

Table of Contents**NOTE 10. OTHER BALANCE SHEET AND STATEMENT OF OPERATIONS INFORMATION**

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

	March 31, 2016	December 31, 2015
Other current assets:		
Prepaid taxes	\$ 74.1	\$ 83.3
Prepaid expenses	69.2	66.9
Other	23.2	29.4
Total other current assets	\$ 166.5	\$ 179.6

	March 31, 2016	December 31, 2015
Other assets:		
Investments in joint ventures	\$ 30.3	\$ 28.7
Deposits for real-estate leases	11.8	11.4
Indemnification assets related to acquisitions	20.7	19.2
Mutual funds and fixed deposits	55.1	55.0
Other	44.9	26.1
Total other assets	\$ 162.8	\$ 140.4

	March 31, 2016	December 31, 2015
Accounts payable and accrued liabilities:		
Salaries and benefits	\$ 91.0	\$ 83.0
Incentive compensation	35.3	137.2
Customer credits, advanced payments and advanced billings	26.9	24.6
Self-insurance reserves	18.8	19.7
Dividends	6.8	78.2
Professional service fees	59.3	54.5
Interest accrued on debt	18.2	59.4
Accounts payable	14.4	22.2
Income taxes	41.5	11.5
Pension and other retirement employee benefits	5.8	6.2
Other	73.5	70.1
Total accounts payable and accrued liabilities	\$ 391.5	\$ 566.6

	March 31, 2016	December 31, 2015
Other liabilities:		
Pension and other retirement employee benefits	\$ 270.0	\$ 261.7
Deferred rent-non-current portion	98.9	98.4
Interest accrued on UTPs	30.7	27.9

Edgar Filing: CITIGROUP INC - Form 424B2

Legacy and other tax matters	2.9	1.7
Other	19.8	27.5
Total other liabilities	\$ 422.3	\$ 417.2

Table of Contents

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:

	Three Months Ended	Year Ended
	March 31, 2016	December 31, 2015
Balance January 1,	\$ 19.7	\$ 21.5
Accruals (reversals), net	0.4	22.2
Payments	(1.3)	(24.0)
Balance	\$ 18.8	\$ 19.7

Other Non-Operating (Expense) Income:

The following table summarizes the components of other non-operating (expense) income:

	Three Months Ended	
	March 31,	
	2016	2015
FX gain	\$ 4.0	\$
Joint venture income	1.9	1.9
Other	(0.3)	0.6
Total	\$ 5.6	\$ 2.5

NOTE 11. COMPREHENSIVE INCOME AND ACCUMULATED OTHER COMPREHENSIVE INCOME

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

	Three Months	Three Months	Affected line in the
	Ended March 31, 2016	Ended March 31, 2015	consolidated statement of
			operations
Gains (losses) on currency translation adjustments			
Liquidation of foreign subsidiary	\$	\$ 0.1	Other non-operating income, net
Total gains on currency translation adjustments		0.1	
Gains on cash flow hedges			
Cross-currency derivative contracts	2.2		Other non-operating income, net
Income tax effect of item above	(0.8)		Provision for income taxes
Total gains on cash flow hedges	1.4		
Pension and other retirement benefits			
	(1.6)	(2.3)	Operating expense

Edgar Filing: CITIGROUP INC - Form 424B2

Amortization of actuarial losses and prior service costs included in net income			
Amortization of actuarial losses and prior service costs included in net income	(1.0)	(1.5)	SG&A expense
Total before income taxes	(2.6)	(3.8)	
Income tax effect of item above	1.0	1.5	Provision for income taxes
Total pension and other retirement benefits	(1.6)	(2.3)	
Total losses included in Net Income attributable to reclassifications out of AOCI	\$ (0.2)	\$ (2.2)	

Table of Contents

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

	Three Months Ended March 31, 2016				
	Gains/ (Losses) on Cash Flow Hedges	Pension and Other Retirement Benefits	Foreign Currency Translation Adjustments	Gains on Available for Sale Securities	Total
Balance December 31, 2015	\$ (1.1)	\$ (85.7)	\$ (256.0)	\$ 3.3	\$ (339.5)
Other comprehensive income before reclassifications	1.2		36.0	0.6	37.8
Amounts reclassified from AOCI	(1.4)	1.6			0.2
Other comprehensive income/(loss)	(0.2)	1.6	36.0	0.6	38.0
Balance March 31, 2016	\$ (1.3)	\$ (84.1)	\$ (220.0)	\$ 3.9	\$ (301.5)

	Three Months Ended March 31, 2015				
	Gains/ (Losses) on Cash Flow Hedges	Pension and Other Retirement Benefits	Foreign Currency Translation Adjustments	Gains on Available for Sale Securities	Total
Balance December 31, 2014	\$	\$ (105.4)	\$ (130.7)	\$ 0.9	\$ (235.2)
Other comprehensive income/(loss) before reclassifications			(90.5)	1.1	(89.4)
Amounts reclassified from AOCI		2.3	(0.1)		2.2
Other comprehensive income/(loss)		2.3	(90.6)	1.1	(87.2)
Balance March 31, 2015	\$	\$ (103.1)	\$ (221.3)	\$ 2.0	\$ (322.4)

NOTE 12. PENSION AND OTHER RETIREMENT BENEFITS

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 for its employees 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 January 1, 2008, the Company no longer offers DBPPs to U.S. employees hired or rehired on or after January 1, 2008. New U.S. employees will instead receive a retirement contribution of similar benefit value under the Company's Profit Participation Plan. Current participants of the Company's DBPPs continue to accrue benefits based on existing plan formulas.

The components of net periodic benefit expense related to the Retirement Plans are as follows:

Components of net periodic expense	Three Months Ended March 31,			
	Pension Plans		Other Retirement Plans	
	2016	2015	2016	2015

Edgar Filing: CITIGROUP INC - Form 424B2

Service cost	\$ 5.2	\$ 5.8	\$ 0.5	\$ 0.5
Interest cost	4.6	4.3	0.3	0.2
Expected return on plan assets	(4.3)	(3.6)		
Amortization of net actuarial loss from earlier periods	2.6	3.4		0.1
Amortization of net prior service costs from earlier periods		0.2		
Net periodic expense	\$ 8.1	\$ 10.1	\$ 0.8	\$ 0.8

The Company made payments of \$1.2 million related to its unfunded U.S. DBPPs and \$0.1 million to its U.S. other retirement plans during the three months ended March 31, 2016. The Company anticipates making payments of \$22 million related to its funded pension plan and making payments of \$3.2 million related to its unfunded U.S. DBPPs and \$0.9 million to its U.S. other retirement plans, respectively, during the remainder of 2016.

Table of Contents**NOTE 13. INDEBTEDNESS**

The following table summarizes total indebtedness:

	Principal Amount	Fair Value of Interest Rate Swap ⁽¹⁾	March 31, 2016		Carrying Value
			Unamortized (Discount) Premium	Unamortized Debt Issuance Costs ⁽²⁾	
Notes payable:					
6.06% Series 2007-1 Notes due 2017	\$ 300.0	\$	\$	\$ (0.1)	\$ 299.9
5.50% 2010 Senior Notes, due 2020	500.0	22.1	(1.6)	(1.9)	518.6
4.50% 2012 Senior Notes, due 2022	500.0		(2.7)	(2.4)	494.9
4.875% 2013 Senior Notes, due 2024	500.0		(2.2)	(3.0)	494.8
2.75% 2014 Senior Notes (5-Year), due 2019	450.0	10.2	(0.5)	(2.2)	457.5
5.25% 2014 Senior Notes (30-Year), due 2044	600.0		3.4	(6.1)	597.3
1.75% 2015 Senior Notes, due 2027	569.8			(4.2)	565.6
Total long-term debt	\$ 3,419.8	\$ 32.3	\$ (3.6)	\$ (19.9)	\$ 3,428.6

	Principal Amount	Fair Value of Interest Rate Swap ⁽¹⁾	December 31, 2015		Carrying Value
			Unamortized (Discount) Premium	Unamortized Debt Issuance Costs ⁽²⁾	
Notes payable:					
6.06% Series 2007-1 Notes due 2017	\$ 300.0	\$	\$	\$ (0.2)	\$ 299.8
5.50% 2010 Senior Notes, due 2020	500.0	9.4	(1.6)	(2.0)	505.8
4.50% 2012 Senior Notes, due 2022	500.0		(2.8)	(2.5)	494.7
4.875% 2013 Senior Notes, due 2024	500.0		(2.3)	(3.1)	494.6
2.75% 2014 Senior Notes (5-Year), due 2019	450.0	2.3	(0.5)	(2.4)	449.4
5.25% 2014 Senior Notes (30-Year), due 2044	600.0		3.4	(6.2)	597.2
1.75% 2015 Senior Notes, due 2027	543.1			(4.0)	539.1
Total long-term debt	\$ 3,393.1	\$ 11.7	\$ (3.8)	\$ (20.4)	\$ 3,380.6

(1) The Company has entered into interest rate swaps on the 2010 Senior Notes and the 2014 Senior Notes (5-Year) which are more fully discussed in Note 7 above.

