Nielsen Holdings plc
Form 10-Q
April 25, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _______ to _______

Commission file number 001-35042

Nielsen Holdings plc

(Exact name of registrant as specified in its charter)

England and Wales	98-1225347
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
85 Broad Street	A C Nielsen House
New York, New York 10004	London Road
(646) 654-5000	Oxford

Oxfordshire, OX3 9RX

United Kingdom

+1 (646) 654-5000
(Address of principal executive offices) (Zip Code)
(Registrant's telephone numbers including area code)

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

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

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

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if a small reporting company)	Small reporting company
Emerging growth company		

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

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

There were 357,302,215 shares of the registrant's Common Stock outstanding as of March 31, 2017.

Table of Contents

Contents

PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

Nielsen Holdings plc

Condensed Consolidated Statements of Operations (Unaudited)

(IN MILLIONS, EXCEPT SHARE AND PER SHARE DATA)	Three Months Ended March 31, 2017	2016
Revenues	$1,526	$1,487
Cost of revenues, exclusive of depreciation and amortization shown separately below	661	641
Selling, general and administrative expenses, exclusive of depreciation and amortization shown separately below	471	465
Depreciation and amortization	155	147
Restructuring charges	32	10
Operating income	207	224
Interest income	1	1
Interest expense	(90)	(79)
Foreign currency exchange transaction losses, net	(2)	(1)
Income from continuing operations before income taxes	116	145
Provision for income taxes	(43)	(44)
Net income	73	101
Net income attributable to noncontrolling interests	2	1
Net income attributable to Nielsen stockholders	$71	$100
Net income per share of common stock, basic		
Net income attributable to Nielsen stockholders	$0.20	$0.28
Net income per share of common stock, diluted		
Net income attributable to Nielsen stockholders	$0.20	$0.27
Weighted-average shares of common stock outstanding, basic	357,399,749	361,580,670
Dilutive shares of common stock	1,655,219	3,620,469
Weighted-average shares of common stock outstanding, diluted	359,054,968	365,201,139
Dividends declared per common share	$0.31	$0.28

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

Nielsen Holdings plc

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

(IN MILLIONS)	Three Months Ended March 31, 2017	2016
Net income	$73	$101
Other comprehensive income, net of tax		
Foreign currency translation adjustments [1]	75	91
Changes in the fair value of cash flow hedges [2]	2	(7)
Defined benefit pension plan adjustments [3]	3	7
Total other comprehensive income	80	91
Total comprehensive income	153	192
Less: comprehensive income attributable to noncontrolling interests	5	2
Total comprehensive income attributable to Nielsen stockholders	$148	$190

(1) Net of tax of $2 million and $6 million for the three months ended March 31, 2017 and 2016, respectively
(2) Net of tax of $(1) million and $1 million for the three months ended March 31, 2017 and 2016, respectively
(3) Net of tax of $(1) million and $1 million for the three months ended March 31, 2017 and 2016, respectively
The accompanying notes are an integral part of these condensed consolidated financial statements.

Nielsen Holdings plc

Condensed Consolidated Balance Sheets

(IN MILLIONS, EXCEPT SHARE AND PER SHARE DATA)	March 31, 2017 (Unaudited)	December 31, 2016
Assets:		
Current assets		
Cash and cash equivalents	$ 451	$ 754
Trade and other receivables, net of allowances for doubtful accounts and sales returns of $28 and $25 as of March 31, 2017 and December 31, 2016, respectively	1,287	1,171
Prepaid expenses and other current assets	363	297
Total current assets	2,101	2,222
Non-current assets		
Property, plant and equipment, net	464	471
Goodwill	8,212	7,845
Other intangible assets, net	5,086	4,736
Deferred tax assets	133	127
Other non-current assets	336	329
Total assets	$ 16,332	$ 15,730
Liabilities and equity:		
Current liabilities		
Accounts payable and other current liabilities	$ 933	$ 1,012
Deferred revenues	364	297
Income tax liabilities	102	97
Current portion of long-term debt, capital lease obligations and short-term borrowings	236	188
Total current liabilities	1,635	1,594
Non-current liabilities		
Long-term debt and capital lease obligations	8,180	7,738
Deferred tax liabilities	1,272	1,175
Other non-current liabilities	928	930
Total liabilities	12,015	11,437
Commitments and contingencies (Note 11)		
Equity:		
Nielsen stockholders' equity		
Common stock, €0.07 par value, 1,185,800,000 and 1,185,800,000 shares authorized; 357,395,024 and 357,745,953 shares issued and 357,302,215 and 357,465,614 shares outstanding at March 31, 2017 and December 31, 2016, respectively	32	32
Additional paid-in capital	4,809	4,825
Retained earnings	416	456
Accumulated other comprehensive loss, net of income taxes	(1,134)	(1,211)
Total Nielsen stockholders' equity	4,123	4,102
Noncontrolling interests	194	191
Total equity	4,317	4,293
Total liabilities and equity	$ 16,332	$ 15,730

