



2018 ANNUAL REPORT



# CORPORATE DATA

## REGISTERED & PRINCIPAL EXECUTIVE OFFICE

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## INDEPENDENT AUDITORS

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## STOCK EXCHANGE

The company's common shares are traded on the New York Stock Exchange (NYSE) under the ticker symbol TEL.

## FORM 10-K

Copies of the company's Annual Report on Form 10-K for the fiscal year that ended September 28, 2018 may be obtained by shareholders without charge upon written request to TE Connectivity Ltd.  
Rheinstrasse 20  
CH-8200 Schaffhausen  
Switzerland

The Annual Report on Form 10-K is also available on the company's website at [www.te.com](http://www.te.com).

## SHAREHOLDER SERVICES

Registered shareholders (shares held in your own name with our transfer agent) with requests such as change of address or dividend checks should contact TE Connectivity's transfer agent at:

Equiniti Shareowner Services  
1110 Centre Pointe Curve, Suite 101  
Mendota Heights, MN 55120-4100  
866.258.4745

[www.shareowneronline.com](http://www.shareowneronline.com)

Beneficial shareholders (shares held with a bank or broker) should contact the bank or brokerage holding their shares with their requests.

Other shareholder inquiries may be directed to TE Connectivity Shareholder Services at the company's registered and principal executive office above.

[www.te.com](http://www.te.com)

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**TE CONNECTIVITY LTD.**  
**ANNUAL REPORT**  
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## **SPECIAL NOTE ABOUT FORWARD-LOOKING STATEMENTS**

We have made forward-looking statements in this Annual Report that are based on our management's beliefs and assumptions and on information currently available to our management. Forward-looking statements include, among others, the information concerning our possible or assumed future results of operations, business strategies, financing plans, competitive position, potential growth opportunities, potential operating performance improvements, acquisitions, divestitures, the effects of competition, and the effects of future legislation or regulations. Forward-looking statements include all statements that are not historical facts and can be identified by the use of forward-looking terminology such as the words "believe," "expect," "plan," "intend," "anticipate," "estimate," "predict," "potential," "continue," "may," "should," or the negative of these terms or similar expressions.

Forward-looking statements involve risks, uncertainties, and assumptions. Actual results may differ materially from those expressed in these forward-looking statements. Investors should not place undue reliance on any forward-looking statements. We do not have any intention or obligation to update forward-looking statements after we file this report except as required by law.

The risk factors described in this Annual Report and those discussed in our Annual Report on Form 10-K for the fiscal year ended September 28, 2018 filed with the United States Securities and Exchange Commission (the "SEC") could cause our results to differ materially from those expressed in forward-looking statements. There may be other risks and uncertainties that we are unable to predict at this time or that we currently do not expect to have a material adverse effect on our business.

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## BUSINESS

### General

TE Connectivity Ltd. (“TE Connectivity” or the “Company,” which may be referred to as “we,” “us,” or “our”) is a global technology and manufacturing leader creating a safer, sustainable, productive, and connected future. Our connectivity and sensor solutions, proven in the harshest environments, have enabled advancements in transportation, industrial applications, medical technology, energy, data communications, and the home.

We became an independent, publicly traded company in 2007; however, through our predecessor companies, we trace our foundations in the connectivity business back to 1941. We are organized under the laws of Switzerland. The rights of holders of our shares are governed by Swiss law, our Swiss articles of association, and our Swiss organizational regulations.

We have a 52- or 53-week fiscal year that ends on the last Friday of September. For fiscal years in which there are 53 weeks, the fourth quarter reporting period includes 14 weeks. Fiscal 2018, 2017, and 2016 ended on September 28, 2018, September 29, 2017, and September 30, 2016, respectively. Fiscal 2018 and 2017 were 52 weeks in length. Fiscal 2016 was a 53-week year.

### Segments

We operate through three reportable segments: Transportation Solutions, Industrial Solutions, and Communications Solutions. We believe our segments serve a combined market of approximately \$190 billion. In fiscal 2018, our Subsea Communications business met the held for sale and discontinued operations criteria. As a result, we reclassified amounts previously reported to reflect this business as a discontinued operation in all periods presented. Prior to reclassification to discontinued operations, this business was included in our Communications Solutions segment.

Our net sales by segment as a percentage of our total net sales were as follows:

	<b>Fiscal</b>		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
Transportation Solutions . . . . .	59%	58%	58%
Industrial Solutions . . . . .	28	29	28
Communications Solutions . . . . .	13	13	14
Total . . . . .	<u>100%</u>	<u>100%</u>	<u>100%</u>

Below is a description of our reportable segments and the primary products, markets, and competitors of each segment.

### ***Transportation Solutions***

The Transportation Solutions segment is a leader in connectivity and sensor technologies. The primary products sold by the Transportation Solutions segment include terminals and connector systems and components; sensors; antennas; relays; application tooling; and wire and heat shrink tubing. The Transportation Solutions segment's products, which must withstand harsh conditions, are used in the following end markets:

- *Automotive (74% of segment's net sales)*. We are one of the leading providers of advanced automobile connectivity solutions. The automotive industry uses our products in automotive technologies for body and chassis systems, convenience applications, driver information, infotainment solutions, miniaturization solutions, motor and powertrain applications, and safety and security systems. Hybrid and electronic mobility solutions include in-vehicle technologies, battery technologies, and charging solutions.
- *Commercial transportation (15% of segment's net sales)*. We deliver reliable connectivity products designed to withstand harsh environmental conditions for on- and off-highway vehicles and recreational transportation, including heavy trucks, construction, agriculture, buses, and other vehicles.
- *Sensors (11% of segment's net sales)*. We offer a portfolio of intelligent, efficient, and high-performing sensor solutions that are used by customers across multiple industries, including automotive, industrial equipment, commercial transportation, medical solutions, aerospace and defense, and consumer applications.

The Transportation Solutions segment's major competitors include Yazaki, Aptiv, Delphi, Sumitomo, Sensata, Honeywell, Molex, and Amphenol.

### ***Industrial Solutions***

The Industrial Solutions segment is a leading supplier of products that connect and distribute power, data, and signals. The primary products sold by the Industrial Solutions segment include terminals and connector systems and components; heat shrink tubing; relays; and wire and cable. The Industrial Solutions segment's products are used in the following end markets:

- *Industrial equipment (52% of segment's net sales)*. Our products are used in factory automation and process control systems such as industrial controls, robotics, human machine interface, industrial communication, and power distribution. Our intelligent building products are used to connect lighting, HVAC, elevators/escalators, and security. Our rail products are used in high-speed trains, metros, light rail vehicles, locomotives, and signaling switching equipment. Also, our products are used by the solar industry. The medical industry uses our products in imaging, diagnostic, surgical, and minimally invasive interventional applications.
- *Aerospace, defense, oil, and gas (30% of segment's net sales)*. We design, develop, and manufacture a comprehensive portfolio of critical electronic components and systems for the harsh operating conditions of the aerospace, defense, and marine industries. Our products and systems are designed and manufactured to operate effectively in harsh conditions ranging from the depths of the ocean to the far reaches of space.
- *Energy (18% of segment's net sales)*. Our products are used by OEMs and utility companies in the electrical power industry and include a wide range of solutions for the electrical power generation, transmission, distribution, and industrial markets.

The Industrial Solutions segment competes primarily against Amphenol, Belden, Hubbell, Carlisle Companies, 3M, Integer Holdings, Esterline, Molex, and Phoenix Contact.

### ***Communications Solutions***

The Communications Solutions segment is a leading supplier of electronic components for the data and devices and the appliances markets. The primary products sold by the Communications Solutions segment include terminals and connector systems and components; relays; heat shrink tubing; and antennas. The Communications Solutions segment's products are used in the following end markets:

- *Data and devices (58% of segment's net sales)*. We deliver products and solutions that are used in a variety of equipment architectures within the networking equipment, data center equipment, and wireless infrastructure industries. Additionally, we deliver a range of connectivity solutions for the Internet of Things, smartphones, tablet computers, notebooks, and virtual reality applications to help our customers meet their current challenges and future innovations.
- *Appliances (42% of segment's net sales)*. We provide solutions to meet the daily demands of home appliances. Our products are used in many household appliances, including washers, dryers, refrigerators, air conditioners, dishwashers, cooking appliances, water heaters, and microwaves. Our expansive range of standard products is supplemented by an array of custom-designed solutions.

The Communications Solutions segment's major competitors include Amphenol, Molex, JST, and Korea Electric Terminal (KET).

### **Customers**

As an industry leader, we have established close working relationships with many of our customers. These relationships allow us to better anticipate and respond to customer needs when designing new products and new technical solutions. By working with our customers in developing new products and technologies, we believe we can identify and act on trends and leverage knowledge about next-generation technology across our products.

Our approach to our customers is driven by our dedication to further develop our product families and ensure that we are globally positioned to best provide our customers with sales and engineering support. We believe that as electronic component technologies continue to proliferate, our broad product portfolio and engineering capability give us a potential competitive advantage when addressing the needs of our global customers.

We manufacture and sell a broad portfolio of products to customers in various industries. Our customers include many of the leaders in their respective industries, and our relationships with them typically date back many years. We believe that our diversified customer base provides us an opportunity to leverage our skills and experience across markets and reduce our exposure to individual end markets, thereby reducing the variability of our financial performance. Additionally, we believe that the diversity of our customer base reduces the level of cyclicalities in our results and distinguishes us from our competitors.

No single customer accounted for a significant amount of our net sales in fiscal 2018, 2017, or 2016.

## Sales and Distribution

We maintain a strong local presence in each of the geographic regions in which we operate. Our net sales by geographic region<sup>(1)</sup> as a percentage of our total net sales were as follows:

	Fiscal		
	2018	2017	2016
Europe/Middle East/Africa (“EMEA”) . . . . .	38%	36%	36%
Asia-Pacific . . . . .	34	35	35
Americas . . . . .	28	29	29
Total . . . . .	<u>100%</u>	<u>100%</u>	<u>100%</u>

(1) Net sales to external customers are attributed to individual countries based on the legal entity that records the sale.

We sell our products into approximately 140 countries primarily through direct selling efforts to manufacturers. In fiscal 2018, our direct sales represented approximately 80% of total net sales. We also sell our products indirectly via third-party distributors.

We maintain distribution centers around the world. Products are generally delivered to the distribution centers by our manufacturing facilities and then subsequently delivered to the customer. In some instances, however, products are delivered directly from our manufacturing facility to the customer. Our global coverage positions us near our customers’ locations and allows us to assist them in consolidating their supply base and lowering their production costs. We contract with a wide range of transport providers to deliver our products globally via road, rail, sea, and air. We believe our balanced sales distribution lowers our exposure to any particular geography and improves our financial profile.

## Seasonality and Backlog

We experience a slight seasonal pattern to our business. Overall, the third and fourth fiscal quarters are typically the strongest quarters of our fiscal year, whereas the first fiscal quarter is negatively affected by holidays and the second fiscal quarter may be affected by adverse winter weather conditions in some of our markets.

Certain of our end markets experience some seasonality. Our sales into the automotive market are dependent upon global automotive production, and seasonal declines in European production may negatively impact net sales in the fourth fiscal quarter. Also, our sales into the energy market typically increase in the third and fourth fiscal quarters as customer activity increases.

Customer orders typically fluctuate from quarter to quarter based upon business and market conditions. Backlog is not necessarily indicative of future net sales as unfilled orders may be cancelled prior to shipment of goods. Backlog by reportable segment was as follows:

	Fiscal Year End	
	2018	2017
	(in millions)	
Transportation Solutions . . . . .	\$1,779	\$1,681
Industrial Solutions . . . . .	1,245	1,032
Communications Solutions . . . . .	441	418
Total . . . . .	<u>\$3,465</u>	<u>\$3,131</u>

We expect that the majority of our backlog at fiscal year end 2018 will be filled during fiscal 2019.



## **Competition**

The industries in which we operate are highly competitive, and we compete with thousands of companies that range from large multinational corporations to local manufacturers. Competition is generally based on breadth of product offering, product innovation, price, quality, delivery, and service. Our markets have generally been growing but with downward pressure on prices.

## **Raw Materials**

We use a wide variety of raw materials in the manufacture of our products. The principal raw materials that we use include plastic resins for molding; precious metals such as gold and silver for plating; and other metals such as copper, aluminum, brass, and steel for manufacturing cable, contacts, and other parts that are used for cable and component bodies and inserts. Many of these raw materials are produced in a limited number of countries around the world or are only available from a limited number of suppliers. The prices of these materials are driven by global supply and demand.

## **Intellectual Property**

Patents and other proprietary rights are important to our business. We also rely upon trade secrets, manufacturing know-how, continuing technological innovations, and licensing opportunities to maintain and improve our competitive position. We review third-party proprietary rights, including patents and patent applications, as available, in an effort to develop an effective intellectual property strategy, avoid infringement of third-party proprietary rights, identify licensing opportunities, and monitor the intellectual property claims of others.

We own a large portfolio of patents that relate principally to electrical, optical, and electronic products. We also own a portfolio of trademarks and are a licensee of various patents and trademarks. Patents for individual products extend for varying periods according to the date of patent filing or grant and the legal term of patents in the various countries where patent protection is obtained. Trademark rights may potentially extend for longer periods of time and are dependent upon national laws and use of the trademarks.

While we consider our patents and trademarks to be valued assets, we do not believe that our competitive position or our operations are dependent upon or would be materially impacted by any single patent or group of related patents.

## **Management Team and Employees**

We believe our management team has the experience necessary to effectively execute our strategy and advance our product and technology leadership. Our chief executive officer and segment leaders average over 25 years of industry experience. They are supported by an experienced and talented management team who is dedicated to maintaining and expanding our position as a global leader in the industry.

Our strong employee base, along with their commitment to uncompromising values, provides the foundation of our company's success. We continue to emphasize employee development and training, and we embrace diversity and inclusion.

We have employees located throughout the world. As of fiscal year end 2018, we employed approximately 80,000 people worldwide, of whom 30,000 were in the EMEA region, 25,000 were in the Asia-Pacific region, and 25,000 were in the Americas region. Of our total employees, approximately 51,000 were employed in manufacturing.

## **Government Regulation and Supervision**

The import and export of products are subject to regulation by the various jurisdictions where we conduct business. A small portion of our products, including defense-related products, may require governmental import and export licenses, whose issuance may be influenced by geopolitical and other events. We have a trade compliance organization and other systems in place to apply for licenses and otherwise comply with such regulations. Any failure to maintain compliance with domestic and foreign trade regulation could limit our ability to import and export raw materials and finished goods into or from the relevant jurisdiction.

## **Environmental**

Our operations are subject to numerous environmental, health, and safety laws and regulations, including those regulating the discharge of materials into the environment, greenhouse gas emissions, hazardous materials in products, and chemical usage. We are committed to complying with these laws and to the protection of our employees and the environment. We maintain a global environmental, health, and safety program that includes appropriate policies and standards; staff dedicated to environmental, health, and safety issues; periodic compliance auditing; training; and other measures. We also have a program for compliance with the European Union (“EU”) Restriction of Hazardous Substances and Waste Electrical and Electronic Equipment Directives, the China Restriction of Hazardous Substances law, the EU Registration, Evaluation, Authorization, and Restriction of Chemicals (“REACH”) Regulation, and similar laws.

Compliance with these laws has increased our costs of doing business in a variety of ways and may continue to do so in the future. For example, laws regarding product content and chemical registration require extensive and costly data collection, management, and reporting, and laws regulating greenhouse gas emissions may increase our costs for energy and certain materials and products. We also have projects underway at a number of current and former manufacturing sites to investigate and remediate environmental contamination resulting from past operations. Based upon our experience, available information, and applicable laws, as of fiscal year end 2018, we concluded that we would incur investigation and remediation costs at these sites in the reasonably possible range of \$15 million to \$42 million, and we accrued \$17 million as the probable loss, which was the best estimate within this range. We do not anticipate any material capital expenditures during fiscal 2019 for environmental control facilities or other costs of compliance with laws or regulations relating to greenhouse gas emissions.

## **Available Information**

All periodic and current reports, registration filings, and other filings that we are required to file with the SEC, including Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (“Exchange Act”) are available free of charge through our internet website at [www.te.com](http://www.te.com). Such documents are available as soon as reasonably practicable after electronic filing or furnishing of the material with the SEC. The information on our website is not incorporated by reference in this Annual Report on Form 10-K.

**MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER  
MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

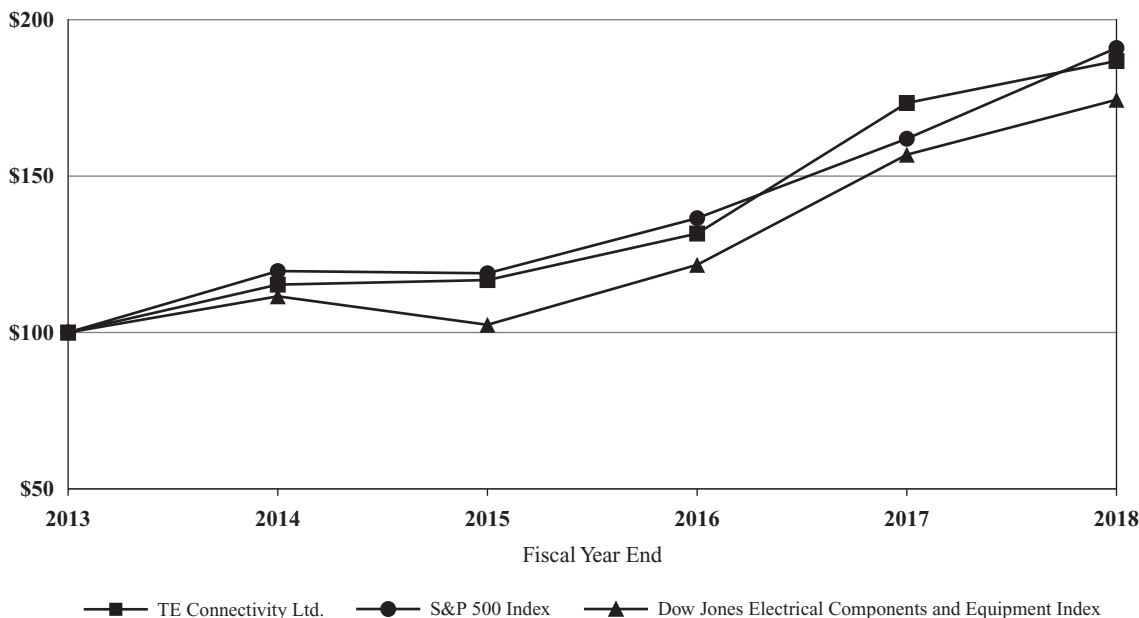
**Market Information and Holders**

Our common shares are listed and traded on the NYSE under the symbol "TEL." The number of registered holders of our common shares at November 8, 2018 was 20,236.

**Performance Graph**

The following graph compares the cumulative total shareholder return on our common shares against the cumulative return on the S&P 500 Index and the Dow Jones Electrical Components and Equipment Index. The graph assumes the investment of \$100 in our common shares and in each index at fiscal year end 2013 and assumes the reinvestment of all dividends and distributions. The graph shows the cumulative total return for the last five fiscal years. The comparisons in the graph are based upon historical data and are not indicative of, nor intended to forecast, future performance of our common shares.

**COMPARISON OF CUMULATIVE TOTAL RETURN  
AMONG TE CONNECTIVITY LTD., S&P 500 INDEX, AND  
DOW JONES ELECTRICAL COMPONENTS AND EQUIPMENT INDEX**



	Fiscal Year End					
	2013 <sup>(1)</sup>	2014	2015	2016	2017	2018
TE Connectivity Ltd. . . . .	\$100.00	\$115.30	\$116.76	\$131.63	\$173.37	\$186.80
S&P 500 Index . . . . .	100.00	119.64	118.93	136.54	161.95	190.95
Dow Jones Electrical Components and Equipment Index . . . . .	100.00	111.56	102.46	121.63	156.84	174.41

(1) \$100 invested on September 27, 2013 in TE Connectivity Ltd.'s common shares and in indexes. Indexes calculated on month-end basis.

## Issuer Purchases of Equity Securities

The following table presents information about our purchases of our common shares during the quarter ended September 28, 2018:

Period	Total Number of Shares Purchased <sup>(1)</sup>	Average Price Paid Per Share <sup>(1)</sup>	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>(2)</sup>	Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs <sup>(2)</sup>
June 30–July 27, 2018 . . . . .	1,465	\$93.28	—	\$1,368,819,073
July 28–August 31, 2018 . . . . .	2,217,725	92.90	2,213,500	1,163,190,015
September 1–September 28, 2018 . . . . .	1,655,395	90.63	1,635,400	1,014,947,770
Total . . . . .	3,874,585	\$91.93	3,848,900	

(1) These columns include the following transactions which occurred during the quarter ended September 28, 2018:

- (i) the acquisition of 25,685 common shares from individuals in order to satisfy tax withholding requirements in connection with the vesting of restricted share awards issued under equity compensation plans; and
- (ii) open market purchases totaling 3,848,900 common shares, summarized on a trade-date basis, in conjunction with the share repurchase program announced in September 2007.

(2) Our share repurchase program authorizes us to purchase a portion of our outstanding common shares from time to time through open market or private transactions, depending on business and market conditions. The share repurchase program does not have an expiration date.

## SELECTED FINANCIAL DATA

The following table presents selected consolidated financial data. The data presented should be read in conjunction with our Consolidated Financial Statements and accompanying notes and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included elsewhere in this Annual Report. Our consolidated financial information may not be indicative of our future performance.

	As of or for Fiscal				
	2018	2017 <sup>(1)</sup>	2016 <sup>(1)(2)</sup>	2015 <sup>(1)</sup>	2014 <sup>(1)</sup>
	(in millions, except per share data)				
<b>Statement of Operations Data</b>					
Net sales . . . . .	\$13,988	\$12,185	\$11,352	\$11,524	\$11,690
Acquisition and integration costs . . . . .	14	6	22	55	31
Restructuring and other charges (credits), net <sup>(3)</sup> . . . . .	126	147	(2)	152	15
Other income (expense), net <sup>(4)</sup> . . . . .	1	(42)	(677)	(55)	63
Income tax (expense) benefit <sup>(4)</sup> . . . . .	344	(180)	826	(306)	(160)
Income from continuing operations . . . . .	2,584	1,540	1,847	1,180	1,634
Income (loss) from discontinued operations, net of income taxes <sup>(5)</sup> . . . . .	(19)	143	162	1,240	147
Net income . . . . .	\$ 2,565	\$ 1,683	\$ 2,009	\$ 2,420	\$ 1,781
<b>Per Share Data</b>					
Basic earnings per share:					
Income from continuing operations . . . . .	\$ 7.38	\$ 4.34	\$ 5.05	\$ 2.91	\$ 3.99
Net income . . . . .	7.33	4.74	5.49	5.98	4.34
Diluted earnings per share:					
Income from continuing operations . . . . .	\$ 7.32	\$ 4.30	\$ 5.01	\$ 2.87	\$ 3.92
Net income . . . . .	7.27	4.70	5.44	5.89	4.27
Dividends paid per common share . . . . .	\$ 1.68	\$ 1.54	\$ 1.40	\$ 1.24	\$ 1.08
<b>Balance Sheet Data</b>					
Total assets . . . . .	\$20,386	\$19,403	\$17,608	\$20,589	\$20,132
Long-term liabilities . . . . .	5,145	5,805	6,057	7,429	7,128
Total shareholders’ equity . . . . .	\$10,831	\$ 9,751	\$ 8,485	\$ 9,585	\$ 9,007

- (1) In fiscal 2018, our Subsea Communications business met the held for sale and discontinued operations criteria. As a result, we reclassified amounts previously reported to reflect this business as a discontinued operation in all periods presented. For additional information regarding discontinued operations, see Notes 4 and 23 to the Consolidated Financial Statements.
- (2) Fiscal 2016 was a 53-week year.
- (3) Fiscal 2016 included a pre-tax gain of \$144 million on the sale of our Circuit Protection Devices business. See Note 3 to the Consolidated Financial Statements for additional information.
- (4) For fiscal 2018, 2017, and 2016, see Notes 15 and 16 to the Consolidated Financial Statements for additional information. Fiscal 2015 income tax (expense) benefit included a \$216 million income tax charge associated with the tax impacts of certain intercompany legal entity restructurings made in connection with our integration of Measurement Specialties, Inc; a \$201 million income tax benefit related to the effective settlement of all undisputed tax matters for the years 2001 through 2007 and the related impact of \$84 million to other expense pursuant to the Tax Sharing Agreement with Tyco International plc and Covidien plc; and a \$63 million income tax benefit associated with the effective settlement of all undisputed tax matters for the years 2008 through 2010. Fiscal 2014 income tax (expense) benefit included a \$282 million income tax benefit recognized in connection with a reduction in the valuation allowance associated with certain tax loss carryforwards relating to ADC Telecommunications, Inc.
- (5) Fiscal 2015 included a pre-tax gain of \$1.1 billion on the sale of our Broadband Network Solutions business.



## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our Consolidated Financial Statements and the accompanying notes included elsewhere in this Annual Report. The following discussion may contain forward-looking statements that reflect our plans, estimates, and beliefs. Our actual results could differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to these differences include those factors discussed below and elsewhere in this Annual Report, particularly in "Forward-Looking Information," and in "Part I. Item 1A. Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended September 28, 2018 filed with the SEC.

Our Consolidated Financial Statements have been prepared in U.S. dollars, in accordance with accounting principles generally accepted in the U.S. ("GAAP").

The following discussion includes organic net sales growth which is a non-GAAP financial measure. See "Non-GAAP Financial Measure" for additional information regarding this measure.

### Overview

We are a global technology and manufacturing leader creating a safer, sustainable, productive, and connected future. For more than 75 years, our connectivity and sensor solutions, proven in the harshest environments, have enabled advancements in transportation, industrial applications, medical technology, energy, data communications, and the home.

Fiscal 2018 highlights included the following:

- Our fiscal 2018 net sales increased 14.8% over fiscal 2017 levels due to growth in all segments. On an organic basis, our net sales increased 9.2% in fiscal 2018 as compared to fiscal 2017.
- Our net sales by segment were as follows:
  - *Transportation Solutions*—Our net sales increased 17.8% as a result of increased sales in all end markets. Also, our net sales in the automotive end market benefited from sales contributions from a recent acquisition.
  - *Industrial Solutions*—Our net sales increased 10.0% due to increased sales in the industrial equipment end market and, to a lesser degree, the aerospace, defense, oil, and gas and the energy end markets.
  - *Communications Solutions*—Our net sales increased 12.4% due to sales increases in the appliances and the data and devices end markets.
- During fiscal 2018, our shareholders approved a dividend payment to shareholders of \$1.76 per share, payable in four equal quarterly installments of \$0.44 beginning in the third quarter of fiscal 2018 and ending in the second quarter of fiscal 2019.
- Net cash provided by continuing operating activities was \$2,301 million in fiscal 2018.

### Outlook

In the first quarter of fiscal 2019, we expect our net sales to be between \$3.33 billion and \$3.43 billion as compared to \$3.34 billion in the first quarter of fiscal 2018, with sales increases in the Industrial Solutions and Communications Solutions segments. Additional information regarding

expectations for our reportable segments for the first quarter of fiscal 2019 as compared to the same period of fiscal 2018 is as follows:

- *Transportation Solutions*—We expect our net sales increase in the sensors end market to be offset by sales declines in the automotive end market. Our net sales in the automotive end market are expected to benefit from content gains; however, this growth will be more than offset by the negative impact of foreign currency exchange rates. We expect global automotive production to decline approximately 2% in the first quarter of fiscal 2019.
- *Industrial Solutions*—We expect our net sales growth to be driven primarily by increased sales in the aerospace, defense, oil, and gas and the industrial equipment end markets.
- *Communications Solutions*—We expect net sales growth primarily as a result of increased sales in the data and devices end market.

In the first quarter of fiscal 2019, we expect diluted earnings per share from continuing operations to be in the range of \$1.09 to \$1.13 per share. This outlook reflects the negative impact of foreign currency exchange rates on net sales and earnings per share of approximately \$75 million and \$0.04 per share, respectively, in the first quarter of fiscal 2019 as compared to the same period of fiscal 2018.

We expect our net sales to be between \$13.9 billion and \$14.3 billion in fiscal 2019 as compared to \$14.0 billion in fiscal 2018, with moderate growth in all segments. Additional information regarding expectations for our reportable segments for fiscal 2019 as compared to fiscal 2018 is as follows:

- *Transportation Solutions*—We expect our net sales increases in the sensors end market to be largely offset by sales declines in the commercial transportation end market. Fiscal 2019 global automotive production is expected to be consistent with fiscal 2018 levels.
- *Industrial Solutions*—We expect our net sales to increase in the industrial equipment end market due primarily to continued growth in medical applications and a recent acquisition.
- *Communications Solutions*—We expect net sales growth due primarily to sales increases in the data and devices end market.

We expect diluted earnings per share from continuing operations to be in the range of \$5.20 to \$5.40 per share in fiscal 2019. This outlook reflects the negative impact of foreign currency exchange rates on net sales and earnings per share of approximately \$400 million and \$0.16 per share, respectively, in fiscal 2019 as compared to fiscal 2018.

The above outlook is based on foreign currency exchange rates and commodity prices that are consistent with current levels.

We are monitoring the current macroeconomic environment and its potential effects on our customers and the end markets we serve. We continue to closely manage our costs in line with economic conditions. Additionally, we are managing our capital resources and monitoring capital availability to ensure that we have sufficient resources to fund future capital needs. See further discussion in “Liquidity and Capital Resources.”

## **Acquisitions**

During fiscal 2018, we acquired two businesses for a combined cash purchase price of \$153 million, net of cash acquired. The acquisitions were reported as part of our Industrial Solutions segment from the date of acquisition.

We acquired two businesses during fiscal 2017 for a combined cash purchase price of \$250 million, net of cash acquired. The acquisitions were reported as part of our Transportation Solutions and Industrial Solutions segments from the date of acquisition.

In fiscal 2016, we acquired four businesses, including the Creganna Medical group (“Creganna”), for a combined cash purchase price of \$1.3 billion, net of cash acquired. The acquisitions were reported as part of our Industrial Solutions and Transportation Solutions segments from the date of acquisition.

See Note 5 to the Consolidated Financial Statements for additional information regarding acquisitions.

### Discontinued Operations

On September 16, 2018, we entered into a definitive agreement to sell our Subsea Communications (“SubCom”) business for \$325 million, subject to a final working capital adjustment. The SubCom business met the held for sale and discontinued operations criteria and has been reported as such in all periods presented on the Consolidated Financial Statements. Prior to reclassification to discontinued operations, the SubCom business was included in the Communications Solutions segment.

See Notes 4 and 23 to the Consolidated Financial Statements for additional information regarding discontinued operations.

### Divestiture

During fiscal 2016, we sold our Circuit Protection Devices (“CPD”) business for net cash proceeds of \$333 million. We recognized a pre-tax gain of \$144 million on the transaction. The CPD business was reported as part of the Data and Devices business within our Communications Solutions segment.

## Results of Operations

### Net Sales

The following table presents our net sales and the percentage of total net sales by segment:

	Fiscal					
	2018		2017		2016	
	(\$ in millions)					
Transportation Solutions . . . . .	\$ 8,290	59%	\$ 7,039	58%	\$ 6,503	58%
Industrial Solutions . . . . .	3,856	28	3,507	29	3,215	28
Communications Solutions . . . . .	1,842	13	1,639	13	1,634	14
Total . . . . .	<u>\$13,988</u>	<u>100%</u>	<u>\$12,185</u>	<u>100%</u>	<u>\$11,352</u>	<u>100%</u>

The following table provides an analysis of the change in our net sales compared to the prior fiscal year by segment:

	Fiscal											
	2018						2017					
	Change in Net Sales versus Prior Fiscal Year						Change in Net Sales versus Prior Fiscal Year					
	Net Sales Growth	Organic Net Sales Growth	Translation	Acquisitions			Net Sales Growth	Organic Net Sales Growth	Translation	Acquisitions (Divestiture)		
	(\$ in millions)											
Transportation Solutions . . . . .	\$1,251	17.8%	\$ 739	10.5%	\$295	\$217	\$536	8.2%	\$553	8.5%	\$(47)	\$ 30
Industrial Solutions . . . . .	349	10.0	207	5.9	110	32	292	9.1	50	1.6	(20)	262
Communications Solutions . . . . .	203	12.4	172	10.5	31	—	5	0.3	91	5.7	(16)	(70)
Total . . . . .	<u>\$ 1,803</u>	<u>14.8%</u>	<u>\$ 1,118</u>	<u>9.2%</u>	<u>\$436</u>	<u>\$249</u>	<u>\$833</u>	<u>7.3%</u>	<u>\$694</u>	<u>6.1%</u>	<u>\$(83)</u>	<u>\$222</u>

Net sales increased \$1,803 million, or 14.8%, in fiscal 2018 as compared to fiscal 2017. The increase in net sales resulted from organic net sales growth of 9.2%, the positive impact of foreign currency translation of 3.6% due to the strengthening of certain foreign currencies, and sales contributions from acquisitions of 2.0%. Organic net sales were adversely affected by price erosion of \$180 million in fiscal 2018.