(2) Pursuant to ASU No. 2015-03, unamortized debt issuance costs are presented as a reduction to the carrying value of the notes payable. See Note 1 for additional discussion.

At March 31, 2016, the Company was in compliance with all covenants contained within all of the debt agreements. The 2015 Facility, the 2015 Senior Notes, the 2014 Senior Notes (5-year), the 2014 Senior Notes (30-year), the Series 2007-1 Notes, the 2010 Senior Notes, the 2012 Senior Notes and the 2013 Senior Notes all contain cross default provisions. These provisions 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 March 31, 2016, there were no such cross defaults.

Table of Contents**Interest expense, net**

The following table summarizes the components of interest as presented in the consolidated statements of operations:

	Three Months Ended March 31,	
	2016	2015
Income	\$ 2.9	\$ 1.9
Expense on borrowings	(34.6)	(28.3)
UTPs and other tax related liabilities	(2.8)	(3.2)
Capitalized	0.4	0.3
Total	\$ (34.1)	\$ (29.3)

The following table shows the cash paid for interest:

	Three Months Ended March 31,	
	2016	2015
Interest paid	\$ 67.1	\$ 48.2

The fair value and carrying value of the Company's long-term debt as of March 31, 2016 and December 31, 2015 are as follows:

	March 31, 2016		December 31, 2015	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Series 2007-1 Notes	\$ 299.9	\$ 318.9	\$ 299.8	\$ 320.6
2010 Senior Notes	518.6	560.6	505.8	551.2
2012 Senior Notes	494.9	548.1	494.7	530.0
2013 Senior Notes	494.8	553.9	494.6	533.8
2014 Senior Notes (5-Year)	457.5	461.5	449.4	454.3
2014 Senior Notes (30-Year)	597.3	668.3	597.2	617.7
2015 Senior Notes	565.6	575.8	539.1	520.2
Total	\$ 3,428.6	\$ 3,687.1	\$ 3,380.6	\$ 3,527.8

The fair value of the Company's long-term 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 14. CONTINGENCIES

Moody's is involved in legal and tax proceedings, governmental 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.

Following the global credit crisis of 2008, MIS and other credit rating agencies have been the subject of intense scrutiny, increased regulation, ongoing inquiry and governmental investigations, and civil litigation. Legislative, regulatory and enforcement entities around the world are considering additional legislation, regulation and enforcement actions, including with respect to MIS's compliance with regulatory standards.

Edgar Filing: CITIGROUP INC - Form 424B2

Moody's periodically receives and is continuing to address subpoenas and inquiries from various governmental authorities, including the U.S. Department of Justice and states attorneys general, and is responding to such investigations and inquiries.

Table of Contents

In addition, the Company is facing litigation from market participants relating to the performance of MIS rated securities. Although Moody's in the normal course experiences such litigation, the volume and cost of defending such litigation has significantly increased following the events in the U.S. subprime residential mortgage sector and global credit markets more broadly over the last several years.

On August 25, 2008, Abu Dhabi Commercial Bank filed a purported class action in the United States District Court for the Southern District of New York asserting numerous common-law causes of action against two subsidiaries of the Company, another rating agency, and Morgan Stanley & Co. The action related to securities issued by a structured investment vehicle called Cheyne Finance (the Cheyne SIV) and sought, among other things, compensatory and punitive damages. The central allegation against the rating agency defendants was that the credit ratings assigned to the securities issued by the Cheyne SIV were false and misleading. In early proceedings, the court dismissed all claims against the rating agency defendants except those for fraud and aiding and abetting fraud. In June 2010, the court denied plaintiff's motion for class certification, and additional plaintiffs were subsequently added to the complaint. In January 2012, the rating agency defendants moved for summary judgment with respect to the fraud and aiding and abetting fraud claims. Also in January 2012, in light of new New York state case law, the court permitted the plaintiffs to file an amended complaint that reasserted previously dismissed claims against all defendants for breach of fiduciary duty, negligence, negligent misrepresentation, and related aiding and abetting claims. In May 2012, the court, ruling on the rating agency defendants' motion to dismiss, dismissed all of the reasserted claims except for the negligent misrepresentation claim, and on September 19, 2012, after further proceedings, the court also dismissed the negligent misrepresentation claim. On August 17, 2012, the court ruled on the rating agencies' motion for summary judgment on the plaintiffs' remaining claims for fraud and aiding and abetting fraud. The court dismissed, in whole or in part, the fraud claims of four plaintiffs as against Moody's but allowed the fraud claims to proceed with respect to certain claims of one of those plaintiffs and the claims of the remaining 11 plaintiffs. The court also dismissed all claims against Moody's for aiding and abetting fraud. Three of the plaintiffs whose claims were dismissed filed motions for reconsideration, and on November 7, 2012, the court granted two of these motions, reinstating the claims of two plaintiffs that were previously dismissed. On February 1, 2013, the court dismissed the claims of one additional plaintiff on jurisdictional grounds. Trial on the remaining fraud claims against the rating agencies, and on claims against Morgan Stanley for aiding and abetting fraud and for negligent misrepresentation, was scheduled for May 2013. On April 24, 2013, pursuant to confidential settlement agreements, the 14 plaintiffs with claims that had been ordered to trial stipulated to the voluntary dismissal, with prejudice, of these claims as against all defendants, and the court so ordered that stipulation on April 26, 2013. The settlement did not cover certain claims of two plaintiffs, Commonwealth of Pennsylvania Public School Employees' Retirement System (PSERS) and Commerzbank AG (Commerzbank), that were previously dismissed by the Court. On May 23, 2013, these two plaintiffs filed a Notice of Appeal to the Second Circuit, seeking reversal of the dismissal of their claims and also seeking reversal of the trial court's denial of class certification. According to pleadings filed by plaintiffs in earlier proceedings, PSERS and Commerzbank AG seek, respectively, \$5.75 million and \$69.6 million in compensatory damages in connection with the two claims at issue on the appeal. In October 2014, the Second Circuit affirmed the denial of class certification and the dismissal of PSERS' claim but reversed a ruling of the trial court that had excluded certain evidence relevant to Commerzbank's principal argument on appeal. The Second Circuit did not reverse the dismissal of Commerzbank's claim but instead certified a legal question concerning Commerzbank's argument to the New York Court of Appeals. The New York Court of Appeals subsequently agreed to hear the certified question, and on June 30, 2015, the Court of Appeals ruled in Moody's favor. The case was then returned to the Second Circuit for final disposition of the appeal. On February 23, 2016, the Second Circuit affirmed the dismissal of Commerzbank's claim.