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

- 5 -

Nielsen Holdings plc

Condensed Consolidated Statements of Cash Flows (Unaudited)

(IN MILLIONS)	Three Months Ended March 31, 2017	2016
Operating Activities		
Net income	$73	$101
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation expense	15	13
Currency exchange rate differences on financial transactions and other losses	2	1
Depreciation and amortization	155	147
Changes in operating assets and liabilities, net of effect of businesses acquired and divested:		
Trade and other receivables, net	(53)	3
Prepaid expenses and other assets	(65)	(45)
Accounts payable and other current liabilities and deferred revenues	(133)	(191)
Other non-current liabilities	(1)	(7)
Interest payable	56	50
Income taxes	(9)	15
Net cash provided by operating activities	40	87
Investing Activities		
Acquisition of subsidiaries and affiliates, net of cash acquired	(572)	(47)
Additions to property, plant and equipment and other assets	(17)	(28)
Additions to intangible assets	(97)	(81)
Net cash used in investing activities	(686)	(156)
Financing Activities		
Net payments under revolving credit facility	—	(164)
Proceeds from issuances of debt, net of issuance costs	495	496
Repayment of debt	(6)	(25)
Decrease in other short-term borrowings	(5)	—
Cash dividends paid to stockholders	(111)	(101)
Repurchase of common stock	(42)	(83)
Proceeds from exercise of stock options	11	18
Proceeds from employee stock purchase plan	2	—
Capital leases	(12)	(8)
Other financing activities	(3)	(3)
Net cash provided by financing activities	329	130
Effect of exchange-rate changes on cash and cash equivalents	14	14
Net (decrease)/increase in cash and cash equivalents	(303)	75
Cash and cash equivalents at beginning of period	754	357
Cash and cash equivalents at end of period	$451	$432
Supplemental Cash Flow Information		
Cash paid for income taxes	$(52)	$(29)
Cash paid for interest, net of amounts capitalized	$(34)	$(29)

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

Nielsen Holdings plc

Notes to Condensed Consolidated Financial Statements

1. Background and Basis of Presentation

Background

Nielsen Holdings plc (“Nielsen” or the “Company”), together with its subsidiaries, is a leading global information and measurement company that provides clients with a comprehensive understanding of consumers and consumer behavior. Nielsen is aligned into two reporting segments: what consumers buy (“Buy”) and what consumers watch and listen to (“Watch”). Nielsen has a presence in more than 100 countries, with its registered office located in Oxford, the United Kingdom and headquarters located in New York, USA.

Basis of Presentation

The accompanying condensed consolidated financial statements are unaudited but, in the opinion of management, contain all the adjustments (consisting of those of a normal recurring nature) considered necessary to present fairly the Company’s financial position and the results of operations and cash flows for the periods presented in conformity with accounting principles generally accepted in the U.S. (“U.S. GAAP”) applicable to interim periods. For a more complete discussion of significant accounting policies, commitments and contingencies and certain other information, refer to the consolidated financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016. All amounts are presented in U.S. Dollars (“$”), except for share data or where expressly stated as being in other currencies, e.g., Euros (“€”). The condensed consolidated financial statements include the accounts of Nielsen and all subsidiaries and other controlled entities. The Company has evaluated events occurring subsequent to March 31, 2017 for potential recognition or disclosure in the condensed consolidated financial statements and concluded there were no subsequent events that required recognition or disclosure other than those provided.

Earnings per Share

Basic net income per share is computed using the weighted-average number of shares of common stock outstanding during the period. Diluted net income per share is computed using the weighted-average number of shares of common stock and dilutive potential shares of common stock outstanding during the period. Dilutive potential shares of common stock consist of employee stock options and restricted stock.

The effect of 4,581,215 and 1,609,503 shares of common stock equivalents under stock compensation plans were excluded from the calculation of diluted earnings per share for the three months ended March 31, 2017 and 2016, respectively, as such shares would have been anti-dilutive.

2. Summary of Recent Accounting Pronouncements

Intangibles- Goodwill and Other

In January 2017, the FASB issued an Accounting Standards Update (“ASU”), “Intangibles—Goodwill and Other” to simplify the subsequent measurement of goodwill, the update requires only a single-step quantitative test to identify and measure impairment based on the excess of a reporting unit's carrying amount over its fair value. A qualitative assessment may still be completed first for an entity to determine if a quantitative impairment test is necessary. The update is effective for fiscal year 2021 and is to be adopted on a prospective basis. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. Nielsen elected to early adopt this ASU effective January 1, 2017. There was no impact on the Company’s condensed consolidated financial statements.

Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

In March 2017, the FASB issued an ASU, “Compensation — Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost”, which will change the presentation of net periodic benefit cost related to employer sponsored defined benefit plans and other postretirement benefits. Service cost will be included within the same income statement line item as other compensation costs arising from services rendered during the period, while other components of net periodic benefit pension cost will be presented separately outside of operating income. Additionally, only service costs may be capitalized in assets. This ASU is effective for fiscal years (and interim reporting periods within those years) beginning after December 15, 2017. The Company is currently assessing the impact of the adoption of this ASU will have on the Company’s condensed consolidated financial statements.