Net sales increased \$833 million, or 7.3%, in fiscal 2017 as compared to fiscal 2016. The increase in net sales resulted from organic net sales growth of 6.1% and net sales contributions from acquisitions and a divestiture of 1.9%, partially offset by the negative impact of foreign currency translation of 0.7% due to the weakening of certain foreign currencies. Organic net sales were adversely affected by price erosion of \$218 million in fiscal 2017. Fiscal 2016 included an additional week which contributed \$227 million in net sales. The impact of the additional week was estimated using an average weekly sales figure for the last month of the fiscal year.

See further discussion of net sales below under “Segment Results.”

**Net Sales by Geographic Region.** Our business operates in three geographic regions—EMEA, Asia-Pacific, and the Americas—and our results of operations are influenced by changes in foreign currency exchange rates. Increases or decreases in the value of the U.S. dollar, compared to other currencies, will directly affect our reported results as we translate those currencies into U.S. dollars at the end of each fiscal period. We sell our products into approximately 140 countries, and approximately 60% of our net sales were invoiced in currencies other than the U.S. dollar in fiscal 2018. The percentage of net sales in fiscal 2018 by major currencies invoiced was as follows:

<u>Currencies</u>	<u>Percentage</u>
U.S. dollar . . . . .	40%
Euro . . . . .	32
Chinese renminbi . . . . .	14
Japanese yen . . . . .	6
All others . . . . .	8
Total . . . . .	<u>100%</u>

The following table presents our net sales and the percentage of total net sales by geographic region:

	<u>Fiscal</u>					
	<u>2018</u>		<u>2017</u>		<u>2016</u>	
	(\$ in millions)					
EMEA . . . . .	\$ 5,255	38%	\$ 4,399	36%	\$ 4,114	36%
Asia-Pacific . . . . .	4,762	34	4,312	35	3,923	35
Americas . . . . .	3,971	28	3,474	29	3,315	29
Total . . . . .	<u>\$13,988</u>	<u>100%</u>	<u>\$12,185</u>	<u>100%</u>	<u>\$11,352</u>	<u>100%</u>

The following table provides an analysis of the change in our net sales compared to the prior fiscal year by geographic region:

	<u>Fiscal</u>											
	<u>2018</u>						<u>2017</u>					
	<u>Change in Net Sales versus Prior Fiscal Year</u>						<u>Change in Net Sales versus Prior Fiscal Year</u>					
	<u>Net Sales Growth</u>	<u>Organic Net Sales Growth</u>		<u>Translation</u>	<u>Acquisitions</u>	<u>Net Sales Growth</u>	<u>Organic Net Sales Growth</u>		<u>Translation</u>	<u>Acquisitions (Divestiture)</u>		
	(\$ in millions)											
EMEA . . . . .	\$ 856	19.5%	\$ 330	7.5%	\$332	\$194	\$285	6.9%	\$140	3.4%	\$(24)	\$169
Asia-Pacific . . . . .	450	10.4	318	7.4	117	15	389	9.9	498	12.7	(66)	(43)
Americas . . . . .	497	14.3	470	13.6	(13)	40	159	4.8	56	1.7	7	96
Total . . . . .	<u>\$1,803</u>	<u>14.8%</u>	<u>\$1,118</u>	<u>9.2%</u>	<u>\$436</u>	<u>\$249</u>	<u>\$833</u>	<u>7.3%</u>	<u>\$694</u>	<u>6.1%</u>	<u>\$(83)</u>	<u>\$222</u>

## Cost of Sales and Gross Margin

The following table presents cost of sales and gross margin information:

	Fiscal			Fiscal 2018 versus 2017	Fiscal 2017 versus 2016
	2018	2017	2016		
	(\$ in millions)				
Cost of sales . . . . .	\$9,243	\$8,002	\$7,525	\$1,241	\$477
As a percentage of net sales . . . . .	66.1%	65.7%	66.3%		
Gross margin . . . . .	\$4,745	\$4,183	\$3,827 <sup>(1)</sup>	\$ 562	\$356
As a percentage of net sales . . . . .	33.9%	34.3%	33.7%		

(1) Fiscal 2016 included an additional week which contributed \$86 million in gross margin.

In fiscal 2018, gross margin increased \$562 million as compared to fiscal 2017, primarily as a result of higher volume and the positive impact of foreign currency translation, partially offset by price erosion. Gross margin as a percentage of net sales decreased to 33.9% in fiscal 2018 from 34.3% in fiscal 2017. Gross margin increased \$356 million in fiscal 2017 as compared to fiscal 2016 due primarily to higher volume and lower material costs, partially offset by price erosion. Gross margin as a percentage of net sales increased to 34.3% in fiscal 2017 from 33.7% in fiscal 2016.

Cost of sales and gross margin are subject to variability in raw material prices which continue to fluctuate for many of the raw materials used in the manufacture of our products. In fiscal 2018, we purchased approximately 195 million pounds of copper, 139,000 troy ounces of gold, and 2.8 million troy ounces of silver. The following table presents the average prices incurred related to copper, gold, and silver.

	Measure	Fiscal		
		2018	2017	2016
Copper . . . . .	Lb.	\$ 2.86	\$ 2.48	\$ 2.49
Gold . . . . .	Troy oz.	1,281	1,229	1,212
Silver . . . . .	Troy oz.	17.15	16.75	16.08

In fiscal 2019, we expect to purchase approximately 210 million pounds of copper, 140,000 troy ounces of gold, and 2.8 million troy ounces of silver.

## Operating Expenses

The following table presents operating expense information:

	Fiscal			Fiscal 2018 versus 2017	Fiscal 2017 versus 2016
	2018	2017	2016		
	(\$ in millions)				
Selling, general, and administrative expenses . . . . .	\$1,594	\$1,543	\$1,396	\$ 51	\$147
As a percentage of net sales . . . . .	11.4%	12.7%	12.3%		
Research, development, and engineering expenses . . . . .	\$ 680	\$ 611	\$ 603	\$ 69	\$ 8
Restructuring and other charges (credits), net . . . . .	126	147	(2)	(21)	149

**Selling, General, and Administrative Expenses.** In fiscal 2018, selling, general, and administrative expenses increased \$51 million as compared to fiscal 2017 due primarily to increased selling expenses to support higher sales levels and incremental expenses attributable to recently acquired businesses,



partially offset by lower incentive compensation costs and a gain on the sale of certain assets. Selling, general, and administrative expenses increased \$147 million in fiscal 2017 as compared to fiscal 2016 primarily as a result of increased incentive compensation costs, increased selling expenses to support higher sales levels, and increased costs associated with long-term expense reduction initiatives.

**Research, Development, and Engineering Expenses.** In fiscal 2018, research, development, and engineering expenses increased \$69 million as compared to fiscal 2017 due to costs related to growth initiatives, primarily in the Transportation Solutions segment.

**Restructuring and Other Charges (Credits), Net.** We are committed to continuous productivity improvements, and we evaluate opportunities to simplify our global manufacturing footprint, migrate facilities to lower-cost regions, reduce fixed costs, and eliminate excess capacity. These initiatives are designed to help us maintain our competitiveness in the industry, improve our operating leverage, and position us for future growth.

During fiscal 2018, we initiated a restructuring program associated with footprint consolidation and structural improvements primarily impacting the Industrial Solutions and Transportation Solutions segments. During fiscal 2017, we initiated a restructuring program associated with footprint consolidation related to recent acquisitions and structural improvements impacting all segments. During fiscal 2016, we initiated a restructuring program associated with headcount reductions impacting all segments and product line closures in the Communications Solutions segment.

In connection with these initiatives, we recorded net restructuring charges of \$140 million, \$146 million, and \$121 million in fiscal 2018, 2017, and 2016, respectively. Annualized cost savings related to actions initiated in fiscal 2018 are expected to be approximately \$125 million and are expected to be realized by the end of fiscal 2020. Cost savings will be reflected primarily in cost of sales and selling, general, and administrative expenses. During fiscal 2019, we expect net restructuring charges to be similar to fiscal 2018 levels and we expect total spending, which will be funded with cash from operations, to be approximately \$140 million.

During fiscal 2016, we recognized a pre-tax gain of \$144 million on the sale of our CPD business.

See Note 3 to the Consolidated Financial Statements for additional information regarding net restructuring and other charges (credits).

## Operating Income

The following table presents operating income and operating margin information:

	Fiscal			Fiscal	Fiscal
	2018	2017	2016	2018 versus 2017	2017 versus 2016
	(\$ in millions)				
Operating income . . . . .	\$2,331	\$1,876	\$1,808 <sup>(1)</sup>	\$455	\$68
Operating margin . . . . .	16.7%	15.4%	15.9%		

(1) Fiscal 2016 included an additional week which contributed \$53 million in operating income.

Operating income included the following:

	Fiscal		
	2018	2017	2016
	(in millions)		
Acquisition related charges:			
Acquisition and integration costs . . . . .	\$ 14	\$ 6	\$22
Charges associated with the amortization of acquisition-related fair value adjustments . . . . .	8	5	10
	22	11	32
Restructuring and other charges (credits), net . . . . .	126	147	(2)
Total . . . . .	<u>\$148</u>	<u>\$158</u>	<u>\$30</u>

See discussion of operating income below under “Segment Results.”

### Non-Operating Items

The following table presents select non-operating information:

	Fiscal			Fiscal 2018 versus 2017	Fiscal 2017 versus 2016
	2018	2017	2016		
	(\$ in millions)				
Other income (expense), net . . . . .	\$ 1	\$ (42)	\$ (677)	\$ 43	\$ 635
Income tax expense (benefit) . . . . .	(344)	180	(826)	(524)	1,006
Effective tax rate . . . . .	(15.4)%	10.5%	(80.9)%		
Income (loss) from discontinued operations, net of income taxes . . . . .	\$ (19)	\$ 143	\$ 162	\$ (162)	\$ (19)

**Other Income (Expense), Net.** In fiscal 2016, we recorded net other expense primarily pursuant to the Tax Sharing Agreement with Tyco International plc (“Tyco International”) and Covidien plc (“Covidien”). See Note 16 to the Consolidated Financial Statements for further information regarding net other income (expense).

**Income Taxes.** See Note 15 to the Consolidated Financial Statements for information regarding items impacting income tax expense (benefit) and the effective tax rate for fiscal 2018, 2017, and 2016 and information regarding the Tax Cuts and Jobs Act (the “Act”). We do not expect a significant change in our effective tax rate on future results of operations as a result of the Act.

The valuation allowance for deferred tax assets was \$2,191 million and \$3,627 million at fiscal year end 2018 and 2017, respectively. See Note 15 to the Consolidated Financial Statements for further information regarding the valuation allowance for deferred tax assets.

As of fiscal year end 2018, certain subsidiaries had approximately \$23 billion of cumulative undistributed earnings that have been retained indefinitely and reinvested in our global manufacturing operations, including working capital; property, plant, and equipment; intangible assets; and research and development activities. See Note 15 to the Consolidated Financial Statements for additional information regarding undistributed earnings.

**Income (Loss) from Discontinued Operations, Net of Income Taxes.** On September 16, 2018, we entered into a definitive agreement to sell our SubCom business. The net sales of the business were \$702 million, \$928 million, \$886 million in fiscal 2018, 2017, and 2016, respectively. In fiscal 2018, net sales and operating income were negatively impacted by production delays on a program. In fiscal 2017, net sales increased as a result of higher project activity and operating income was positively impacted by lower material costs and improved manufacturing productivity as compared to fiscal 2016.

In connection with the sale of the SubCom business, in fiscal 2018, we recorded a pre-tax impairment charge of \$19 million, which is included in income (loss) from discontinued operations on the Consolidated Statement of Operations, to write the carrying value of the business down to its estimated fair value less costs to sell. We expect to incur a pre-tax loss on sale of approximately \$90 million, related primarily to the recognition of cumulative translation adjustment losses and certain guarantee liabilities, which will be presented in income (loss) from discontinued operations on the Consolidated Statement of Operations. In November 2018, we completed the sale of the SubCom business for \$325 million. The proceeds received are subject to a final working capital adjustment.

During fiscal 2016, we settled a lawsuit with the former shareholders of Com-Net, which we acquired in fiscal 2001, and recorded pre-tax credits of \$30 million representing a release of excess reserves. This amount was reflected in income (loss) from discontinued operations on the Consolidated Statement of Operations as the Com-Net case was associated with our former Wireless Systems business which was sold in fiscal 2009. Also during fiscal 2016, we recognized an additional pre-tax gain of \$29 million on the fiscal 2015 divestiture of our Broadband Network Solutions (“BNS”) business, related primarily to pension and net working capital adjustments.

See Notes 4 and 23 to the Consolidated Financial Statements for additional information regarding discontinued operations.

## Segment Results

### Transportation Solutions

**Net Sales.** The following table presents the Transportation Solutions segment’s net sales and the percentage of total net sales by primary industry end market<sup>(1)</sup>:

	2018		Fiscal		2016	
			2017			
	(\$ in millions)					
Automotive . . . . .	\$6,092	74%	\$5,228	74%	\$4,912	75%
Commercial transportation . . . . .	1,280	15	997	14	825	13
Sensors . . . . .	918	11	814	12	766	12
Total . . . . .	<u>\$8,290</u>	<u>100%</u>	<u>\$7,039</u>	<u>100%</u>	<u>\$6,503</u>	<u>100%</u>

(1) Industry end market information is presented consistently with our internal management reporting and may be revised periodically as management deems necessary.

The following table provides an analysis of the change in the Transportation Solutions segment’s net sales compared to the prior fiscal year by primary industry end market:

	Fiscal											
	2018				2017							
	Change in Net Sales versus Prior Fiscal Year				Change in Net Sales versus Prior Fiscal Year							
	Net Sales Growth	Organic Net Sales Growth	Translation	Acquisition	Net Sales Growth	Organic Net Sales Growth	Translation	Acquisition				
	(\$ in millions)											
Automotive . . . . .	\$ 864	16.5%	\$434	8.2%	\$213	\$217	\$316	6.4%	\$349	7.1%	\$(33)	\$—
Commercial transportation . . . . .	283	28.4	233	23.2	50	—	172	20.8	181	21.9	(9)	—
Sensors . . . . .	104	12.8	72	8.9	32	—	48	6.3	23	3.0	(5)	30
Total . . . . .	<u>\$1,251</u>	<u>17.8%</u>	<u>\$739</u>	<u>10.5%</u>	<u>\$295</u>	<u>\$217</u>	<u>\$536</u>	<u>8.2%</u>	<u>\$553</u>	<u>8.5%</u>	<u>\$(47)</u>	<u>\$30</u>

In fiscal 2018, net sales in the Transportation Solutions segment increased \$1,251 million, or 17.8%, from fiscal 2017 due to organic net sales growth of 10.5%, the positive impact of foreign

currency translation of 4.2%, and sales contributions from an acquisition of 3.1%. Our organic net sales by primary industry end market were as follows:

- *Automotive*—Our organic net sales increased 8.2% in fiscal 2018 with growth of 16.0% in the Americas region, 8.3% in the EMEA region, and 5.0% in the Asia-Pacific region. Our growth in the Americas region resulted from electrification and market share gains in North America and market growth in South America. In the EMEA region, our growth was driven by market growth, electrification, and market share gains. Our growth in the Asia-Pacific region was driven by market share gains and electrification.
- *Commercial transportation*—Our organic net sales increased 23.2% in fiscal 2018 with growth in all regions due primarily to strength in the heavy truck, construction, and agriculture markets.
- *Sensors*—Our organic net sales increased 8.9% in fiscal 2018 primarily as a result of growth in the commercial transportation, industrial equipment, and automotive markets.

Net sales in the Transportation Solutions segment increased \$536 million, or 8.2%, in fiscal 2017 from fiscal 2016 primarily as a result of organic net sales growth of 8.5%. Fiscal 2016 included an additional week which contributed \$130 million in net sales. Our organic net sales by primary industry end market were as follows:

- *Automotive*—Our organic net sales increased 7.1% in fiscal 2017. The increase resulted from growth of 11.1% in the Asia-Pacific region, 5.6% in the EMEA region, and 1.4% in the Americas region. Our growth in the Asia-Pacific region was driven by increased demand in China resulting from a tax incentive program, market share gains, and increased electrification. In the EMEA region, our organic net sales growth was driven by market growth, electrification, and new model launches. Our growth in the Americas region resulted from continued market recovery in South America.
- *Commercial transportation*—Our organic net sales increased 21.9% in fiscal 2017 primarily as a result of growth in the heavy truck market in all regions and content gains in China.
- *Sensors*—Our organic net sales increased 3.0% in fiscal 2017 due primarily to growth in the industrial equipment and commercial transportation markets, partially offset by declines in the data and devices market.

**Operating Income.** The following table presents the Transportation Solutions segment’s operating income and operating margin information:

	Fiscal			Fiscal 2018 versus 2017	Fiscal 2017 versus 2016
	2018	2017	2016		
	(\$ in millions)				
Operating income . . . . .	\$1,578	\$1,294	\$1,209	\$ 284	\$ 85
Operating margin . . . . .	19.0%	18.4%	18.6%		

Operating income in the Transportation Solutions segment increased \$284 million in fiscal 2018 as compared to fiscal 2017. In fiscal 2017, operating income in the Transportation Solutions segment

increased \$85 million from fiscal 2016. The Transportation Solutions segment's operating income included the following:

	Fiscal		
	2018	2017	2016
(in millions)			
Acquisition related charges:			
Acquisition and integration costs . . . . .	\$ 8	\$ 3	\$ 9
Charges associated with the amortization of acquisition-related fair value adjustments . . . . .	4	—	—
	12	3	9
Restructuring and other charges, net . . . . .	33	69	47
Total . . . . .	<u>\$45</u>	<u>\$72</u>	<u>\$56</u>

Excluding these items, operating income increased in fiscal 2018 primarily as a result of higher volume and, to a lesser degree, lower material costs, partially offset by price erosion. Excluding these items, operating income increased in fiscal 2017 primarily as a result of higher volume, partially offset by price erosion.

### Industrial Solutions

**Net Sales.** The following table presents the Industrial Solutions segment's net sales and the percentage of total net sales by primary industry end market<sup>(1)</sup>:

	Fiscal					
	2018		2017		2016	
(\$ in millions)						
Industrial equipment . . . . .	\$1,987	52%	\$1,747	50%	\$1,419	44%
Aerospace, defense, oil, and gas . . . . .	1,157	30	1,075	31	1,100	34
Energy . . . . .	712	18	685	19	696	22
Total . . . . .	<u>\$3,856</u>	<u>100%</u>	<u>\$3,507</u>	<u>100%</u>	<u>\$3,215</u>	<u>100%</u>

(1) Industry end market information is presented consistently with our internal management reporting and may be revised periodically as management deems necessary.

The following table provides an analysis of the change in the Industrial Solutions segment's net sales compared to the prior fiscal year by primary industry end market:

	Fiscal											
	2018						2017					
	Change in Net Sales versus Prior Fiscal Year						Change in Net Sales versus Prior Fiscal Year					
	Net Sales Growth		Organic Net Sales Growth		Translation	Acquisitions	Net Sales Growth		Organic Net Sales Growth		Translation	Acquisitions
(\$ in millions)												
Industrial equipment . . . . .	\$240	13.7%	\$150	8.6%	\$ 58	\$32	\$328	23.1%	\$ 77	5.5%	\$(10)	\$261
Aerospace, defense, oil, and gas . . . . .	82	7.6	51	4.7	31	—	(25)	(2.3)	(19)	(1.7)	(7)	1
Energy . . . . .	27	3.9	6	0.9	21	—	(11)	(1.6)	(8)	(1.0)	(3)	—
Total . . . . .	<u>\$349</u>	<u>10.0%</u>	<u>\$207</u>	<u>5.9%</u>	<u>\$110</u>	<u>\$32</u>	<u>\$292</u>	<u>9.1%</u>	<u>\$ 50</u>	<u>1.6%</u>	<u>\$(20)</u>	<u>\$262</u>

Net sales in the Industrial Solutions segment increased \$349 million, or 10.0%, in fiscal 2018 as compared to fiscal 2017 due to organic net sales growth of 5.9%, the positive impact of foreign



currency translation of 3.2%, and sales contributions from acquisitions of 0.9%. Our organic net sales by primary industry end market were as follows:

- *Industrial equipment*—Our organic net sales increased 8.6% in fiscal 2018 primarily as a result of strength in factory automation and controls and medical applications.
- *Aerospace, defense, oil, and gas*—Our organic net sales increased 4.7% in fiscal 2018 due to growth in the commercial aerospace, defense, and oil and gas markets.
- *Energy*—Our organic net sales increased 0.9% in fiscal 2018 as a result of growth in the Americas region, partially offset by declines in the EMEA and Asia-Pacific regions.

In the Industrial Solutions segment, net sales increased \$292 million, or 9.1%, in fiscal 2017 from fiscal 2016 due to sales contributions from acquisitions of 8.1% and organic net sales growth of 1.6%, partially offset by the negative impact of foreign currency translation of 0.6%. Fiscal 2016 included an additional week which contributed \$65 million in net sales. Our organic net sales by primary industry end market were as follows:

- *Industrial equipment*—Our organic net sales increased 5.5% in fiscal 2017 due primarily to growth in factory automation and controls and medical applications.
- *Aerospace, defense, oil, and gas*—Our organic net sales decreased 1.7% in fiscal 2017 due to continued weakness in the oil and gas market and declines in our sales into the commercial aerospace market, partially offset by growth in the defense market.
- *Energy*—Our organic net sales decreased 1.0% in fiscal 2017 due to declines in the EMEA and Americas regions, partially offset by growth in the Asia-Pacific region.

**Operating Income.** The following table presents the Industrial Solutions segment's operating income and operating margin information:

	Fiscal			Fiscal 2018 versus 2017	Fiscal 2017 versus 2016
	2018	2017	2016		
	(\$ in millions)				
Operating income . . . . .	\$ 465	\$ 364	\$ 353	\$ 101	\$ 11
Operating margin . . . . .	12.1%	10.4%	11.0%		

Operating income in the Industrial Solutions segment increased \$101 million in fiscal 2018 as compared to fiscal 2017 and increased \$11 million in fiscal 2017 as compared to fiscal 2016. The Industrial Solutions segment's operating income included the following:

	Fiscal		
	2018	2017	2016
	(in millions)		
Acquisition related charges:			
Acquisition and integration costs . . . . .	\$ 6	\$ 3	\$13
Charges associated with the amortization of acquisition-related fair value adjustments . . . . .	4	5	10
	10	8	23
Restructuring and other charges, net . . . . .	80	74	31
Total . . . . .	<u>\$90</u>	<u>\$82</u>	<u>\$54</u>

Excluding these items, operating income increased in fiscal 2018 due primarily to higher volume. Excluding these items, operating income increased in fiscal 2017 primarily as a result of higher volume, partially offset by price erosion.

### Communications Solutions

**Net Sales.** The following table presents the Communications Solutions segment's net sales and the percentage of total net sales by primary industry end market<sup>(1)</sup>:

	Fiscal					
	2018		2017		2016	
	(\$ in millions)					
Data and devices . . . . .	\$1,068	58%	\$ 963	59%	\$1,019	62%
Appliances . . . . .	774	42	676	41	615	38
Total . . . . .	<u>\$1,842</u>	<u>100%</u>	<u>\$1,639</u>	<u>100%</u>	<u>\$1,634</u>	<u>100%</u>

(1) Industry end market information is presented consistently with our internal management reporting and may be revised periodically as management deems necessary.

The following table provides an analysis of the change in the Communications Solutions segment's net sales compared to the prior fiscal year by primary industry end market:

	Fiscal										
	2018					2017					
	Change in Net Sales versus Prior Fiscal Year					Change in Net Sales versus Prior Fiscal Year					
	Net Sales Growth	Organic Net Sales Growth	Translation	Divestiture		Net Sales Growth	Organic Net Sales Growth	Translation	Divestiture		
	(\$ in millions)										
Data and devices . . . . .	\$105	10.9%	\$ 91	9.5%	\$14	\$(56)	(5.5)%	\$24	2.3%	\$(10)	\$(70)
Appliances . . . . .	98	14.5	81	12.0	17	61	9.9	67	10.8	(6)	—
Total . . . . .	<u>\$203</u>	<u>12.4%</u>	<u>\$172</u>	<u>10.5%</u>	<u>\$31</u>	<u>\$ 5</u>	<u>0.3%</u>	<u>\$91</u>	<u>5.7%</u>	<u>\$(16)</u>	<u>\$(70)</u>

In fiscal 2018, net sales in the Communications Solutions segment increased \$203 million, or 12.4%, as compared to fiscal 2017 due to organic net sales growth of 10.5% and the positive impact of foreign currency translation of 1.9%. Our organic net sales by primary industry end market were as follows:

- *Data and devices*—Our organic net sales increased 9.5% in fiscal 2018 as a result of growth in all regions, primarily attributable to growth in high speed connectivity in data center applications.
- *Appliances*—Our organic net sales increased 12.0% in fiscal 2018 as a result of growth in all regions and market share gains.

Net sales in the Communications Solutions segment increased \$5 million in fiscal 2017 as compared to fiscal 2016. Organic net sales growth of 5.7% was largely offset by sales declines resulting from a divestiture of 4.3% and the negative impact of foreign currency translation of 1.1%. Fiscal 2016 included an additional week which contributed \$32 million in net sales. Our organic net sales by primary industry end market were as follows:

- *Data and devices*—Our organic net sales increased 2.3% in fiscal 2017 primarily as a result of increased sales to cloud infrastructure customers, partially offset by sales declines resulting from weakness in the wireless market.
- *Appliances*—Our organic net sales increased 10.8% in fiscal 2017 due primarily to growth in the Asia-Pacific region as a result of increased market demand and share gains.

**Operating Income.** The following table presents the Communications Solutions segment's operating income and operating margin information:

	Fiscal			Fiscal	Fiscal
	2018	2017	2016	2018 versus 2017	2017 versus 2016
	(\$ in millions)				
Operating income . . . . .	\$ 288	\$ 218	\$ 246	\$ 70	\$ (28)
Operating margin . . . . .	15.6%	13.3%	15.1%		

In the Communications Solutions segment, operating income increased \$70 million in fiscal 2018 as compared to fiscal 2017 and decreased \$28 million in fiscal 2017 as compared to fiscal 2016. The Communications Solutions segment's operating income included the following:

	Fiscal		
	2018	2017	2016
	(in millions)		
Restructuring and other charges (credits), net . . . . .	\$13	\$4	\$(80) <sup>(1)</sup>

(1) Includes pre-tax gain of \$144 million on the sale of our CPD business during fiscal 2016.

Excluding these items, operating income increased in both fiscal 2018 and 2017 due primarily to higher volume and improved manufacturing productivity, partially offset by price erosion.

### Liquidity and Capital Resources

Our ability to fund our future capital needs will be affected by our ability to continue to generate cash from operations and may be affected by our ability to access the capital markets, money markets, or other sources of funding, as well as the capacity and terms of our financing arrangements. We believe that cash generated from operations and, to the extent necessary, these other sources of potential funding will be sufficient to meet our anticipated capital needs for the foreseeable future, including the payment of \$325 million of 2.375% senior notes and \$250 million of 2.35% senior notes due in fiscal 2019. We may use excess cash to purchase a portion of our common shares pursuant to our authorized share repurchase program, to acquire strategic businesses or product lines, to pay dividends on our common shares, or to reduce our outstanding debt. The cost or availability of future funding may be impacted by financial market conditions. We will continue to monitor financial markets and respond as necessary to changing conditions.

As of fiscal year end 2018, our cash and cash equivalents were held in subsidiaries which are located in various countries throughout the world. Under current applicable laws, substantially all of these amounts can be repatriated to Tyco Electronics Group S.A. ("TEGSA"), our Luxembourg subsidiary, which is the obligor of substantially all of our debt, and to TE Connectivity Ltd., our Swiss parent company; however, the repatriation of these amounts could subject us to additional tax expense. We provide for tax liabilities on the Consolidated Financial Statements with respect to amounts that we expect to repatriate; however, no tax liabilities are recorded for amounts that we consider to be retained indefinitely and reinvested in our global manufacturing operations. As of fiscal year end 2018, we had approximately \$11.6 billion of cash, cash equivalents, and intercompany deposits, principally in our subsidiaries, that we have the ability to distribute to TEGSA and TE Connectivity Ltd. but we consider to be permanently reinvested. We estimate that up to \$0.9 billion of tax expense would be recognized on the Consolidated Financial Statements if our intention to permanently reinvest these amounts were to change. Our current plans do not demonstrate a need to repatriate cash, cash equivalents, and intercompany deposits that are designated as permanently reinvested in order to fund our operations, including investing and financing activities.

## **Cash Flows from Operating Activities**

Net cash provided by continuing operating activities increased \$28 million to \$2,301 million in fiscal 2018 as compared to \$2,273 million in fiscal 2017. The increase resulted primarily from higher pre-tax income levels, substantially offset by the impact of higher working capital to support increased business levels and increased incentive compensation payments.

Net cash provided by continuing operating activities increased \$340 million to \$2,273 million in fiscal 2017 as compared to \$1,933 million in fiscal 2016. The increase resulted primarily from higher pre-tax income levels, an increase in accrued and other current liabilities related primarily to incentive compensation, and a decrease in net payments related to pre-separation tax matters, partially offset by the impact of increased sales on accounts receivable levels.

The amount of income taxes paid, net of refunds, during fiscal 2018, 2017, and 2016 was \$393 million, \$323 million, and \$806 million, respectively. In fiscal 2017 and 2016, these amounts included refunds of \$23 million and payments of \$471 million, respectively, related to pre-separation tax matters. During fiscal 2016, we received net reimbursements of \$321 million from Tyco International and Covidien pursuant to their indemnifications for pre-separation tax matters. We do not expect a significant change in our income tax payments as a result of the Tax Cuts and Jobs Act.

See Note 15 to the Consolidated Financial Statements for further information regarding the Tax Sharing Agreement and payments related to pre-separation tax matters.

Pension contributions in fiscal 2018, 2017, and 2016 were \$54 million, \$48 million, and \$67 million, respectively. We expect pension contributions to be \$47 million in fiscal 2019, before consideration of any voluntary contributions.

## **Cash Flows from Investing Activities**

Capital expenditures were \$935 million, \$679 million, and \$603 million in fiscal 2018, 2017, and 2016, respectively. Capital spending increased in fiscal 2018 as a result of increased investments in growth initiatives, primarily in the Transportation Solutions segment. We expect fiscal 2019 capital spending levels to be approximately 5-6% of net sales. We believe our capital funding levels are adequate to support new programs, and we continue to invest in our manufacturing infrastructure to further enhance productivity and manufacturing capabilities.

During fiscal 2018, we acquired two businesses for a combined cash purchase price of \$153 million, net of cash acquired. We acquired two businesses during fiscal 2017 for a combined cash purchase price of \$250 million, net of cash acquired. In fiscal 2016, we acquired four businesses, including Creganna, for a combined cash purchase price of \$1.3 billion, net of cash acquired. See Note 5 to the Consolidated Financial Statements for additional information regarding acquisitions.

During fiscal 2016, we received net cash proceeds of \$333 million related to the sale of our CPD business. See Note 3 to the Consolidated Financial Statements for further information.

## **Cash Flows from Financing Activities and Capitalization**

Total debt at fiscal year end 2018 and 2017 was \$4,000 million and \$4,344 million, respectively. See Note 11 to the Consolidated Financial Statements for additional information regarding debt.

TEGSA, our 100%-owned subsidiary, has a five-year unsecured senior revolving credit facility (“Credit Facility”) with a maturity date of December 2020 and total commitments of \$1,500 million. TEGSA had no borrowings under the Credit Facility at fiscal year end 2018 or 2017.

The Credit Facility contains a financial ratio covenant providing that if, as of the last day of each fiscal quarter, our ratio of Consolidated Total Debt to Consolidated EBITDA (as defined in the Credit

Facility) for the then most recently concluded period of four consecutive fiscal quarters exceeds 3.75 to 1.0, an Event of Default (as defined in the Credit Facility) is triggered. The Credit Facility and our other debt agreements contain other customary covenants. None of our covenants are presently considered restrictive to our operations. As of fiscal year end 2018, we were in compliance with all of our debt covenants and believe that we will continue to be in compliance with our existing covenants for the foreseeable future.