On July 9, 2009, the California Public Employees' Retirement System (CalPERS) filed an action in the Superior Court of California in San Francisco (the Superior Court) asserting two common-law causes of action, negligent misrepresentation and negligent interference with prospective economic advantage. The complaint named as defendants the Company, MIS, The McGraw-Hill Companies, Fitch, Inc., and various subsidiaries of Fitch, Inc. The action related to the plaintiff's purchase of securities issued by three structured investment vehicles (SIVs) known as Cheyne Finance, Sigma Finance, and Stanfield Victoria Funding. The plaintiff's complaint sought unspecified compensatory damages arising from alleged losses in connection with investments that purportedly totaled approximately \$1.3 billion; in subsequent court filings, the plaintiff claimed to have suffered unrealized losses of approximately \$779 million. The central allegation against the defendants was that the credit ratings assigned to the securities issued by the SIVs were inaccurate and that the methodologies used by the rating agencies had no reasonable basis. In August 2009, the defendants removed the action to federal court, but the case was remanded to state court in November 2009 based on a finding that CalPERS is an arm of the State. In April 2010, in response to a motion by the defendants, the Superior Court dismissed the claim for negligent interference with prospective economic advantage but declined to dismiss the claim for negligent misrepresentation. On December 23, 2015, following the close of fact discovery, the Company and MIS filed a motion for summary judgment. On March 8, 2016, prior to argument or decision on the motion for summary judgment, the Company and CalPERS entered into an agreement to settle this matter, and the case was subsequently dismissed with prejudice. This resolution did not have a negative financial impact on the Company.

Table of Contents

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, because of uncertainties related to the probable outcome and/or the amount or range of loss, management does not record a liability 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 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.

NOTE 15 SEGMENT INFORMATION

The Company is organized into three operating segments: (i) MIS, (ii) MA and (iii) Copal Amba. The Copal Amba operating segment has been aggregated with the MA operating segment based on the fact that it has similar economic characteristics to MA. 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 the distribution of research and 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.

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 information technology. Eliminations in the table below represent intersegment revenue/expense. Moody's does not report the Company's assets by 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.

Table of Contents**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.

	Three Months Ended March 31,							
	2016				2015			
	MIS	MA	Eliminations	Consolidated	MIS	MA	Eliminations	Consolidated
Revenue	\$ 549.1	\$ 293.8	\$ (26.8)	\$ 816.1	\$ 624.6	\$ 266.6	\$ (25.6)	\$ 865.6
Operating, SG&A	278.6	230.3	(26.8)	482.1	281.3	210.0	(25.6)	465.7
Adjusted Operating Income	270.5	63.5		334.0	343.3	56.6		399.9
Less:								
Depreciation and amortization	17.5	12.4		29.9	16.0	12.6		28.6
Operating income	\$ 253.0	\$ 51.1	\$	\$ 304.1	\$ 327.3	\$ 44.0	\$	\$ 371.3

MIS and MA Revenue by Line of Business

The table below presents revenue by LOB within each reportable segment:

	Three Months Ended March 31,	
	2016	2015
MIS:		
Corporate finance (CFG)	\$ 240.3	\$ 298.7
Structured finance (SFG)	90.6	101.3
Financial institutions (FIG)	94.9	93.8
Public, project and infrastructure finance (PPIF)	91.5	100.7
Total ratings revenue	517.3	594.5
MIS Other	7.8	7.8
Total external revenue	525.1	602.3
Intersegment royalty	24.0	22.3
Total	549.1	624.6
MA:		
Research, data and analytics (RD&A)	164.9	149.6
Enterprise risk solutions (ERS)	89.5	77.1
Professional services (PS)	36.6	36.6
Total external revenue	291.0	263.3
Intersegment revenue	2.8	3.3
Total	293.8	266.6

Edgar Filing: CITIGROUP INC - Form 424B2

Eliminations	(26.8)	(25.6)
Total MCO	\$ 816.1	\$ 865.6

Consolidated Revenue Information by Geographic Area:

	Three Months Ended March 31,	
	2016	2015
Revenue		
United States	\$ 480.0	\$ 499.8
International:		
EMEA	210.2	227.6
Asia-Pacific	82.0	86.1
Americas	43.9	52.1
Total International	336.1	365.8
Total	\$ 816.1	\$ 865.6

Table of Contents**NOTE 16. RECENTLY ISSUED ACCOUNTING STANDARDS**

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers. This ASU outlines a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. In August 2015, the FASB issued ASU No. 2015-14

Revenue from Contracts with Customers (Topic 606), Deferral of the Effective Date which defers the effective date of the ASU for annual and interim reporting periods beginning after December 15, 2017, with early adoption permitted up to the original effective date of December 15, 2016. In addition, in March and April 2016, the FASB issued additional updates clarifying the implementation guidance for the new revenue recognition standard.

The Company is currently evaluating its adoption options with regard to the aforementioned ASUs relating to revenue recognition and the impact that adoption of these updates will have on its consolidated financial statements. Currently, the Company believes this ASU will have an impact on: i) the capitalization of certain contract implementation costs for its ERS business which will be expensed as incurred under the new standard; ii) the accounting for certain software subscription revenue in MA whereby the license rights within the arrangement would be recognized at the inception of the contract based on estimated stand-alone selling price with the remainder recognized over the subscription period; iii) the accounting for certain ERS revenue arrangements where VSOE is not available should result in the acceleration of revenue recognition and iv) the accounting for contract acquisition costs which will be expensed as incurred under the new standard.

In January 2016, the FASB issued ASU No. 2016-01 Financial Instruments Recognition and Measurement of Financial Assets and Financial Liabilities (Subtopic 825-10). The amendments in this ASU update various aspects of recognition, measurement, presentation and disclosures relating to financial instruments. This ASU is effective for fiscal years beginning after December 15, 2017. The Company is currently evaluating the impact of this ASU on the Company's financial statements.

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. This ASU is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. This standard must be adopted using a modified retrospective approach whereby leases will be presented in accordance with the new standard as of the earliest period presented. The Company is currently evaluating the impact of this ASU on the Company's financial statements.

In March 2016, the FASB issued ASU No. 2016-07, Investments Equity Method and Joint Ventures (Topic 323), Simplifying the Transition to the Equity Method of Accounting. This ASU amends the accounting for an investment not previously accounted for under the equity method that subsequently qualifies for the equity method of accounting. It requires a company to add the cost of the additional interest acquired to its current basis and the commencement of the equity method of accounting when the criteria are met. In addition, the unrealized gains or losses in accumulated other comprehensive related to an available for sale equity security should be recognized through earnings if the investment subsequently qualifies for the equity method of accounting. The amendments of this ASU are effective for fiscal years beginning after December 15, 2016, with early adoption permitted. The adoption of this ASU will only impact the Company if an investment not previously accounted for under the equity method qualifies for accounting under the equity method.

In March 2016, the FASB issued ASU No. 2016-09, Improvements to Employee Share-Based Payment Accounting. This ASU changes various aspects related to the accounting for share-based payments including: i) accounting for Excess Tax Benefits and shortfalls; ii) the accounting for forfeitures; iii) restrictions on the value of shares retained by an entity to fund the employee's portion of payroll taxes; and iv) classification of Excess Tax Benefits in the statement of cash flows. This ASU is effective for fiscal years beginning after December 15, 2016 and early adoption is permitted if all amendments are adopted in the same period. The Company is evaluating the impact of this ASU on its financial statements but currently expects that the most significant effect of this ASU will be the impact on its reported Net Income and Diluted EPS as Excess Tax Benefits and shortfalls will be recorded to the provision for income taxes under this ASU as compared to a charge to capital surplus under current GAAP.

NOTE 17. SUBSEQUENT EVENT

On April 11, 2016, the Board approved the declaration of a quarterly dividend of \$0.37 per share of Moody's common stock, payable on June 10, 2016 to shareholders of record at the close of business on May 20, 2016.

Table of Contents

Item 2. 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 condensed consolidated financial statements and notes thereto included elsewhere in this quarterly report on Form 10-Q.

This Management's Discussion and Analysis of Financial Condition and Results of Operations contains Forward-Looking Statements. See Forward-Looking Statements commencing on page 46 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 and economic related research, data and analytical tools, (iii) software solutions and related risk management services, (iv) quantitative credit risk measures, financial services training and certification services and (v) outsourced research and analytical services. Moody's has 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 the distribution of research and fixed income pricing services in the Asia-Pacific region, and from ICRA non-ratings services. 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 primarily support financial analysis and risk management activities of institutional participants in global financial markets. Within its RD&A business, MA distributes research and data developed by MIS as part of its ratings process, including in-depth research on major debt issuers, industry studies and commentary on topical credit-related events. The RD&A business also produces economic research as well as data and analytical tools such as quantitative credit risk scores. Within its ERS business, MA provides software solutions as well as related risk management services. The PS business provides outsourced research and analytical services and financial training 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 GAAP. 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, stock-based compensation, and income taxes. Actual results may differ from these estimates under different assumptions or conditions. Item 7, MD&A, in the Company's annual report on Form 10-K for the year ended December 31, 2015, includes descriptions of some of the judgments that Moody's makes in applying its accounting estimates in these areas. Since the date of the annual report on Form 10-K, there have been no material changes to the Company's critical accounting estimates.