Revenue Recognition

In May 2014, the FASB issued an Accounting Standards Update ("ASU"), "Revenue from Contracts with Customers". The new revenue recognition standard provides a five step analysis of transactions to determine when and how revenue is recognized. The new model will require revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration a company expects to receive in exchange for those goods or services and shall be applied retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. In addition, the new standard requires disclosure of the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. This standard is effective for annual periods beginning after December 15, 2017.

In 2014, the Company established a cross-functional implementation team consisting of representatives from across all of its business segments. Management utilized a bottoms-up approach to analyze the impact of the standard on our contract portfolio by reviewing the current accounting policies and practices to identify potential differences that would result from applying the requirements of the new standard to our revenue contracts. In addition, management identified, and are in the process of implementing appropriate changes to our business processes, systems and controls to support the recognition and disclosure under the new standard. Based on management's preliminary assessment, it believes the most significant impact the adoption of the new standard will have on its condensed consolidated financial statements are the required financial statement disclosures. The Company is continuing to assess the impact this ASU will have on recent acquisitions as well as which transition method it will use to adopt this ASU.

3. Business Acquisitions

Gracenote

On February 1, 2017, Nielsen completed the acquisition of Gracenote, through the purchase of 100% of Gracenote's outstanding common stock for a total purchase price of $582 million. Nielsen acquired the data and technology that underpins the programming guides and personnel user experience for major video, music, audio and sports content. This acquisition expands Nielsen's footprint with major clients including Gracenote's global content database which spans across platforms including multichannel video programing distributors (MVPD's), smart television, streaming music services, connected devices, media players and in-car infotainment systems.

The acquisition of Gracenote was accounted for using the acquisition method of accounting which requires, among other things, the assets acquired and the liabilities assumed be recognized at their fair values as of the acquisition date. Effective February 1, 2017, the financial results of Gracenote were included within the Watch segment of Nielsen's condensed consolidated financial statements. For the three months ended March, 31, 2017, the Company's condensed consolidated statement of operations includes $34 million of revenues related to the Gracenote acquisition.

The purchase price was preliminarily allocated based upon the fair value of the assets acquired and liabilities assumed at the date of acquisition using available information and certain assumptions management believed reasonable. The following table summarizes the preliminary purchase price allocation:

(IN MILLIONS)

Identifiable assets acquired and liabilities assumed:	
Cash	$11
Other current assets	55
Property and equipment	12
Goodwill	311
Amortizable intangible assets	341
Other long-term assets	11
Deferred revenue	(22)
Other current liabilities	(20)
Deferred tax liabilities	(110)
Other long-term liabilities	(7)
Total	$582

As of the acquisition date, the expected fair value of accounts receivable approximated historical cost. The gross contractual receivable was $37 million, of which $1 million was deemed uncollectible. The estimated fair values assigned to amortizable intangible assets, goodwill and uncertain tax positions are provisional and subject to adjustment primarily based upon additional information the Company is in process of obtaining.

The provisional allocation of the purchase price to goodwill and identified intangible assets was $311 million and $341 million, respectively. All of the Gracenote related goodwill and intangible assets are attributable to Nielsen's Watch segment. As of March 31, 2017, $24 million of goodwill is expected to be deductible for income tax purposes.

Intangible assets and their estimated useful lives consist of the following:

(IN MILLIONS)		
Description	Amount	Useful Life
Customer-related intangibles	$ 109	10 - 15 years
Content database	168	12 – 16 years
Trade names and trademarks	7	5 years
Computer software	57	7-8 years
Total	$ 341	

Goodwill is calculated as the excess of the consideration transferred over the net assets recognized and represents expected synergies and the going concern nature of Gracenote.

The Company incurred acquisition-related expenses of $4 million for the three months ended March 31, 2017, which primarily consisted of transaction fees, legal, accounting and other professional services that are included in selling, general and administrative expense in the condensed consolidated statement of operations.

The following unaudited pro forma information presents the consolidated results of operations of the Company and Gracenote for the three months ended March 31, 2017, as if the acquisition had occurred on January 1, 2016, with pro forma adjustments to give effect to amortization of intangible assets, an increase in interest expense from acquisition financing, and certain other adjustments:

	Three Months Ended March, 31	
(IN MILLIONS)	2017	2016
Revenues	$ 1,544	$1,539
Income from continuing operations	$ 72	$97

The unaudited pro forma results do not reflect any synergies and are not necessarily indicative of the results that the Company would have attained had the acquisition of Gracenote been completed as of the beginning of the reporting period.