Periodically, TEGSA issues commercial paper to U.S. institutional accredited investors and qualified institutional buyers in accordance with available exemptions from the registration requirements of the Securities Act of 1933 as part of our ongoing effort to maintain financial flexibility and to potentially decrease the cost of borrowings. Borrowings under the commercial paper program are backed by the Credit Facility.

TEGSA's payment obligations under its senior notes, commercial paper, and Credit Facility are fully and unconditionally guaranteed by its parent, TE Connectivity Ltd.

Payments of common share dividends to shareholders were \$588 million, \$546 million, and \$509 million in fiscal 2018, 2017, and 2016, respectively. See Note 18 to the Consolidated Financial Statements for additional information regarding dividends on our common shares.

Future dividends on our common shares, if any, must be approved by our shareholders. In exercising their discretion to recommend to the shareholders that such dividends be approved, our board of directors will consider our results of operations, cash requirements and surplus, financial condition, statutory requirements of applicable law, contractual restrictions, and other factors that they may deem relevant.

During fiscal 2018 and 2016, our board of directors authorized increases of \$1.5 billion and \$1.0 billion, respectively, in the share repurchase program. We repurchased approximately 10 million of our common shares for \$966 million, 8 million of our common shares for \$621 million, and 43 million of our common shares for \$2,610 million under the share repurchase program during fiscal 2018, 2017, and 2016, respectively. At fiscal year end 2018, we had \$1.0 billion of availability remaining under our share repurchase authorization.

### Commitments and Contingencies

The following table provides a summary of our contractual obligations and commitments for debt, minimum lease payment obligations under non-cancelable leases, and other obligations at fiscal year end 2018:

	Total	Payments Due by Fiscal Year					
		2019	2020	2021	2022	2023	Thereafter
		(in millions)					
Debt <sup>(1)</sup>	\$4,021	\$ 963	\$ —	\$252	\$501	\$639	\$1,666
Interest payments on debt <sup>(2)</sup>	1,092	119	109	103	88	79	594
Operating leases	403	97	76	62	48	38	82
Purchase obligations <sup>(3)</sup>	820	798	17	2	—	—	3
Total contractual cash obligations <sup>(4)(5)(6)</sup>	<u>\$6,336</u>	<u>\$1,977</u>	<u>\$202</u>	<u>\$419</u>	<u>\$637</u>	<u>\$756</u>	<u>\$2,345</u>

(1) Debt represents principal payments. See Note 11 to the Consolidated Financial Statements for additional information regarding debt.

(2) Interest payments exclude the impact of our interest rate swap contracts.

(3) Purchase obligations consist primarily of commitments for purchases of goods and services.

- (4) The above table does not reflect unrecognized income tax benefits of \$566 million and related accrued interest and penalties of \$60 million, the timing of which is uncertain. See Note 15 to the Consolidated Financial Statements for additional information regarding unrecognized income tax benefits, interest, and penalties.
- (5) The above table does not reflect pension obligations to certain employees and former employees. We are obligated to make contributions to our pension plans; however, we are unable to determine the amount of plan contributions due to the inherent uncertainties of obligations of this type, including timing, interest rate charges, investment performance, and amounts of benefit payments. We expect to contribute \$47 million to pension plans in fiscal 2019, before consideration of any voluntary contributions. See Note 14 to the Consolidated Financial Statements for additional information regarding these plans and our estimates of future contributions and benefit payments.
- (6) Other long-term liabilities of \$487 million are excluded from the above table as we are unable to estimate the timing of payment for these items.

### **Legal Proceedings**

In the normal course of business, we are subject to various legal proceedings and claims, including patent infringement claims, product liability matters, employment disputes, disputes on agreements, other commercial disputes, environmental matters, antitrust claims, and tax matters, including non-income tax matters such as value added tax, sales and use tax, real estate tax, and transfer tax. Although it is not feasible to predict the outcome of these proceedings, based upon our experience, current information, and applicable law, we do not expect that the outcome of these proceedings, either individually or in the aggregate, will have a material effect on our results of operations, financial position, or cash flows.

### **Off-Balance Sheet Arrangements**

In certain instances, we have guaranteed the performance of third parties and provided financial guarantees for uncompleted work and financial commitments. The terms of these guarantees vary with end dates ranging from fiscal 2019 through the completion of such transactions. The guarantees would be triggered in the event of nonperformance, and the potential exposure for nonperformance under the guarantees would not have a material effect on our results of operations, financial position, or cash flows.

In disposing of assets or businesses, we often provide representations, warranties, and/or indemnities to cover various risks including unknown damage to assets, environmental risks involved in the sale of real estate, liability for investigation and remediation of environmental contamination at waste disposal sites and manufacturing facilities, and unidentified tax liabilities and legal fees related to periods prior to disposition. We do not expect that these uncertainties will have a material adverse effect on our results of operations, financial position, or cash flows.

At fiscal year end 2018, we had outstanding letters of credit, letters of guarantee, and surety bonds of \$275 million.

As discussed above, in September 2018, we entered into a definitive agreement to sell our SubCom business. Following the divestiture, we will continue to honor performance guarantees and letters of credit related to the SubCom business' existing projects. These existing guarantees have a combined value of approximately \$1.7 billion and are expected to expire at various dates through fiscal 2025; however, the majority are expected to expire within two years. Also, under the terms of the definitive agreement, we are required to issue up to \$300 million of new performance guarantees, subject to certain limitations, for projects entered into by the SubCom business following the sale for a period of up to three years. We have contractual recourse against the SubCom business if we are required to perform on these guarantees; however, based on historical experience, we do not anticipate having to



perform. See Notes 4 and 23 to the Consolidated Financial Statements for additional information regarding the divestiture of the SubCom business.

### **Critical Accounting Policies and Estimates**

The preparation of the Consolidated Financial Statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenue and expenses. Our significant accounting policies are summarized in Note 2 to the Consolidated Financial Statements. We believe the following accounting policies are the most critical as they require significant judgments and assumptions that involve inherent risks and uncertainties. Management's estimates are based on the relevant information available at the end of each period.

#### **Revenue Recognition**

Our revenue recognition policies are in accordance with Accounting Standards Codification ("ASC") 605, *Revenue Recognition*. Our revenues are generated principally from the sale of our products. Revenue from the sale of products is recognized at the time title and the risks and rewards of ownership pass to the customer. This generally occurs when the products reach the shipping point, the sales price is fixed and determinable, and collection is reasonably assured. A reserve for estimated returns is established at the time of sale based on historical return experience and is recorded as a reduction of sales. Other allowances include customer quantity and price discrepancies. A reserve for other allowances is generally established at the time of sale based on historical experience and also is recorded as a reduction of sales.

Contract revenues for construction related projects, which are generated in the SubCom business which is reported in discontinued operations, are recorded primarily using the percentage-of-completion method. Profits recognized on contracts in process are based upon estimated contract revenue and related cost to complete. Percentage-of-completion is measured based on the ratio of actual costs incurred to total estimated costs. Revisions in cost estimates as contracts progress have the effect of increasing or decreasing profits in the current period. Provisions for anticipated losses are made in the period in which they first become determinable. In addition, provisions for credit losses related to unbilled receivables on construction related projects are recorded as reductions of revenue in the period in which they first become determinable.

See Notes 4 and 23 to the Consolidated Financial Statements for additional information regarding the SubCom business. See Note 2 to the Consolidated Financial Statements for information regarding our adoption of ASC 606, *Revenue from Contracts with Customers*, in fiscal 2019.

#### **Goodwill and Other Intangible Assets**

Intangible assets include both indeterminable-lived residual goodwill and determinable-lived identifiable intangible assets. Intangible assets with determinable lives primarily include intellectual property, consisting of patents, trademarks, and unpatented technology, and customer relationships. Recoverability estimates range from 1 to 50 years and costs are generally amortized on a straight-line basis. Evaluations of the remaining useful lives of determinable-lived intangible assets are performed on a periodic basis and when events and circumstances warrant.

We test for goodwill impairment at the reporting unit level. A reporting unit is generally an operating segment or one level below an operating segment (a "component") if the component constitutes a business for which discrete financial information is available and regularly reviewed by segment management. At fiscal year end 2018, we had five reporting units, all of which contained goodwill. There were two reporting units in both the Transportation Solutions and Industrial Solutions segments and one reporting unit in the Communications Solutions segment. When changes occur in the

composition of one or more reporting units, goodwill is reassigned to the reporting units affected based on their relative fair values. We review our reporting unit structure each year as part of our annual goodwill impairment test, or more frequently based on changes in our structure.

Goodwill impairment is evaluated by comparing the carrying value of each reporting unit to its fair value on the first day of the fourth fiscal quarter of each year or whenever we believe a triggering event requiring a more frequent assessment has occurred. In assessing the existence of a triggering event, management relies on a number of reporting unit-specific factors including operating results, business plans, economic projections, anticipated future cash flows, transactions, and market place data. There are inherent uncertainties related to these factors and management's judgment in applying these factors to the impairment analysis.

When testing for goodwill impairment, we perform a step I goodwill impairment test to identify potential impairment by comparing the fair value of a reporting unit with its carrying amount. If the carrying amount of a reporting unit exceeds its fair value, goodwill may be impaired and a step II goodwill impairment test is performed to measure the amount of impairment, if any. In the step II goodwill impairment test, we compare the implied fair value of reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to the excess. The implied fair value of goodwill is determined in a manner consistent with how goodwill is recognized in a business combination. We allocate the fair value of a reporting unit to the assets and liabilities of that unit, including intangible assets, as if the reporting unit had been acquired in a business combination. Any excess of the fair value of a reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill.

Fair value estimates used in the step I goodwill impairment tests are calculated using an income approach based on the present value of future cash flows of each reporting unit. The income approach has been supported by guideline analyses (a market approach). These approaches incorporate a number of assumptions including future growth rates, discount rates, income tax rates, and market activity in assessing fair value and are reporting unit specific. Changes in economic and operating conditions impacting these assumptions could result in goodwill impairments in future periods.

We completed our annual goodwill impairment test in the fourth quarter of fiscal 2018 and determined that no impairment existed.

## **Income Taxes**

In determining income for financial statement purposes, we must make certain estimates and judgments. These estimates and judgments affect the calculation of certain tax liabilities and the determination of the recoverability of certain deferred tax assets, which arise from temporary differences between the income tax return and financial statement recognition of revenue and expense.

In evaluating our ability to recover our deferred tax assets, we consider all available positive and negative evidence including our past operating results, the existence of cumulative losses in the most recent years, and our forecast of taxable income. In estimating future taxable income, we develop assumptions including the amount of pre-tax operating income in various tax jurisdictions, the reversal of temporary differences, and the implementation of feasible and prudent tax planning strategies. These assumptions require significant judgment about the forecasts of taxable income and are consistent with the plans and estimates we are using to manage the underlying businesses.

We currently have recorded significant valuation allowances that we intend to maintain until it is more likely than not the deferred tax assets will be realized. Our income tax expense recorded in the future will be reduced to the extent of decreases in our valuation allowances. The realization of our remaining deferred tax assets is dependent primarily on future taxable income in the appropriate

jurisdictions. Any reduction in future taxable income including any future restructuring activities may require that we record an additional valuation allowance against our deferred tax assets. An increase in the valuation allowance would result in additional income tax expense in such period and could have a significant impact on our future earnings.

Changes in tax laws and rates also could affect recorded deferred tax assets and liabilities in the future. Management is not aware of any such changes that would have a material effect on our results of operations, financial position, or cash flows.

In addition, the calculation of our tax liabilities includes estimates for uncertainties in the application of complex tax regulations across multiple global jurisdictions where we conduct our operations. Under the uncertain tax position provisions of ASC 740, *Income Taxes*, we recognize liabilities for tax and related interest for issues in tax jurisdictions based on our estimate of whether, and the extent to which, additional taxes and related interest will be due. These tax liabilities and related interest are reflected net of the impact of related tax loss carryforwards, as such tax loss carryforwards will be applied against these tax liabilities and will reduce the amount of cash tax payments due upon the eventual settlement with the tax authorities. These estimates may change due to changing facts and circumstances. Due to the complexity of these uncertainties, the ultimate resolution may result in a settlement that differs from our current estimate of the tax liabilities and related interest. These tax liabilities and related interest are recorded in income taxes and accrued and other current liabilities on the Consolidated Balance Sheets.

### **Pension Liabilities**

Our defined benefit pension plan expense and obligations are developed from actuarial assumptions. The funded status of our plans is recognized on the Consolidated Balance Sheets and is measured as the difference between the fair value of plan assets and the projected benefit obligation at the measurement date. The projected benefit obligation represents the actuarial present value of benefits projected to be paid upon retirement factoring in estimated future compensation levels. The fair value of plan assets represents the current market value of cumulative company and participant contributions made to irrevocable trust funds, held for the sole benefit of participants, which are invested by the trustee of the funds. The benefits under our defined benefit pension plans are based on various factors, such as years of service and compensation.

Net periodic pension benefit cost is based on the utilization of the projected unit credit method of calculation and is charged to earnings on a systematic basis over the expected average remaining service lives of current participants.

Two critical assumptions in determining pension expense and obligations are the discount rate and expected long-term return on plan assets. We evaluate these assumptions at least annually. Other assumptions reflect demographic factors such as retirement, mortality, and employee turnover. These assumptions are evaluated periodically and updated to reflect our actual experience. Actual results may differ from actuarial assumptions. The discount rate represents the market rate for high-quality fixed income investments and is used to calculate the present value of the expected future cash flows for benefit obligations to be paid under our pension plans. A decrease in the discount rate increases the present value of pension benefit obligations. At fiscal year end 2018, a 25 basis point decrease in the discount rate would have increased the present value of our pension obligations by \$124 million; a 25 basis point increase would have decreased the present value of our pension obligations by \$111 million. We consider the current and expected asset allocations of our pension plans, as well as historical and expected long-term rates of return on those types of plan assets, in determining the expected long-term rate of return on plan assets. A 50 basis point decrease or increase in the expected long-term return on plan assets would have increased or decreased, respectively, our fiscal 2018 pension expense by \$12 million.

At fiscal year end 2018, the long-term target asset allocation in our U.S. plans' master trust is 10% return-seeking assets and 90% liability-hedging assets. Asset re-allocation to meet that target is occurring over a multi-year period based on the funded status. We expect to reach our target allocation when the funded status of the plans exceeds 105%. Based on the funded status of the plans as of fiscal year end 2018, our target asset allocation is 45% return-seeking and 55% liability-hedging.

### **Accounting Pronouncements**

See Note 2 to the Consolidated Financial Statements for information regarding recently issued and recently adopted accounting pronouncements.

### **Non-GAAP Financial Measure**

#### **Organic Net Sales Growth**

We present organic net sales growth as we believe it is appropriate for investors to consider this adjusted financial measure in addition to results in accordance with GAAP. Organic net sales growth represents net sales growth (the most comparable GAAP financial measure) excluding the impact of foreign currency exchange rates, and acquisitions and divestitures that occurred in the preceding twelve months, if any. Organic net sales growth is a useful measure of our performance because it excludes items that are not completely under management's control, such as the impact of changes in foreign currency exchange rates, and items that do not reflect the underlying growth of the company, such as acquisition and divestiture activity.

Organic net sales growth provides useful information about our results and the trends of our business. Management uses organic net sales growth to monitor and evaluate performance. Also, management uses organic net sales growth together with GAAP financial measures in its decision-making processes related to the operations of our reportable segments and our overall company. It is also a significant component in our incentive compensation plans. We believe that investors benefit from having access to the same financial measures that management uses in evaluating operations. The tables presented in "Results of Operations" and "Segment Results" provide reconciliations of organic net sales growth to net sales growth calculated in accordance with GAAP.

Organic net sales growth is a non-GAAP financial measure and should not be considered a replacement for results in accordance with GAAP. This non-GAAP financial measure may not be comparable to similarly-titled measures reported by other companies. The primary limitation of this measure is that it excludes the financial impact of items that would otherwise either increase or decrease our reported results. This limitation is best addressed by using organic net sales growth in combination with net sales growth in order to better understand the amounts, character, and impact of any increase or decrease in reported amounts.

### **Forward-Looking Information**

Certain statements in this Annual Report are "forward-looking statements" within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. These statements are based on our management's beliefs and assumptions and on information currently available to our management. Forward-looking statements include, among others, the information concerning our possible or assumed future results of operations, business strategies, financing plans, competitive position, potential growth opportunities, potential operating performance improvements, acquisitions, divestitures, the effects of competition, and the effects of future legislation or regulations. Forward-looking statements include all statements that are not historical facts and can be identified by the use of forward-looking terminology such as the words "believe," "expect," "plan," "intend," "anticipate," "estimate," "predict," "potential," "continue," "may," "should," or the negative of these terms or similar expressions.

Forward-looking statements involve risks, uncertainties, and assumptions. Actual results may differ materially from those expressed in these forward-looking statements. Investors should not place undue reliance on any forward-looking statements. We do not have any intention or obligation to update forward-looking statements after we file this report except as required by law.

The following and other risks, which are described in greater detail in “Part I. Item 1A. Risk Factors” of our Annual Report on Form 10-K for the fiscal year ended September 28, 2018 filed with the SEC and elsewhere in this Annual Report, could cause our results to differ materially from those expressed in forward-looking statements:

- conditions in the global or regional economies and global capital markets, and cyclical industry conditions;
- conditions affecting demand for products in the industries we serve, particularly the automotive industry;
- competition and pricing pressure;
- market acceptance of our new product introductions and product innovations and product life cycles;
- raw material availability, quality, and cost;
- fluctuations in foreign currency exchange rates;
- financial condition and consolidation of customers and vendors;
- reliance on third-party suppliers;
- risks associated with current and future acquisitions and divestitures;
- global risks of business interruptions such as natural disasters and political, economic, and military instability;
- risks associated with security breaches and other disruptions to our information technology infrastructure;
- risks related to compliance with current and future environmental and other laws and regulations;
- our ability to protect our intellectual property rights;
- risks of litigation;
- our ability to operate within the limitations imposed by our debt instruments;
- the possible effects on us of various non-U.S. and U.S. legislative proposals and other initiatives that, if adopted, could materially increase our worldwide corporate effective tax rate and negatively impact our U.S. government contracts business;
- various risks associated with being a Swiss corporation;
- the impact of fluctuations in the market price of our shares; and
- the impact of certain provisions of our articles of association on unsolicited takeover proposals.

There may be other risks and uncertainties that we are unable to predict at this time or that we currently do not expect to have a material adverse effect on our business.

## QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In the normal course of business, our financial position is routinely subject to a variety of risks, including market risks associated with interest rate and foreign currency movements on outstanding debt and non-U.S. dollar denominated assets and liabilities and commodity price movements. We utilize established risk management policies and procedures in executing derivative financial instrument transactions to manage a portion of these risks.

We do not execute transactions or hold derivative financial instruments for trading or speculative purposes. Substantially all counterparties to derivative financial instruments are limited to major financial institutions with at least an A/A2 credit rating. There is no significant concentration of exposures with any one counterparty.

### Foreign Currency Exposures

As part of managing the exposure to changes in foreign currency exchange rates, we utilize cross-currency swap contracts and foreign currency forward contracts, a portion of which are designated as cash flow hedges. The objective of these contracts is to minimize impacts to cash flows and profitability due to changes in foreign currency exchange rates on intercompany and other cash transactions. A 10% appreciation or depreciation of the underlying currency in our cross-currency swap contracts or foreign currency forward contracts from the fiscal year end 2018 market rates would have changed the unrealized value of our contracts by \$101 million. A 10% appreciation or depreciation of the underlying currency in our cross-currency swap contracts or foreign currency forward contracts from the fiscal year end 2017 market rates would have changed the unrealized value of our contracts by \$122 million. Such gains or losses on these contracts would generally be offset by the losses or gains on the revaluation or settlement of the underlying transactions.

### Interest Rate and Investment Exposures

We issue debt, as needed, to fund our operations and capital requirements. Such borrowings can result in interest rate exposure. To manage the interest rate exposure, we use interest rate swap contracts to convert a portion of fixed-rate debt into variable-rate debt. We may use forward starting interest rate swap contracts to manage interest rate exposure in periods prior to the anticipated issuance of fixed-rate debt. We also utilize investment swap contracts to manage earnings exposure on certain nonqualified deferred compensation liabilities.

Based on our floating rate debt balances at fiscal year end 2018 and 2017, a 50 basis point increase in the levels of the U.S. dollar interest rates, with all other variables held constant, would have resulted in an immaterial increase in interest expense in both fiscal 2018 and 2017.

### Commodity Exposures

Our worldwide operations and product lines may expose us to risks from fluctuations in commodity prices. To limit the effects of fluctuations in the future market price paid and related volatility in cash flows, we utilize commodity swap contracts designated as cash flow hedges. We continually evaluate the commodity market with respect to our forecasted usage requirements over the next eighteen months and periodically enter into commodity swap contracts to hedge a portion of usage requirements over that period. At fiscal year end 2018, our commodity hedges, which related to expected purchases of gold, silver, and copper, were in a net loss position of \$34 million and had a notional value of \$401 million. At fiscal year end 2017, our commodity hedges, which related to expected purchases of gold, silver, and copper, were in a net gain position of \$20 million and had a notional value of \$314 million. A 10% appreciation or depreciation of the price of a troy ounce of gold, a troy ounce of silver, and a pound of copper, from the fiscal year end 2018 prices would have changed the unrealized value of our forward contracts by \$37 million. A 10% appreciation or depreciation of the price of a



troy ounce of gold, a troy ounce of silver, and a pound of copper, from the fiscal year end 2017 prices would have changed the unrealized value of our forward contracts by \$33 million.

See Note 13 to the Consolidated Financial Statements for additional information regarding financial instruments.

#### **CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

#### **CONTROLS AND PROCEDURES**

##### **Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of September 28, 2018. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 28, 2018.

##### **Management's Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our internal control over financial reporting based on the framework in *Internal Control—Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded our internal control over financial reporting was effective as of September 28, 2018.

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

Deloitte & Touche LLP, an independent registered public accounting firm, has issued an attestation report on our internal control over financial reporting as of September 28, 2018, which is included in this Annual Report.

##### **Changes in Internal Control Over Financial Reporting**

During the quarter ended September 28, 2018, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**TE CONNECTIVITY LTD.**  
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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of TE Connectivity Ltd.:

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of TE Connectivity Ltd. and subsidiaries (the “Company”) as of September 28, 2018 and September 29, 2017, the related consolidated statements of operations, comprehensive income, shareholders’ equity, and cash flows, for each of the three fiscal years in the period ended September 28, 2018, and the related notes and schedule listed in the Index (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of September 28, 2018 and September 29, 2017, and the results of its operations and its cash flows for each of the three fiscal years in the period ended September 28, 2018, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company’s internal control over financial reporting as of September 28, 2018, based on the criteria established in *Internal Control—Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated November 13, 2018 expressed an unqualified opinion on the Company’s internal control over financial reporting.

### Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Deloitte & Touche LLP

Philadelphia, Pennsylvania  
November 13, 2018

We have served as the Company’s auditor since 2007.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of TE Connectivity Ltd.:

### Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of TE Connectivity Ltd. and subsidiaries (the “Company”) as of September 28, 2018, based on criteria established in *Internal Control—Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 28, 2018, based on criteria established in *Internal Control—Integrated Framework* (2013) issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the financial statements as of and for the fiscal year ended September 28, 2018 of the Company and our report dated November 13, 2018 expressed an unqualified opinion on those financial statements.

### Basis for Opinion

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

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### Definition and Limitations of Internal Control over Financial Reporting

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

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

/s/ Deloitte & Touche LLP

Philadelphia, Pennsylvania  
November 13, 2018

**TE CONNECTIVITY LTD.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**Fiscal Years Ended September 28, 2018, September 29, 2017, and September 30, 2016**

	Fiscal		
	2018	2017	2016
	(in millions, except per share data)		
Net sales . . . . .	\$13,988	\$12,185	\$11,352
Cost of sales . . . . .	9,243	8,002	7,525
<b>Gross margin</b> . . . . .	4,745	4,183	3,827
Selling, general, and administrative expenses . . . . .	1,594	1,543	1,396
Research, development, and engineering expenses . . . . .	680	611	603
Acquisition and integration costs . . . . .	14	6	22
Restructuring and other charges (credits), net . . . . .	126	147	(2)
<b>Operating income</b> . . . . .	2,331	1,876	1,808
Interest income . . . . .	15	16	17
Interest expense . . . . .	(107)	(130)	(127)
Other income (expense), net . . . . .	1	(42)	(677)
<b>Income from continuing operations before income taxes</b> . . . . .	2,240	1,720	1,021
Income tax (expense) benefit . . . . .	344	(180)	826
<b>Income from continuing operations</b> . . . . .	2,584	1,540	1,847
Income (loss) from discontinued operations, net of income taxes . . . . .	(19)	143	162
<b>Net income</b> . . . . .	<u>\$ 2,565</u>	<u>\$ 1,683</u>	<u>\$ 2,009</u>
<b>Basic earnings per share:</b>			
Income from continuing operations . . . . .	\$ 7.38	\$ 4.34	\$ 5.05
Income (loss) from discontinued operations . . . . .	(0.05)	0.40	0.44
Net income . . . . .	7.33	4.74	5.49
<b>Diluted earnings per share:</b>			
Income from continuing operations . . . . .	\$ 7.32	\$ 4.30	\$ 5.01
Income (loss) from discontinued operations . . . . .	(0.05)	0.40	0.44
Net income . . . . .	7.27	4.70	5.44
<b>Weighted-average number of shares outstanding:</b>			
Basic . . . . .	350	355	366
Diluted . . . . .	353	358	369

See Notes to Consolidated Financial Statements.

**TE CONNECTIVITY LTD.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**Fiscal Years Ended September 28, 2018, September 29, 2017, and September 30, 2016**

	<u>Fiscal</u>		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
	(in millions)		
<b>Net income</b> . . . . .	\$2,565	\$1,683	\$2,009
<b>Other comprehensive income (loss):</b>			
Currency translation . . . . .	(117)	37	(92)
Adjustments to unrecognized pension and postretirement benefit costs, net of income taxes . . . . .	83	330	(88)
Gains (losses) on cash flow hedges, net of income taxes . . . . .	(74)	15	11
<b>Other comprehensive income (loss)</b> . . . . .	<u>(108)</u>	<u>382</u>	<u>(169)</u>
<b>Comprehensive income.</b> . . . . .	<u>\$2,457</u>	<u>\$2,065</u>	<u>\$1,840</u>

See Notes to Consolidated Financial Statements.



**TE CONNECTIVITY LTD.**  
**CONSOLIDATED BALANCE SHEETS**  
As of September 28, 2018 and September 29, 2017

	<b>Fiscal Year End</b>	
	<b>2018</b>	<b>2017</b>
	<b>(in millions, except share data)</b>	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents . . . . .	\$ 848	\$ 1,218
Accounts receivable, net of allowance for doubtful accounts of \$22 and \$18, respectively . . . . .	2,361	2,138
Inventories . . . . .	1,857	1,647
Prepaid expenses and other current assets . . . . .	661	578
Current assets held for sale . . . . .	472	345
Total current assets . . . . .	6,199	5,926
Property, plant, and equipment, net . . . . .	3,497	3,159
Goodwill . . . . .	5,684	5,651
Intangible assets, net . . . . .	1,704	1,841
Deferred income taxes . . . . .	2,144	2,141
Noncurrent assets held for sale . . . . .	—	257
Other assets . . . . .	1,158	428
<b>Total Assets</b> . . . . .	<b>\$20,386</b>	<b>\$19,403</b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Short-term debt . . . . .	\$ 963	\$ 710
Accounts payable . . . . .	1,548	1,387
Accrued and other current liabilities . . . . .	1,711	1,613
Current liabilities held for sale . . . . .	188	137
Total current liabilities . . . . .	4,410	3,847
Long-term debt . . . . .	3,037	3,634
Long-term pension and postretirement liabilities . . . . .	1,102	1,158
Deferred income taxes . . . . .	207	236
Income taxes . . . . .	312	293
Noncurrent liabilities held for sale . . . . .	—	43
Other liabilities . . . . .	487	441
<b>Total Liabilities</b> . . . . .	<b>9,555</b>	<b>9,652</b>
Commitments and contingencies (Note 12)		
Shareholders' equity:		
Common shares, CHF 0.57 par value, 357,069,981 shares authorized and issued . . . . .	157	157
Accumulated earnings . . . . .	12,114	10,175
Treasury shares, at cost, 12,279,603 and 5,356,369 shares, respectively . . . . .	(1,134)	(421)
Accumulated other comprehensive loss . . . . .	(306)	(160)
<b>Total Shareholders' Equity</b> . . . . .	<b>10,831</b>	<b>9,751</b>
<b>Total Liabilities and Shareholders' Equity</b> . . . . .	<b>\$20,386</b>	<b>\$19,403</b>

See Notes to Consolidated Financial Statements.

TE CONNECTIVITY LTD.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Fiscal Years Ended September 28, 2018, September 29, 2017, and September 30, 2016

	Common Shares		Treasury Shares		Contributed Surplus	Accumulated Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	Shares	Amount	Shares	Amount				
	(in millions)							
<b>Balance at September 25, 2015</b>	414	\$182	(20)	\$(1,256)	\$ 4,359	\$ 6,673	\$(373)	\$ 9,585
Net income	—	—	—	—	—	2,009	—	2,009
Other comprehensive loss	—	—	—	—	—	—	(169)	(169)
Share-based compensation expense	—	—	—	—	91	—	—	91
Dividends approved	—	—	—	—	(512)	—	—	(512)
Exercise of share options	—	—	2	90	—	—	—	90
Restricted share award vestings and other activity	—	—	2	146	(145)	—	—	1
Repurchase of common shares	—	—	(43)	(2,610)	—	—	—	(2,610)
Cancellation of treasury shares	(31)	(14)	31	2,006	(1,992)	—	—	—
<b>Balance at September 30, 2016</b>	<u>383</u>	<u>\$168</u>	<u>(28)</u>	<u>\$(1,624)</u>	<u>\$ 1,801</u>	<u>\$ 8,682</u>	<u>\$(542)</u>	<u>\$ 8,485</u>
Adoption of ASU No. 2016-09	—	—	—	—	—	165	—	165
Net income	—	—	—	—	—	1,683	—	1,683
Other comprehensive income	—	—	—	—	—	—	382	382
Share-based compensation expense	—	—	—	—	99	—	—	99
Dividends approved	—	—	—	—	(564)	—	—	(564)
Exercise of share options	—	—	3	117	—	—	—	117
Restricted share award vestings and other activity	—	—	2	195	(184)	(6)	—	5
Repurchase of common shares	—	—	(8)	(621)	—	—	—	(621)
Cancellation of treasury shares	(26)	(11)	26	1,512	(1,152)	(349)	—	—
<b>Balance at September 29, 2017</b>	<u>357</u>	<u>\$157</u>	<u>(5)</u>	<u>\$ (421)</u>	<u>\$ —</u>	<u>\$10,175</u>	<u>\$(160)</u>	<u>\$ 9,751</u>
Adoption of ASU No. 2018-02	—	—	—	—	—	38	(38)	—
Net income	—	—	—	—	—	2,565	—	2,565
Other comprehensive loss	—	—	—	—	—	—	(108)	(108)
Share-based compensation expense	—	—	—	—	98	—	—	98
Dividends approved	—	—	—	—	—	(610)	—	(610)
Exercise of share options	—	—	1	100	—	—	—	100
Restricted share award vestings and other activity	—	—	2	153	(98)	(54)	—	1
Repurchase of common shares	—	—	(10)	(966)	—	—	—	(966)
<b>Balance at September 28, 2018</b>	<u>357</u>	<u>\$157</u>	<u>(12)</u>	<u>\$(1,134)</u>	<u>\$ —</u>	<u>\$12,114</u>	<u>\$(306)</u>	<u>\$10,831</u>

See Notes to Consolidated Financial Statements.