Reportable Segments

The Company is organized into two reportable segments at March 31, 2016: MIS and MA.

The MIS segment is comprised primarily of all of the Company's ratings operations. The MIS segment consists 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 as well as certain research and fixed income pricing service operations in the Asia-Pacific region.

Table of Contents

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. The MA segment consists of three lines of business – RD&A, ERS and PS.

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 information technology.

RESULTS OF OPERATIONS

Three months ended March 31, 2016 compared with three months ended March 31, 2015

Executive Summary

Moody's revenue in the three months ended March 31, 2016 totaled \$816.1 million, a decrease of \$49.5 million, or 6%, compared to 2015 and reflected declines in MIS revenue partially offset by good growth in MA. Excluding the unfavorable impact of changes in FX translation rates, revenue decreased 4% from the prior year. The following discussion of MIS and MA revenue exclude intersegment revenue.

MIS revenue decreased 13% compared to the prior year reflecting lower revenue from rating high-yield and investment-grade corporate debt in the U.S. and EMEA primarily due to market volatility in the first quarter of 2016. Additionally, the decrease reflected lower securitization activity in the first quarter of 2016, most notably in the U.S. CMBS and CLO asset classes.

MA revenue was 11% higher than the prior year. Excluding the impact of unfavorable changes in FX translation rates, MA revenue grew 13% reflecting increases in ERS and RD&A across all regions. Revenue grew in all product areas of ERS, with particular strength in the Assets, Liability & Capital, Credit Assessment & Origination and Stress Testing products. The 2016 acquisition of GGY also contributed to the growth in ERS. In RD&A, revenue growth was primarily driven by credit research and licensing of ratings data as well as growth in SAV and ECCA.

Total operating expenses increased \$17.7 million, or 4% reflecting higher compensation costs associated with headcount growth (including costs from the acquisition of GGY) and annual compensation increases partially offset by lower incentive compensation costs;

Excluding the favorable impact relating to changes in FX translation rates, total expenses increased 6% compared to the prior year.

Operating income of \$304.1 million in the first quarter of 2016 was down \$67.2 million compared to 2015 and resulted in an operating margin of 37.3%, compared to 42.9% in the prior year. Adjusted Operating Income of \$334.0 million in the first quarter of 2016 decreased \$65.9 million compared to 2015, resulting in an Adjusted Operating Margin of 40.9% compared to 46.2% in the prior year.

Edgar Filing: CITIGROUP INC - Form 424B2

The ETR in the first quarter of 2016 was 60 BPS lower than the prior year primarily due to lower state income taxes.

The increase in non-operating expense, net, compared to the prior year is primarily due to interest on the 2015 Senior Notes issued in March 2015 as well as interest on the \$300 million of additional borrowings under the 2014 Senior Notes (30-Year) in November 2015. These increases in expense were partially offset by higher FX gains in 2016.

Diluted EPS of \$0.93 in the first quarter of 2016 decreased \$0.18 from 2015 reflecting a decrease in Net Income partially offset by a 4% reduction in diluted weighted average shares outstanding.

Table of Contents*Moody's Corporation*

	Three months ended March 31,		% Change
	2016	2015	Favorable (Unfavorable)
Revenue:			
United States	\$ 480.0	\$ 499.8	(4%)
International:			
EMEA	210.2	227.6	(8%)
Asia-Pacific	82.0	86.1	(5%)
Americas	43.9	52.1	(16%)
Total International	336.1	365.8	(8%)
Total	816.1	865.6	(6%)
Expenses:			
Operating	249.2	244.4	(2%)
SG&A	232.9	221.3	(5%)
Depreciation and amortization	29.9	28.6	(5%)
Total	512.0	494.3	(4%)
Operating income	\$ 304.1	\$ 371.3	(18%)
Adjusted Operating Income ⁽¹⁾	\$ 334.0	\$ 399.9	(16%)
Interest expense, net	\$ (34.1)	\$ (29.3)	(16%)
Other non-operating income, net	\$ 5.6	\$ 2.5	124%
Total non-operating expense, net	\$ (28.5)	\$ (26.8)	(6%)
Net income attributable to Moody's	\$ 184.4	\$ 230.1	(20%)
Diluted weighted average shares outstanding	197.9	206.5	4%
Diluted EPS attributable to Moody's common shareholders	\$ 0.93	\$ 1.11	(16%)
Operating margin	37.3%	42.9%	
Adjusted Operating Margin ⁽¹⁾	40.9%	46.2%	

⁽¹⁾ Adjusted Operating Income and Adjusted Operating Margin 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:

	March 31		% Change
	2016	2015	
United States	3,441	3,202	7%
International	7,311	6,768	8%
Total	10,752	9,970	8%

Edgar Filing: CITIGROUP INC - Form 424B2

Global revenue of \$816.1 million in the first quarter of 2016 decreased \$49.5 million, or 6%, compared to 2015. Excluding the unfavorable impact of changes in FX translation rates, global revenue decreased 4% from the prior year and reflected lower MIS revenue partially offset by good growth in MA revenue.

The \$77.2 million decrease in MIS revenue reflects declines in high-yield and investment-grade corporate debt revenue across all regions reflecting market volatility in the first quarter of 2016. Additionally, the decrease reflected lower securitization activity in the first quarter of 2016, most notably in the U.S. CMBS and CLO asset classes. Unfavorable changes in FX translation rates had a \$7 million impact on revenue in the first quarter of 2016.

Table of Contents

The \$27.7 million growth in MA reflects increases in ERS and RD&A across all regions. Revenue grew in all product areas of ERS, with particular strength in the Assets, Liability & Capital, Credit Assessment & Origination and Stress Testing products. The 2016 acquisition of GGY also contributed to the growth in ERS. In RD&A, revenue growth was primarily driven by credit research and licensing of ratings data as well as growth in SAV and ECCA businesses. These results were partially offset by unfavorable changes in FX translation rates of approximately \$6 million. Excluding the impact of changes in FX rates, MA revenue increased 13% compared to 2015.

Transaction revenue accounted for 45% of global MCO revenue in the first quarter of 2016 compared to 51% in the prior year.

U.S. revenue of \$480.0 million in the first quarter of 2016 decreased \$19.8 million from the prior year, reflecting lower revenue across all MIS LOBs, partially offset by growth in RD&A and ERS revenue within MA.

Non-U.S. revenue of \$336.1 million decreased \$29.7 million compared to the first quarter of 2015 due to declines in MIS across all regions being partially offset by growth in MA across all regions.

Operating expenses were \$249.2 million in the first quarter of 2016, up 2% compared to 2015 and included an increase in compensation costs reflecting higher expenses resulting from the impact of annual compensation increases and increased headcount (including headcount from the acquisition of GGY). These increases were partially offset by lower incentive compensation costs reflecting lower projected achievement against full-year projected results compared to the prior year. The changes above include a favorable impact relating to changes in FX translation rates compared to the prior year.

SG&A expenses of \$232.9 million in the first quarter of 2016 increased 5% from the prior year period reflecting higher compensation and non-compensation expenses of approximately \$7 million and \$5 million, respectively. The growth in compensation costs was primarily due to higher expenses resulting from annual compensation increases, headcount growth in MIS and MA as well as in overhead support areas coupled with higher headcount from the GGY acquisition. These increases were partially offset by lower incentive compensation costs reflecting lower projected achievement against full-year projected results compared to the prior year. The increase in non-compensation expenses primarily reflects higher legal fees as well as higher rent and occupancy costs reflecting various real estate expansion projects. The increases above include a favorable impact relating to changes in FX translation rates compared to the prior year.