Other Acquisitions

For the three months ended March 31, 2017, excluding Gracenote, Nielsen paid cash consideration of $8 million associated with both current period and previously executed acquisitions, net of cash acquired. Had these current period acquisitions occurred as of January 1, 2017, the impact on Nielsen's consolidated results of operations would not have been material.

For the three months ended March 31, 2016, Nielsen paid cash consideration of $47 million associated with both current period and previously executed acquisitions, net of cash acquired. Had these current period acquisitions occurred as of January 1, 2016, the impact on Nielsen's consolidated results of operations would not have been material.

4. Goodwill and Other Intangible Assets

Goodwill

The table below summarizes the changes in the carrying amount of goodwill by reportable segment for the three months ended March 31, 2017.

(IN MILLIONS)	Buy	Watch	Total
Balance, December 31, 2016	$2,696	$5,149	$7,845
Acquisitions, divestitures and other adjustments	2	314	316
Effect of foreign currency translation	44	7	51
Balance, March 31, 2017	$2,742	$5,370	$8,212

At March 31, 2017, $71 million of the goodwill is expected to be deductible for income tax purposes.

Other Intangible Assets

(IN MILLIONS)	Gross Amounts March 31, 2017	Gross Amounts December 31, 2016	Accumulated Amortization March 31, 2017	Accumulated Amortization December 31, 2016
Indefinite-lived intangibles:				
Trade names and trademarks	$1,921	$ 1,921	$—	$ —
Amortized intangibles:				
Trade names and trademarks	147	140	(91)	(88)
Customer-related intangibles	3,150	3,035	(1,350)	(1,312)
Covenants-not-to-compete	39	39	(36)	(36)
Content databases[(1)]	168	—	(2)	—
Computer software	2,392	2,223	(1,320)	(1,258)
Patents and other	172	173	(104)	(101)
Total	$6,068	$ 5,610	$(2,903)	$ (2,795)

(1) The content databases were acquired as part of the Gracenote acquisition on February 1, 2017. These databases represent metadata used in Gracenote's Video, Music/Auto and Sports product offerings that is not easily replicated due to its quantity and the relationships needed to acquire the data. The estimated remaining useful life of these content databases is 12 to 16 years.

Amortization expense associated with the above intangible assets was $111 million and $101 million for the three months ended March 31, 2017 and 2016, respectively. These amounts included amortization expense associated with computer software of $62 million and $53 million for the three months ended March 31, 2017 and 2016, respectively.

5. Changes in and Reclassification out of Accumulated Other Comprehensive Loss by Component

The table below summarizes the changes in accumulated other comprehensive loss, net of tax, by component for the three months ended March 31, 2017 and 2016.

(IN MILLIONS)	Currency Translation Adjustments	Cash Flow Hedges	Post Employment Benefits	Total
Balance December 31, 2016	$ (856)	$ (1)	$ (354)	$(1,211)
Other comprehensive income before reclassifications	75	1	—	76
Amounts reclassified from accumulated other comprehensive income	—	1	3	4
Net current period other comprehensive income	75	2	3	80
Net current period other comprehensive income attributable	3	—	—	3

to noncontrolling interest				
Net current period other comprehensive income attributable to Nielsen stockholders	72	2	3	77
Balance March 31, 2017	$ (784)	$ 1	$ (351)	$(1,134)

- 10 -

(IN MILLIONS)	Currency Translation Adjustments	Cash Flow Hedges	Post Employment Benefits	Total
Balance December 31, 2015	$ (767)	$ (3)	$ (289)	$(1,059)
Other comprehensive income/(loss) before reclassifications	91	(8)	4	87
Amounts reclassified from accumulated other comprehensive income/(loss)	—	1	3	4
Net current period other comprehensive income/(loss)	91	(7)	7	91
Net current period other comprehensive income attributable to noncontrolling interest	1	—	—	1
Net current period other comprehensive income/(loss) attributable to Nielsen stockholders	90	(7)	7	90
Balance March 31, 2016	$ (677)	$ (10)	$ (282)	$(969)

The table below summarizes the reclassification of accumulated other comprehensive loss by component for the three months ended March 31, 2017 and 2016, respectively.

(IN MILLIONS) Details about Accumulated Other Comprehensive Income components	Amount Reclassified from Accumulated Other Comprehensive Loss Three Months Ended March 31, 2017	Three Months Ended March 31, 2016	Affected Line Item in the Condensed Consolidated Statement of Operations
Cash flow hedges			
Interest rate contracts	$ 2	$ 1	Interest expense
	1	—	Benefit for income taxes
	$ 1	$ 1	Total, net of tax
Amortization of Post-Employment Benefits			
Actuarial loss	$ 4	$ 5	(a)
	1	2	Benefit for income taxes
	$ 3	$ 3	Total, net of tax
Total reclassification for the period	$ 4	$ 4	Net of tax

(a) This accumulated other comprehensive loss component is included in the computation of net periodic pension cost.