**TE CONNECTIVITY LTD.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**Fiscal Years Ended September 28, 2018, September 29, 2017, and September 30, 2016**

	<b>Fiscal</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
	<b>(in millions)</b>		
<b>Cash Flows From Operating Activities:</b>			
Net income	\$ 2,565	\$1,683	\$ 2,009
(Income) loss from discontinued operations, net of income taxes	19	(143)	(162)
Income from continuing operations	2,584	1,540	1,847
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:			
Depreciation and amortization	667	611	560
Deferred income taxes	(791)	(142)	136
Provision for losses on accounts receivable and inventories	30	20	13
Tax sharing expense	—	8	632
Share-based compensation expense	95	95	87
Gain on divestiture	(2)	—	(144)
Other	7	17	99
Changes in assets and liabilities, net of the effects of acquisitions and divestitures:			
Accounts receivable, net	(269)	(204)	95
Inventories	(247)	(270)	154
Prepaid expenses and other current assets	(63)	(62)	281
Accounts payable	201	314	(87)
Accrued and other current liabilities	5	224	(4)
Income taxes	54	(1)	(1,769)
Other	30	123	33
Net cash provided by continuing operating activities	2,301	2,273	1,933
Net cash provided by discontinued operating activities	150	48	14
Net cash provided by operating activities	2,451	2,321	1,947
<b>Cash Flows From Investing Activities:</b>			
Capital expenditures	(935)	(679)	(603)
Proceeds from sale of property, plant, and equipment	23	19	8
Acquisition of businesses, net of cash acquired	(153)	(250)	(1,336)
Proceeds from divestiture of business, net of cash retained by sold business	—	4	333
Other	(8)	(3)	42
Net cash used in continuing investing activities	(1,073)	(909)	(1,556)
Net cash used in discontinued investing activities	(21)	(23)	(25)
Net cash used in investing activities	(1,094)	(932)	(1,581)
<b>Cash Flows From Financing Activities:</b>			
Net increase (decrease) in commercial paper	270	(330)	330
Proceeds from issuance of debt	119	589	352
Repayment of debt	(708)	—	(501)
Proceeds from exercise of share options	100	117	90
Repurchase of common shares	(879)	(614)	(2,787)
Payment of common share dividends to shareholders	(588)	(546)	(509)
Transfers (to) from discontinued operations	129	25	(11)
Other	(36)	(30)	(30)
Net cash used in continuing financing activities	(1,593)	(789)	(3,066)
Net cash provided by (used in) discontinued financing activities	(129)	(25)	11
Net cash used in financing activities	(1,722)	(814)	(3,055)
Effect of currency translation on cash	(5)	(4)	7
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(370)</b>	<b>571</b>	<b>(2,682)</b>
<b>Cash and cash equivalents at beginning of fiscal year</b>	<b>1,218</b>	<b>647</b>	<b>3,329</b>
<b>Cash and cash equivalents at end of fiscal year</b>	<b>\$ 848</b>	<b>\$1,218</b>	<b>\$ 647</b>
<b>Supplemental Cash Flow Information:</b>			
Interest paid	\$ 127	\$ 128	\$ 117
Income taxes paid, net of refunds	393	323	806

See Notes to Consolidated Financial Statements.

**TE CONNECTIVITY LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Basis of Presentation**

The Consolidated Financial Statements reflect the consolidated operations of TE Connectivity Ltd. and its subsidiaries and have been prepared in United States (“U.S.”) dollars in accordance with accounting principles generally accepted in the U.S. (“GAAP”).

*Description of the Business*

TE Connectivity Ltd. (“TE Connectivity” or the “Company,” which may be referred to as “we,” “us,” or “our”) is a global technology and manufacturing leader creating a safer, sustainable, productive, and connected future. For more than 75 years, our connectivity and sensor solutions, proven in the harshest environments, have enabled advancements in transportation, industrial applications, medical technology, energy, data communications, and the home.

We operate through three reportable segments:

- *Transportation Solutions.* The Transportation Solutions segment is a leader in connectivity and sensor technologies. Our products, which must withstand harsh conditions, are used in the automotive, commercial transportation, and sensors markets.
- *Industrial Solutions.* The Industrial Solutions segment is a leading supplier of products that connect and distribute power, data, and signals. Our products are used in the industrial equipment; aerospace, defense, oil, and gas; and energy markets.
- *Communications Solutions.* The Communications Solutions segment is a leading supplier of electronic components for the data and devices and the appliances markets.

*Use of Estimates*

The preparation of the Consolidated Financial Statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. Significant estimates in these Consolidated Financial Statements include restructuring and other charges, assets acquired and liabilities assumed in acquisitions, allowances for doubtful accounts receivable, estimates of future cash flows and discount rates associated with asset impairments, useful lives for depreciation and amortization, loss contingencies, net realizable value of inventories, estimated contract revenue and related costs, legal contingencies, tax reserves and deferred tax asset valuation allowances, and the determination of discount and other rate assumptions for pension benefit cost. Actual results could differ materially from these estimates.

*Fiscal Year*

We have a 52- or 53-week fiscal year that ends on the last Friday of September. For fiscal years in which there are 53 weeks, the fourth quarter reporting period includes 14 weeks. Fiscal 2018, 2017, and 2016 ended on September 28, 2018, September 29, 2017, and September 30, 2016, respectively. Fiscal 2018 and 2017 were 52 weeks in length. Fiscal 2016 was a 53-week year.

**TE CONNECTIVITY LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. Summary of Significant Accounting Policies**

*Principles of Consolidation*

We consolidate entities in which we own or control more than 50% of the voting shares or otherwise have the ability to control through similar rights. All intercompany transactions have been eliminated. The results of companies acquired or disposed of are included on the Consolidated Financial Statements from the effective date of acquisition or up to the date of disposal.

*Revenue Recognition*

Our revenues are generated principally from the sale of our products. Revenue from the sale of products is recognized at the time title and the risks and rewards of ownership pass to the customer. This generally occurs when the products reach the shipping point, the sales price is fixed and determinable, and collection is reasonably assured.

We generally warrant that our products will conform to our, or mutually agreed to, specifications and that our products will be free from material defects in materials and workmanship for a limited time. We limit our warranty to the replacement or repair of defective parts, or a refund or credit of the price of the defective product. We accept returned goods only when the customer makes a verified claim and we have authorized the return. Generally, a reserve for estimated returns is established at the time of sale based on historical return experience and is recorded as a reduction of sales.

We provide certain distributors with an inventory allowance for returns or scrap equal to a percentage of qualified purchases. A reserve for estimated returns and scrap allowances is established at the time of the sale based on an agreed-upon, fixed percentage of sales to distributors and is recorded as a reduction of sales.

Other allowances include customer quantity and price discrepancies. A reserve for other allowances is generally established at the time of sale based on historical experience and is recorded as a reduction of sales. We believe we can reasonably and reliably estimate the amounts of future allowances.

See “Recently Issued Accounting Pronouncements” below for information regarding our adoption of Accounting Standards Codification (“ASC”) 606, *Revenue from Contracts with Customers*, in fiscal 2019.

*Inventories*

Inventories are recorded at the lower of cost or net realizable value using the first-in, first-out cost method.

*Property, Plant, and Equipment, Net*

Property, plant, and equipment is recorded at cost less accumulated depreciation. Maintenance and repair expenditures are charged to expense when incurred. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, which are 10 to 20 years for land improvements, 5 to 40 years for buildings and improvements, and 1 to 15 years for machinery and equipment.

We periodically evaluate, when events and circumstances warrant, the net realizable value of property, plant, and equipment and other long-lived assets, relying on a number of factors including

**TE CONNECTIVITY LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. Summary of Significant Accounting Policies (Continued)**

operating results, business plans, economic projections, and anticipated future cash flows. When indicators of potential impairment are present, the carrying values of the asset group are evaluated in relation to the operating performance and estimated future undiscounted cash flows of the underlying asset group. Impairment of the carrying value is recognized whenever anticipated future undiscounted cash flow estimates are less than the carrying value of the asset. Fair value estimates are based on assumptions concerning the amount and timing of estimated future cash flows and discount rates, reflecting varying degrees of perceived risk.

*Goodwill and Other Intangible Assets*

Intangible assets include both indeterminable-lived residual goodwill and determinable-lived identifiable intangible assets. Intangible assets with determinable lives primarily include intellectual property, consisting of patents, trademarks, and unpatented technology, and customer relationships. Recoverability estimates range from 1 to 50 years and costs are generally amortized on a straight-line basis. Evaluations of the remaining useful lives of determinable-lived intangible assets are performed on a periodic basis and when events and circumstances warrant.

At fiscal year end 2018, we had five reporting units, all of which contained goodwill. There were two reporting units in both the Transportation Solutions and Industrial Solutions segments and one reporting unit in the Communications Solutions segment. When changes occur in the composition of one or more reporting units, goodwill is reassigned to the reporting units affected based on their relative fair values.

Goodwill impairment is evaluated by comparing the carrying value of each reporting unit to its fair value on the first day of the fourth fiscal quarter of each year or whenever we believe a triggering event requiring a more frequent assessment has occurred. In assessing the existence of a triggering event, management relies on a number of reporting unit-specific factors including operating results, business plans, economic projections, anticipated future cash flows, transactions, and market place data. There are inherent uncertainties related to these factors and management's judgment in applying these factors to the impairment analysis.

When testing for goodwill impairment, we perform a step I goodwill impairment test to identify potential impairment by comparing the fair value of a reporting unit with its carrying amount. If the carrying amount of a reporting unit exceeds its fair value, goodwill may be impaired and a step II goodwill impairment test is performed to measure the amount of impairment, if any. In the step II goodwill impairment test, we compare the implied fair value of reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to the excess. The implied fair value of goodwill is determined in a manner consistent with how goodwill is recognized in a business combination. We allocate the fair value of a reporting unit to the assets and liabilities of that unit, including intangible assets, as if the reporting unit had been acquired in a business combination. Any excess of the fair value of a reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill.

Fair value estimates used in the step I goodwill impairment tests are calculated using an income approach based on the present value of future cash flows of each reporting unit. The income approach has been supported by guideline analyses (a market approach). These approaches incorporate a number of assumptions including future growth rates, discount rates, income tax rates, and market activity in



**TE CONNECTIVITY LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. Summary of Significant Accounting Policies (Continued)**

assessing fair value and are reporting unit specific. Changes in economic and operating conditions impacting these assumptions could result in goodwill impairments in future periods.

*Research and Development*

Research and development expenditures are expensed when incurred and are included in research, development, and engineering expenses on the Consolidated Statements of Operations. Research and development expenses include salaries, direct costs incurred, and building and overhead expenses. The amounts expensed in fiscal 2018, 2017, and 2016 were \$606 million, \$548 million, and \$525 million, respectively.

*Income Taxes*

Income taxes are computed in accordance with the provisions of ASC 740, *Income Taxes*. Deferred tax liabilities and assets are recognized for the expected future tax consequences of events that have been reflected on the Consolidated Financial Statements. Deferred tax liabilities and assets are determined based on the differences between the book and tax bases of particular assets and liabilities and operating loss carryforwards using tax rates in effect for the years in which the differences are expected to reverse. A valuation allowance is provided to offset deferred tax assets if, based upon the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

The calculation of our tax liabilities includes estimates for uncertainties in the application of complex tax regulations across multiple global jurisdictions where we conduct our operations. Under the uncertain tax position provisions of ASC 740, we recognize liabilities for tax and related interest for issues in tax jurisdictions based on our estimate of whether, and the extent to which, additional taxes and related interest will be due. These tax liabilities and related interest are reflected net of the impact of related tax loss carryforwards, as such tax loss carryforwards will be applied against these tax liabilities and will reduce the amount of cash tax payments due upon the eventual settlement with the tax authorities. These estimates may change due to changing facts and circumstances. Due to the complexity of these uncertainties, the ultimate resolution may result in a settlement that differs from our current estimate of the tax liabilities and related interest.

*Financial Instruments*

Our financial instruments consist primarily of cash and cash equivalents, accounts receivable, accounts payable, debt, and derivative financial instruments.

We account for derivative financial instrument contracts on the Consolidated Balance Sheets at fair value. For instruments not designated as hedges under ASC 815, *Derivatives and Hedging*, the changes in the instruments' fair value are recognized currently in earnings. For instruments designated as cash flow hedges, the effective portion of changes in the fair value of a derivative is recorded in other comprehensive income (loss) and reclassified into earnings in the same period or periods during which the underlying hedged item affects earnings. Ineffective portions of a cash flow hedge, including amounts excluded from the hedging relationship, are recognized currently in earnings. Changes in the fair value of instruments designated as fair value hedges affect the carrying value of the asset or liability hedged, with changes in both the derivative instrument and the hedged asset or liability being recognized currently in earnings.

**TE CONNECTIVITY LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. Summary of Significant Accounting Policies (Continued)**

We determine the fair value of our financial instruments by using methods and assumptions that are based on market conditions and risks existing at each balance sheet date. Standard market conventions are used to determine the fair value of financial instruments, including derivatives.

The cash flows related to derivative financial instruments are reported in the operating activities section of the Consolidated Statements of Cash Flows.

Our derivative financial instruments present certain market and counterparty risks. Concentration of counterparty risk is mitigated, however, by our use of financial institutions worldwide, substantially all of which have long-term Standard & Poor's, Moody's, and/or Fitch credit ratings of A/A2 or higher. In addition, we utilize only conventional derivative financial instruments. We are exposed to potential losses if a counterparty fails to perform according to the terms of its agreement. With respect to counterparty net asset positions recognized at fiscal year end 2018, we have assessed the likelihood of counterparty default as remote. We currently provide guarantees from a wholly-owned subsidiary to the counterparties to our commodity swap derivatives and exchange cash collateral with the counterparties to our cross-currency swap contracts. The likelihood of performance on the guarantees has been assessed as remote. For all other derivative financial instruments, we are not required to provide, nor do we require counterparties to provide, collateral or other security.

***Fair Value Measurements***

ASC 820, *Fair Value Measurements and Disclosures*, specifies a fair value hierarchy based upon the observable inputs utilized in valuation of certain assets and liabilities. Observable inputs (highest level) reflect market data obtained from independent sources, while unobservable inputs (lowest level) reflect internally developed market assumptions. Fair value measurements are classified under the following hierarchy:

- *Level 1.* Quoted prices in active markets for identical assets and liabilities.
- *Level 2.* Quoted prices in active markets for similar assets and liabilities, or other inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.
- *Level 3.* Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. This includes certain pricing models, discounted cash flows methodologies, and similar techniques that use significant unobservable inputs.

Derivative financial instruments measured at fair value on a recurring basis are generally valued using level 2 inputs.

Financial instruments other than derivative instruments include cash and cash equivalents, accounts receivable, accounts payable, and debt. These instruments are recorded on the Consolidated Balance Sheets at book value. For cash and cash equivalents, accounts receivable, and accounts payable, we believe book value approximates fair value due to the short-term nature of these instruments. See Note 11 for disclosure of the fair value of debt. The following is a description of the valuation methodologies used for the respective financial instruments:

- *Cash and cash equivalents.* Cash and cash equivalents are valued at book value, which we consider to be equivalent to unadjusted quoted prices (level 1).

**TE CONNECTIVITY LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. Summary of Significant Accounting Policies (Continued)**

- *Accounts receivable.* Accounts receivable are valued based on the net value expected to be realized. The net realizable value generally represents an observable contractual agreement (level 2).
- *Accounts payable.* Accounts payable are valued based on the net value expected to be paid, generally supported by an observable contractual agreement (level 2).
- *Debt.* The fair value of debt, including both current and non-current maturities, is derived from quoted market prices or other pricing determinations based on the results of market approach valuation models using observable market data such as recently reported trades, bid and offer information, and benchmark securities (level 2).

***Pension Liabilities***

The funded status of our defined benefit pension plans is recognized on the Consolidated Balance Sheets and is measured as the difference between the fair value of plan assets and the projected benefit obligation at the measurement date. The projected benefit obligation represents the actuarial present value of benefits projected to be paid upon retirement factoring in estimated future compensation levels. The fair value of plan assets represents the current market value of cumulative company and participant contributions made to irrevocable trust funds, held for the sole benefit of participants, which are invested by the trustee of the funds. The benefits under our defined benefit pension plans are based on various factors, such as years of service and compensation.

Net periodic pension benefit cost is based on the utilization of the projected unit credit method of calculation and is charged to earnings on a systematic basis over the expected average remaining service lives of current participants.

The measurement of benefit obligations and net periodic benefit cost is based on estimates and assumptions determined by our management. These valuations reflect the terms of the plans and use participant-specific information such as compensation, age, and years of service, as well as certain assumptions, including estimates of discount rates, expected return on plan assets, rate of compensation increases, interest crediting rates, and mortality rates.

***Share-Based Compensation***

We determine the fair value of share awards on the date of grant. Share options are valued using the Black-Scholes-Merton valuation model; restricted share awards and performance awards are valued using our end-of-day share price on the date of grant. The fair value is expensed ratably over the expected service period, with an allowance made for estimated forfeitures based on historical employee activity. Estimates regarding the attainment of performance criteria are reviewed periodically; the cumulative impact of a change in estimate regarding the attainment of performance criteria is recorded in the period in which that change is made.

***Earnings Per Share***

Basic earnings per share is computed by dividing net income by the basic weighted-average number of common shares outstanding. Diluted earnings per share is computed by dividing net income by the weighted-average number of common shares outstanding adjusted for the potentially dilutive impact of share-based compensation arrangements.

**TE CONNECTIVITY LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. Summary of Significant Accounting Policies (Continued)**

*Currency Translation*

For our non-U.S. dollar functional currency subsidiaries, assets and liabilities are translated into U.S. dollars using fiscal year end exchange rates. Sales and expenses are translated at average monthly exchange rates. Foreign currency translation gains and losses are included as a component of accumulated other comprehensive income (loss) within equity.

Gains and losses resulting from foreign currency transactions, which are included in earnings, were immaterial in fiscal 2018, 2017, and 2016.

*Restructuring Charges*

Restructuring activities involve employee-related termination costs, facility exit costs, and asset impairments resulting from reductions-in-force, migration of facilities or product lines from higher-cost to lower-cost countries, or consolidation of facilities within countries. We recognize termination costs based on requirements established by severance policy, government law, or previous actions. Facility exit costs generally reflect the cost to terminate a facility lease before the end of its term (measured at fair value at the time we cease using the facility) or costs that will continue to be incurred under the facility lease without future economic benefit to us. Restructuring activities often result in the disposal or abandonment of assets that require an acceleration of depreciation or impairment reflecting the excess of the assets' carrying values over fair value.

The recognition of restructuring costs require that we make certain judgments and estimates regarding the nature, timing, and amount of costs associated with the planned exit activity. To the extent our actual results differ from our estimates and assumptions, we may be required to revise the estimated liabilities, requiring the recognition of additional restructuring costs or the reduction of liabilities already recognized. At the end of each reporting period, we evaluate the remaining accrued balances to ensure these balances are properly stated and the utilization of the reserves are for their intended purpose in accordance with developed exit plans.

*Contingent Liabilities*

We record a loss contingency when the available information indicates it is probable that we have incurred a liability and the amount of the loss is reasonably estimable. When a range of possible losses with equal likelihood exists, we record the low end of the range. The likelihood of a loss with respect to a particular contingency is often difficult to predict, and determining a meaningful estimate of the loss or a range of loss may not be practicable based on information available. In addition, it is not uncommon for such matters to be resolved over many years, during which time relevant developments and new information must continuously be evaluated to determine whether a loss is probable and a reasonable estimate of that loss can be made. When a loss is probable but a reasonable estimate cannot be made, or when a loss is at least reasonably possible, disclosure is provided.

*Recently Issued Accounting Pronouncements*

In October 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-16, an update to ASC 740, *Income Taxes*. This new guidance requires the recognition of the income tax consequences of intra-entity transfers of assets other than inventory in the period in which the transfer occurs. The update, which we will adopt on a modified

**TE CONNECTIVITY LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. Summary of Significant Accounting Policies (Continued)**

retrospective basis, is effective for us in the first quarter of fiscal 2019. Adoption is expected to result in a \$443 million cumulative-effect adjustment to beginning accumulated earnings, which represents the net reversal of all balances associated with deferred tax impacts of intra-entity transfers of assets other than inventory. This will result in a decrease in other assets of \$798 million, an increase in deferred tax assets of \$418 million, and a decrease in prepaid expenses and other current assets of \$63 million on the Consolidated Balance Sheet.

In February 2016, the FASB issued ASU No. 2016-02 which codified ASC 842, *Leases*. This guidance, as subsequently amended, requires lessees to recognize a lease liability and a right-of-use asset for most leases and is effective for us in the first quarter of fiscal 2020. We are currently in the process of updating policies, internal controls, financial statement disclosures, and systems to incorporate the impact of the new standard in our financial reporting processes. We intend to adopt the standard using the modified retrospective approach in the period of adoption, as permitted by ASU No. 2018-11. We expect that adoption will likely have a material impact to our Consolidated Balance Sheet; however, we currently do not expect adoption to have a material impact to our results of operations or cash flows. We believe that we are following an appropriate timeline to adopt the new standard in the first quarter of fiscal 2020.

In May 2014, the FASB issued ASU No. 2014-09 which codified ASC 606, *Revenue from Contracts with Customers*. This guidance supersedes ASC 605, *Revenue Recognition*, and introduces a single, comprehensive, five-step revenue recognition model. ASC 606 also enhances disclosures related to revenue recognition. ASC 606, as amended, is effective for us beginning in fiscal 2019. Significantly all our revenues are generated from the sale of products. Our Subsea Communications (“SubCom”) business, which is reported in discontinued operations, generates contract revenues for construction related projects which are recorded primarily using the percentage-of-completion method. Our review of existing contracts, which is complete, affirms that product revenue and contract revenue will continue to be recognized at a point in time and over-time, respectively, in a manner consistent with current practice. See Notes 4 and 23 for additional information regarding our SubCom business. In fiscal 2018, we completed the process of updating policies, internal controls, financial statement disclosures, and systems to incorporate the impact of the new standard in our financial reporting processes. We will adopt the new standard using the modified retrospective approach and have determined that transition impacts, which relate primarily to incentive compensation arrangements, are not material to our results of operations or financial position.

***Recently Adopted Accounting Pronouncements***

In February 2018, the FASB issued ASU No. 2018-02, an update to ASC 220, *Income Statement—Reporting Comprehensive Income*, to allow a reclassification from accumulated other comprehensive income (loss) for stranded tax effects resulting from the Tax Cuts and Jobs Act (the “Act”). See Note 15 for additional information regarding the Act. We elected to early adopt this update in fiscal 2018 and reclassify the stranded tax effects resulting from the change in the U.S. federal corporate income tax rate. This change in accounting principle resulted in a reclassification of \$38 million, primarily associated with our pension plans, during the period of adoption. The reclassification increased both accumulated other comprehensive loss and accumulated earnings on the Consolidated Balance Sheet with no impact to total shareholders’ equity.

**TE CONNECTIVITY LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. Summary of Significant Accounting Policies (Continued)**

In March 2017, the FASB issued ASU No. 2017-07, an update to ASC 715, *Compensation—Retirement Benefits*, which changes the income statement presentation of net periodic pension and postretirement benefit costs. The ASU requires that service costs be presented with other employee compensation costs within operating income and that other cost components be presented outside of operating income. We elected to early adopt this update in fiscal 2018. The update was applied retrospectively and did not have a material impact on our Consolidated Statements of Operations.

In March 2016, the FASB issued ASU No. 2016-09, an update to ASC 718, *Compensation—Stock Compensation*, to simplify various aspects of accounting for share-based payments to employees. We elected to early adopt this update in fiscal 2017. The provisions of the update addressing the accounting for excess tax benefits and deficiencies were adopted using a modified retrospective transition approach, with a cumulative-effect adjustment to beginning accumulated earnings and a corresponding increase in deferred tax assets of \$165 million. The provision of the update addressing the presentation on the statement of cash flows of employee taxes paid via the withholding of shares was applied retrospectively and did not have a material impact on our Consolidated Financial Statements. Adoption of other provisions, which were applied prospectively, also did not have a material impact on our Consolidated Financial Statements.

**3. Restructuring and Other Charges (Credits), Net**

Net restructuring and other charges (credits) consisted of the following:

	Fiscal		
	2018	2017	2016
	(in millions)		
Restructuring charges, net . . . . .	\$140	\$ 146	\$121
Gain on divestiture . . . . .	(2)	—	(144)
Other charges (credits), net . . . . .	(12)	1	21
	<u>\$126</u>	<u>\$ 147</u>	<u>\$ (2)</u>

**Restructuring Charges, Net**

Net restructuring charges by segment were as follows:

	Fiscal		
	2018	2017	2016
	(in millions)		
Transportation Solutions . . . . .	\$ 42	\$ 69	\$ 39
Industrial Solutions . . . . .	83	73	28
Communications Solutions . . . . .	15	4	54
Restructuring charges, net . . . . .	<u>\$140</u>	<u>\$146</u>	<u>\$121</u>

**TE CONNECTIVITY LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**3. Restructuring and Other Charges (Credits), Net (Continued)**

Activity in our restructuring reserves was as follows:

	Balance at Beginning of Fiscal Year	Charges	Changes in Estimate	Cash Payments	Non-Cash Items	Currency Translation	Balance at End of Fiscal Year
	(in millions)						
<b>Fiscal 2018 Activity:</b>							
Fiscal 2018 Actions:							
Employee severance . . . . .	\$ —	\$130	\$ —	\$ (16)	\$ —	\$—	\$114
Facility and other exit costs . . . . .	—	6	—	(2)	—	—	4
Property, plant, and equipment . . . . .	—	6	—	—	(6)	—	—
Total . . . . .	<u>—</u>	<u>142</u>	<u>—</u>	<u>(18)</u>	<u>(6)</u>	<u>—</u>	<u>118</u>
Fiscal 2017 Actions:							
Employee severance . . . . .	102	5	(10)	(60)	—	(1)	36
Facility and other exit costs . . . . .	1	2	—	(3)	—	—	—
Property, plant, and equipment . . . . .	—	1	(2)	2	(1)	—	—
Total . . . . .	<u>103</u>	<u>8</u>	<u>(12)</u>	<u>(61)</u>	<u>(1)</u>	<u>(1)</u>	<u>36</u>
Fiscal 2016 Actions:							
Employee severance . . . . .	26	7	(7)	(14)	—	—	12
Facility and other exit costs . . . . .	—	4	—	(4)	—	—	—
Property, plant, and equipment . . . . .	—	1	(3)	3	(1)	—	—
Total . . . . .	<u>26</u>	<u>12</u>	<u>(10)</u>	<u>(15)</u>	<u>(1)</u>	<u>—</u>	<u>12</u>
Pre-Fiscal 2016 Actions:							
Employee severance . . . . .	9	—	(2)	(5)	—	(1)	1
Facility and other exit costs . . . . .	—	2	—	(1)	—	(1)	—
Total . . . . .	<u>9</u>	<u>2</u>	<u>(2)</u>	<u>(6)</u>	<u>—</u>	<u>(2)</u>	<u>1</u>
Total fiscal 2018 activity . . . . .	<u>\$138</u>	<u>\$164</u>	<u>\$(24)</u>	<u>\$(100)</u>	<u>\$ (8)</u>	<u>\$(3)</u>	<u>\$167</u>
<b>Fiscal 2017 Activity:</b>							
Fiscal 2017 Actions:							
Employee severance . . . . .	\$ —	\$141	\$ (5)	\$ (39)	\$ —	\$ 5	\$102
Facility and other exit costs . . . . .	—	2	—	(1)	—	—	1
Property, plant, and equipment . . . . .	—	9	—	—	(9)	—	—
Total . . . . .	<u>—</u>	<u>152</u>	<u>(5)</u>	<u>(40)</u>	<u>(9)</u>	<u>5</u>	<u>103</u>
Fiscal 2016 Actions:							
Employee severance . . . . .	53	8	(9)	(26)	—	—	26
Facility and other exit costs . . . . .	—	3	—	(3)	—	—	—
Total . . . . .	<u>53</u>	<u>11</u>	<u>(9)</u>	<u>(29)</u>	<u>—</u>	<u>—</u>	<u>26</u>
Pre-Fiscal 2016 Actions:							
Employee severance . . . . .	23	—	(4)	(7)	—	(3)	9
Facility and other exit costs . . . . .	1	1	—	(2)	—	—	—
Total . . . . .	<u>24</u>	<u>1</u>	<u>(4)</u>	<u>(9)</u>	<u>—</u>	<u>(3)</u>	<u>9</u>
Total fiscal 2017 activity . . . . .	<u>\$ 77</u>	<u>\$164</u>	<u>\$(18)</u>	<u>\$( 78)</u>	<u>\$ (9)</u>	<u>\$ 2</u>	<u>\$138</u>



**TE CONNECTIVITY LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**3. Restructuring and Other Charges (Credits), Net (Continued)**

	Balance at Beginning of Fiscal Year	Charges	Changes in Estimate	Cash Payments	Non-Cash Items	Currency Translation	Balance at End of Fiscal Year
	(in millions)						
<b>Fiscal 2016 Activity:</b>							
Fiscal 2016 Actions:							
Employee severance . . . . .	\$ —	\$ 84	\$ —	\$ (32)	\$ —	\$ 1	\$ 53
Facility and other exit costs . . . . .	—	2	—	(2)	—	—	—
Property, plant, and equipment . . . . .	—	41	—	—	(41)	—	—
Total . . . . .	—	127	—	(34)	(41)	1	53
Pre-Fiscal 2016 Actions:							
Employee severance . . . . .	68	2	(10)	(39)	—	2	23
Facility and other exit costs . . . . .	1	2	—	(2)	—	—	1
Total . . . . .	69	4	(10)	(41)	—	2	24
Total fiscal 2016 activity . . . . .	\$ 69	\$131	\$(10)	\$ (75)	\$(41)	\$ 3	\$ 77

***Fiscal 2018 Actions***

During fiscal 2018, we initiated a restructuring program associated with footprint consolidation and structural improvements primarily impacting the Industrial Solutions and Transportation Solutions segments. In connection with this program, during fiscal 2018, we recorded restructuring charges of \$142 million. We expect to complete all restructuring actions commenced during fiscal 2018 by the end of fiscal 2020 and to incur additional charges of approximately \$15 million primarily in the Industrial Solutions segment.

***Fiscal 2017 Actions***

During fiscal 2017, we initiated a restructuring program associated with footprint consolidation related to recent acquisitions and structural improvements impacting all segments. In connection with this program, during fiscal 2018 and 2017, we recorded net restructuring credits of \$4 million and charges of \$147 million, respectively. We expect to complete all restructuring actions commenced during fiscal 2017 by the end of fiscal 2019 and anticipate that any additional charges will be insignificant.

***Fiscal 2016 Actions***

During fiscal 2016, we initiated a restructuring program associated with headcount reductions impacting all segments and product line closures in the Communications Solutions segment. In connection with this program, during fiscal 2018, 2017, and 2016, we recorded net restructuring charges of \$2 million, \$2 million, and \$127 million, respectively. We expect to complete all restructuring actions commenced during fiscal 2016 by the end of fiscal 2019 and to incur additional employee severance charges of approximately \$10 million primarily in the Communications Solutions segment.

**TE CONNECTIVITY LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**3. Restructuring and Other Charges (Credits), Net (Continued)**

*Pre-Fiscal 2016 Actions*

During fiscal 2017 and 2016, we recorded net restructuring credits of \$3 million and \$6 million, respectively, related to pre-fiscal 2016 actions. We do not expect to incur any additional charges related to pre-fiscal 2016 actions.

*Total Restructuring Reserves*

Restructuring reserves included on the Consolidated Balance Sheets were as follows:

	Fiscal Year End	
	2018	2017
	(in millions)	
Accrued and other current liabilities . . . . .	\$141	\$127
Other liabilities . . . . .	26	11
Restructuring reserves . . . . .	\$167	\$138

**Gain on Divestiture**

During fiscal 2016, we sold our Circuit Protection Devices (“CPD”) business for net cash proceeds of \$333 million. We recognized a pre-tax gain of \$144 million on the transaction. The CPD business was reported in our Communications Solutions segment.

**4. Discontinued Operations**

On September 16, 2018, we entered into a definitive agreement to sell our Subsea Communications (“SubCom”) business for \$325 million, subject to a final working capital adjustment. The agreement provides that, if the purchaser sells the business within two years of the closing date, we will be entitled to 20% of the net proceeds of that future sale, as defined in the agreement, in excess of \$325 million. The sale of the SubCom business, which was previously included in our Communications Solutions segment, represents our exit from the telecommunications market and is significant to our sales and profitability, both to the Communications Solutions segment and to the consolidated company. We have concluded that the divestiture is a strategic shift that will have a major effect on our operations and financial results. As a result, the SubCom business met the held for sale and discontinued operations criteria and was reported as a discontinued operation on our Consolidated Financial Statements for all periods presented.

Upon entering into the definitive agreement, which we consider a level 2 observable input in the fair value hierarchy, we assessed the carrying value of the SubCom business and determined that it was in excess of its fair value. In fiscal 2018, we recorded a pre-tax impairment charge of \$19 million, which is included in income (loss) from discontinued operations on the Consolidated Statement of Operations, to write the carrying value of the business down to its estimated fair value less costs to sell. We expect to incur a pre-tax loss on sale of approximately \$90 million, related primarily to the recognition of cumulative translation adjustment losses and the guarantee liabilities discussed below, which will be presented in income (loss) from discontinued operations on the Consolidated Statement of Operations. See Note 23 for additional information regarding the divestiture.