Operating income of \$304.1 million in the first quarter of 2016 was down \$67.2 million compared to 2015 and resulted in an operating margin of 37.3%, compared to 42.9% in the prior year. Adjusted Operating Income of \$334.0 million in the first quarter of 2016 decreased \$65.9 million compared to 2015, resulting in an Adjusted Operating Margin of 40.9% compared to 46.2% in the prior year period.

Interest expense, net in the first quarter of 2016 was (\$34.1) million, a \$4.8 million increase in expense compared to 2015. The increase reflects interest on the 2015 Senior Notes which were issued in March 2015 as well as interest on the \$300 million of additional borrowings under the 2014 Senior Notes (30-Year) in November 2015.

Other non-operating income, net was \$5.6 million in the first quarter of 2016, a \$3.1 million increase in income compared to 2015. This increase reflected approximately \$4 million in higher FX gains compared to the prior year primarily due to the strengthening of the euro to both the British pound and the U.S. dollar over the previous three months.

The Company's ETR was 32.3% in the first quarter of 2016, compared with 32.9% in 2015 with the decrease primarily due to lower state income tax.

Net Income in the first quarter of 2016 was \$184.4 million, or \$0.93 per diluted share. This is a decrease of \$45.7 million, or \$0.18 per diluted share, compared to 2015. The decrease in diluted EPS reflects lower Net Income partially offset by a 4% reduction in diluted weighted average shares outstanding. This reduction in diluted weighted average shares outstanding reflects share repurchases under the Company's Board authorized share repurchase program partially offset by shares issued under the employee stock-based compensation programs.

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:

	Three months ended March 31, 2016	2015	% Change Favorable (Unfavorable)
Revenue:			
Corporate finance (CFG)	\$ 240.3	\$ 298.7	(20%)
Structured finance (SFG)	90.6	101.3	(11%)
Financial institutions (FIG)	94.9	93.8	1%
Public, project and infrastructure finance (PPIF)	91.5	100.7	(9%)
Total ratings revenue	517.3	594.5	(13%)
MIS Other	7.8	7.8	
Total external revenue	525.1	602.3	(13%)
Intersegment royalty	24.0	22.3	8%
Total	549.1	624.6	(12%)
Expenses:			
Operating and SG&A (external)	275.8	278.0	1%
Operating and SG&A (intersegment)	2.8	3.3	15%
Adjusted Operating Income	270.5	343.3	(21%)
Depreciation and amortization	17.5	16.0	(9%)
Operating income	\$ 253.0	\$ 327.3	(23%)
Adjusted Operating Margin	49.3%	55.0%	
Operating margin	46.1%	52.4%	

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

Global MIS revenue of \$525.1 million in the first quarter of 2016 was down 13% compared to 2015 reflecting lower rated issuance volumes for high-yield corporate debt across all regions as well as declines in CMBS and CLO activity in the U.S. Also, there were declines in rated issuance volumes for investment-grade corporate debt across all non-U.S. regions reflecting market volatility in the first quarter of 2016. Transaction revenue for MIS was 56% of total revenue in the first quarter of 2016 compared to 63% in the first quarter of 2015.

In the U.S., revenue was \$336.0 million in the first quarter of 2016, a decrease of \$35.5 million compared to 2015 and reflected lower rated issuance volumes for high-yield corporate debt due to credit spread and market volatility in the first quarter of 2016. Additionally, there were declines in securitization activity in the CMBS and CLO asset classes within SFG reflecting market volatility as well as uncertainty relating to the implementation of regulatory requirements. Partially offsetting these decreases were higher monitoring fee revenue reflecting a larger number of outstanding rated instruments as well as higher insurance-related issuance volumes due to M&A activity in the sector.

Edgar Filing: CITIGROUP INC - Form 424B2

Non-U.S. revenue was \$189.1 million in the first quarter of 2016, a decrease of \$41.7 million compared to 2015. The decrease reflects lower rated issuance volumes for high-yield and investment-grade corporate debt across all regions reflecting market volatility in the first quarter of 2016 resulting from global economic growth concerns and weak commodity prices. Partially offsetting these declines was higher monitoring fee revenue reflecting a larger number of outstanding rated instruments.

Table of Contents

Global CFG revenue of \$240.3 million in the first quarter of 2016 was down 20% compared to 2015. The decline reflects lower rated issuance volumes for speculative-grade corporate debt across all regions as credit spreads were volatile for high-yield instruments reflecting overall market volatility in the first quarter of 2016. Also, there were lower rated issuance volumes for investment-grade corporate debt across all non-U.S. regions reflecting the aforementioned market volatility in the first quarter of 2016. Partially offsetting these decreases were the benefits from changes in the mix of fee type, new fee initiatives and pricing increases. Transaction revenue represented 63% and 72% of total CFG revenue in the first quarter of 2016 and 2015, respectively. In the U.S., revenue was \$172.4 million, or \$19.7 million lower than the prior year. Internationally, revenue of \$67.9 million decreased \$38.7 million compared to the prior year.

Global SFG revenue of \$90.6 million in the first quarter of 2016 decreased \$10.7 million, or 11%, compared to 2015. In the U.S., revenue of \$60.0 million decreased \$10.7 million compared to the first quarter of 2015. This decrease reflected lower securitization activity in the CMBS asset class due to higher credit spreads resulting from overall market volatility in the first quarter of 2016 as well as uncertainties relating to the implementation of regulatory requirements. Additionally, the decline in the U.S. reflects lower CLO formation also due to wider credit spreads resulting from market volatility as well as declining availability of collateral for these instruments. Non-U.S. revenue in the first quarter of 2016 of \$30.6 million was flat compared to the prior year as modest growth in EMEA was offset by declines in other regions. Transaction revenue was 55% of total SFG revenue in the first quarter of 2016 compared to 61% in the prior year.

Global FIG revenue of \$94.9 million in the first quarter of 2016 increased \$1.1 million, or 1%, compared to 2015. Excluding the unfavorable impact of changes in FX translation rates, FIG revenue grew 4% compared to the prior year. In the U.S., revenue was \$40.2 million, or 3% lower than the prior year, primarily reflecting reduced banking-related issuance volumes due to market volatility in the first quarter of 2016. This decrease was partially offset by higher M&A rated issuance volumes in the insurance sector as well as benefits from changes in the mix of fee type, new fee initiatives and pricing increases. Internationally, revenue was \$54.7 million in the first quarter of 2016, or \$2.3 million higher compared to 2015. This increase primarily reflects higher banking revenue in EMEA and insurance revenue in Asia-Pacific as well as benefits from changes in the mix of fee type, new fee initiatives and pricing increases. Partially offsetting the increase in non-U.S. revenue was an approximate \$2 million unfavorable impact from changes in FX rates. Transaction revenue was 39% of total FIG revenue in the first quarter of 2016 compared to 40% in the same period in 2015.

Global PPIF revenue was \$91.5 million in the first quarter of 2016 and decreased \$9.2 million, or 9%, compared to 2015. In the U.S., revenue in the first quarter of 2016 was \$61.1 million, a decrease of \$4.2 million compared to 2015 due to lower public and project finance revenue reflecting market volatility in the first quarter of 2016 compared to robust issuance in the prior year. Outside the U.S., PPIF revenue decreased \$5.0 million compared to 2015, primarily due to lower rated issuance volumes in infrastructure finance in EMEA reflecting market volatility coupled with lower project finance revenue in Asia-Pacific. These decreases were partially offset by benefits from changes in the mix of fee type, new fee initiatives and pricing increases. Transaction revenue was 59% and 64% of total PPIF revenue in first quarter of 2016 and 2015, respectively.

Operating and SG&A expenses in the first quarter of 2016 decreased \$2.2 million compared to 2015 primarily reflecting lower non-compensation expense of approximately \$3 million primarily due to overall cost control initiatives. Partially offsetting this decrease was higher compensation expense of approximately \$1 million primarily reflecting annual salary increases, headcount growth in the ratings LOBs as well as in the support areas such as IT, finance and human resources for which the costs are allocated to each segment based on a revenue-split methodology. This increase in salary expense was partially offset by reduced incentive compensation costs reflecting lower projected achievement against full-year targeted results compared to the prior year.