6. Restructuring Activities

A summary of the changes in the liabilities for restructuring activities is provided below:

(IN MILLIONS)	Total Initiatives
Balance at December 31, 2016	$ 73
Charges	32
Payments	(20)
Effect of foreign currency translation and reclassification adjustments	1
Balance at March 31, 2017	$ 86

Nielsen recorded $32 million and $10 million in restructuring charges for the three months ended March 31, 2017 and 2016, respectively, primarily relating to severance costs.

Of the $86 million in remaining liabilities for restructuring actions at March 31, 2017, $78 million is expected to be paid within one year and is classified as a current liability within the condensed consolidated balance sheet as of March 31, 2017.

7. Fair Value Measurements

Fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining fair value, the Company considers the principal or most advantageous market in which the Company would transact, and also considers assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions, and risk of non-performance.

There are three levels of inputs that may be used to measure fair value:

Level 1: Quoted market prices available in active markets for identical assets or liabilities as of the reporting date.

Level 2: Pricing inputs other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reporting date.

Level 3: Pricing inputs that are generally unobservable and may not be corroborated by market data.

Financial Assets and Liabilities Measured on a Recurring Basis

The Company's financial assets and liabilities are measured and recorded at fair value, except for equity method investments, cost method investments, and long-term debt. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurements. The Company's assessment of the significance of a particular input to the fair value measurements requires judgment, and may affect the valuation of the assets and liabilities being measured and their placement within the fair value hierarchy.

The following table summarizes the valuation of the Company's material financial assets and liabilities measured at fair value on a recurring basis as of March 31, 2017 and December 31, 2016:

(IN MILLIONS)	March 31, 2017	Level 1	Level 2	Level 3
Assets:				
Plan assets for deferred compensation (1)	32	32	—	—
Investment in mutual funds (2)	2	2	—	—
Interest rate swap arrangements (3)	4	—	4	—
Total	$ 38	$ 34	$ 4	—
Liabilities:				
Interest rate swap arrangements (3)	$ 2	—	$ 2	—
Deferred compensation liabilities (4)	32	32	—	—
Total	$ 34	$ 32	$ 2	—

	December 31, 2016	Level 1	Level 2	Level 3

Assets:				
Plan assets for deferred compensation [1]	32	32	—	—
Investment in mutual funds [2]	2	2	—	—
Interest rate swap arrangements [3]	3	—	3	—
Total	$ 37	$ 34	3	—
Liabilities:				
Interest rate swap arrangements [3]	$ 5	—	$ 5	—
Deferred compensation liabilities [4]	32	32	—	—
Total	$ 37	$ 32	$ 5	—

(1) Plan assets are comprised of investments in mutual funds, which are intended to fund liabilities arising from deferred compensation plans. These investments are carried at fair value, which is based on quoted market prices at period end in active markets. These investments are classified as trading securities with any gains or losses resulting from changes in fair value recorded in other expense, net.

(2) Investments in mutual funds are money-market accounts held with the intention of funding certain specific retirement plans.

(3) Derivative financial instruments include interest rate swap arrangements recorded at fair value based on externally-developed valuation models that use readily observable market parameters and the consideration of counterparty risk.

(4) The Company offers certain employees the opportunity to participate in a deferred compensation plan. A participant's deferrals are invested in a variety of participant directed stock and bond mutual funds and are classified as trading securities. Changes in the fair value of these securities are measured using quoted prices in active markets based on the market price per unit multiplied by the number of units held exclusive of any transaction costs. A corresponding adjustment for changes in fair value of the trading securities is also reflected in the changes in fair value of the deferred compensation obligation.

Derivative Financial Instruments

Nielsen primarily uses interest rate swap derivative instruments to manage risk that changes in interest rates will affect the cash flows of its underlying debt obligations.

To qualify for hedge accounting, the hedging relationship must meet several conditions with respect to documentation, probability of occurrence, hedge effectiveness and reliability of measurement. Nielsen documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions as well as the hedge effectiveness assessment, both at the hedge inception and on an ongoing basis. Nielsen recognizes all derivatives at fair value either as assets or liabilities in the consolidated balance sheets and changes in the fair values of such instruments are recognized currently in earnings unless specific hedge accounting criteria are met. If specific cash flow hedge accounting criteria are met, Nielsen recognizes the changes in fair value of these instruments in accumulated other comprehensive income/(loss).

Nielsen manages exposure to possible defaults on derivative financial instruments by monitoring the concentration of risk that Nielsen has with any individual bank and through the use of minimum credit quality standards for all counterparties. Nielsen does not require collateral or other security in relation to derivative financial instruments. A derivative contract entered into between Nielsen or certain of its subsidiaries and a counterparty that was also a lender under Nielsen's senior secured credit facilities at the time the derivative contract was entered into is guaranteed under the senior secured credit facilities by Nielsen and certain of its subsidiaries (see Note 8 - Long-term Debt and Other Financing Arrangements for more information). Since it is Nielsen's policy to only enter into derivative contracts with banks of internationally acknowledged standing, Nielsen considers the counterparty risk to be remote.