**TE CONNECTIVITY LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**4. Discontinued Operations (Continued)**

Following the divestiture, we will continue to honor performance guarantees and letters of credit related to the SubCom business' existing projects. These existing guarantees have a combined value of approximately \$1.7 billion and are expected to expire at various dates through fiscal 2025; however, the majority are expected to expire within two years. Also, under the terms of the definitive agreement, we are required to issue up to \$300 million of new performance guarantees, subject to certain limitations, for projects entered into by the SubCom business following the sale for a period of up to three years. We have contractual recourse against the SubCom business if we are required to perform on these guarantees; however, based on historical experience, we do not anticipate having to perform.

The SubCom business generates contract revenues for construction related projects which are recorded primarily using the percentage-of-completion method. Profits recognized on contracts in process are based upon estimated contract revenue and related cost to complete. Percentage-of-completion is measured based on the ratio of actual costs incurred to total estimated costs. Revisions in cost estimates as contracts progress have the effect of increasing or decreasing profits in the current period. Provisions for anticipated losses are made in the period in which they first become determinable. In addition, provisions for credit losses related to unbilled receivables on construction related projects are recorded as reductions of revenue in the period in which they first become determinable.

The following table presents the summarized components of income (loss) from discontinued operations, net of income taxes, for the SubCom business and prior divestitures:

	<b>Fiscal</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
	<b>(in millions)</b>		
Net sales . . . . .	\$702	\$928	\$886
Cost of sales . . . . .	<u>602</u>	<u>653</u>	<u>666</u>
Gross margin . . . . .	100	275	220
Selling, general, and administrative expenses <sup>(1)</sup> . . . . .	48	50	13
Research, development, and engineering expenses . . . . .	39	40	34
Restructuring and other charges (credits), net <sup>(2)</sup> . . . . .	<u>30</u>	<u>(3)</u>	<u>3</u>
Operating income (loss) . . . . .	(17)	188	170
Non-operating income, net <sup>(3)</sup> . . . . .	<u>—</u>	<u>22</u>	<u>—</u>
Pre-tax income (loss) from discontinued operations . . . . .	(17)	210	170
Pre-tax gain (loss) on sale of discontinued operations <sup>(4)</sup> . . . . .	(2)	3	29
Income tax (expense) benefit . . . . .	<u>—</u>	<u>(70)</u>	<u>(37)</u>
Income (loss) from discontinued operations, net of income taxes . . . . .	<u>\$ (19)</u>	<u>\$ 143</u>	<u>\$ 162</u>

(1) Fiscal 2016 included \$30 million of credits related to the settlement of the Com-Net case as discussed below.

(2) Fiscal 2018 included a \$19 million impairment charge recorded in connection with the sale of our SubCom business.

(3) Fiscal 2017 included a \$19 million credit related to the SubCom business' curtailment of a postretirement benefit plan.

**TE CONNECTIVITY LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**4. Discontinued Operations (Continued)**

- (4) Fiscal 2016 included a gain of \$29 million on the fiscal 2015 divestiture of our Broadband Network Solutions (“BNS”) business as discussed below.

The following table presents balance sheet information for assets and liabilities held for sale:

	<u>Fiscal Year End</u>	
	<u>2018</u>	<u>2017</u>
	(in millions)	
Accounts receivable, net . . . . .	\$ 72	\$152
Inventories . . . . .	130	166
Other current assets . . . . .	32	27
Property, plant, and equipment, net <sup>(1)</sup> . . . . .	221	241
Other assets . . . . .	17	16
Total assets held for sale <sup>(2)</sup> . . . . .	<u>\$472</u>	<u>\$602</u>
Accounts payable . . . . .	\$ 63	\$ 50
Accrued and other current liabilities . . . . .	26	39
Deferred revenue . . . . .	60	48
Other liabilities . . . . .	39	43
Total liabilities held for sale <sup>(2)</sup> . . . . .	<u>\$188</u>	<u>\$180</u>

(1) Fiscal year end 2018 included a reduction of \$19 million related to the impairment charge recorded in connection with the sale of our SubCom business.

(2) Assets and liabilities held for sale at fiscal year end 2017 were classified as both current and noncurrent on the Consolidated Balance Sheet.

During fiscal 2016, we settled a lawsuit with the former shareholders of Com-Net, which we acquired in fiscal 2001, and paid an aggregate amount of \$96 million. In connection with the settlement, we recorded pre-tax credits of \$30 million, representing a release of excess reserves, during fiscal 2016. This amount was reflected in income (loss) from discontinued operations on the Consolidated Statement of Operations as the Com-Net case was associated with our former Wireless Systems business which was sold in fiscal 2009. Also during fiscal 2016, we recognized an additional pre-tax gain of \$29 million on the fiscal 2015 divestiture of our BNS business, related primarily to pension and net working capital adjustments.

The Wireless Systems and BNS businesses met the held for sale and discontinued operations criteria and were reported as such in all periods presented on the Consolidated Financial Statements. Prior to reclassification to discontinued operations, the Wireless Systems and BNS businesses were included in the former Wireless Systems and Network Solutions segments, respectively.

**5. Acquisitions**

*Fiscal 2018 Acquisitions*

During fiscal 2018, we acquired two businesses for a combined cash purchase price of \$153 million, net of cash acquired. The acquisitions were reported as part of our Industrial Solutions segment from the date of acquisition.

**TE CONNECTIVITY LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**5. Acquisitions (Continued)**

*Fiscal 2017 Acquisitions*

During fiscal 2017, we acquired two businesses for a combined cash purchase price of \$250 million, net of cash acquired. The acquisitions were reported as part of our Transportation Solutions and Industrial Solutions segments from the date of acquisition.

*Fiscal 2016 Acquisitions*

In fiscal 2016, we acquired four businesses, including the Creganna Medical group, for a combined cash purchase price of \$1.3 billion, net of cash acquired. The acquisitions were reported as part of our Industrial Solutions and Transportation Solutions segments from the date of acquisition.

The following table summarizes the allocation of the purchase price to the fair value of identifiable assets acquired and liabilities assumed at the date of acquisition, in accordance with the acquisition method of accounting:

	<u>(in millions)</u>
Cash and cash equivalents . . . . .	\$ 77
Other current assets . . . . .	97
Goodwill . . . . .	802
Intangible assets . . . . .	530
Other non-current assets . . . . .	73
Total assets acquired . . . . .	1,579
Current liabilities . . . . .	46
Deferred income taxes . . . . .	100
Other non-current liabilities . . . . .	20
Total liabilities assumed . . . . .	166
Net assets acquired . . . . .	1,413
Cash and cash equivalents acquired . . . . .	(77)
Net cash paid . . . . .	\$1,336

The fair values assigned to intangible assets were determined using the income approach, specifically the relief from royalty and the multi-period excess earnings methods. Both valuation methods rely on management judgment, including expected future cash flows resulting from existing customer relationships, customer attrition rates, contributory effects of other assets utilized in the business, peer group cost of capital and royalty rates, and other factors. Useful lives for intangible assets were determined based upon the remaining useful economic lives of the intangible assets that are expected to contribute directly or indirectly to future cash flows.

**TE CONNECTIVITY LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**5. Acquisitions (Continued)**

Acquired intangible assets consisted of the following:

	<u>Amount</u> (in millions)	<u>Weighted-Average Amortization Period</u> (in years)
Customer relationships . . . . .	\$300	18
Developed technology . . . . .	170	11
Trade names and trademarks . . . . .	45	25
Customer order backlog . . . . .	<u>15</u>	3
Total . . . . .	<u>\$530</u>	16

The acquired intangible assets are being amortized on a straight-line basis over their expected useful lives.

Goodwill of \$802 million was recognized in these transactions, representing the excess of the purchase price over the fair value of the tangible and intangible assets acquired and liabilities assumed. This goodwill is attributable primarily to cost savings and other synergies related to operational efficiencies including the consolidation of manufacturing, marketing, and general and administrative functions. The goodwill has been allocated to the Industrial Solutions and Transportation Solutions segments and is not deductible for tax purposes. However, prior to being acquired by us, one of the fiscal 2016 acquisitions completed certain acquisitions that resulted in goodwill with an estimated value of \$15 million that is deductible primarily for U.S. tax purposes, which we will deduct through 2025.

Fiscal 2016 acquisitions contributed net sales of \$167 million and operating income of \$8 million to our Consolidated Statement of Operations during fiscal 2016. The operating income included \$10 million of acquisition costs, \$7 million associated with the amortization of acquisition-related fair value adjustments related to acquired inventories and customer order backlog, and \$2 million of integration costs.

The following unaudited pro forma financial information reflects our consolidated results of operations had the fiscal 2016 acquisitions occurred at the beginning of fiscal 2015:

	<u>Fiscal</u> <u>2016</u> (in millions, except per share data)
Net sales . . . . .	\$11,585
Net income . . . . .	2,038
Diluted earnings per share . . . . .	\$ 5.52

The pro forma adjustments, which were not significant, included interest expense based on pro forma changes in our combined capital structure, charges related to acquired customer order backlog, charges related to the amortization of the fair value of acquired intangible assets, charges related to the fair value adjustment to acquisition-date inventories, and acquisition and other costs, and the related tax effects.

Pro forma results do not include any anticipated synergies or other anticipated benefits of these acquisitions. Accordingly, the unaudited pro forma financial information is not necessarily indicative of

**TE CONNECTIVITY LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**5. Acquisitions (Continued)**

either future results of operations or results that might have been achieved had these acquisitions occurred at the beginning of the preceding fiscal years.

**6. Inventories**

Inventories consisted of the following:

	<b>Fiscal Year End</b>	
	<b>2018</b>	<b>2017</b>
	(in millions)	
Raw materials . . . . .	\$ 276	\$ 271
Work in progress . . . . .	656	570
Finished goods . . . . .	925	806
Inventories . . . . .	<u>\$1,857</u>	<u>\$1,647</u>

**7. Property, Plant, and Equipment, Net**

Net property, plant, and equipment consisted of the following:

	<b>Fiscal Year End</b>	
	<b>2018</b>	<b>2017</b>
	(in millions)	
Land and improvements . . . . .	\$ 171	\$ 174
Buildings and improvements . . . . .	1,379	1,324
Machinery and equipment . . . . .	7,124	6,757
Construction in process . . . . .	724	683
Gross property, plant, and equipment . . . . .	9,398	8,938
Accumulated depreciation . . . . .	<u>(5,901)</u>	<u>(5,779)</u>
Property, plant, and equipment, net . . . . .	<u>\$ 3,497</u>	<u>\$ 3,159</u>

Depreciation expense was \$487 million, \$442 million, and \$411 million in fiscal 2018, 2017, and 2016, respectively.



**TE CONNECTIVITY LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**8. Goodwill**

The changes in the carrying amount of goodwill by segment were as follows:

	<u>Transportation Solutions</u>	<u>Industrial Solutions</u>	<u>Communications Solutions</u>	<u>Total</u>
	(in millions)			
Fiscal year end 2016 <sup>(1)</sup> . . . . .	\$1,903	\$3,005	\$584	\$5,492
Acquisitions . . . . .	82	14	—	96
Currency translation . . . . .	26	28	9	63
Fiscal year end 2017 <sup>(1)</sup> . . . . .	2,011	3,047	593	5,651
Acquisitions . . . . .	—	78	—	78
Currency translation . . . . .	(18)	(21)	(6)	(45)
Fiscal year end 2018 <sup>(1)</sup> . . . . .	<u>\$1,993</u>	<u>\$3,104</u>	<u>\$587</u>	<u>\$5,684</u>

(1) At fiscal year end 2018, 2017, and 2016, accumulated impairment losses for the Transportation Solutions, Industrial Solutions, and Communications Solutions segments were \$2,191 million, \$669 million, and \$489 million, respectively.

During fiscal 2018, we recognized goodwill of \$78 million in the Industrial Solutions segment due primarily to recent acquisitions. During fiscal 2017, we acquired two businesses and recognized goodwill of \$130 million, which benefitted the Transportation Solutions and Industrial Solutions segments. Also in fiscal 2017, we finalized the purchase price allocation of our fiscal 2016 acquisitions, and the associated goodwill was reduced by \$34 million. This reduction, which was primarily within the Industrial Solutions segment, is reflected in fiscal 2017 acquisitions in the above table. See Note 5 for additional information regarding acquisitions.

We completed our annual goodwill impairment test in the fourth quarter of fiscal 2018 and determined that no impairment existed.

**9. Intangible Assets, Net**

Intangible assets consisted of the following:

	Fiscal Year End					
	2018			2017		
	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Amount</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Amount</u>
	(in millions)					
Customer relationships . . . . .	\$1,468	\$ (389)	\$1,079	\$1,433	\$(300)	\$1,133
Intellectual property . . . . .	1,261	(653)	608	1,262	(574)	688
Other . . . . .	33	(16)	17	36	(16)	20
Total . . . . .	<u>\$2,762</u>	<u>\$(1,058)</u>	<u>\$1,704</u>	<u>\$2,731</u>	<u>\$(890)</u>	<u>\$1,841</u>

**TE CONNECTIVITY LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**9. Intangible Assets, Net (Continued)**

Intangible asset amortization expense was \$180 million, \$169 million, and \$149 million for fiscal 2018, 2017, and 2016, respectively. At fiscal year end 2018, the aggregate amortization expense on intangible assets is expected to be as follows:

	<u>(in millions)</u>
Fiscal 2019 .....	\$ 184
Fiscal 2020 .....	176
Fiscal 2021 .....	173
Fiscal 2022 .....	173
Fiscal 2023 .....	172
Thereafter .....	<u>826</u>
Total .....	<u>\$1,704</u>

**10. Accrued and Other Current Liabilities**

Accrued and other current liabilities consisted of the following:

	<u>Fiscal Year End</u>	
	<u>2018</u>	<u>2017</u>
	<u>(in millions)</u>	
Accrued payroll and employee benefits .....	\$ 565	\$ 577
Dividends payable to shareholders .....	303	281
Income taxes payable .....	109	121
Restructuring reserves .....	141	127
Share repurchase program payable .....	94	7
Interest payable .....	34	58
Deferred revenue .....	27	27
Other .....	<u>438</u>	<u>415</u>
Accrued and other current liabilities .....	<u>\$1,711</u>	<u>\$1,613</u>

**TE CONNECTIVITY LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**11. Debt**

Debt was as follows:

	Fiscal Year End	
	2018	2017
	(in millions)	
Commercial paper, at a weighted-average interest rate of 2.35% at fiscal year end 2018 . . . . .	\$ 270	\$ —
6.55% senior notes due 2017 . . . . .	—	708
2.375% senior notes due 2018 . . . . .	325	325
2.35% senior notes due 2019 . . . . .	250	250
4.875% senior notes due 2021 . . . . .	250	250
3.50% senior notes due 2022 . . . . .	500	500
1.10% euro-denominated senior notes due 2023 . . . . .	639	650
3.45% senior notes due 2024 . . . . .	350	350
3.70% senior notes due 2026 . . . . .	350	350
3.125% senior notes due 2027 . . . . .	400	400
7.125% senior notes due 2037 . . . . .	477	477
Other . . . . .	210	96
Total principal debt . . . . .	4,021	4,356
Unamortized discounts and debt issuance costs . . . . .	(21)	(26)
Effects of fair value hedge-designated interest rate swap contracts . . . . .	—	14
Total debt . . . . .	\$4,000	\$4,344

Tyco Electronics Group S.A. (“TEGSA”), our 100%-owned subsidiary, has a five-year unsecured senior revolving credit facility (“Credit Facility”) with a maturity date of December 2020 and total commitments of \$1,500 million. TEGSA had no borrowings under the Credit Facility at fiscal year end 2018 or 2017.

Borrowings under the Credit Facility bear interest at a rate per annum equal to, at the option of TEGSA, (1) LIBOR plus an applicable margin based upon the senior, unsecured, long-term debt rating of TEGSA, or (2) an alternate base rate equal to the highest of (i) Bank of America, N.A.’s base rate, (ii) the federal funds effective rate plus ½ of 1%, and (iii) one-month LIBOR plus 1%, plus, in each case, an applicable margin based upon the senior, unsecured, long-term debt rating of TEGSA. TEGSA is required to pay an annual facility fee ranging from 5.0 to 12.5 basis points based upon the amount of the lenders’ commitments under the Credit Facility and the applicable credit ratings of TEGSA.

The Credit Facility contains a financial ratio covenant providing that if, as of the last day of each fiscal quarter, our ratio of Consolidated Total Debt to Consolidated EBITDA (as defined in the Credit Facility) for the then most recently concluded period of four consecutive fiscal quarters exceeds 3.75 to 1.0, an Event of Default (as defined in the Credit Facility) is triggered. The Credit Facility and our other debt agreements contain other customary covenants.

Periodically, TEGSA issues commercial paper to U.S. institutional accredited investors and qualified institutional buyers in accordance with available exemptions from the registration requirements of the Securities Act of 1933 as part of our ongoing effort to maintain financial flexibility

**TE CONNECTIVITY LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**11. Debt (Continued)**

and to potentially decrease the cost of borrowings. Borrowings under the commercial paper program are backed by the Credit Facility.

TEGSA's payment obligations under its senior notes, commercial paper, and Credit Facility are fully and unconditionally guaranteed by its parent, TE Connectivity Ltd.

At fiscal year end 2018, principal payments required for debt are as follows:

	<u>(in millions)</u>
Fiscal 2019 .....	\$ 963
Fiscal 2020 .....	—
Fiscal 2021 .....	252
Fiscal 2022 .....	501
Fiscal 2023 .....	639
Thereafter .....	1,666
Total .....	<u>\$4,021</u>

The fair value of our debt, based on indicative valuations, was approximately \$4,149 million and \$4,622 million at fiscal year end 2018 and 2017, respectively.

**12. Commitments and Contingencies**

*Legal Proceedings*

In the normal course of business, we are subject to various legal proceedings and claims, including patent infringement claims, product liability matters, employment disputes, disputes on agreements, other commercial disputes, environmental matters, antitrust claims, and tax matters, including non-income tax matters such as value added tax, sales and use tax, real estate tax, and transfer tax. Although it is not feasible to predict the outcome of these proceedings, based upon our experience, current information, and applicable law, we do not expect that the outcome of these proceedings, either individually or in the aggregate, will have a material effect on our results of operations, financial position, or cash flows.

*Environmental Matters*

We are involved in various stages of investigation and cleanup related to environmental remediation matters at a number of sites. The ultimate cost of site cleanup is difficult to predict given the uncertainties regarding the extent of the required cleanup, the interpretation of applicable laws and regulations, and alternative cleanup methods. As of fiscal year end 2018, we concluded that we would incur investigation and remediation costs at these sites in the reasonably possible range of \$15 million to \$42 million, and we accrued \$17 million as the probable loss, which was the best estimate within this range. We believe that any potential payment of such estimated amounts will not have a material adverse effect on our results of operations, financial position, or cash flows.

*Leases*

We have facility, land, vehicle, and equipment leases that expire at various dates. Rental expense under these operating leases was \$141 million, \$147 million, and \$137 million for fiscal 2018, 2017, and

**TE CONNECTIVITY LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**12. Commitments and Contingencies (Continued)**

2016, respectively. At fiscal year end 2018, future minimum lease payments under non-cancelable operating lease obligations were as follows:

	<u>(in millions)</u>
Fiscal 2019 .....	\$ 97
Fiscal 2020 .....	76
Fiscal 2021 .....	62
Fiscal 2022 .....	48
Fiscal 2023 .....	38
Thereafter .....	<u>82</u>
Total .....	<u>\$403</u>

***Guarantees***

In disposing of assets or businesses, we often provide representations, warranties, and/or indemnities to cover various risks including unknown damage to assets, environmental risks involved in the sale of real estate, liability for investigation and remediation of environmental contamination at waste disposal sites and manufacturing facilities, and unidentified tax liabilities and legal fees related to periods prior to disposition. We do not expect that these uncertainties will have a material adverse effect on our results of operations, financial position, or cash flows.

At fiscal year end 2018, we had outstanding letters of credit, letters of guarantee, and surety bonds of \$275 million.

**13. Financial Instruments and Fair Value Measurements**

We use derivative and non-derivative financial instruments to manage certain exposures to foreign currency, interest rate, investment, and commodity risks.

The effects of derivative instruments on the Consolidated Statements of Operations were immaterial for fiscal 2018, 2017, and 2016.

***Foreign Exchange Risks and Hedges of Net Investment***

As part of managing the exposure to changes in foreign currency exchange rates, we utilize cross-currency swap contracts and foreign currency forward contracts, a portion of which are designated as cash flow hedges. The objective of these contracts is to minimize impacts to cash flows and profitability due to changes in foreign currency exchange rates on intercompany and other cash transactions. We expect that significantly all of the balance in accumulated other comprehensive income (loss) associated with the cash flow hedge-designated instruments addressing foreign exchange risks will be reclassified into the Consolidated Statement of Operations within the next twelve months.

During fiscal 2015, we entered into cross-currency swap contracts with an aggregate notional value of €1,000 million to reduce our exposure to foreign currency exchange risk associated with certain intercompany loans. Under the terms of these contracts, which have been designated as cash flow hedges, we make quarterly interest payments in euros at 3.50% per annum and receive interest in U.S. dollars at a weighted-average rate of 5.33% per annum. Upon maturity of these contracts in fiscal 2022,

**TE CONNECTIVITY LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**13. Financial Instruments and Fair Value Measurements (Continued)**

we will pay the notional value of the contracts in euros and receive U.S. dollars from our counterparties. In connection with the cross-currency swap contracts, we are required to post cash collateral with our counterparties.

At fiscal year end 2018 and 2017, our cross-currency swap contracts were in liability positions of \$100 million and \$96 million, respectively, and were recorded in other liabilities on the Consolidated Balance Sheets. At fiscal year end 2018 and 2017, collateral paid to our counterparties approximated the derivative positions and was recorded in prepaid expenses and other current assets on the Consolidated Balance Sheets. The impacts of our cross-currency swap contracts were as follows:

	Fiscal		
	2018	2017	2016
	(in millions)		
Losses recorded in other comprehensive income (loss) . . . . .	\$(25)	\$(20)	\$(26)
Gains (losses) excluded from the hedging relationship <sup>(1)</sup> . . . . .	21	(58)	(7)

(1) Gains and losses excluded from the hedging relationship are recognized prospectively in selling, general, and administrative expenses and are offset by losses and gains generated as a result of re-measuring certain intercompany loans to the U.S. dollar.

We hedge our net investment in certain foreign operations using intercompany loans and external borrowings denominated in the same currencies. The aggregate notional value of these hedges was \$4,064 million and \$3,110 million at fiscal year end 2018 and 2017, respectively. The impacts of our hedging program were as follows:

	Fiscal		
	2018	2017	2016
	(in millions)		
Foreign currency exchange gains (losses) <sup>(1)</sup> . . . . .	\$36	\$(74)	\$(45)

(1) Foreign currency exchange gains and losses are recorded as currency translation, a component of accumulated other comprehensive income (loss), and are offset by changes attributable to the translation of the net investment.

***Interest Rate and Investment Risk Management***

We issue debt, as needed, to fund our operations and capital requirements. Such borrowings can result in interest rate exposure. To manage the interest rate exposure, we use interest rate swap contracts to convert a portion of fixed-rate debt into variable-rate debt. We may use forward starting interest rate swap contracts to manage interest rate exposure in periods prior to the anticipated issuance of fixed-rate debt. We also utilize investment swap contracts to manage earnings exposure on certain nonqualified deferred compensation liabilities.

***Commodity Hedges***

As part of managing the exposure to certain commodity price fluctuations, we utilize commodity swap contracts designated as cash flow hedges. The objective of these contracts is to minimize impacts to cash flows and profitability due to changes in prices of commodities used in production.

**TE CONNECTIVITY LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**13. Financial Instruments and Fair Value Measurements (Continued)**

At fiscal year end 2018 and 2017, our commodity hedges had notional values of \$401 million and \$314 million, respectively. We expect that significantly all of the balance in accumulated other comprehensive income (loss) associated with the commodity hedges will be reclassified into the Consolidated Statement of Operations within the next twelve months.

*Fair Value Measurements*

Financial instruments recorded at fair value on a recurring basis, which consist of derivative instruments and marketable securities, were immaterial at fiscal year end 2018 and 2017.

**14. Retirement Plans**

*Defined Benefit Pension Plans*

We have a number of contributory and noncontributory defined benefit retirement plans covering certain of our non-U.S. and U.S. employees, designed in accordance with local customs and practice.

The net periodic pension benefit cost for all non-U.S. and U.S. defined benefit pension plans was as follows:

	Non-U.S. Plans			U.S. Plans		
	Fiscal			Fiscal		
	2018	2017	2016	2018	2017	2016
	(\$ in millions)					
Service cost . . . . .	\$ 46	\$ 50	\$ 48	\$ 14	\$ 12	\$ 9
Interest cost . . . . .	42	35	52	43	43	50
Expected return on plan assets . . . . .	(69)	(68)	(68)	(59)	(53)	(59)
Amortization of net actuarial loss . . . . .	24	41	36	22	40	40
Other . . . . .	(6)	(4)	(6)	—	—	—
Net periodic pension benefit cost . . . . .	\$ 37	\$ 54	\$ 62	\$ 20	\$ 42	\$ 40
<i>Weighted-average assumptions used to determine net pension benefit cost during the fiscal year:</i>						
Discount rate . . . . .	1.87%	1.44%	2.50%	3.77%	3.58%	4.38%
Expected return on plan assets . . . . .	4.92%	5.21%	5.98%	6.45%	5.93%	6.97%
Rate of compensation increase . . . . .	2.53%	2.52%	2.81%	—%	—%	—%

The components of net periodic pension benefit cost other than service cost are included in net other income (expense) on the Consolidated Statements of Operations.



**TE CONNECTIVITY LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**14. Retirement Plans (Continued)**

The following table represents the changes in benefit obligation and plan assets and the net amount recognized on the Consolidated Balance Sheets for all non-U.S. and U.S. defined benefit pension plans:

	Non-U.S. Plans		U.S. Plans	
	Fiscal		Fiscal	
	2018	2017	2018	2017
	(\$ in millions)			
<i>Change in benefit obligation:</i>				
Benefit obligation at beginning of fiscal year . . . . .	\$2,292	\$2,535	\$1,191	\$1,250
Service cost . . . . .	46	50	14	12
Interest cost . . . . .	42	35	43	43
Actuarial gain . . . . .	(22)	(301)	(69)	(34)
Benefits and administrative expenses paid . . . . .	(77)	(69)	(86)	(82)
Currency translation . . . . .	(43)	29	—	—
Other . . . . .	(18)	13	—	2
	2,220	2,292	1,093	1,191
<i>Change in plan assets:</i>				
Fair value of plan assets at beginning of fiscal year . . . . .	1,402	1,371	963	929
Actual return on plan assets . . . . .	51	49	37	115
Employer contributions . . . . .	51	47	3	1
Benefits and administrative expenses paid . . . . .	(77)	(69)	(86)	(82)
Currency translation . . . . .	(30)	(2)	—	—
Other . . . . .	(7)	6	—	—
	1,390	1,402	917	963
Funded status . . . . .	\$ (830)	\$ (890)	\$ (176)	\$ (228)
<i>Amounts recognized on the Consolidated Balance Sheets:</i>				
Other assets . . . . .	\$ 107	\$ 50	\$ —	\$ —
Accrued and other current liabilities . . . . .	(23)	(22)	(5)	(5)
Long-term pension and postretirement liabilities . . . . .	(914)	(918)	(171)	(223)
Net amount recognized . . . . .	\$ (830)	\$ (890)	\$ (176)	\$ (228)
<i>Weighted-average assumptions used to determine pension benefit obligation at fiscal year end:</i>				
Discount rate . . . . .	1.94%	1.87%	4.35%	3.77%
Rate of compensation increase . . . . .	2.57%	2.53%	—%	—%

**TE CONNECTIVITY LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**14. Retirement Plans (Continued)**

The pre-tax amounts recognized in accumulated other comprehensive income (loss) for all non-U.S. and U.S. defined benefit pension plans were as follows:

	Non-U.S. Plans		U.S. Plans	
	Fiscal		Fiscal	
	2018	2017	2018	2017
	(in millions)			
<i>Change in net loss:</i>				
Unrecognized net loss at beginning of fiscal year . . . . .	\$ 513	\$ 839	\$ 292	\$ 428
Current year change recorded in accumulated other comprehensive income (loss) . . . . .	(13)	(285)	(46)	(96)
Amortization reclassified to earnings . . . . .	(24)	(41)	(22)	(40)
Unrecognized net loss at end of fiscal year . . . . .	\$ 476	\$ 513	\$ 224	\$ 292
<i>Change in prior service credit:</i>				
Unrecognized prior service credit at beginning of fiscal year . . . . .	\$ (59)	\$ (70)	\$ 2	\$ —
Current year change recorded in accumulated other comprehensive income (loss) . . . . .	(5)	5	—	2
Amortization reclassified to earnings <sup>(1)</sup> . . . . .	6	6	—	—
Unrecognized prior service credit at end of fiscal year . . . . .	\$ (58)	\$ (59)	\$ 2	\$ 2

(1) Amortization of prior service credit is included in other in the above table summarizing the components of net periodic pension benefit cost.

In fiscal 2018 and 2017, unrecognized actuarial gains recorded in accumulated other comprehensive income (loss) were primarily the result of higher discount rates and favorable asset performance for both non-U.S. and U.S. defined benefit pension plans as compared to fiscal 2017 and 2016, respectively.

The estimated amortization of actuarial losses from accumulated other comprehensive income (loss) into net periodic pension benefit cost for non-U.S. and U.S. defined benefit pension plans in fiscal 2019 is expected to be \$24 million and \$17 million, respectively. The estimated amortization of prior service credit from accumulated other comprehensive income (loss) into net periodic pension benefit cost for non-U.S. defined benefit pension plans in fiscal 2019 is expected to be \$7 million.

In determining the expected return on plan assets, we consider the relative weighting of plan assets by class and individual asset class performance expectations.

The investment strategies for non-U.S. and U.S. pension plans are governed locally. Our investment strategy for our pension plans is to manage the plans on a going concern basis. Current investment policy is to achieve a reasonable return on assets, subject to a prudent level of portfolio risk, for the purpose of enhancing the security of benefits for participants. Projected returns are based primarily on pro forma asset allocation, expected long-term returns, and forward-looking estimates of active portfolio and investment management.

At fiscal year end 2018, the long-term target asset allocation in our U.S. plans' master trust is 10% return-seeking assets and 90% liability-hedging assets. Return-seeking assets, including non-U.S. and U.S. equity securities, are assets intended to generate returns in excess of pension liability growth.

**TE CONNECTIVITY LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**14. Retirement Plans (Continued)**

Liability-hedging assets, including government and corporate bonds, are assets intended to have characteristics similar to pension liabilities and are used to better match asset cash flows with expected obligation cash flows. Asset re-allocation to meet that target is occurring over a multi-year period based on the funded status. We expect to reach our target allocation when the funded status of the plans exceeds 105%. Based on the funded status of the plans as of fiscal year end 2018, our target asset allocation is 45% return-seeking and 55% liability-hedging.

Target weighted-average asset allocation and weighted-average asset allocation for non-U.S. and U.S. pension plans were as follows:

	Non-U.S. Plans			U.S. Plans		
	Target	Fiscal Year End 2018	Fiscal Year End 2017	Target	Fiscal Year End 2018	Fiscal Year End 2017
Asset category:						
Equity securities . . . . .	27%	29%	30%	45%	53%	50%
Fixed income . . . . .	51	49	49	55	47	50
Insurance contracts and other investments . . . . .	20	20	19	—	—	—
Real estate investments . . . . .	2	2	2	—	—	—
Total . . . . .	100%	100%	100%	100%	100%	100%

Our common shares are not a direct investment of our pension funds; however, the pension funds may indirectly include our shares. The aggregate amount of our common shares would not be considered material relative to the total pension fund assets.

Our funding policy is to make contributions in accordance with the laws and customs of the various countries in which we operate as well as to make discretionary voluntary contributions from time to time. We expect to make the minimum required contributions of \$42 million and \$5 million to our non-U.S. and U.S. pension plans, respectively, in fiscal 2019. We may also make voluntary contributions at our discretion.

At fiscal year end 2018, benefit payments, which reflect future expected service, as appropriate, are expected to be paid as follows:

	Non-U.S. Plans	U.S. Plans
	(in millions)	
Fiscal 2019 . . . . .	\$ 74	\$ 76
Fiscal 2020 . . . . .	78	73
Fiscal 2021 . . . . .	82	73
Fiscal 2022 . . . . .	83	74
Fiscal 2023 . . . . .	88	74
Fiscal 2024–2028 . . . . .	487	368

**TE CONNECTIVITY LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**14. Retirement Plans (Continued)**

Presented below is the accumulated benefit obligation for all non-U.S. and U.S. pension plans as well as additional information related to plans with an accumulated benefit obligation in excess of plan assets and plans with a projected benefit obligation in excess of plan assets.