Adjusted Operating Income and operating income in the first quarter of 2016, which includes intersegment royalty revenue and intersegment expenses, was \$270.5 million and \$253.0 million, respectively, and were down 21% and 23%, respectively, compared to 2015. Adjusted Operating Margin and operating margin were 49.3% and 46.1%, respectively, or 570 BPS and 630 BPS lower compared to the first quarter of 2015.

Table of Contents**Moody's Analytics**

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

	Three months ended March 31,		% Change
	2016	2015	Favorable (Unfavorable)
Revenue:			
Research, data and analytics (RD&A)	\$ 164.9	\$ 149.6	10%
Enterprise risk solutions (ERS)	89.5	77.1	16%
Professional services (PS)	36.6	36.6	
Total external revenue	291.0	263.3	11%
Intersegment revenue	2.8	3.3	(15%)
Total MA Revenue	293.8	266.6	10%
Expenses:			
Operating and SG&A (external)	206.3	187.7	(10%)
Operating and SG&A (intersegment)	24.0	22.3	(8%)
Adjusted Operating Income	63.5	56.6	12%
Depreciation and amortization	12.4	12.6	2%
Operating income	\$ 51.1	\$ 44.0	16%
Adjusted Operating Margin	21.6%	21.2%	
Operating margin	17.4%	16.5%	

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

Global MA revenue increased \$27.7 million, or 11%, compared to the first quarter of 2015 reflecting growth in RD&A as well as ERS, which included revenue from the acquisition of GGY. Excluding unfavorable changes in FX translation rates, MA revenue grew 13% compared to the prior year. Recurring revenue comprised 76% and 77% of total MA revenue in the first quarter of 2016 and 2015, respectively.

In the U.S., revenue of \$144.0 million in the first quarter of 2016 increased \$15.7 million, and reflected growth in ERS and RD&A.

Non-U.S. revenue of \$147.0 million in the first quarter of 2016 was \$12.0 million higher than in 2015 reflecting growth in RD&A and ERS, partially offset by an approximate \$6 million unfavorable impact due to changes in FX rates.

Global RD&A revenue of \$164.9 million, which comprised 57% of total external MA revenue in both the first quarter of 2016 and 2015, increased \$15.3 million, or 10%, over the prior year period. Excluding an approximate \$4 million unfavorable impact due to changes in FX translation rates, RD&A revenue grew 13% compared to the prior year reflecting increases across all regions. The growth reflected strong sales of credit research and licensing of ratings data, record customer retention and higher revenue within SAV and ECCA. In the U.S., revenue of \$96.2 million increased 14% over the prior year. Non-U.S. revenue of \$68.7 million increased 5% and included the unfavorable impact from changes in FX translation rates.

Global ERS revenue in the first quarter of 2016 of \$89.5 million increased \$12.4 million, or 16%, over 2015. Excluding unfavorable changes in FX translation rates, ERS revenue grew 18%. Revenue growth was primarily due to increases across all product offerings with particular strength in the Assets, Liabilities & Capital, Credit Assessment and Origination and Stress Testing products as well as revenue from the acquisition of GGY in March of 2016. 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 \$35.2

Edgar Filing: CITIGROUP INC - Form 424B2

million increased 14% compared to the prior year. Non-U.S. revenue of \$54.3 million increased 17% and included the aforementioned unfavorable impact from changes in FX translation rates.

Table of Contents

Global PS revenue of \$36.6 million in the first quarter of 2016 was flat compared to 2015. Excluding unfavorable changes in FX translation rates, revenue was 2% higher than the prior year reflecting good growth in the outsourced research and analytical services business. In the U.S., revenue of \$12.6 million decreased 6%. Non-U.S. revenue of \$24.0 million decreased 3% compared to the prior year and included an approximate \$1 million unfavorable impact due to changes in FX translation rates.

Operating and SG&A expenses in the first quarter of 2016 increased \$18.6 million compared to 2015. The expense growth reflects an approximate \$16 million increase in compensation costs primarily due to higher headcount to support business growth as well as higher headcount in support areas, for which the costs are allocated based on the Company's revenue-split methodology. Also contributing to the increase in compensation costs was headcount from the acquisition of GGY, annual merit increases and higher incentive compensation reflecting greater achievement against full-year targeted results compared to the prior year. Additionally, there was an approximate \$3 million increase in non-compensation expenses primarily due to higher rent and occupancy and variable costs correlated with business growth.

Adjusted Operating Income was \$63.5 million in the first quarter of 2016 and increased \$6.9 million compared to 2015. Operating income of \$51.1 million in the first quarter of 2016 increased \$7.1 million compared to 2015. Adjusted Operating Margin for the first quarter of 2016 was 21.6% compared to 21.2% in 2015. Operating margin was 17.4% in the first quarter of 2016 compared to 16.5% in the prior year. Adjusted operating income and operating income both include intersegment revenue and expense.

Liquidity and Capital Resources**Cash Flow**

The Company is currently financing its operations, capital expenditures and share repurchases from cash flow from operating and financing activities. The following is a summary of the changes in the Company's cash flows followed by a brief discussion of these changes:

	Three Months Ended		\$ Change
	March 31,		
	2016	2015	
Net cash provided by operating activities	\$ 237.3	\$ 261.8	\$ (24.5)
Net cash used in investing activities	\$ (108.4)	\$ (49.3)	\$ (59.1)
Net cash (used in) provided by financing activities	\$ (339.2)	\$ 123.9	\$ (463.1)
Free Cash Flow*	\$ 211.0	\$ 242.8	\$ (31.8)

* Free Cash Flow is a non-GAAP financial measure. Refer to the section "Non-GAAP Financial Measures" of this MD&A for further information on this financial measure.

Net cash provided by operating activities

Net cash flows from operating activities decreased \$24.5 million compared to the prior year. The decrease was primarily due to lower net income of \$44.7 million. This was partially offset by an approximate \$29 million increase primarily relating to higher incentive compensation payouts in 2015 compared to 2016 which reflected lower achievement against full-year targeted results in 2015 compared to achievement in 2014. The remaining decrease in cash flow from operations is due to various other changes in working capital.

Table of Contents

Net cash used in investing activities

The \$59.1 million increase in cash used in investing activities is primarily due to:

cash paid, net of cash acquired, of \$75.9 million to acquire GGY;

\$18.5 million less cash received upon maturity of FX forward contracts designated as net investment hedges;

Partially offset by:

lower net purchases of investments of \$42.6 million.

Net cash used in financing activities

The \$463.1 million increase in cash used in financing activities was attributed to:

net proceeds of \$552.8 million in 2015 reflecting the issuance of the 2015 Senior Notes;

Partially offset by:

treasury shares repurchased of \$262.1 million in the first three months of 2016 compared to \$365.8 million in the first three months of 2015;

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

The Company's aggregate cash and cash equivalents and short-term investments of \$2.1 billion at March 31, 2016 consisted of approximately \$1.5 billion located outside of the U.S. Approximately 32% of the Company's aggregate cash and cash equivalents and short-term investments is denominated in euros and British pounds. Approximately 95% of the cash and cash equivalents and short-term investments in the Company's non-U.S. operations are held by entities whose undistributed earnings are indefinitely reinvested in the Company's foreign operations. Accordingly, the Company has not provided deferred income taxes on these indefinitely reinvested earnings. A future distribution or change in assertion regarding reinvestment by the foreign subsidiaries relating to these earnings could result in additional tax liability to the Company. It is not practicable to determine the amount of the potential additional tax liability due to complexities in the tax laws and in the hypothetical calculations that would have to be made. The Company manages both its U.S. and international cash flow to maintain sufficient liquidity in all regions to effectively meet its operating needs.

Indebtedness

At March 31, 2016, Moody's had \$3.4 billion of outstanding debt and \$1.0 billion of additional capacity available under the 2015 Facility. At March 31, 2016, the Company was in compliance with all covenants contained within all of the debt agreements. The 2015 Facility, the 2007 Agreement, the 2010 Indenture, the 2012 Indenture, the 2013 Indenture, the 2014 Indenture and the 2015 Indenture contain cross default provisions. These provisions 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 March 31, 2016, there were no such cross defaults.