It is Nielsen's policy to have an International Swaps and Derivatives Association ("ISDA") Master Agreement established with every bank with which it has entered into any derivative contract. Under each of these ISDA Master Agreements, Nielsen agrees to settle only the net amount of the combined market values of all derivative contracts outstanding with any one counterparty should that counterparty default. Certain of the ISDA Master Agreements contain cross-default provisions where if the Company either defaults in payment obligations under its credit facility or if such obligations are accelerated by the lenders, then the Company could also be declared in default on its derivative obligations. At March 31, 2017, Nielsen had no material exposure to potential economic losses due to counterparty credit default risk or cross-default risk on its derivative financial instruments.

Foreign Currency Exchange Risk

During the quarters ended March 31, 2017 and 2016, Nielsen recorded a net gain of $1 million and zero, respectively, associated with foreign currency derivative financial instruments within foreign currency exchange transactions losses, net in our condensed consolidated statements of operations. As of March 31, 2017 and December 31, 2016 the notional amount of the outstanding foreign currency derivative financial instruments were $81 million and $77 million, respectively.

Interest Rate Risk

Nielsen is exposed to cash flow interest rate risk on the floating-rate U.S. Dollar and Euro Term Loans, and uses floating-to-fixed interest rate swaps to hedge this exposure. For these derivatives, Nielsen reports the after-tax gain or loss from the effective portion of the hedge as a component of accumulated other comprehensive income/(loss) and reclassifies it into earnings in the same period or periods in which the hedged transaction affects earnings, and within the same income statement line item as the impact of the hedged transaction.

In February 2017, the Company entered into $250 million in aggregate notional amount of a three-year forward interest rate swap agreement with a starting date of July 10, 2017. This agreement fixes the LIBOR-related portion of interest rates of a corresponding amount of the Company's variable-rate debt at an average rate of 1.73%. This derivative has been designated as an interest rate cash flow hedge.

In March 2017, the Company entered into $250 million in aggregate notional amount of a five-year forward interest rate swap agreement with a starting date of July 10, 2017. This agreement fixes the LIBOR-related portion of interest rates of a corresponding amount of the Company's variable-rate debt at an average rate of 2.00%. This derivative has been designated as an interest rate cash flow hedge.

As of March 31, 2017 the Company had the following outstanding interest rate swaps utilized in the management of its interest rate risk:

	Notional Amount	Maturity Date	Currency
Interest rate swaps designated as hedging instruments			
US Dollar term loan floating-to-fixed rate swaps	$250,000,000	September 2017	US Dollar
US Dollar term loan floating-to-fixed rate swaps	$250,000,000	May 2018	US Dollar
US Dollar term loan floating-to-fixed rate swaps	$150,000,000	April 2019	US Dollar
US Dollar term loan floating-to-fixed rate swaps	$250,000,000	June 2019	US Dollar
US Dollar term loan floating-to-fixed rate swaps	$150,000,000	July 2019	US Dollar
US Dollar term loan floating-to-fixed rate swaps	$250,000,000	July 2020	US Dollar
US Dollar term loan floating-to-fixed rate swaps	$250,000,000	July 2022	US Dollar

Nielsen expects to recognize approximately $3 million of net pre-tax losses from accumulated other comprehensive loss to interest expense in the next 12 months associated with its interest-related derivative financial instruments.

Fair Values of Derivative Instruments in the Consolidated Balance Sheets

The fair values of the Company's derivative instruments as of March 31, 2017 and December 31, 2016 were as follows:

Derivatives Designated as Hedging Instruments (IN MILLIONS)	March 31, 2017 Other Non-Current Assets	Other Non-Current Liabilities	December 31, 2016 Other Non-Current Assets	Accounts Payable and Other Current Liabilities	Other Non-Current Liabilities
Interest rate swaps	$ 4	$ 2	$ 3	$ 1	$ 4

Derivatives in Cash Flow Hedging Relationships

The pre-tax effect of derivative instruments in cash flow hedging relationships for the three months ended March 31, 2017 and 2016 was as follows:

Derivatives in Cash Flow Hedging Relationships	Amount of Gain/(Loss) Recognized in OCI (Effective Portion) Three Months Ended March 31,	Location of Loss Reclassified from AOCI into Income (Effective Portion)	Amount of Loss Reclassified from AOCI into Income (Effective Portion) Three Months Ended March 31,

(IN MILLIONS)	2017	2016		2017	2016
Interest rate swaps	$ 2	$ (10)	Interest expense	$ 2	$ 1

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

The Company is required, on a nonrecurring basis, to adjust the carrying value using fair value measurements or provide valuation allowances for certain assets using the more-likely-than-not criteria. The Company’s equity method investments, cost method investments, and non-financial assets, such as goodwill, intangible assets, and property, plant and equipment, are measured at fair value when there is an indicator of impairment and recorded at fair value only when an impairment charge is recognized.