	Non-U.S. Plans		U.S. Plans	
	Fiscal Year End		Fiscal Year End	
	2018	2017	2018	2017
	(in millions)			
Accumulated benefit obligation . . . . .	\$2,099	\$2,167	\$1,093	\$1,191
Pension plans with accumulated benefit obligations in excess of plan assets:				
Accumulated benefit obligation . . . . .	1,400	1,402	1,093	1,191
Fair value of plan assets . . . . .	580	581	917	963
Pension plans with projected benefit obligations in excess of plan assets:				
Projected benefit obligation . . . . .	1,560	1,524	1,093	1,191
Fair value of plan assets . . . . .	623	583	917	963

We value our pension assets based on the fair value hierarchy of ASC 820, *Fair Value Measurements and Disclosures*. Details of the fair value hierarchy are described in Note 2. The following table presents our defined benefit pension plans' asset categories and their associated fair value within the fair value hierarchy:

	Fiscal Year End 2018							
	Non-U.S. Plans				U.S. Plans			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	(in millions)							
Equity:								
Non-U.S. equity securities <sup>(1)</sup> . . . . .	\$—	\$ —	\$ —	\$ —	\$220	\$ —	\$—	\$220
U.S. equity securities <sup>(1)</sup> . . . . .	—	—	—	—	265	—	—	265
Commingled equity funds <sup>(2)</sup> . . . . .	—	397	—	397	—	—	—	—
Fixed income:								
Government bonds <sup>(3)</sup> . . . . .	—	213	—	213	—	45	—	45
Corporate bonds <sup>(4)</sup> . . . . .	—	6	—	6	—	283	—	283
Commingled bond funds <sup>(5)</sup> . . . . .	—	464	—	464	—	87	—	87
Other <sup>(6)</sup> . . . . .	—	184	120	304	—	11	—	11
Subtotal . . . . .	\$—	\$1,264	\$120	1,384	\$485	\$426	\$—	911
Items to reconcile to fair value of plan assets <sup>(7)</sup> . . . . .				6				6
Fair value of plan assets . . . . .				\$1,390				\$917

**TE CONNECTIVITY LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**14. Retirement Plans (Continued)**

	Fiscal Year End 2017							
	Non-U.S. Plans				U.S. Plans			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	(in millions)							
Equity:								
Non-U.S. equity securities <sup>(1)</sup>	\$—	\$ —	\$ —	\$ —	\$227	\$ —	\$—	\$227
U.S. equity securities <sup>(1)</sup>	—	—	—	—	250	—	—	250
Commingled equity funds <sup>(2)</sup>	—	418	—	418	—	—	—	—
Fixed income:								
Government bonds <sup>(3)</sup>	—	219	—	219	—	59	—	59
Corporate bonds <sup>(4)</sup>	—	8	—	8	—	351	—	351
Commingled bond funds <sup>(5)</sup>	—	455	—	455	—	48	—	48
Other <sup>(6)</sup>	—	180	117	297	—	16	—	16
Subtotal	\$—	\$1,280	\$117	1,397	\$477	\$474	\$—	951
Items to reconcile to fair value of plan assets <sup>(7)</sup>				5				12
Fair value of plan assets				\$1,402				\$963

- (1) Non-U.S. and U.S. equity securities are valued at the closing price reported on the stock exchange on which the individual securities are traded.
- (2) Commingled equity funds are pooled investments in multiple equity-type securities. Fair value is calculated as the closing price of the underlying investments, an observable market condition, divided by the number of shares of the fund outstanding.
- (3) Government bonds are marked to fair value based on quoted market prices or market approach valuation models using observable market data such as quotes, spreads, and data points for yield curves.
- (4) Corporate bonds are marked to fair value based on quoted market prices or market approach valuation models using observable market data such as quotes, spreads, and data points for yield curves.
- (5) Commingled bond funds are pooled investments in multiple debt-type securities. Fair value is calculated as the closing price of the underlying investments, an observable market condition, divided by the number of shares of the fund outstanding.
- (6) Other investments are composed of insurance contracts, derivatives, short-term investments, structured products such as collateralized obligations and mortgage- and asset-backed securities, real estate investments, and hedge funds. Insurance contracts are valued using cash surrender value, or face value of the contract if a cash surrender value is unavailable (level 2), as these values represent the amount that the plan would receive on termination of the underlying contract. Derivatives, short-term investments, and structured products are marked to fair value using models that are supported by observable market based data (level 2). Real estate investments include investments in commingled real estate funds and are valued at net asset value which is calculated using unobservable inputs that are supported by little or no market activity (level 3). Hedge funds are valued at their net asset value which is calculated using unobservable inputs that are supported by little or no market activity (level 3).
- (7) Items to reconcile to fair value of plan assets include amounts receivable for securities sold, amounts payable for securities purchased, and any cash balances, considered to be carried at book value, that are held in the plans.

**TE CONNECTIVITY LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**14. Retirement Plans (Continued)**

Changes in Level 3 assets in non-U.S. plans were primarily the result of purchases in fiscal 2018 and 2017.

*Defined Contribution Retirement Plans*

We maintain several defined contribution retirement plans, the most significant of which is located in the U.S. These plans include 401(k) matching programs, as well as qualified and nonqualified profit sharing and share bonus retirement plans. Expense for the defined contribution plans is computed as a percentage of participants' compensation and was \$62 million, \$60 million, and \$52 million for fiscal 2018, 2017, and 2016, respectively.

*Deferred Compensation Plans*

We maintain nonqualified deferred compensation plans, which permit eligible employees to defer a portion of their compensation. A record keeping account is set up for each participant and the participant chooses from a variety of measurement funds for the deemed investment of their accounts. The measurement funds correspond to a number of funds in our 401(k) plans and the account balance fluctuates with the investment returns on those funds. At fiscal year end 2018 and 2017, total deferred compensation liabilities were \$189 million and \$157 million, respectively, and were recorded primarily in other liabilities on the Consolidated Balance Sheets. See Note 13 for additional information regarding our risk management strategy related to deferred compensation liabilities.

*Postretirement Benefit Plans*

In addition to providing pension and 401(k) benefits, we also provide certain health care coverage continuation for qualifying retirees from the date of retirement to age 65. The accumulated postretirement benefit obligation was \$18 million and \$19 million at fiscal year end 2018 and 2017, respectively, and the underfunded status of the postretirement benefit plans was included primarily in long-term pension and postretirement liabilities on the Consolidated Balance Sheets. Activity during fiscal 2018, 2017, and 2016 was not significant.

**TE CONNECTIVITY LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**15. Income Taxes**

**Income Tax Expense (Benefit)**

Significant components of the income tax expense (benefit) were as follows:

	<b>Fiscal</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
	<b>(in millions)</b>		
Current income tax expense (benefit):			
U.S.:			
Federal . . . . .	\$ 20	\$ (9)	\$(1,120)
State . . . . .	21	9	(163)
Non-U.S. . . . .	406	322	321
	<u>447</u>	<u>322</u>	<u>(962)</u>
Deferred income tax expense (benefit):			
U.S.:			
Federal . . . . .	499	(119)	133
State . . . . .	(30)	(15)	18
Non-U.S. . . . .	(1,260)	(8)	(15)
	<u>(791)</u>	<u>(142)</u>	<u>136</u>
Income tax expense (benefit) . . . . .	<u>\$ (344)</u>	<u>\$ 180</u>	<u>\$ (826)</u>

The U.S. and non-U.S. components of income from continuing operations before income taxes were as follows:

	<b>Fiscal</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
	<b>(in millions)</b>		
U.S. . . . .	\$ (245)	\$ (273)	\$ (244)
Non-U.S. . . . .	2,485	1,993	1,265
Income from continuing operations before income taxes	<u>\$2,240</u>	<u>\$1,720</u>	<u>\$1,021</u>



**TE CONNECTIVITY LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**15. Income Taxes (Continued)**

The reconciliation between U.S. federal income taxes at the statutory rate and income tax expense (benefit) was as follows:

	Fiscal		
	2018	2017	2016
	(in millions)		
Notional U.S. federal income tax expense at the statutory rate <sup>(1)</sup> . . . . .	\$ 551	\$ 602	\$ 357
Adjustments to reconcile to the income tax expense (benefit):			
U.S. state income tax benefit, net . . . . .	(7)	(4)	(94)
Other expense—Tax Sharing Agreement <sup>(2)</sup> . . . . .	—	3	221
Tax law changes . . . . .	638	7	(3)
Tax credits . . . . .	(8)	(8)	(10)
Non-U.S. net earnings <sup>(3)</sup> . . . . .	(213)	(355)	(341)
Change in accrued income tax liabilities . . . . .	13	24	(1,056)
Valuation allowance . . . . .	33	(1)	97
Legal entity restructuring and intercompany transactions . . . . .	(1,329)	(40)	39
Divestitures . . . . .	(1)	—	(31)
Excess tax benefits from share-based payments . . . . .	(24)	(40)	—
Other . . . . .	3	(8)	(5)
Income tax expense (benefit) . . . . .	<u>\$ (344)</u>	<u>\$ 180</u>	<u>\$ (826)</u>

(1) The U.S. federal statutory rate was 24.58% for fiscal 2018 and 35% for both fiscal 2017 and 2016.

(2) Net other expense pursuant to the Tax Sharing Agreement with Tyco International plc and Covidien plc is not taxable or deductible.

(3) Excludes items which are separately presented.

The income tax benefit for fiscal 2018 included a \$1,222 million net income tax benefit associated with the tax impacts of certain legal entity restructurings and intercompany transactions that occurred in the quarter ended September 28, 2018. The net income tax benefit of \$1,222 million related primarily to the recognition of certain non-U.S. loss carryforwards and basis differences in subsidiaries expected to be utilized against future taxable income, partially offset by a \$46 million increase in the valuation allowance for certain U.S. federal tax credit carryforwards. The income tax benefit for fiscal 2018 also included \$567 million of income tax expense related to the tax impacts of the Tax Cuts and Jobs Act (the “Act”) and a \$61 million net income tax benefit related to the tax impacts of certain legal entity restructurings that occurred in the quarter ended December 29, 2017. See “Tax Cuts and Jobs Act” below for additional information regarding the Act.

The income tax expense for fiscal 2017 included a \$52 million income tax benefit associated with the tax impacts of certain intercompany transactions and the corresponding reduction in the valuation allowance for U.S. tax loss carryforwards, a \$40 million income tax benefit related to share-based payments and the adoption of ASU No. 2016-09, and a \$14 million income tax benefit associated with

**TE CONNECTIVITY LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**15. Income Taxes (Continued)**

pre-separation tax matters. See Note 2 for additional information regarding recently adopted accounting pronouncements.

The income tax benefit for fiscal 2016 included a \$1,135 million income tax benefit related to the effective settlement of tax matters for the years 1997 through 2000, partially offset by a \$91 million income tax charge related to an increase to the valuation allowance for certain U.S. deferred tax assets. Additionally, the tax benefit for fiscal 2016 included an \$83 million net income tax benefit related to tax settlements in certain other tax jurisdictions, partially offset by an income tax charge related to certain legal entity restructurings. See “Internal Revenue Service Audits” below for additional information regarding settlements with the Internal Revenue Service (“IRS”).

In fiscal 2016, the increase to the valuation allowance for deferred tax assets related primarily to certain U.S. federal and state tax loss and credit carryforwards. Based on our forecast of taxable income for certain U.S. tax reporting groups, U.S. tax loss and credit carryforwards finalized as a result of settlement of the disputed debt matter with the IRS, and certain tax planning actions and strategies, we believed it was more likely than not that a portion of our deferred tax assets would not be realized.

**Deferred Tax Assets and Liabilities**

Deferred income taxes result from temporary differences between the amount of assets and liabilities recognized for financial reporting and tax purposes. The components of the net deferred income tax asset were as follows:

	<b>Fiscal Year End</b>	
	<b>2018</b>	<b>2017</b>
	<b>(in millions)</b>	
Deferred tax assets:		
Accrued liabilities and reserves . . . . .	\$ 255	\$ 357
Tax loss and credit carryforwards . . . . .	3,237	5,264
Inventories . . . . .	58	48
Pension and postretirement benefits . . . . .	179	231
Deferred revenue . . . . .	5	8
Interest . . . . .	30	366
Unrecognized income tax benefits . . . . .	8	10
Basis difference in subsidiaries . . . . .	946	—
Other . . . . .	13	22
	<u>4,731</u>	<u>6,306</u>
Deferred tax liabilities:		
Intangible assets . . . . .	(552)	(653)
Property, plant, and equipment . . . . .	(13)	(22)
Other . . . . .	(38)	(99)
	<u>(603)</u>	<u>(774)</u>
Net deferred tax asset before valuation allowance . . . . .	4,128	5,532
Valuation allowance . . . . .	<u>(2,191)</u>	<u>(3,627)</u>
Net deferred tax asset . . . . .	<u>\$ 1,937</u>	<u>\$ 1,905</u>

**TE CONNECTIVITY LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**15. Income Taxes (Continued)**

Our tax loss and credit carryforwards (tax effected) at fiscal year end 2018 were as follows:

	Expiration Period			Total
	Through Fiscal 2023	Fiscal 2024 Through Fiscal 2038	No Expiration	
	(in millions)			
U.S. Federal:				
Net operating loss carryforwards . . . . .	\$119	\$ 385	\$ —	\$ 504
Tax credit carryforwards . . . . .	32	115	52	199
U.S. State:				
Net operating loss carryforwards . . . . .	45	52	—	97
Tax credit carryforwards . . . . .	9	16	8	33
Non-U.S.:				
Net operating loss carryforwards . . . . .	12	863	1,496	2,371
Tax credit carryforwards . . . . .	—	1	1	2
Capital loss carryforwards . . . . .	—	3	28	31
Total tax loss and credit carryforwards . . .	<u>\$217</u>	<u>\$1,435</u>	<u>\$1,585</u>	<u>\$3,237</u>

The valuation allowance for deferred tax assets of \$2,191 million and \$3,627 million at fiscal year end 2018 and 2017, respectively, related principally to the uncertainty of the utilization of certain deferred tax assets, primarily tax loss, capital loss, and credit carryforwards in various jurisdictions. During fiscal 2018, tax loss and credit carryforwards decreased primarily as a result of a \$1,675 million (tax effected) recovery of prior years' net write-downs of investments in subsidiaries in certain jurisdictions, offset by a corresponding decrease to the valuation allowance. We believe that we will generate sufficient future taxable income to realize the income tax benefits related to the remaining net deferred tax assets on the Consolidated Balance Sheet.

We have provided income taxes for earnings that are currently distributed as well as the taxes associated with several subsidiaries' earnings that are expected to be distributed in the future. No additional provision has been made for Swiss or non-Swiss income taxes on the undistributed earnings of subsidiaries or for unrecognized deferred tax liabilities for temporary differences related to basis differences in investments in subsidiaries, as such earnings are expected to be permanently reinvested, the investments are essentially permanent in duration, or we have concluded that no additional tax liability will arise as a result of the distribution of such earnings. As of fiscal year end 2018, certain subsidiaries had approximately \$23 billion of cumulative undistributed earnings that have been retained indefinitely and reinvested in our global manufacturing operations, including working capital; property, plant, and equipment; intangible assets; and research and development activities. A liability could arise if our intention to permanently reinvest such earnings were to change and amounts are distributed by such subsidiaries or if such subsidiaries are ultimately disposed. It is not practicable to estimate the additional income taxes related to permanently reinvested earnings or the basis differences related to investments in subsidiaries. As of fiscal year end 2018, we had approximately \$11.6 billion of cash, cash equivalents, and intercompany deposits, principally in our subsidiaries, that we have the ability to distribute to TEGSA, our Luxembourg subsidiary, which is the obligor of substantially all of our debt, and to TE Connectivity Ltd., our Swiss parent company, but we consider to be permanently reinvested. We estimate that up to \$0.9 billion of tax expense would be recognized on the Consolidated Financial

**TE CONNECTIVITY LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**15. Income Taxes (Continued)**

Statements of our intention to permanently reinvest these amounts were to change. Our current plans do not demonstrate a need to repatriate cash, cash equivalents, and intercompany deposits that are designated as permanently reinvested in order to fund our operations, including investing and financing activities.

**Uncertain Tax Positions**

As of fiscal year end 2018, we had total unrecognized income tax benefits of \$566 million. If recognized in future years, \$467 million of these currently unrecognized income tax benefits would impact income tax expense (benefit) and the effective tax rate. As of fiscal year end 2017, we had total unrecognized income tax benefits of \$501 million. If recognized in future years, \$431 million of these currently unrecognized income tax benefits would impact income tax expense (benefit) and the effective tax rate. The following table summarizes the activity related to unrecognized income tax benefits:

	Fiscal		
	2018	2017	2016
	(in millions)		
Balance at beginning of fiscal year . . . . .	\$501	\$490	\$1,368
Additions related to prior years tax positions . . . . .	14	40	75
Reductions related to prior years tax positions . . . . .	(11)	(9)	(817)
Additions related to current year tax positions . . . . .	105	70	124
Acquisitions . . . . .	—	—	4
Settlements . . . . .	(7)	(4)	(205)
Reductions due to lapse of applicable statute of limitations . . . . .	(36)	(86)	(59)
Balance at end of fiscal year . . . . .	\$566	\$501	\$ 490

We record accrued interest and penalties related to uncertain tax positions as part of income tax expense (benefit). As of fiscal year end 2018 and 2017, we had \$60 million of accrued interest and penalties related to uncertain tax positions on the Consolidated Balance Sheets, recorded primarily in income taxes. During fiscal 2018, 2017, and 2016, we recognized income tax expense of \$5 million, benefits of \$5 million, and benefits of \$765 million, respectively, related to interest and penalties on the Consolidated Statements of Operations.

We file income tax returns on a unitary, consolidated, or stand-alone basis in multiple state and local jurisdictions, which generally have statutes of limitations ranging from 3 to 4 years. Various state and local income tax returns are currently in the process of examination or administrative appeal.

Our non-U.S. subsidiaries file income tax returns in the countries in which they have operations. Generally, these countries have statutes of limitations ranging from 3 to 10 years. Various non-U.S. subsidiary income tax returns are currently in the process of examination by taxing authorities.

**TE CONNECTIVITY LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**15. Income Taxes (Continued)**

As of fiscal year end 2018, under applicable statutes, the following tax years remained subject to examination in the major tax jurisdictions indicated:

<u>Jurisdiction</u>	<u>Open Years</u>
China . . . . .	2008 through 2018
Czech Republic . . . . .	2015 through 2018
Germany . . . . .	2013 through 2018
Hong Kong . . . . .	2012 through 2018
Ireland . . . . .	2013 through 2018
Italy . . . . .	2013 through 2018
Japan . . . . .	2012 through 2018
Korea . . . . .	2012 through 2018
Luxembourg . . . . .	2013 through 2018
Netherlands . . . . .	2012 through 2018
Singapore . . . . .	2013 through 2018
Spain . . . . .	2014 through 2018
Switzerland . . . . .	2013 through 2018
United Kingdom . . . . .	2016 through 2018
U.S.—federal . . . . .	2015 through 2018

In most jurisdictions, taxing authorities retain the ability to review prior tax years and to adjust any net operating loss and tax credit carryforwards from these years that are utilized in a subsequent period.

Although it is difficult to predict the timing or results of our worldwide examinations, we estimate that approximately \$130 million of unrecognized income tax benefits, excluding the impact relating to accrued interest and penalties, could be resolved within the next twelve months.

We are not aware of any other matters that would result in significant changes to the amount of unrecognized income tax benefits reflected on the Consolidated Balance Sheet as of fiscal year end 2018.

**Other Income Tax Matters**

*Tax Cuts and Jobs Act*

On December 22, 2017, the President of the U.S. signed the Tax Cuts and Jobs Act (the “Act”) into law. The Act includes numerous significant changes to existing tax law, including a permanent reduction in the U.S. federal corporate income tax rate from 35% to 21%, further limitations on the deductibility of interest expense and certain executive compensation, repeal of the corporate Alternative Minimum Tax, and imposition of a territorial tax system with a one-time repatriation tax on deemed repatriated earnings of foreign subsidiaries. While some of the new provisions of the Act will impact us in fiscal 2019 and beyond, the change in the tax rate was effective January 1, 2018. In the period of enactment, we were required to revalue our U.S. federal deferred tax assets and liabilities at the new tax rate. Accordingly, during fiscal 2018, we recorded income tax expense of \$567 million primarily in connection with the write-down of our U.S. federal deferred tax asset for net operating loss and interest carryforwards to the lower tax rate. Included in the expense of \$567 million was an income

**TE CONNECTIVITY LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**15. Income Taxes (Continued)**

tax benefit of \$34 million related to the reduction in the existing valuation allowance recorded against certain U.S. federal tax credit carryforwards. The limitations on interest expense deductions contained in the Act are expected to increase prospective taxable income and thereby allow the utilization of more tax credits in future years. As a Swiss corporation, the one-time repatriation tax imposed by the Act will not be significant to us.

The Act makes broad and complex changes to the U.S. Internal Revenue Code, and in certain instances, lacks clarity and is subject to interpretation until additional IRS guidance is issued. The ultimate impact of the Act may differ from our estimates due to changes in the interpretations and assumptions we made as well as any forthcoming regulatory guidance.

*Intra-Entity Transfers of Assets*

In fiscal 2018, there were certain sales of assets other than inventory between affiliated companies that are consolidated for financial statement purposes but file separate tax returns. In accordance with U.S. GAAP, the tax impact of these intra-entity transfers of assets was deferred and not recognized. Such transactions resulted in a \$674 million increase to other assets and a \$48 million increase to prepaid expenses and other current assets on the Consolidated Balance Sheet during fiscal 2018. See Note 2 for information regarding our adoption of ASU No. 2016-16 in fiscal 2019 and the net reversal of all balances associated with deferred tax impacts of intra-entity transfers of assets other than inventory.

*Tax Sharing Agreement*

Under a Tax Sharing Agreement entered into upon our separation from Tyco International plc (“Tyco International”) in fiscal 2007, we, Tyco International, and Covidien plc (“Covidien”) share 31%, 27%, and 42%, respectively, of income tax liabilities that arise from adjustments made by tax authorities to the collective income tax returns for periods prior to and including June 29, 2007. Pursuant to the Tax Sharing Agreement, we entered into certain guarantee commitments and indemnifications with Tyco International and Covidien. We have substantially settled all U.S. federal income tax matters with the IRS for periods covered under the Tax Sharing Agreement. Certain shared U.S. state and non-U.S. income tax matters remain open. We do not expect these matters will have a material effect on our results of operations, financial position, or cash flows. As a result of subsequent transactions, Tyco International plc (“Tyco International”) and Covidien plc (“Covidien”) now operate as part of Johnson Controls International plc and Medtronic plc, respectively.

*Internal Revenue Service Audits*

As previously disclosed, in fiscal 2013, the IRS effectively settled its audit of all tax matters for the years 1997 through 2000, excluding one issue involving the tax treatment of certain intercompany debt transactions. In fiscal 2016, the U.S. Tax Court resolved all aspects of the disputed debt matter for the 1997 to 2000 audit cycle and the Appeals Division of the IRS effectively settled the intercompany debt issues on appeal for subsequent audit cycles (years 2001 to 2007). In connection with these developments, in fiscal 2016, we recognized an income tax benefit of \$1,135 million, representing a reduction in tax reserves, and other expense of \$604 million, representing a reduction of associated indemnification receivables, pursuant to the Tax Sharing Agreement with Tyco International and Covidien.

**TE CONNECTIVITY LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**15. Income Taxes (Continued)**

During fiscal 2016, in connection with the disputed debt matter, we made a payment to the IRS of \$443 million for tax deficiencies for which we were the primary obligor. Concurrent with remitting this payment, we received net reimbursements of \$303 million from Tyco International and Covidien pursuant to their indemnifications for pre-separation tax matters.

**16. Other Income (Expense), Net**

In fiscal 2018, 2017, and 2016, we recorded net other income of \$1 million, net other expense of \$42 million, and net other expense of \$677 million, respectively. In fiscal 2016, net other expense was primarily pursuant to the Tax Sharing Agreement with Tyco International and Covidien and included \$604 million related to the effective settlement of tax matters for the years 1997 through 2000 and \$46 million related to a tax settlement in another tax jurisdiction. See Note 15 for further information regarding the Tax Sharing Agreement and settlements.

**17. Earnings Per Share**

The weighted-average number of shares outstanding used in the computations of basic and diluted earnings per share were as follows:

	<b>Fiscal</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
	(in millions)		
Basic . . . . .	350	355	366
Dilutive impact of share-based compensation arrangements . . . . .	3	3	3
Diluted . . . . .	<u>353</u>	<u>358</u>	<u>369</u>

There were one million, one million, and three million share options that were not included in the computation of diluted earnings per share for fiscal 2018, 2017, and 2016, respectively, because the instruments' underlying exercise prices were greater than the average market prices of our common shares and inclusion would be antidilutive.

**18. Shareholders' Equity**

*Common Shares*

We are organized under the laws of Switzerland. The rights of holders of our shares are governed by Swiss law, our Swiss articles of association, and our Swiss organizational regulations. Accordingly, the par value of our common shares is stated in Swiss francs ("CHF"). We continue to use the U.S. dollar, however, as our reporting currency on the Consolidated Financial Statements.

Subject to certain conditions specified in our articles of association, we are authorized to increase our conditional share capital by issuing new shares in aggregate not exceeding 50% of our authorized shares. In March 2018, our shareholders reapproved and extended through March 14, 2020, our board of directors' authorization to issue additional new shares, subject to certain conditions specified in the articles of association, in aggregate not exceeding 50% of the amount of our authorized shares.



**TE CONNECTIVITY LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**18. Shareholders' Equity (Continued)**

*Common Shares Held in Treasury*

At fiscal year end 2018, approximately 12 million common shares were held in treasury, of which 6 million were owned by one of our subsidiaries. At fiscal year end 2017, approximately 5 million common shares were held in treasury and owned by one of our subsidiaries. Shares held both directly by us and by our subsidiary are presented as treasury shares on the Consolidated Balance Sheets.

In fiscal 2017 and 2016, our shareholders approved the cancellation of 26 million and 31 million shares, respectively, purchased under our share repurchase program. These capital reductions by cancellation of shares were subject to a notice period and filing with the commercial register in Switzerland.

*Contributed Surplus*

During fiscal 2017, cumulative equity transactions, including dividend activity and treasury share cancellations, reduced our contributed surplus balance to zero with residual activity recorded against accumulated earnings as reflected on the Consolidated Statement of Shareholders' Equity. To the extent that the contributed surplus balance continues to be zero, the impact of future transactions that normally would have been recorded as a reduction of contributed surplus will be recorded in accumulated earnings. Contributed surplus established for Swiss tax and statutory purposes ("Swiss Contributed Surplus"), is not impacted by our GAAP treatment.

Swiss Contributed Surplus, subject to certain conditions, is a freely distributable reserve. As of fiscal year end 2018 and 2017, Swiss Contributed Surplus was CHF 6,724 million and CHF 7,300 million, respectively (equivalent to \$5,809 million and \$6,420 million, respectively).

*Dividends*

We paid cash dividends to shareholders of \$1.68, \$1.54, and \$1.40 per share in fiscal 2018, 2017, and 2016, respectively.

Under Swiss law, subject to certain conditions, dividends paid from reserves from capital contributions (equivalent to Swiss Contributed Surplus) are exempt from Swiss withholding tax. Dividends on our shares must be approved by our shareholders.

**TE CONNECTIVITY LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**18. Shareholders' Equity (Continued)**

Our shareholders approved the following dividends on our common shares:

<u>Approval Date</u>	<u>Annual Payment Per Share</u>	<u>Payment Dates</u>
March 2015 . . . . .	\$1.32, payable in four quarterly installments of \$0.33	Third quarter of fiscal 2015 Fourth quarter of fiscal 2015 First quarter of fiscal 2016 Second quarter of fiscal 2016
March 2016 . . . . .	\$1.48, payable in four quarterly installments of \$0.37	Third quarter of fiscal 2016 Fourth quarter of fiscal 2016 First quarter of fiscal 2017 Second quarter of fiscal 2017
March 2017 . . . . .	\$1.60, payable in four quarterly installments of \$0.40	Third quarter of fiscal 2017 Fourth quarter of fiscal 2017 First quarter of fiscal 2018 Second quarter of fiscal 2018
March 2018 . . . . .	\$1.76, payable in four quarterly installments of \$0.44	Third quarter of fiscal 2018 Fourth quarter of fiscal 2018 First quarter of fiscal 2019 Second quarter of fiscal 2019

Upon shareholders' approval of a dividend payment, we record a liability with a corresponding charge to shareholders' equity. At fiscal year end 2018 and 2017, the unpaid portion of the dividends recorded in accrued and other current liabilities on the Consolidated Balance Sheets totaled \$303 million and \$281 million, respectively.

***Share Repurchase Program***

During fiscal 2018 and 2016, our board of directors authorized increases of \$1.5 billion and \$1.0 billion, respectively, in the share repurchase program. Common shares repurchased under the share repurchase program were as follows:

	<u>Fiscal</u>		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
	(in millions)		
Number of common shares repurchased . . . . .	10	8	43
Repurchase value . . . . .	\$966	\$621	\$2,610

At fiscal year end 2018, we had \$1.0 billion of availability remaining under our share repurchase authorization.

**TE CONNECTIVITY LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**19. Accumulated Other Comprehensive Income (Loss)**

The changes in each component of accumulated other comprehensive income (loss) were as follows:

	Currency Translation <sup>(1)</sup>	Unrecognized Pension and Postretirement Benefit Costs	Gains (Losses) on Cash Flow Hedges	Accumulated Other Comprehensive Income (Loss)
	(in millions)			
Balance at fiscal year end 2015 . . . . .	\$ 408	\$(738)	\$(43)	\$(373)
Other comprehensive income (loss), net of tax:				
Other comprehensive loss before reclassifications . . . . .	(69)	(190)	(14)	(273)
Amounts reclassified from accumulated other comprehensive income (loss) . . .	(23)	70	32	79
Income tax (expense) benefit . . . . .	—	32	(7)	25
Other comprehensive income (loss), net of tax . . . . .	<u>(92)</u>	<u>(88)</u>	<u>11</u>	<u>(169)</u>
Balance at fiscal year end 2016 . . . . .	<u>316</u>	<u>(826)</u>	<u>(32)</u>	<u>(542)</u>
Other comprehensive income, net of tax:				
Other comprehensive income before reclassifications . . . . .	38	378	32	448
Amounts reclassified from accumulated other comprehensive income (loss) . . .	(1)	74	(14)	59
Income tax expense . . . . .	—	(122)	(3)	(125)
Other comprehensive income, net of tax . . . . .	<u>37</u>	<u>330</u>	<u>15</u>	<u>382</u>
Balance at fiscal year end 2017 . . . . .	<u>353</u>	<u>(496)</u>	<u>(17)</u>	<u>(160)</u>
Adoption of ASU No. 2018-02 . . . . .	—	(39)	1	(38)
Other comprehensive income (loss), net of tax:				
Other comprehensive income (loss) before reclassifications . . . . .	(117)	64	(60)	(113)
Amounts reclassified from accumulated other comprehensive income (loss) . . .	—	40	(23)	17
Income tax (expense) benefit . . . . .	—	(21)	9	(12)
Other comprehensive income (loss), net of tax . . . . .	<u>(117)</u>	<u>83</u>	<u>(74)</u>	<u>(108)</u>
Balance at fiscal year end 2018 . . . . .	<u>\$ 236</u>	<u>\$(452)</u>	<u>\$(90)</u>	<u>\$(306)</u>

(1) Includes hedges of net investment foreign currency exchange gains or losses which offset foreign currency exchange losses or gains attributable to the translation of the net investments.

**TE CONNECTIVITY LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**20. Share Plans**

Our equity compensation plans, of which the TE Connectivity Ltd. 2007 Stock and Incentive Plan, amended and restated as of March 8, 2017 (the “2017 Plan”), is the primary plan, provide for the award of annual performance bonuses and long-term performance awards, including share options; restricted, performance, and deferred share units; and other share-based awards (collectively, “Awards”) and allow for the use of unissued shares or treasury shares to be used to satisfy such Awards. As of fiscal year end 2018, our plans provided for a maximum of 77 million shares to be issued as Awards, subject to adjustment as provided under the terms of the plans. A total of 20 million shares remained available for issuance under our plans as of fiscal year end 2018.