Table of Contents

The repayment schedule for the Company's borrowings is as follows:

Year Ended December 31,	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 ⁽¹⁾	Total
2016 (after March 31,)	\$	\$	\$	\$	\$	\$	\$	\$
2017	300.0							300.0
2018								
2019					450.0			450.0
2020		500.0						500.0
Thereafter			500.0	500.0		600.0	569.8	2,169.8
Total	\$ 300.0	\$ 500.0	\$ 500.0	\$ 500.0	\$ 450.0	\$ 600.0	\$ 569.8	\$ 3,419.8

⁽¹⁾ Based on end of quarter FX rates

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.

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 for the next twelve months. 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. In April 2016, the Board of Directors of the Company declared a quarterly dividend of \$0.37 per share of Moody's common stock, payable on June 10, 2016 to shareholders of record at the close of business on May 20, 2016. The continued payment of dividends at this rate, or at all, is subject to the discretion of the Board. In December 2014, the Board authorized \$1.0 billion of share repurchase authority that has a remaining repurchase authority of approximately \$204 million at March 31, 2016. In December 2015, the Board authorized an additional \$1.0 billion of share repurchase authority which will be utilized following the completion of the program authorized in December 2014. Full-year 2016 total share repurchases are expected to be approximately \$1 billion, subject to available cash, market conditions and other ongoing capital allocation decisions.

On February 6, 2008, the Company entered into an operating lease agreement to occupy six floors of an office tower located in the Canary Wharf district of London, England. The Canary Wharf Lease has an initial term of 17.5-years with a total of 15 years of renewal options. The total base rent of the Canary Wharf Lease over its initial 17.5-year term is approximately £134 million, and the Company began making base rent payments in 2011. In addition to the base rent payments, the Company will be obligated to pay certain customary amounts for its share of operating expenses and tax obligations. The total remaining lease payments as of March 31, 2016 are approximately £92 million, of which approximately £9 million will be paid in the next twelve months. Payments under this lease agreement are included in the contractual obligations table below.

Table of Contents

On October 20, 2006, the Company entered into an operating lease agreement with 7 World Trade Center, LLC for 589,945 square-feet of an office building located at 7WTC at 250 Greenwich Street, New York, New York, which is serving as Moody's headquarters. The 7WTC Lease has an initial term of 21 years with a total of 20 years of renewal options. The total base rent of 7WTC Lease over its initial 21-year term is approximately \$536 million including rent credits from the World Trade Center Rent Reduction Program promulgated by the Empire State Development Corporation. On March 28, 2007, the 7WTC lease agreement was amended for the Company to lease an additional 78,568 square-feet at 7WTC. The additional base rent is approximately \$106 million over a 20-year term. The total remaining lease payments as of March 31, 2016, including the aforementioned rent credits, are approximately \$411 million, of which approximately \$33 million will be paid during the next twelve months. Payments under this lease agreement are included in the contractual obligations table below.

The Company anticipates making an approximate \$22 million contribution to its U.S. defined benefit funded pension plan during the remainder of 2016.

Off-Balance Sheet Arrangements

At March 31, 2016, 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 March 31, 2016:

(in millions)	Total	Payments Due by Period			
		Less Than 1 Year	1 -3 Years	3 - 5 Years	Over 5 Years
Indebtedness ⁽¹⁾	\$ 4,943.2	\$ 137.2	\$ 547.0	\$ 1,163.0	\$ 3,096.0
Operating lease obligations	811.5	95.8	173.1	141.5	401.1
Capital lease obligations	1.2	0.6	0.6		
Purchase obligations	167.6	69.1	64.0	34.5	
Pension obligations ⁽²⁾	161.7	28.9	44.5	17.3	71.0
Total ⁽³⁾	\$ 6,085.2	\$ 331.6	\$ 829.2	\$ 1,356.3	\$ 3,568.1

(1) Reflects principal payments, related interest and applicable fees due on the Series 2007-1 Notes, the 2010 Senior Notes, the 2012 Senior Notes, the 2013 Senior Notes, the 2014 Senior Notes (5-year), the 2014 Senior Notes (30-year), the 2015 Senior Notes and the 2015 Facility as described in Note 13 to the condensed consolidated financial statements.

(2) Reflects projected benefit contributions to the Company's funded U.S. DBPP and payments relating to the Company's U.S. unfunded DBPPs and Retirement and Other Plans described in Note 12 to the condensed consolidated financial statements.

(3) The table above does not include the Company's net long-term tax liabilities of \$211.6 million relating to UTP and Legacy Tax Matters, since the expected cash outflow of such amounts by period cannot be reasonably estimated.

Dividends

On April 11, 2016, the Board approved the declaration of a quarterly dividend of \$0.37 per share of Moody's common stock, payable on June 10, 2016 to shareholders of record at the close of business on May 20, 2016.

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

Table of Contents

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 brief 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:

Constant Currency Measures:

The Company presents revenue and operating income growth on a constant currency basis because management deems this metric to be a useful measure of assessing the operations of the Company in times of foreign exchange rate volatility. Constant currency measures exclude the impact of changes in foreign exchange rates on operating results. The Company calculates the dollar impact of foreign exchange as the difference between the translation of its current period non-USD functional currency results using prior comparative period weighted average foreign exchange translation rates and current year as reported results. Growth rates on a constant currency basis are determined based on the difference between current period revenue and operating income translated using prior period comparative weighted average exchange rates and prior period as reported results divided by prior as reported results. Below is a reconciliation of the Company's as reported revenue and operating income changes to the changes on a constant currency basis:

	Three Months Ended March 31, 2016							
	RD&A Revenue		ERS Revenue		PS Revenue		Total MA Revenue	
	\$	%	\$	%	\$	%	\$	%
Reported change	\$ 15.3	10%	\$ 12.4	16%	\$		\$ 27.7	11%
FX impact	3.7	3%	1.4	2%	0.9	2%	6.0	2%
Constant currency change	\$ 19.0	13%	\$ 13.8	18%	\$ 0.9	2%	\$ 33.7	13%

	FIG Revenue	
	\$	%
Reported change	\$ 1.1	1%
FX impact	2.3	3%
Constant currency change	\$ 3.4	4%

	MCO Revenue		MCO Expense	
	\$	%	\$	%
Reported change	\$ (49.5)	(6%)	\$ 17.7	4%
FX impact	12.6	2%	11.5	2%
Constant currency change	\$ (36.9)	(4%)	\$ 29.2	6%

Table of Contents**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, measuring the Company's ability to service debt, fund capital expenditures, and expand its business. Adjusted operating income excludes depreciation and amortization because companies utilize productive assets of different ages and use different methods of both acquiring and depreciating productive assets. Management believes that the exclusion of this item, detailed in the reconciliation below, allows for a more meaningful comparison of the Company's results from period to period and across companies. The Company defines adjusted operating margin as adjusted operating income divided by revenue:

	Three Months Ended	
	March 31,	
	2016	2015
Operating income	\$ 304.1	\$ 371.3
Adjustments:		
Depreciation and amortization	29.9	28.6
Adjusted Operating Income	\$ 334.0	\$ 399.9
Operating Margin	37.3%	42.9%
Adjusted Operating Margin	40.9%	46.2%

Free Cash Flow:

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

	Three Months Ended	
	March 31,	
	2016	2015
Net cash flows provided by operating activities	\$ 237.3	\$ 261.8
Capital additions	(26.3)	(19.0)
Free cash flow	\$ 211.0	\$ 242.8
Net cash used in investing activities	\$ (108.4)	\$ (49.3)
Net cash (used in) provided by financing activities	\$ (339.2)	\$ 123.9

Table of Contents

Recently Issued Accounting Standards

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*. This ASU outlines a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. In August 2015, the FASB issued ASU No. 2015-14

Revenue from Contracts with Customers (Topic 606), Deferral of the Effective Date which defers the effective date of the ASU for annual and interim reporting periods beginning after December 15, 2017, with early adoption permitted up to the original effective date of December 15, 2016. In addition, in March and April 2016, the FASB issued additional updates clarifying the implementation guidance for the new revenue recognition standard.