The Company did not measure any material non-financial assets or liabilities at fair value during the three months ended March 31, 2017.

8. Long-term Debt and Other Financing Arrangements

Unless otherwise stated, interest rates are as of March 31, 2017.

Annual maturities of Nielsen's long-term debt are as follows:

(IN MILLIONS)	March 31, 2017 Weighted Interest Rate	Carrying Amount	Fair Value	December 31, 2016 Weighted Interest Rate	Carrying Amount	Fair Value
$2,080 million Senior secured term loan (LIBOR based variable rate of 2.85%) due 2019		1,769	1,785		1,768	1,785
$1,900 million Senior secured term loan (LIBOR based variable rate of 3.35%) due 2023		1,887	1,901		1,892	1,922
€380 million Senior secured term loan (Euro LIBOR based variable rate of 2.11%) due 2021		403	404		399	402
Total senior secured credit facilities (with weighted-average interest rate)	3.13%	4,059	4,090	2.95%	4,059	4,109
$800 million 4.50% senior debenture loan due 2020		794	814		794	813
$625 million 5.50% senior debenture loan due 2021		619	649		618	649
$2,300 million 5.00% senior debenture loan due 2022		2,286	2,347		2,285	2,340
$500 million 5.00% senior debenture loan due 2025		495	497		-	-
Total debenture loans (with weighted-average interest rate)	5.22%	4,194	4,307	5.22%	3,697	3,802
Other loans		6	6		7	7
Total long-term debt	4.20%	8,259	8,403	4.04%	7,763	7,918
Capital lease and other financing obligations		157			158	
Bank overdrafts		-			5	
Total debt and other financing arrangements		8,416			7,926	
Less: Current portion of long-term debt, capital lease and other financing obligations and other short-term borrowings		236			188	
Non-current portion of long-term debt and capital lease and other financing obligations		$ 8,180			$ 7,738	

The fair value of the Company's long-term debt instruments was based on the yield on public debt where available or current borrowing rates available for financings with similar terms and maturities and such fair value measurements are considered Level 1 or Level 2 in nature, respectively.

Annual maturities of Nielsen's long-term debt are as follows:

(IN MILLIONS)	
For April 1, 2017 to December 31, 2017	$139
2018	277

2019	1,396
2020	814
2021	1,025
2022	2,322
Thereafter	2,286
	$8,259

In January 2017, Nielsen issued $500 million aggregate principal amount of 5.0% Senior Notes due 2025 at par, with cash proceeds of approximately $495 million, net of fees and expenses.

Subsequent Event:

In April 2017, Nielsen entered into a third amendment to Nielsen's Fourth Amended and Restated Credit Agreement, providing for a new class of Class B-4 Term Loans in an aggregate principal amount of $2,250,000,000, the proceeds of which were used to replace or refinance the entire outstanding principal of existing Class B-3 Term Loans and a portion of existing Class A Term Loans.

The Class B-4 Term Loans will mature in full on October 4, 2023, and are required to be repaid in equal quarterly installments in an aggregate annual amount equal to 1.00% of the original principal amount of the Class B-4 Term Loans, with the balance payable on October 4, 2023.

The Class B-4 Term Loans bear interest equal to, at the election of Nielsen a base rate or LIBOR rate, plus (ii) an applicable margin, which is equal to 2.00% (in the case of LIBOR loans) or 1.00% (in the case of base rate loans).

The Amended Credit Agreement contains the same affirmative and negative covenants as those of the Existing Credit Agreement.

9. Stockholders' Equity

Common stock activity is as follows:

	Three Months Ended March 31, 2017
Actual number of shares of common stock outstanding	
Beginning of period	357,465,614
Shares of common stock issued through compensation plans	578,922
Employee benefit trust activity	187,530
Repurchases of common stock	(929,851)
End of period	357,302,215

On January 31, 2013, the Company's Board of Directors adopted a cash dividend policy to pay quarterly cash dividends on its outstanding common stock. The below table summarizes the dividends declared on Nielsen's common stock during 2016 and the three months ended March 31, 2017.

Declaration Date	Record Date	Payment Date	Dividend Per Share
February 18, 2016	March 3, 2016	March 17, 2016	$ 0.28
April 19, 2016	June 2, 2016	June 16, 2016	$ 0.31
July 21, 2016	August 25, 2016	September 8, 2016	$ 0.31
October 20, 2016	November 22, 2016	December 6, 2016	$ 0.31
February 16, 2017	March 2, 2017	March 16, 2017	$ 0.31

On April 24, 2017, the Company's Board of Directors declared a cash dividend of $0.34 per share on our common stock. The dividend is payable on June 16, 2017 to stockholders of record at the close of business on June 2, 2017.

The dividend policy and the payment of future cash dividends are subject to the discretion of the Company's Board of Directors.

Nielsen's Board approved a share repurchase program, as included in the below table, for up to $2 billion in the aggregate of our outstanding common stock. The primary purpose of the program is to return value to shareholders and to mitigate dilution associated with our equity compensation plans.