***Share-Based Compensation Expense***

Share-based compensation expense, which was included in selling, general, and administrative expenses on the Consolidated Statements of Operations, was as follows:

	Fiscal		
	2018	2017	2016
	(in millions)		
Share-based compensation expense . . . . .	\$95	\$95	\$87

We recognized a related tax benefit associated with our share-based compensation arrangements of \$20 million, \$31 million, and \$28 million in fiscal 2018, 2017, and 2016, respectively.

***Restricted Share Awards***

Restricted share awards, which are generally in the form of restricted share units, are granted subject to certain restrictions. Conditions of vesting are determined at the time of grant. All restrictions on an award will lapse upon death or disability of the employee. If the employee satisfies retirement requirements, a portion of the award may vest, depending on the terms and conditions of the particular grant. Recipients of restricted share units have no voting rights, but do receive dividend equivalents. For grants that vest through passage of time, the fair value of the award at the time of the grant is amortized to expense over the period of vesting. The fair value of restricted share awards is determined based on the closing value of our shares on the grant date. Restricted share awards generally vest in increments over a period of four years as determined by the management development and compensation committee.

Restricted share award activity was as follows:

	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at fiscal year end 2017 . . . . .	1,990,784	\$64.40
Granted . . . . .	592,852	93.45
Vested . . . . .	(799,724)	62.06
Forfeited . . . . .	(152,442)	70.88
Nonvested at fiscal year end 2018 . . . . .	1,631,470	\$75.39

**TE CONNECTIVITY LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**20. Share Plans (Continued)**

The weighted-average grant-date fair value of restricted share awards granted during fiscal 2018, 2017, and 2016 was \$93.45, \$67.72, and \$64.88, respectively.

The total fair value of restricted share awards that vested during fiscal 2018, 2017, and 2016 was \$50 million, \$50 million, and \$51 million, respectively.

As of fiscal year end 2018, there was \$66 million of unrecognized compensation cost related to nonvested restricted share awards. The cost is expected to be recognized over a weighted-average period of 1.6 years.

***Performance Share Awards***

Performance share awards, which are generally in the form of performance share units, are granted with pay-out subject to vesting requirements and certain performance conditions that are determined at the time of grant. Based on our performance, the pay-out of performance share units can range from 0% to 200% of the number of units originally granted. The grant-date fair value of performance share awards is expensed over the period of performance once achievement of the performance criteria is deemed probable. Recipients of performance share units have no voting rights but do receive dividend equivalents. Performance share awards generally vest after a period of three years as determined by the management development and compensation committee.

Performance share award activity was as follows:

	<u>Shares</u>	<u>Weighted-Average Grant-Date Fair Value</u>
Outstanding at fiscal year end 2017 . . . . .	703,407	\$65.13
Granted . . . . .	301,483	92.96
Vested . . . . .	(300,174)	61.99
Forfeited . . . . .	<u>(15,813)</u>	71.26
Outstanding at fiscal year end 2018 . . . . .	<u>688,903</u>	\$73.38

The weighted-average grant-date fair value of performance share awards granted during fiscal 2018, 2017, and 2016 was \$92.96, \$62.88, and \$55.15, respectively.

The total fair value of performance share awards that vested during fiscal 2018, 2017, and 2016 was \$19 million, \$15 million, and \$15 million, respectively.

As of fiscal year end 2018, there was \$24 million of unrecognized compensation cost related to nonvested performance share awards. The cost is expected to be recognized over a weighted-average period of 1.0 years.

***Share Options***

Share options are granted to purchase our common shares at prices which are equal to or greater than the market price of the common shares on the date the option is granted. Conditions of vesting are determined at the time of grant. All restrictions on the award will lapse upon death or disability of the employee. If the employee satisfies retirement requirements, a portion of the award may vest, depending on the terms and conditions of the particular grant. Options generally vest and become

**TE CONNECTIVITY LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**20. Share Plans (Continued)**

exercisable in equal annual installments over a period of four years and expire ten years after the date of grant.

Share option award activity was as follows:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
Outstanding at fiscal year end 2017 . . . . .	7,685,093	\$55.70		
Granted . . . . .	1,386,850	93.44		
Exercised . . . . .	(2,103,141)	46.50		
Expired . . . . .	(8,565)	60.44		
Forfeited . . . . .	(201,160)	70.98		
Outstanding at fiscal year end 2018 . . . . .	<u>6,759,077</u>	\$65.85	7.0	\$157
Vested and expected to vest at fiscal year end 2018 . . . . .	6,376,801	\$65.27	7.0	\$151
Exercisable at fiscal year end 2018 . . . . .	2,908,893	\$53.08	5.5	\$101

The weighted-average exercise price of share option awards granted during fiscal 2018, 2017, and 2016 was \$93.44, \$66.76, and \$65.70, respectively.

The total intrinsic value of options exercised during fiscal 2018, 2017, and 2016 was \$106 million, \$130 million, and \$67 million, respectively. We received cash related to the exercise of options of \$100 million, \$117 million, and \$90 million in fiscal 2018, 2017, and 2016, respectively.

As of fiscal year end 2018, there was \$34 million of unrecognized compensation cost related to nonvested share options granted under our share option plans. The cost is expected to be recognized over a weighted-average period of 1.7 years.

***Share-Based Compensation Assumptions***

The grant-date fair value of each share option grant was estimated using the Black-Scholes-Merton option pricing model. Use of a valuation model requires management to make certain assumptions with respect to selected model inputs. We employ our historical share volatility when calculating the grant-date fair value of our share option grants using the Black-Scholes-Merton option pricing model. Currently, we do not have exchange-traded options of sufficient duration to employ an implied volatility assumption in the calculation and therefore rely solely on the historical volatility calculation. The average expected life was based on the contractual term of the option and expected employee exercise and post-vesting employment termination behavior. The risk-free interest rate was based on U.S. Treasury zero-coupon issues with a remaining term that approximated the expected life assumed at the date of grant. The expected annual dividend per share was based on our expected dividend rate. The recognized share-based compensation expense was net of estimated forfeitures, which are based on voluntary termination behavior as well as an analysis of actual option forfeitures.

**TE CONNECTIVITY LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**20. Share Plans (Continued)**

The weighted-average grant-date fair value of options granted and the weighted-average assumptions we used in the Black-Scholes-Merton option pricing model were as follows:

	Fiscal		
	2018	2017	2016
Weighted-average grant-date fair value . . . . .	\$16.49	\$12.80	\$14.26
Assumptions:			
Expected share price volatility . . . . .	20%	24%	26%
Risk free interest rate . . . . .	2.2%	1.9%	2.0%
Expected annual dividend per share . . . . .	\$ 1.60	\$ 1.48	\$ 1.32
Expected life of options (in years) . . . . .	5.3	5.6	5.7

**21. Segment and Geographic Data**

We operate through three reportable segments: Transportation Solutions, Industrial Solutions, and Communications Solutions. See Note 1 for a description of the segments in which we operate.

Segment performance is evaluated based on net sales and operating income. Generally, we consider all expenses to be of an operating nature and, accordingly, allocate them to each reportable segment. Costs specific to a segment are charged to the segment. Corporate expenses, such as headquarters administrative costs, are allocated to the segments based on segment operating income. Intersegment sales were not material and were recorded at selling prices that approximate market prices. Corporate assets are allocated to the segments based on segment assets.

Net sales and operating income by segment were as follows:

	Net Sales			Operating Income		
	Fiscal			Fiscal		
	2018	2017	2016	2018	2017	2016
	(in millions)					
Transportation Solutions . . . . .	\$ 8,290	\$ 7,039	\$ 6,503	\$1,578	\$1,294	\$1,209
Industrial Solutions . . . . .	3,856	3,507	3,215	465	364	353
Communications Solutions . . . . .	1,842	1,639	1,634	288	218	246 <sup>(1)</sup>
Total . . . . .	<u>\$13,988</u>	<u>\$12,185</u>	<u>\$11,352</u>	<u>\$2,331</u>	<u>\$1,876</u>	<u>\$1,808</u>

(1) Includes pre-tax gain of \$144 million on the sale of our CPD business during fiscal 2016.

No single customer accounted for a significant amount of our net sales in fiscal 2018, 2017, or 2016.

As we are not organized by product or service, it is not practicable to disclose net sales by product or service.



**TE CONNECTIVITY LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**21. Segment and Geographic Data (Continued)**

Depreciation and amortization and capital expenditures were as follows:

	<b>Depreciation and Amortization</b>			<b>Capital Expenditures</b>		
	<b>Fiscal</b>			<b>Fiscal</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
	(in millions)					
Transportation Solutions . . . . .	\$416	\$362	\$341	\$711	\$473	\$432
Industrial Solutions . . . . .	178	165	134	145	123	108
Communications Solutions . . . . .	73	84	85	79	83	63
Total . . . . .	<u>\$667</u>	<u>\$611</u>	<u>\$560</u>	<u>\$935</u>	<u>\$679</u>	<u>\$603</u>

Segment assets and a reconciliation of segment assets to total assets were as follows:

	<b>Segment Assets</b>		
	<b>Fiscal Year End</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
	(in millions)		
Transportation Solutions . . . . .	\$ 4,707	\$ 4,084	\$ 3,510
Industrial Solutions . . . . .	2,049	1,909	1,725
Communications Solutions . . . . .	959	951	889
Total segment assets <sup>(1)</sup> . . . . .	7,715	6,944	6,124
Other current assets . . . . .	1,981	2,141	1,460
Other non-current assets . . . . .	10,690	10,318	10,024
Total assets . . . . .	<u>\$20,386</u>	<u>\$19,403</u>	<u>\$17,608</u>

(1) Segment assets are composed of accounts receivable, inventories, and net property, plant, and equipment.

**TE CONNECTIVITY LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**21. Segment and Geographic Data (Continued)**

Net sales and net property, plant, and equipment by geographic region were as follows:

	Net Sales <sup>(1)</sup>			Property, Plant, and Equipment, Net		
	Fiscal			Fiscal Year End		
	2018	2017	2016	2018	2017	2016
	(in millions)					
Europe/Middle East/Africa:						
Switzerland . . . . .	\$ 3,478	\$ 3,016	\$ 2,979	\$ 94	\$ 80	\$ 62
Germany . . . . .	443	235	127	448	413	334
Other Europe/Middle East/Africa . . . . .	1,334	1,148	1,008	829	741	628
Total Europe/Middle East/Africa . . . . .	<u>5,255</u>	<u>4,399</u>	<u>4,114</u>	<u>1,371</u>	<u>1,234</u>	<u>1,024</u>
Asia-Pacific:						
China . . . . .	2,739	2,414	2,165	627	555	491
Other Asia-Pacific . . . . .	2,023	1,898	1,758	436	390	371
Total Asia-Pacific . . . . .	<u>4,762</u>	<u>4,312</u>	<u>3,923</u>	<u>1,063</u>	<u>945</u>	<u>862</u>
Americas:						
U.S. . . . .	3,583	3,136	3,018	964	880	830
Other Americas . . . . .	388	338	297	99	100	93
Total Americas . . . . .	<u>3,971</u>	<u>3,474</u>	<u>3,315</u>	<u>1,063</u>	<u>980</u>	<u>923</u>
Total . . . . .	<u>\$13,988</u>	<u>\$12,185</u>	<u>\$11,352</u>	<u>\$3,497</u>	<u>\$3,159</u>	<u>\$2,809</u>

(1) Net sales to external customers is attributed to individual countries based on the legal entity that records the sale.

**TE CONNECTIVITY LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**22. Quarterly Financial Data (unaudited)**

Summarized quarterly financial data was as follows:

	Fiscal							
	2018				2017			
	First Quarter <sup>(1)</sup>	Second Quarter	Third Quarter	Fourth Quarter <sup>(2)</sup>	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(in millions, except per share data)							
Net sales . . . . .	\$3,336	\$3,562	\$3,581	\$3,509	\$2,848	\$3,007	\$3,095	\$3,235
Gross margin . . . . .	1,164	1,212	1,187	1,182	1,015	1,041	1,060	1,067
Acquisition and integration costs . . . . .	2	3	4	5	2	2	1	1
Restructuring and other charges, net . . .	34	6	64	22	46	59	20	22
Income (loss) from continuing operations . . . . .	(33)	490	453	1,674	387	374	390	389
Income (loss) from discontinued operations, net of income taxes . . . . .	(7)	—	1	(13)	22	31	45	45
Net income (loss) . . . . .	\$ (40)	\$ 490	\$ 454	\$ 1,661	\$ 409	\$ 405	\$ 435	\$ 434
<b>Basic earnings (loss) per share:</b>								
Income (loss) from continuing operations . . . . .	\$(0.09)	\$ 1.40	\$ 1.30	\$ 4.82	\$ 1.09	\$ 1.05	\$ 1.10	\$ 1.10
Net income (loss) . . . . .	(0.11)	1.40	1.30	4.79	1.15	1.14	1.23	1.23
<b>Diluted earnings (loss) per share:</b>								
Income (loss) from continuing operations . . . . .	\$(0.09)	\$ 1.38	\$ 1.29	\$ 4.78	\$ 1.08	\$ 1.04	\$ 1.09	\$ 1.09
Net income (loss) . . . . .	(0.11)	1.38	1.29	4.75	1.14	1.13	1.22	1.22

- (1) Results for the quarter ended December 29, 2017 included \$567 million of income tax expense related to the tax impacts of the Tax Cuts and Jobs Act. See Note 15 for additional information regarding income taxes.
- (2) Results for the quarter ended September 28, 2018 included a \$1,222 million net income tax benefit associated with the tax impacts of certain legal entity restructurings and intercompany transactions. See Note 15 for additional information regarding income taxes.

**23. Subsequent Event**

In November 2018, we completed the sale of the Subsea Communications business for \$325 million. The proceeds received are subject to a final working capital adjustment.

**TE CONNECTIVITY LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**24. Tyco Electronics Group S.A.**

Tyco Electronics Group S.A. (“TEGSA”), a Luxembourg company and our 100%-owned subsidiary, is a holding company that owns, directly or indirectly, all of our operating subsidiaries. TEGSA is the obligor under our senior notes, commercial paper, and Credit Facility, which are fully and unconditionally guaranteed by its parent, TE Connectivity Ltd. The following tables present condensed consolidating financial information for TE Connectivity Ltd., TEGSA, and all other subsidiaries that are not providing a guarantee of debt but which represent assets of TEGSA, using the equity method of accounting.

**Condensed Consolidating Statement of Operations**  
**For the Fiscal Year Ended September 28, 2018**

	TE Connectivity Ltd.	TEGSA	Other Subsidiaries	Consolidating Adjustments	Total
	(in millions)				
Net sales . . . . .	\$ —	\$ —	\$13,988	\$ —	\$13,988
Cost of sales . . . . .	—	—	9,243	—	9,243
<b>Gross margin . . . . .</b>	—	—	4,745	—	4,745
Selling, general, and administrative expenses, net . . .	154	6	1,434	—	1,594
Research, development, and engineering expenses . .	—	—	680	—	680
Acquisition and integration costs . . . . .	—	—	14	—	14
Restructuring and other charges, net . . . . .	—	—	126	—	126
<b>Operating income (loss) . . . . .</b>	(154)	(6)	2,491	—	2,331
Interest income . . . . .	—	2	13	—	15
Interest expense . . . . .	—	(105)	(2)	—	(107)
Other income, net . . . . .	—	—	1	—	1
Equity in net income of subsidiaries . . . . .	2,808	2,841	—	(5,649)	—
Equity in net loss of subsidiaries of discontinued operations . . . . .	(19)	(19)	—	38	—
Intercompany interest income (expense), net . . . . .	(70)	76	(6)	—	—
<b>Income from continuing operations before income taxes . . . . .</b>	2,565	2,789	2,497	(5,611)	2,240
Income tax benefit . . . . .	—	—	344	—	344
<b>Income from continuing operations . . . . .</b>	2,565	2,789	2,841	(5,611)	2,584
Loss from discontinued operations, net of income taxes . . . . .	—	—	(19)	—	(19)
<b>Net income . . . . .</b>	2,565	2,789	2,822	(5,611)	2,565
Other comprehensive loss . . . . .	(108)	(108)	(82)	190	(108)
<b>Comprehensive income . . . . .</b>	<u>\$ 2,457</u>	<u>\$ 2,681</u>	<u>\$ 2,740</u>	<u>\$ (5,421)</u>	<u>\$ 2,457</u>

**TE CONNECTIVITY LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**24. Tyco Electronics Group S.A. (Continued)**

**Condensed Consolidating Statement of Operations**  
**For the Fiscal Year Ended September 29, 2017**

	TE Connectivity Ltd.	TEGSA	Other Subsidiaries (in millions)	Consolidating Adjustments	Total
Net sales . . . . .	\$ —	\$ —	\$12,185	\$ —	\$12,185
Cost of sales . . . . .	—	—	8,002	—	8,002
<b>Gross margin . . . . .</b>	<b>—</b>	<b>—</b>	<b>4,183</b>	<b>—</b>	<b>4,183</b>
Selling, general, and administrative expenses, net <sup>(1)</sup> . . . . .	184	1,911	(552)	—	1,543
Research, development, and engineering expenses . . . . .	—	—	611	—	611
Acquisition and integration costs . . . . .	—	—	6	—	6
Restructuring and other charges, net . . . . .	—	—	147	—	147
<b>Operating income (loss) . . . . .</b>	<b>(184)</b>	<b>(1,911)</b>	<b>3,971</b>	<b>—</b>	<b>1,876</b>
Interest income . . . . .	—	—	16	—	16
Interest expense . . . . .	—	(129)	(1)	—	(130)
Other expense, net . . . . .	—	—	(42)	—	(42)
Equity in net income of subsidiaries . . . . .	1,756	3,686	—	(5,442)	—
Equity in net income of subsidiaries of discontinued operations . . . . .	143	156	—	(299)	—
Intercompany interest income (expense), net . . . . .	(32)	110	(78)	—	—
<b>Income from continuing operations before income taxes . . . . .</b>	<b>1,683</b>	<b>1,912</b>	<b>3,866</b>	<b>(5,741)</b>	<b>1,720</b>
Income tax expense . . . . .	—	—	(180)	—	(180)
<b>Income from continuing operations . . . . .</b>	<b>1,683</b>	<b>1,912</b>	<b>3,686</b>	<b>(5,741)</b>	<b>1,540</b>
Income (loss) from discontinued operations, net of income taxes <sup>(2)</sup> . . . . .	—	(13)	156	—	143
<b>Net income . . . . .</b>	<b>1,683</b>	<b>1,899</b>	<b>3,842</b>	<b>(5,741)</b>	<b>1,683</b>
Other comprehensive income . . . . .	382	382	375	(757)	382
<b>Comprehensive income . . . . .</b>	<b>\$ 2,065</b>	<b>\$ 2,281</b>	<b>\$ 4,217</b>	<b>\$ (6,498)</b>	<b>\$ 2,065</b>

(1) TEGSA selling, general and administrative expenses include losses of \$1,965 million related to intercompany transactions. These losses are offset by corresponding gains recorded by other subsidiaries.

(2) Includes the internal allocation of gains and losses associated with the divestiture of our BNS business.

**TE CONNECTIVITY LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**24. Tyco Electronics Group S.A. (Continued)**

**Condensed Consolidating Statement of Operations**  
**For the Fiscal Year Ended September 30, 2016**

	TE Connectivity Ltd.	TEGSA	Other Subsidiaries (in millions)	Consolidating Adjustments	Total
Net sales . . . . .	\$ —	\$ —	\$11,352	\$ —	\$11,352
Cost of sales . . . . .	—	—	7,525	—	7,525
<b>Gross margin</b> . . . . .	—	—	3,827	—	3,827
Selling, general, and administrative expenses, net <sup>(1)</sup> .	168	95	1,133	—	1,396
Research, development, and engineering expenses . .	—	—	603	—	603
Acquisition and integration costs . . . . .	—	—	22	—	22
Restructuring and other charges (credits), net . . . . .	2	(1)	(3)	—	(2)
<b>Operating income (loss)</b> . . . . .	(170)	(94)	2,072	—	1,808
Interest income . . . . .	—	—	17	—	17
Interest expense . . . . .	—	(126)	(1)	—	(127)
Other expense, net . . . . .	—	—	(677)	—	(677)
Equity in net income of subsidiaries . . . . .	2,045	2,167	—	(4,212)	—
Equity in net income of subsidiaries of discontinued operations . . . . .	161	262	—	(423)	—
Intercompany interest income (expense), net . . . . .	(28)	98	(70)	—	—
<b>Income from continuing operations before income taxes</b> . . . . .	2,008	2,307	1,341	(4,635)	1,021
Income tax benefit . . . . .	—	—	826	—	826
<b>Income from continuing operations</b> . . . . .	2,008	2,307	2,167	(4,635)	1,847
Income (loss) from discontinued operations, net of income taxes <sup>(2)</sup> . . . . .	1	(101)	262	—	162
<b>Net income</b> . . . . .	2,009	2,206	2,429	(4,635)	2,009
Other comprehensive loss . . . . .	(169)	(169)	(143)	312	(169)
<b>Comprehensive income</b> . . . . .	<u>\$ 1,840</u>	<u>\$ 2,037</u>	<u>\$ 2,286</u>	<u>\$ (4,323)</u>	<u>\$ 1,840</u>

- (1) TEGSA selling, general, and administrative expenses include losses of \$80 million related to intercompany transactions. These losses are offset by corresponding gains recorded by other subsidiaries.
- (2) Includes the internal allocation of gains and losses associated with the divestiture of our BNS business.

**TE CONNECTIVITY LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**24. Tyco Electronics Group S.A. (Continued)**

**Condensed Consolidating Balance Sheet**  
**As of September 28, 2018**

	TE Connectivity Ltd.	TEGSA	Other Subsidiaries (in millions)	Consolidating Adjustments	Total
<b>Assets</b>					
Current assets:					
Cash and cash equivalents . . . . .	\$ —	\$ —	\$ 848	\$ —	\$ 848
Accounts receivable, net . . . . .	—	—	2,361	—	2,361
Inventories . . . . .	—	—	1,857	—	1,857
Intercompany receivables . . . . .	37	2,391	48	(2,476)	—
Prepaid expenses and other current assets . . . . .	5	112	544	—	661
Current assets held for sale . . . . .	—	—	472	—	472
<b>Total current assets . . . . .</b>	<b>42</b>	<b>2,503</b>	<b>6,130</b>	<b>(2,476)</b>	<b>6,199</b>
Property, plant, and equipment, net . . . . .	—	—	3,497	—	3,497
Goodwill . . . . .	—	—	5,684	—	5,684
Intangible assets, net . . . . .	—	—	1,704	—	1,704
Deferred income taxes . . . . .	—	—	2,144	—	2,144
Investment in subsidiaries . . . . .	13,626	26,613	—	(40,239)	—
Intercompany loans receivable . . . . .	2	6,535	17,887	(24,424)	—
Other assets . . . . .	—	—	1,158	—	1,158
<b>Total Assets . . . . .</b>	<b>\$13,670</b>	<b>\$35,651</b>	<b>\$38,204</b>	<b>\$(67,139)</b>	<b>\$20,386</b>
<b>Liabilities and Shareholders' Equity</b>					
Current liabilities:					
Short-term debt . . . . .	\$ —	\$ 961	\$ 2	\$ —	\$ 963
Accounts payable . . . . .	2	—	1,546	—	1,548
Accrued and other current liabilities . . . . .	400	36	1,275	—	1,711
Intercompany payables . . . . .	2,437	—	39	(2,476)	—
Current liabilities held for sale . . . . .	—	—	188	—	188
<b>Total current liabilities . . . . .</b>	<b>2,839</b>	<b>997</b>	<b>3,050</b>	<b>(2,476)</b>	<b>4,410</b>
Long-term debt . . . . .	—	3,033	4	—	3,037
Intercompany loans payable . . . . .	—	17,888	6,536	(24,424)	—
Long-term pension and postretirement liabilities . . . . .	—	—	1,102	—	1,102
Deferred income taxes . . . . .	—	—	207	—	207
Income taxes . . . . .	—	—	312	—	312
Other liabilities . . . . .	—	107	380	—	487
<b>Total Liabilities . . . . .</b>	<b>2,839</b>	<b>22,025</b>	<b>11,591</b>	<b>(26,900)</b>	<b>9,555</b>
<b>Total Shareholders' Equity . . . . .</b>	<b>10,831</b>	<b>13,626</b>	<b>26,613</b>	<b>(40,239)</b>	<b>10,831</b>
<b>Total Liabilities and Shareholders' Equity . . . . .</b>	<b>\$13,670</b>	<b>\$35,651</b>	<b>\$38,204</b>	<b>\$(67,139)</b>	<b>\$20,386</b>



**TE CONNECTIVITY LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**24. Tyco Electronics Group S.A. (Continued)**

**Condensed Consolidating Balance Sheet**  
**As of September 29, 2017**

	TE Connectivity Ltd.	TEGSA	Other Subsidiaries (in millions)	Consolidating Adjustments	Total
<b>Assets</b>					
Current assets:					
Cash and cash equivalents . . . . .	\$ —	\$ —	\$ 1,218	\$ —	\$ 1,218
Accounts receivable, net . . . . .	—	—	2,138	—	2,138
Inventories . . . . .	—	—	1,647	—	1,647
Intercompany receivables . . . . .	49	1,914	60	(2,023)	—
Prepaid expenses and other current assets . . . . .	4	96	478	—	578
Current assets held for sale . . . . .	—	—	345	—	345
<b>Total current assets . . . . .</b>	<b>53</b>	<b>2,010</b>	<b>5,886</b>	<b>(2,023)</b>	<b>5,926</b>
Property, plant, and equipment, net . . . . .	—	—	3,159	—	3,159
Goodwill . . . . .	—	—	5,651	—	5,651
Intangible assets, net . . . . .	—	—	1,841	—	1,841
Deferred income taxes . . . . .	—	—	2,141	—	2,141
Investment in subsidiaries . . . . .	11,960	20,109	—	(32,069)	—
Intercompany loans receivable . . . . .	—	4,027	9,700	(13,727)	—
Noncurrent assets held for sale . . . . .	—	—	257	—	257
Other assets . . . . .	—	6	422	—	428
<b>Total Assets . . . . .</b>	<b>\$12,013</b>	<b>\$26,152</b>	<b>\$29,057</b>	<b>\$(47,819)</b>	<b>\$19,403</b>
<b>Liabilities and Shareholders' Equity</b>					
Current liabilities:					
Short-term debt . . . . .	\$ —	\$ 708	\$ 2	\$ —	\$ 710
Accounts payable . . . . .	2	—	1,385	—	1,387
Accrued and other current liabilities . . . . .	286	59	1,268	—	1,613
Intercompany payables . . . . .	1,974	—	49	(2,023)	—
Current liabilities held for sale . . . . .	—	—	137	—	137
<b>Total current liabilities . . . . .</b>	<b>2,262</b>	<b>767</b>	<b>2,841</b>	<b>(2,023)</b>	<b>3,847</b>
Long-term debt . . . . .	—	3,629	5	—	3,634
Intercompany loans payable . . . . .	—	9,700	4,027	(13,727)	—
Long-term pension and postretirement liabilities . . . . .	—	—	1,158	—	1,158
Deferred income taxes . . . . .	—	—	236	—	236
Income taxes . . . . .	—	—	293	—	293
Noncurrent liabilities held for sale . . . . .	—	—	43	—	43
Other liabilities . . . . .	—	96	345	—	441
<b>Total Liabilities . . . . .</b>	<b>2,262</b>	<b>14,192</b>	<b>8,948</b>	<b>(15,750)</b>	<b>9,652</b>
<b>Total Shareholders' Equity . . . . .</b>	<b>9,751</b>	<b>11,960</b>	<b>20,109</b>	<b>(32,069)</b>	<b>9,751</b>
<b>Total Liabilities and Shareholders' Equity . . . . .</b>	<b>\$12,013</b>	<b>\$26,152</b>	<b>\$29,057</b>	<b>\$(47,819)</b>	<b>\$19,403</b>

**TE CONNECTIVITY LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**24. Tyco Electronics Group S.A. (Continued)**

**Condensed Consolidating Statement of Cash Flows**  
**For the Fiscal Year Ended September 28, 2018**

	TE Connectivity Ltd.	TEGSA	Other Subsidiaries (in millions)	Consolidating Adjustments	Total
<b>Cash Flows From Operating Activities:</b>					
Net cash provided by continuing operating activities <sup>(1)</sup> . . . . .	\$ 486	\$ 343	\$ 2,625	\$ (1,153)	\$ 2,301
Net cash provided by discontinued operating activities . . . . .	—	—	150	—	150
Net cash provided by operating activities . . . . .	<u>486</u>	<u>343</u>	<u>2,775</u>	<u>(1,153)</u>	<u>2,451</u>
<b>Cash Flows From Investing Activities:</b>					
Capital expenditures . . . . .	—	—	(935)	—	(935)
Proceeds from sale of property, plant, and equipment . . . . .	—	—	23	—	23
Acquisition of businesses, net of cash acquired . . . . .	—	—	(153)	—	(153)
Intercompany distribution receipts <sup>(1)</sup> . . . . .	—	794	—	(794)	—
Change in intercompany loans . . . . .	—	62	—	(62)	—
Other . . . . .	—	—	(8)	—	(8)
Net cash provided by (used in) continuing investing activities . . . . .	—	856	(1,073)	(856)	(1,073)
Net cash used in discontinued investing activities . . . . .	—	—	(21)	—	(21)
Net cash provided by (used in) investing activities . . . . .	<u>—</u>	<u>856</u>	<u>(1,094)</u>	<u>(856)</u>	<u>(1,094)</u>
<b>Cash Flows From Financing Activities:</b>					
Changes in parent company equity <sup>(2)</sup> . . . . .	112	(170)	58	—	—
Net increase in commercial paper . . . . .	—	270	—	—	270
Proceeds from issuance of debt . . . . .	—	119	—	—	119
Repayment of debt . . . . .	—	(708)	—	—	(708)
Proceeds from exercise of share options . . . . .	—	—	100	—	100
Repurchase of common shares . . . . .	(478)	—	(401)	—	(879)
Payment of common share dividends to shareholders . . . . .	(594)	—	6	—	(588)
Intercompany distributions <sup>(1)</sup> . . . . .	—	(710)	(505)	1,215	—
Loan activity with parent . . . . .	474	—	(1,268)	794	—
Transfers from discontinued operations . . . . .	—	—	129	—	129
Other . . . . .	—	—	(36)	—	(36)
Net cash used in continuing financing activities . . . . .	(486)	(1,199)	(1,917)	2,009	(1,593)
Net cash used in discontinued financing activities . . . . .	—	—	(129)	—	(129)
Net cash used in financing activities . . . . .	<u>(486)</u>	<u>(1,199)</u>	<u>(2,046)</u>	<u>2,009</u>	<u>(1,722)</u>
Effect of currency translation on cash . . . . .	—	—	(5)	—	(5)
<b>Net decrease in cash and cash equivalents . . . . .</b>	<b>—</b>	<b>—</b>	<b>(370)</b>	<b>—</b>	<b>(370)</b>
<b>Cash and cash equivalents at beginning of fiscal year . . . . .</b>	<b>—</b>	<b>—</b>	<b>1,218</b>	<b>—</b>	<b>1,218</b>
<b>Cash and cash equivalents at end of fiscal year . . . . .</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 848</b>	<b>\$ —</b>	<b>\$ 848</b>

(1) During fiscal 2018, other subsidiaries made distributions to TEGSA in the amount of \$505 million and TEGSA made distributions to TE Connectivity Ltd. in the amount of \$710 million. Cash flows are presented based upon the nature of the distributions.

(2) Changes in parent company equity includes cash flows related to certain intercompany equity and funding transactions, and other intercompany activity.