The Company is currently evaluating its adoption options with regard to the aforementioned ASU's relating to revenue recognition and the impact that adoption of these updates will have on its consolidated financial statements. Currently, the Company believes this ASU will have an impact on: i) the capitalization of certain contract implementation costs for its ERS business which will be expensed as incurred under the new standard; ii) the accounting for certain software subscription revenue in MA whereby the license rights within the arrangement would be recognized at the inception of the contract based on estimated stand-alone selling price with the remainder recognized over the subscription period; iii) the accounting for certain ERS revenue arrangements where VSOE is not available should result in the acceleration of revenue recognition and iv) the accounting for contract acquisition costs which will be expensed as incurred under the new standard.

In January 2016, the FASB issued ASU No. 2016-01 *Financial Instruments - Recognition and Measurement of Financial Assets and Financial Liabilities (Subtopic 825-10)*. The amendments in this ASU update various aspects of recognition, measurement, presentation and disclosures relating to financial instruments. This ASU is effective for fiscal years beginning after December 15, 2017. The Company is currently evaluating the impact of this ASU on the Company's financial statements.

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. This ASU is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. This standard must be adopted using a modified retrospective approach whereby leases will be presented in accordance with the new standard as of the earliest period presented. The Company is currently evaluating the impact of this ASU on the Company's financial statements.

In March 2016, the FASB issued ASU No. 2016-07, *Investments - Equity Method and Joint Ventures (Topic 323), Simplifying the Transition to the Equity Method of Accounting*. This ASU amends the accounting for an investment not previously accounted for under the equity method that subsequently qualifies for the equity method of accounting. It requires a company to add the cost of the additional interest acquired to its current basis and the commencement of the equity method of accounting when the criteria are met. In addition, the unrealized gains or losses in accumulated other comprehensive related to an available for sale equity security should be recognized through earnings if the investment subsequently qualifies for the equity method of accounting. The amendments of this ASU are effective for fiscal years beginning after December 15, 2016, with early adoption permitted. The adoption of this ASU will only impact the Company if an investment not previously accounted for under the equity method qualifies for accounting under the equity method.

In March 2016, the FASB issued ASU No. 2016-09, *Improvements to Employee Share-Based Payment Accounting*. This ASU changes various aspects related to the accounting for share-based payments including: i) accounting for Excess Tax Benefits and shortfalls; ii) the accounting for forfeitures; iii) restrictions on the value of shares retained by an entity to fund the employee's portion of payroll taxes; and iv) classification of Excess Tax Benefits in the statement of cash flows. This ASU is effective for fiscal years beginning after December 15, 2016 and early adoption is permitted if all amendments are adopted in the same period. The Company is evaluating the impact of this ASU on its financial statements but currently expects that the most significant effect of this ASU will be the impact on its reported Net Income and Diluted EPS as Excess Tax Benefits and shortfalls will be recorded to the provision for income taxes under this ASU as compared to a charge to capital surplus under current GAAP.

Contingencies

Legal proceedings in which the company is involved also may impact Moody's liquidity or operating results. No assurance can be provided as to the outcome of such proceedings. In addition, litigation inherently involves significant costs. For information regarding legal proceedings, see Item 1 *Financial Statements*, Note 14 *Contingencies*.

Table of Contents**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 has direct supervisory responsibility for the registered CRA industry throughout the EU. MIS is a registered entity and is therefore subject to formal regulation and periodic inspection. 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, 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.

Separately, CRA3 also requires that ESMA and / or the European Commission produce several reports on the industry's structure and the use of ratings. In October 2015, ESMA published its reports, wherein it acknowledged the impact of regulation on the industry, and stated that it will continue to monitor the industry structure over the next three to five years. The European Commission is expected to publish its reports during the first half of 2016.

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), from time to time 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.

Forward-Looking Statements

Certain statements contained in this quarterly report on Form 10-Q 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 quarterly report on Form 10-Q, including in the section entitled "Contingencies" under Item 2. "MD&A", commencing on page 32 of this quarterly report on Form 10-Q, under "Legal Proceedings" in Part II, Item 1, of this Form 10-Q, and elsewhere in the context of statements containing the words "believe", "expect",

Table of Contents

anticipate, intend, plan, will, predict, potential, continue, strategy, aspire, target, forecast, project, estimate, should expressions or words and variations 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 quarterly report on Form 10-Q, 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. 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, the current world-wide credit market disruptions and economic slowdown, which is affecting and could continue to 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 credit quality concerns, changes in interest rates and other volatility in the financial markets; 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 initiatives to respond to the current world-wide credit market disruptions and economic slowdown; 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; 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; the outcome of those Legacy Tax Matters and legal contingencies that relate to the Company, its predecessors and their affiliated companies for which Moody's has assumed portions of the financial responsibility; exposure to potential criminal sanctions or civil remedies if the Company fails to comply with foreign and U.S. laws and regulations that are applicable in the jurisdictions in which the Company operates, including sanctions laws, anti-corruption laws, and local laws prohibiting corrupt payments to government officials; the impact of mergers, acquisitions or other business combinations and the ability of the Company to successfully integrate acquired businesses; currency and foreign exchange volatility; the level of future cash flows; the levels of capital investments; and a decline in the demand for credit risk management tools by financial institutions. These factors, risks and uncertainties as well as other risks and uncertainties that could cause Moody's actual results to differ materially from those contemplated, expressed, projected, anticipated or implied in the forward-looking statements are described in greater detail under **Risk Factors** in Part I, Item 1A of the Company's annual report on Form 10-K for the year ended December 31, 2015, and in other filings made by the Company from time to time with the SEC or in materials incorporated herein or therein. Stockholders and investors are cautioned that the occurrence of any of these factors, risks and uncertainties may cause the Company's actual results to differ materially from those contemplated, expressed, projected, anticipated or implied in the forward-looking statements, which could have a material and adverse effect on the Company's business, results of operations and financial condition. New factors may emerge from time to time, and it is not possible for the Company to predict new factors, nor can the Company assess the potential effect of any new factors on it.

Item 4. 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.

Table of Contents

In addition, 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 period covered by the report.

Table of Contents**PART II. OTHER INFORMATION****Item 1. Legal Proceedings**

For information regarding legal proceedings, see Item 1 Financial Statements Notes to Condensed Consolidated Financial Statements (Unaudited), Note 14 Contingencies in this Form 10-Q.

Item 1A. Risk Factors

There have been no material changes since December 31, 2015 to the significant risk factors and uncertainties known to the Company that, if they were to occur, could materially adversely affect the Company's business, financial condition, operating results and/or cash flow. For a discussion of the Company's risk factors, refer to Item 1A. Risk Factors, contained in the Company's annual report on Form 10-K for the year ended December 31, 2015.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**MOODY'S PURCHASES OF EQUITY SECURITIES**

For the Three Months Ended March 31, 2016

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)
January 1 - 31	1,276,678	\$ 90.50	1,276,375	\$ 1,350.1 million
February 1 - 29	767,617	\$ 85.06	765,585	\$ 1,285.0 million
March 1 - 31	1,340,181	\$ 93.02	875,499	\$ 1,203.5 million
Total	3,384,476	\$ 89.83	2,917,459	

(1) Includes surrender to the Company of 303, 2,032 and 464,682 shares of common stock in January, February and March, 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. In December 2015, the Board authorized a \$1 billion share repurchase program which will commence following the completion of the existing program. There is no established expiration date for the remaining authorization. During the first quarter of 2016, Moody's issued 1.6 million shares under employee stock-based compensation plans.

Item 5. Other Information

Not applicable

Table of Contents**Item 6. Exhibits**

Exhibit	
No.	Description
3	ARTICLES OF INCORPORATION AND BY-LAWS
.1	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).
.2	Restated Certificate of Incorporation of Moody's Corporation, dated 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).
10	
.1*	Second Amendment to the Profit Participation Plan of Moody's Corporation.
31	CERTIFICATIONS PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002
.1*	Chief Executive Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
.2*	Chief Financial Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	CERTIFICATIONS PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
.1*	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.
.2*	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.
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

* Filed herewith

Table of Contents

SIGNATURES

Pursuant to the requirements 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

By: */s/ LINDA S. HUBER*
Linda S. Huber
Executive Vice President and Chief Financial Officer

(principal financial officer)

Date: May 3, 2016

By: */s/ JOSEPH McCABE*
Joseph McCabe
Senior Vice President and Corporate Controller

(principal accounting officer)