Board Approval	Share Repurchase Authorization ($ in millions)
July 25, 2013	$ 500
October 23, 2014	$ 1,000
December 11, 2015	$ 500
Total Share Repurchase Authorization	$ 2,000

Repurchases under these plans will be made in accordance with applicable securities laws from time to time in the open market or otherwise depending on our evaluation of market conditions and other factors. This program has been executed within the limitations of the authority granted by Nielsen's shareholders.

As of March 31, 2017, there were 34,767,377 shares of our common stock purchased at an average price of $46.14 per share (total consideration of approximately $1,604 million) under this program.

The activity for the three months ended March 31, 2017 consisted of open market share repurchases and is summarized in the following table:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Dollar Value of Shares that may yet be Purchased under the Plans or Programs
As of December 31, 2016	33,837,526	$ 46.16	33,837,526	$437,970,016
2017 Activity				
January 1- 31	—	—	—	$437,970,016
February 1- 28	564,623	$ 45.30	564,623	$412,392,848
March 1- 31	365,228	$ 45.15	365,228	$395,903,537
Total	34,767,377	$ 46.14	34,767,377	

10. Income Taxes

The effective tax rates for the three months ended March 31, 2017 and 2016 were 37% and 30%, respectively. The tax rate for the three months ended March 31, 2017 was higher than the statutory rate as a result of the impact of tax rate differences in other jurisdictions where the Company files tax returns, and the effect of global licensing activities and foreign distributions, offset by the favorable impact of certain financing activities. The tax rate for the three months ended March 31, 2016 was higher than the statutory rate as a result of the impact of tax rate differences in other jurisdictions where the Company files tax returns, and the effect of global licensing activities and foreign distributions, offset by the favorable impact of certain financing activities, the impact of share-based compensation excess tax benefit, and the release of certain tax contingencies. The principal reasons for the increase in the first quarter effective tax rate in 2017 when compared to 2016 was due to a decrease in the amount of share-based compensation excess tax benefit and the decrease of releases of certain tax contingencies due to statute of limitation expirations and audit settlements.

The estimated liability for unrecognized tax benefits as of December 31, 2017 is $437 million and was $432 million as of December 31, 2016. If the Company’s tax positions are favorably sustained by the taxing authorities, the reversal of the underlying liabilities would reduce the Company’s effective tax rate in future periods.

The Company files numerous consolidated and separate income tax returns in the U.S. and in many state and foreign jurisdictions. With few exceptions the Company is no longer subject to U.S. Federal income tax examination for 2006 and prior periods. In addition, the Company has subsidiaries in various states, provinces and countries that are currently under audit for years ranging from 1998 through 2015.

To date, the Company is not aware of any material adjustments not already accrued related to any of the current Federal, state or foreign audits under examination.

11. Commitments and Contingencies

Legal Proceedings and Contingencies

Nielsen is subject to litigation and other claims in the ordinary course of business, some of which include claims for substantial sums. Accruals have been recorded when the outcome is probable and can be reasonably estimated. While the ultimate results of claims and litigation cannot be determined, the Company does expect that the ultimate disposition of these matters will not have a material adverse effect on its operations or financial condition. However, depending on the amount and the timing, an unfavorable resolution of some or all of these matters could materially affect the Company’s future results of operations or cash flows in a particular period.

12. Segments

The Company aligns its operating segments in order to conform to management’s internal reporting structure, which is reflective of service offerings by industry. Management aggregates such operating segments into two reporting segments: what consumers buy (“Buy”), consisting principally of market research information and analytical services; and what consumers watch (“Watch”), consisting principally of television, radio, online and mobile audience and advertising measurement and corresponding analytics.

Corporate consists principally of unallocated items such as certain facilities and infrastructure costs as well as intersegment eliminations. Certain corporate costs, other than those described above, including those related to selling, finance, legal, human resources, and information technology systems, are considered operating costs and are allocated to the Company’s segments based on either the actual amount of costs incurred or on a basis consistent with the operations of the underlying segment. Information with respect to the operations of each of Nielsen's business segments is set forth below based on the nature of the services offered and geographic areas of operations.

Business Segment Information

(IN MILLIONS)	Buy	Watch	Corporate	Total
Three Months Ended March 31, 2017				
Revenues	$757	$769	—	$1,526
Depreciation and amortization	$50	$104	$ 1	$155
Restructuring charges	$20	$7	$ 5	$32
Stock-based compensation expense	$4	$4	$ 7	$15
Other items[1]	$—	$—	$ 13	$13
Operating income/(loss)	$34	$208	$ (35)	$207
Business segment income/(loss)[2]	$108	$323	$ (9)	$422
Total assets as of March 31, 2017	$6,639	$9,734	$ (41)	$16,332

(IN MILLIONS)	Buy	Watch	Corporate	Total
Three Months Ended March 31, 2016				
Revenues	$793	$694	—	$1,487
Depreciation and amortization	$51			