**TE CONNECTIVITY LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**24. Tyco Electronics Group S.A. (Continued)**

**Condensed Consolidating Statement of Cash Flows**  
**For the Fiscal Year Ended September 29, 2017**

	TE Connectivity Ltd.	TEGSA	Other Subsidiaries (in millions)	Consolidating Adjustments	Total
<b>Cash Flows From Operating Activities:</b>					
Net cash provided by (used in) continuing operating activities <sup>(1)</sup>	\$ (180)	\$ 102	\$ 2,581	\$ (230)	\$ 2,273
Net cash provided by discontinued operating activities	—	—	48	—	48
Net cash provided by (used in) operating activities	<u>(180)</u>	<u>102</u>	<u>2,629</u>	<u>(230)</u>	<u>2,321</u>
<b>Cash Flows From Investing Activities:</b>					
Capital expenditures	—	—	(679)	—	(679)
Proceeds from sale of property, plant, and equipment	—	—	19	—	19
Acquisition of businesses, net of cash acquired	—	—	(250)	—	(250)
Proceeds from divestiture of business, net of cash retained by sold business	—	—	4	—	4
Intercompany distribution receipts <sup>(1)</sup>	—	516	—	(516)	—
Change in intercompany loans	—	(1,369)	—	1,369	—
Other	—	(12)	9	—	(3)
Net cash used in continuing investing activities	—	(865)	(897)	853	(909)
Net cash used in discontinued investing activities	—	—	(23)	—	(23)
Net cash used in investing activities	<u>—</u>	<u>(865)</u>	<u>(920)</u>	<u>853</u>	<u>(932)</u>
<b>Cash Flows From Financing Activities:</b>					
Changes in parent company equity <sup>(2)</sup>	97	559	(656)	—	—
Net decrease in commercial paper	—	(330)	—	—	(330)
Proceeds from issuance of debt	—	589	—	—	589
Proceeds from exercise of share options	—	—	117	—	117
Repurchase of common shares	—	—	(614)	—	(614)
Payment of common share dividends to shareholders	(550)	—	4	—	(546)
Intercompany distributions <sup>(1)</sup>	—	(50)	(696)	746	—
Loan activity with parent	633	—	736	(1,369)	—
Transfers from discontinued operations	—	—	25	—	25
Other	—	(5)	(25)	—	(30)
Net cash provided by (used in) continuing financing activities	180	763	(1,109)	(623)	(789)
Net cash used in discontinued financing activities	—	—	(25)	—	(25)
Net cash provided by (used in) financing activities	<u>180</u>	<u>763</u>	<u>(1,134)</u>	<u>(623)</u>	<u>(814)</u>
Effect of currency translation on cash	—	—	(4)	—	(4)
<b>Net increase in cash and cash equivalents</b>	<u>—</u>	<u>—</u>	<u>571</u>	<u>—</u>	<u>571</u>
<b>Cash and cash equivalents at beginning of fiscal year</b>	<u>—</u>	<u>—</u>	<u>647</u>	<u>—</u>	<u>647</u>
<b>Cash and cash equivalents at end of fiscal year</b>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,218</u>	<u>\$ —</u>	<u>\$ 1,218</u>

- (1) During fiscal 2017, other subsidiaries made distributions to TEGSA in the amount of \$696 million and TEGSA made distributions to TE Connectivity Ltd. in the amount of \$50 million. Cash flows are presented based upon the nature of the distributions.
- (2) Changes in parent company equity includes cash flows related to certain intercompany equity and funding transactions, and other intercompany activity.

**TE CONNECTIVITY LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**24. Tyco Electronics Group S.A. (Continued)**

**Condensed Consolidating Statement of Cash Flows**  
**For the Fiscal Year Ended September 30, 2016**

	TE Connectivity Ltd.	TEGSA	Other Subsidiaries (in millions)	Consolidating Adjustments	Total
<b>Cash Flows From Operating Activities:</b>					
Net cash provided by (used in) continuing operating activities <sup>(1)</sup>	\$ (37)	\$ 211	\$ 2,095	\$ (336)	\$ 1,933
Net cash provided by discontinued operating activities	—	—	14	—	14
Net cash provided by (used in) operating activities	(37)	211	2,109	(336)	1,947
<b>Cash Flows From Investing Activities:</b>					
Capital expenditures	—	—	(603)	—	(603)
Proceeds from sale of property, plant, and equipment	—	—	8	—	8
Acquisition of businesses, net of cash acquired	—	—	(1,336)	—	(1,336)
Proceeds from divestiture of business, net of cash retained by sold business	—	199	134	—	333
Intercompany distribution receipts <sup>(1)</sup>	1,082	1,729	—	(2,811)	—
Change in intercompany loans	—	(1,244)	—	1,244	—
Other <sup>(2)</sup>	—	(120)	162	—	42
Net cash provided by (used in) continuing investing activities	1,082	564	(1,635)	(1,567)	(1,556)
Net cash used in discontinued investing activities	—	—	(25)	—	(25)
Net cash provided by (used in) investing activities	1,082	564	(1,660)	(1,567)	(1,581)
<b>Cash Flows From Financing Activities:</b>					
Changes in parent company equity <sup>(3)</sup>	410	300	(710)	—	—
Net increase in commercial paper	—	330	—	—	330
Proceeds from issuance of debt	—	349	3	—	352
Repayment of debt	—	(500)	(1)	—	(501)
Proceeds from exercise of share options	—	—	90	—	90
Repurchase of common shares	(2,780)	—	(7)	—	(2,787)
Payment of common share dividends to shareholders	(513)	—	4	—	(509)
Intercompany distributions <sup>(1)</sup>	—	(1,250)	(1,897)	3,147	—
Loan activity with parent	1,838	—	(594)	(1,244)	—
Transfers to discontinued operations	—	—	(11)	—	(11)
Other	—	(4)	(26)	—	(30)
Net cash used in continuing financing activities	(1,045)	(775)	(3,149)	1,903	(3,066)
Net cash provided by discontinued financing activities	—	—	11	—	11
Net cash used in financing activities	(1,045)	(775)	(3,138)	1,903	(3,055)
Effect of currency translation on cash	—	—	7	—	7
<b>Net decrease in cash and cash equivalents</b>	<b>—</b>	<b>—</b>	<b>(2,682)</b>	<b>—</b>	<b>(2,682)</b>
<b>Cash and cash equivalents at beginning of fiscal year</b>	<b>—</b>	<b>—</b>	<b>3,329</b>	<b>—</b>	<b>3,329</b>
<b>Cash and cash equivalents at end of fiscal year</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 647</b>	<b>\$ —</b>	<b>\$ 647</b>

(1) During fiscal 2016, other subsidiaries made distributions to TEGSA in the amount of \$1,897 million and TEGSA made distributions to TE Connectivity Ltd. in the amount of \$1,250 million. Cash flows are presented based upon the nature of the distributions.

(2) Includes the internal allocation of proceeds between TEGSA and other subsidiaries associated with the divestiture of our BNS business.

(3) Changes in parent company equity includes cash flows related to certain intercompany equity and funding transactions, and other intercompany activity.

**TE CONNECTIVITY LTD.**

**SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS**

**Fiscal Years Ended September 28, 2018, September 29, 2017, and September 30, 2016**

<u>Description</u>	<u>Balance at Beginning of Fiscal Year</u>	<u>Additions Charged to Costs and Expenses</u>	<u>Acquisitions, Divestitures, and Other</u>	<u>Deductions</u>	<u>Balance at End of Fiscal Year</u>
			(in millions)		
<b>Fiscal 2018:</b>					
Allowance for doubtful accounts receivable . . . . .	\$ 18	\$ 7	\$(1)	\$ (2)	\$ 22
Valuation allowance on deferred tax assets . . . . .	3,627	261	—	(1,697)	2,191
<b>Fiscal 2017:</b>					
Allowance for doubtful accounts receivable . . . . .	\$ 17	\$ 5	\$—	\$ (4)	\$ 18
Valuation allowance on deferred tax assets . . . . .	3,096	1,072	—	(541)	3,627
<b>Fiscal 2016:</b>					
Allowance for doubtful accounts receivable . . . . .	\$ 18	\$ —	\$ 1	\$ (2)	\$ 17
Valuation allowance on deferred tax assets . . . . .	3,237	283	1	(425)	3,096

## **Report of the Statutory Auditor on the Consolidated Financial Statements of TE Connectivity Ltd.**

To the General meeting of  
**TE CONNECTIVITY LTD., SCHAFFHAUSEN**

### **Report of the Statutory Auditor on the consolidated financial statements**

As Statutory Auditor, we have audited the accompanying consolidated financial statements of TE Connectivity Ltd. (the “Company”), which comprise the consolidated balance sheet as of September 28, 2018, and the consolidated statement of operations, statement of comprehensive income, statement of shareholders’ equity, statement of cash flows and notes for the year then ended.

#### *Board of Directors’ Responsibility*

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

#### *Auditor’s Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law, Swiss Auditing Standards and auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity’s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Report on Key Audit Matters based on the circular 1/2015 of the Federal Audit Oversight Authority**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were

addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

**Key Audit Matter (KAM):**

*Goodwill Reporting Unit Fair Value Estimates*

The Company reviews the carrying amount of its reporting units annually as of the first day of the fourth quarter or more frequently if impairment indicators are present. The impairment assessment involves a comparison of the estimated fair value of each reporting unit to its carrying amount.

This annual impairment test was significant to our audit because the goodwill balance of \$5,684 million as of September 28, 2018 is significant to the financial statements representing 28% of the total assets. In addition, we note that management's assessment process is assumption based, complex and subject to highly judgmental estimates.

Fair value estimates used in the step I goodwill impairment tests are calculated using an income approach based on the present value of future cash flows of each reporting unit. This approach incorporates a number of assumptions including future growth rates, discount rates, income tax rates, and market activity in assessing fair value and are reporting unit specific.

See Note 2 to these consolidated financial statements for TE Connectivity's description of the accounting policy for Goodwill and Other Intangible Assets.

*Income Taxes (Recoverability of Deferred Tax Assets)*

Significant judgment is involved in determining the recoverability of deferred tax amounts and therefore, the corresponding valuation allowance recorded. The assessment is complex, since the Company operates in multiple tax jurisdictions. Furthermore, the Company is required to record both deferred tax assets and liabilities and estimates the recoverability of its deferred tax asset position related to temporary differences and the amount of tax loss carryforwards that can be applied to future taxable income.

Key assumptions applied by the Company regarding recoverability of deferred tax assets relate to managements budgets and forecasts including applicable tax rates whether enacted or substantially enacted. Due to the significance of the income tax balances and the judgment involved in determining these, this matter was considered significant to our audit. See Note 2 to these consolidated financial statements for TE Connectivity's description of the accounting policy for Income Taxes.

**How the scope of our audit responded to the key audit matters:**

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We obtained an understanding of the process for how management develops forecasts of financial information, evaluated the design of, and performed tests of controls in this area.

Our procedures included a review of the valuations prepared by management and related supporting third-party evidence for the fair values of each goodwill reporting unit. We also evaluated management's ability to accurately forecast financial results through retrospective analysis and sensitivity analysis. Additionally, we evaluated the accounting conclusion on the identification and aggregation of reporting units using industry information and historical objectively verifiable evidence.

We involved our Deloitte internal fair value specialists, who assisted us in auditing the valuation assumptions within the Company's fair value estimates, including discount rates and long-term growth rates in addition to valuation methodology.

We obtained an understanding of the process for how management reviews the valuation allowance, including the Company's estimate of projected taxable income and tax planning strategies. We will also evaluate management's estimate as to projected taxable income by comparing such projections to the Company's strategic plan and objectively verifiable information about the prior periods.

We also evaluated the key assumptions with assistance of our tax specialists, including any tax planning strategies, used by management in their analysis to conclude that the increase in the valuation allowance recorded during the fiscal year and that the total valuation allowance at year-end is appropriate.



*Opinion*

In our opinion, the consolidated financial statements for the year ended September 28, 2018 present fairly, in all material respects, the financial position of the Company and the result of its operations and its cash flows in accordance with accounting principles generally accepted in the United States of America, and comply with Swiss law.

**Report on Other Legal Requirements**

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (“AOA”) and independence (Article 728 Code of Obligations (“CO”) and Article 11, AOA) and that there are no circumstances incompatible with our independence.

In accordance with Article 728a, paragraph 1, item 3, CO, and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of the consolidated financial statements according to the instructions of the Board of Directors. We recommend that the consolidated financial statements submitted to you be approved.

**Deloitte AG**

/s/ Matthias Gschwend  
Licensed Audit Expert  
Auditor in charge

/s/ Dominik Voegtli  
Licensed Audit Expert

Zurich, November 13, 2018

**TE CONNECTIVITY LTD.**  
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**TE CONNECTIVITY LTD.**  
**SWISS STATUTORY FINANCIAL STATEMENTS**  
**STATEMENTS OF OPERATIONS**  
**Fiscal Years Ended September 28, 2018 and September 29, 2017**

	<u>Fiscal 2018</u>		<u>Fiscal 2017</u>	
	<u>U.S. dollars</u>	<u>Swiss francs</u>	<u>U.S. dollars</u>	<u>Swiss francs</u>
	(in millions)			
<b>Income</b>				
Income from distributions made by subsidiaries				
(Note 8) . . . . .	\$710	CHF680	\$ 58	CHF 56
Pre-separation tax settlement income, net (Note 3) . . .	14	14	—	—
Remeasurement gain (loss) on foreign currency				
transactions . . . . .	14	15	(16)	(16)
Insurance premiums charged to subsidiaries . . . . .	10	10	11	11
<b>Total income, net</b> . . . . .	<u>748</u>	<u>719</u>	<u>53</u>	<u>51</u>
<b>Expenses</b>				
Salary and social costs . . . . .	4	4	5	5
General and administrative costs . . . . .	4	4	5	5
Legal and consulting costs . . . . .	8	8	8	8
Insurance premiums . . . . .	12	12	13	12
Expenses for services provided by subsidiaries . . . . .	48	47	48	47
Intercompany interest expense . . . . .	70	68	32	32
<b>Total expenses</b> . . . . .	<u>146</u>	<u>143</u>	<u>111</u>	<u>109</u>
<b>Net income (loss)</b> . . . . .	<u>\$602</u>	<u>CHF576</u>	<u>\$(58)</u>	<u>CHF (58)</u>

See Notes to Swiss Statutory Financial Statements.

**TE CONNECTIVITY LTD.**  
**SWISS STATUTORY FINANCIAL STATEMENTS**  
**BALANCE SHEETS**  
**As of September 28, 2018 and September 29, 2017**

	<u>Fiscal Year End 2018</u>		<u>Fiscal Year End 2017</u>	
	<u>U.S. dollars</u>	<u>Swiss francs</u>	<u>U.S. dollars</u>	<u>Swiss francs</u>
	(in millions, except share data)			
<b>Assets</b>				
Current assets:				
Accounts receivable from subsidiaries . . . . .	\$ 38	CHF 37	\$ 56	CHF 54
Prepaid expenses and other current assets . . . . .	5	5	5	4
Total current assets . . . . .	43	42	61	58
Investments in subsidiaries (Notes 2 and 8) . . . . .	9,635	10,430	9,635	10,430
<b>Total Assets</b> . . . . .	<u>\$9,678</u>	<u>CHF10,472</u>	<u>\$9,696</u>	<u>CHF10,488</u>
<b>Liabilities and Shareholders' Equity</b>				
Current liabilities:				
Accounts payable . . . . .	\$ 2	CHF 2	\$ 1	CHF 1
Accounts payable to subsidiaries . . . . .	48	46	65	63
Loans from subsidiaries (Note 3) . . . . .	2,389	2,334	1,917	1,856
Accrued and other current liabilities . . . . .	97	94	7	6
Approved but unpaid distributions to shareholders (Note 4) . . . . .	303	286	286	289
Total current liabilities . . . . .	2,839	2,762	2,276	2,215
Unrealized translation gains (Note 2) . . . . .	—	669	—	671
<b>Total Liabilities</b> . . . . .	<u>2,839</u>	<u>3,431</u>	<u>2,276</u>	<u>2,886</u>
Commitments, contingencies, and guarantees (Note 3)				
Shareholders' equity (Note 4):				
Share capital, 357,069,981 shares authorized and issued, CHF 0.57 par value . . . . .	157	204	157	204
Statutory reserves:				
General reserve from earnings . . . . .	38	49	38	49
Free reserves:				
Reserves from capital contributions (Note 4) . .	5,809	6,724	6,420	7,300
Allocated reserves for the acquisition of treasury shares by a subsidiary (Note 2) . . . .	(562)	(546)	(421)	(409)
Unappropriated accumulated earnings . . . . .	1,407	625	805	49
Own shares held in treasury . . . . .	(572)	(561)	—	—
Reserves for treasury shares (Note 2) . . . . .	562	546	421	409
<b>Total Shareholders' Equity</b> . . . . .	<u>6,839</u>	<u>7,041</u>	<u>7,420</u>	<u>7,602</u>
<b>Total Liabilities and Shareholders' Equity</b> . . . .	<u>\$9,678</u>	<u>CHF10,472</u>	<u>\$9,696</u>	<u>CHF10,488</u>

See Notes to Swiss Statutory Financial Statements.

## **1. Basis of Presentation**

TE Connectivity Ltd. (“TE Connectivity” or the “Company,” which may be referred to as “we,” “us,” or “our”), incorporated in Schaffhausen, Switzerland, is the ultimate holding company of TE Connectivity Ltd. and its subsidiaries (the “TE Group”) with a listing on the New York Stock Exchange. We employed less than 10 full time positions during the fiscal years ended September 28, 2018 and September 29, 2017. For additional information on the TE Group, see our annual report on Form 10-K filed with the United States (“U.S.”) Securities and Exchange Commission (“SEC”) for the fiscal year ended September 28, 2018.

The accompanying statements of operations reflect the results of operations for the fiscal years ended September 28, 2018 and September 29, 2017, and have been prepared in accordance with the requirements of Swiss law for companies, the Swiss Code of Obligations. The financial statements present the results of the holding company on a stand-alone basis and do not represent the consolidated operations of the TE Group.

### *Fiscal Year*

Unless otherwise indicated, references in the financial statements to fiscal 2018 and fiscal 2017 are to our fiscal years ended September 28, 2018 and September 29, 2017. We have a 52- or 53-week fiscal year that ends on the last Friday of September. Fiscal 2018 and 2017 were both 52-week years.

## **2. Summary of Significant Accounting Policies**

### *Currency Translation*

Our functional currency is the U.S. dollar. We present our financial statements in both U.S. dollars and Swiss francs (“CHF”). Assets and liabilities in U.S. dollars are converted to Swiss francs for presentation purposes using historical foreign exchange rates (for investments in subsidiaries, shares held in treasury, approved but unpaid distributions to shareholders payable, and equity accounts) and current foreign exchange rates (for all other assets and liabilities; at fiscal year end 2018 and 2017, exchange rates were CHF 0.9766:\$1 and CHF 0.9681:\$1, respectively). Revenue and expenses, excluding income from distributions made by a subsidiary, are translated using the average exchange rates in effect for the period presented (exchange rates were CHF 0.9760:\$1 and CHF 0.9880:\$1 for fiscal 2018 and 2017, respectively). Income from distributions made by a subsidiary is translated using the exchange rate in effect on the date that each distribution was made to us. Net unrealized foreign currency translation gains are deferred in the balance sheets, while unrealized translation losses and realized transactional gains and losses are reflected in the statements of operations. We consider all foreign currency transactional gains and losses associated with current assets and liabilities to be realized.

### *Own Shares Held in Treasury and Allocated Reserves for the Acquisition of Treasury Shares by a Subsidiary*

Shares held in treasury that are directly owned by us are recorded at historical cost and presented as reductions to equity on our balance sheets. Our reserves for treasury shares reflects all treasury shares held by a subsidiary and is recorded at historical cost.

As management deems appropriate, we can establish reserves for treasury shares by charging either accumulated earnings or allocated reserves for the acquisition of treasury shares by a subsidiary. During fiscal 2018 and 2017, allocated reserves for the acquisition of treasury shares by a subsidiary were charged to establish reserves. As shares acquired by a subsidiary are re-issued for use in share-based compensation arrangements, we credit the same account impacted by initial acquisition.

## 2. Summary of Significant Accounting Policies (Continued)

### *Investments in Subsidiaries and Income from Distributions Made by a Subsidiary*

Investments in subsidiaries are equity interests held on a long-term basis for the purpose of our business activities. Investments in subsidiaries are carried at a value no higher than cost less adjustments for impairment.

### *Salaries and Social Costs*

Salaries and social costs include cash and equity compensation paid to our directors.

### *Reclassifications*

Certain fiscal 2017 balances have been reclassified to conform to current year presentation.

## 3. Commitments, Contingencies, and Guarantees

### *Affiliated Debt and Loans Receivable*

We utilize a cash pooling relationship with a wholly-owned subsidiary (the “Cash Pool”). The Cash Pool does not have an expiration date and accrues interest based on LIBOR. At fiscal year end 2018, we had a Cash Pool liability of CHF 2,008 million (equivalent to \$2,055 million) that was included in loans from subsidiaries on our balance sheet. At fiscal year end 2017, we had a Cash Pool asset and Cash Pool liability of CHF 3 million (equivalent to \$3 million) and CHF 1,547 million (equivalent to \$1,598 million), respectively, that were included in accounts receivable from subsidiaries and loans from subsidiaries, respectively, on our balance sheet.

In order to minimize currency exposure related to distributions to shareholders approved in Swiss francs and paid in U.S. dollars, we enter into arrangements with a wholly-owned subsidiary in which we borrow Swiss francs from, and simultaneously loan U.S. dollars to, the subsidiary. As distributions to shareholders are paid, both the borrowing and the loan receivable are partially settled. As of fiscal year end 2018 and 2017, the borrowing totaled CHF 326 million (equivalent to \$334 million) and CHF 309 million (equivalent to \$319 million), respectively, and was reflected as loans from subsidiaries on our balance sheets. At fiscal year end 2018 and 2017, the related loan receivable, which approximates the borrowing, was included in the net Cash Pool liability reflected in loans from subsidiaries on our balance sheets.

We have fully and unconditionally guaranteed the debt of a subsidiary, Tyco Electronics Group S.A., totaling CHF 3,916 million (equivalent to \$4,010 million) and CHF 4,217 million (equivalent to \$4,356 million) at fiscal year end 2018 and 2017, respectively. As of September 28, 2018, we have not been required to perform on our guarantee.

### *Tax Sharing Agreement*

We are a party to the Tax Sharing Agreement (“TSA”) with Tyco International plc (“Tyco International,” which now operates as part of Johnson Controls International plc) and Covidien plc (“Covidien,” which now operates as part of Medtronic plc), under which we share responsibility for certain of our, Tyco International’s, and Covidien’s income tax liabilities based on a sharing formula for periods prior to and including June 29, 2007. We, Tyco International, and Covidien share 31%, 27%, and 42%, respectively, of income tax liabilities that arose from adjustments made by tax authorities to our, Tyco International’s, and Covidien’s income tax returns.

### 3. Commitments, Contingencies, and Guarantees (Continued)

During fiscal 2018, we recorded net income of CHF 14 million (equivalent to \$14 million) related to the TSA and tax settlements involving Tyco International, Covidien, and us. These amounts are presented in pre-separation tax settlement income, net in our statement of operations.

#### *Performance Guarantees*

From time to time, we provide performance guarantees and surety bonds in favor of our subsidiaries. At fiscal year end 2018 and 2017, these performance guarantees totaled CHF 169 million (equivalent to \$173 million) and CHF 81 million (equivalent to \$84 million), respectively. In addition to these amounts, all of which are quantifiable, we have issued a parent company guarantee in behalf of a U.S.-based aerospace customer that does not have a limit. We do not anticipate having to perform under these guarantees.

We are the leader of a Swiss value-added tax (“VAT”) group (“VAT Group”). All companies in the VAT Group maintain primary responsibility for their own VAT liabilities. However, in the event of non-compliance by any company in the VAT Group, all companies within the VAT Group assume joint and several responsibilities for any VAT liabilities. As VAT Group leader, we have not had to assume responsibility for any events of noncompliance by the other companies in the VAT Group.

### 4. Equity

#### *Changes in Equity Accounts*

The following table presents activity related to our equity accounts during fiscal 2018 and 2017 in Swiss francs.

	Share Capital	General Reserve from Earnings	Reserves from Capital Contributions	Allocated Reserves for the Acquisition of Treasury Shares by a Subsidiary	Unappropriated Accumulated Earnings	Own Shares Held in Treasury	Reserves for Treasury Shares held by a Subsidiary	Total Shareholders' Equity
	(in CHF millions)							
September 30, 2016 . . . . .	CHF218	CHF49	CHF7,878	CHF(110)	CHF 1,594	CHF(1,501)	CHF110	CHF8,238
Approved dividends . . . . .	—	—	(578)	—	—	—	—	(578)
Retirement of treasury shares . . . . .	(14)	—	—	—	(1,487)	1,501	—	—
Transfer of reserves for treasury shares and other . . . . .	—	—	—	(299)	—	—	299	—
Net loss . . . . .	—	—	—	—	(58)	—	—	(58)
September 29, 2017 . . . . .	204	49	7,300	(409)	49	—	409	7,602
Approved dividends . . . . .	—	—	(576)	—	—	—	—	(576)
Acquisition of treasury shares . . . . .	—	—	—	—	—	(561)	—	(561)
Transfer of reserves for treasury shares . . . . .	—	—	—	(137)	—	—	137	—
Net income . . . . .	—	—	—	—	576	—	—	576
September 28, 2018 . . . . .	<u>CHF204</u>	<u>CHF49</u>	<u>CHF6,724</u>	<u>CHF(546)</u>	<u>CHF 625</u>	<u>CHF (561)</u>	<u>CHF546</u>	<u>CHF7,041</u>



#### 4. Equity (Continued)

The following table presents activity related to our equity accounts during fiscal 2018 and 2017 in U.S. dollars.

	Share Capital	General Reserve from Earnings	Reserves from Capital Contributions	Allocated Reserves for the Acquisition of Treasury Shares by a Subsidiary	Unappropriated Accumulated Earnings	Own Shares Held in Treasury	Reserves for Treasury Shares held by a Subsidiary	Total Shareholders' Equity
(in USD millions)								
September 30, 2016 . . . . .	\$168	\$38	\$6,992	\$(111)	\$ 2,364	\$(1,512)	\$111	\$8,050
Approved dividends . . . . .	—	—	(572)	—	—	—	—	(572)
Retirement of treasury shares . .	(11)	—	—	—	(1,501)	1,512	—	—
Transfer of reserves for treasury shares and other . . . . .	—	—	—	(310)	—	—	310	—
Net loss . . . . .	—	—	—	—	(58)	—	—	(58)
September 29, 2017 . . . . .	157	38	6,420	(421)	805	—	421	7,420
Approved dividends . . . . .	—	—	(611)	—	—	—	—	(611)
Acquisition of treasury shares . .	—	—	—	—	—	(572)	—	(572)
Transfer of reserves for treasury shares . . . . .	—	—	—	(141)	—	—	141	—
Net income . . . . .	—	—	—	—	602	—	—	602
September 28, 2018 . . . . .	<u>\$157</u>	<u>\$38</u>	<u>\$5,809</u>	<u>\$(562)</u>	<u>\$ 1,407</u>	<u>\$ (572)</u>	<u>\$562</u>	<u>\$6,839</u>

#### *Authorized Share Capital*

In March 2018, our shareholders reapproved and extended through March 14, 2020 our board of directors' authorization to issue additional new shares, subject to certain conditions specified in the articles, in aggregate not exceeding 50% of the amount of our authorized shares. This authorization can be renewed for additional two-year periods upon shareholder approval. As of fiscal year end 2018, no additional shares had been issued under this authorization.

#### *Conditional Share Capital*

Subject to certain conditions specified in our articles of association, we are authorized to increase our conditional share capital by issuing new shares in aggregate not exceeding 50% of our authorized shares. As of fiscal year end 2018, no conditional shares had been issued.

#### 4. Equity (Continued)

##### *Own Shares Held in Treasury and Treasury Shares Held by a Subsidiary*

During fiscal 2018 and 2017, activity related to common shares held in treasury by us and by a subsidiary was as follows:

	Common Shares Held By Us			Common Shares Held By a Subsidiary		
	Number of Shares	Total Cost	Total Cost	Number of Shares	Total Cost	Total Cost
			(in millions)			
Common shares held as of						
September 30, 2016 . . . . .	26	CHF 1,501	\$ 1,512	2	CHF 110	\$ 111
Repurchases under share repurchase program . . . . .	—	—	—	8	610	621
Other additions <sup>(1)</sup> . . . . .	—	—	—	—	22	21
Reissuances . . . . .	—	—	—	(5)	(333)	(332)
Shareholder-approved cancellations . . . . .	(26)	(1,501)	(1,512)	—	—	—
Common shares held as of						
September 29, 2017 . . . . .	—	—	—	5	409	421
Repurchases under share repurchase program . . . . .	6	561	572	4	383	393
Other additions <sup>(1)</sup> . . . . .	—	—	—	—	35	36
Reissuances . . . . .	—	—	—	(3)	(281)	(288)
Common shares held as of						
September 28, 2018 . . . . .	<u>6</u>	<u>CHF 561</u>	<u>\$ 572</u>	<u>6</u>	<u>CHF 546</u>	<u>\$ 562</u>

(1) Other additions include shares withheld to cover employee taxes under share-based compensation arrangements. These additions are not part of the share repurchase program.

In fiscal 2017, our shareholders approved the cancellation of 26 million shares purchased under our share repurchase program. This capital reduction by cancellation of shares was subject to a notice period and filing with the commercial register in Switzerland.

During fiscal 2018, our board of directors authorized an increase of \$1.5 billion in the share repurchase program. At fiscal year end 2018, we had CHF 991 million (equivalent to \$1,015 million) of availability remaining under our share repurchase authorization. Purchases made both pursuant to the Secondary Line and by a subsidiary are subject to this authorization.

##### *Reserves from Capital Contributions*

Reserves from capital contributions, subject to certain conditions, are freely distributable reserves. As of fiscal year end 2018 and 2017, reserves from capital contributions were CHF 6,724 million (equivalent to \$5,809 million) and CHF 7,300 million (equivalent to \$6,420 million), respectively.

##### *General Reserve from Earnings*

To comply with the Swiss Code of Obligations, 5% of annual net income must be appropriated to our general reserve until the general reserve, a non-distributable reserve, equals 20% of share capital. Our current appropriation of CHF 49 million (equivalent to \$38 million) satisfies the requirements of the Swiss Code of Obligations with respect to the general reserve.

#### 4. Equity (Continued)

##### *Dividends*

We paid cash dividends to shareholders of \$1.68 and \$1.54 per share in fiscal 2018 and 2017, respectively.

Under current Swiss tax law, subject to certain conditions, dividends paid from reserves from capital contributions are exempt from Swiss withholding tax. Dividends on our shares must be approved by our shareholders.

Our shareholders approved the following dividends on our common shares:

<u>Approval Date</u>	<u>Annual Payment Per Share</u>	<u>Payment Dates</u>
March 2016 .....	\$1.48, payable in four quarterly installments of \$0.37	Third quarter of fiscal 2016 Fourth quarter of fiscal 2016 First quarter of fiscal 2017 Second quarter of fiscal 2017
March 2017 .....	\$1.60, payable in four quarterly installments of \$0.40	Third quarter of fiscal 2017 Fourth quarter of fiscal 2017 First quarter of fiscal 2018 Second quarter of fiscal 2018
March 2018 .....	\$1.76, payable in four quarterly installments of \$0.44	Third quarter of fiscal 2018 Fourth quarter of fiscal 2018 First quarter of fiscal 2019 Second quarter of fiscal 2019

Upon shareholders' approval of a dividend payment, we record a liability with a corresponding charge to shareholders' equity.

#### 5. Non-Employee Director and Executive Compensation

For information regarding non-employee director and executive compensation, see our Swiss Statutory Compensation Report.

#### 6. Security Ownership of Board of Directors and Executive Officers

##### *Board of Directors*

The following table sets forth the shares, options and share units held as of fiscal year end 2018 and 2017 by each member of our board of directors serving on our board at fiscal year end 2018. The

## 6. Security Ownership of Board of Directors and Executive Officers (Continued)

share ownership of Mr. Curtin, our Chief Executive Officer and a member of the board of directors, is set forth in *Executive Management*.

	<u>Year</u>	<u>Shares Held</u>	<u>Options Held</u>	<u>Options Exercise Price<sup>(1)</sup></u>	<u>Fiscal Years of Expiration</u>	<u>RSUs Held<sup>(2)</sup></u>	<u>PSUs Held<sup>(3)</sup></u>	<u>DSUs Held</u>
<b>Board of Directors:</b>								
Pierre R. Brondeau . . . .	2018	33,418	—	—	—	—	—	—
	2017	24,073	—	—	—	—	—	12,876
Carol A. (“John”) Davidson . . . . .	2018	8,588	—	—	—	—	—	—
	2017	7,052	—	—	—	—	—	—
William A. Jeffrey . . . . .	2018	14,717	—	—	—	—	—	—
	2017	13,181	—	—	—	—	—	—
Thomas J. Lynch <sup>(4)</sup> . . . . .	2018	140,967	728,450	\$61.50 - \$93.36	2025 - 2028	8,081	101,668	—
	2017	298,851	1,305,150	\$34.05 - \$66.74	2023 - 2027	23,625	139,262	—
Yong Nam . . . . .	2018	14,613	—	—	—	—	—	—
	2017	13,181	—	—	—	—	—	—
Daniel J. Phelan . . . . .	2018	31,571	—	—	—	—	—	—
	2017	22,226	—	—	—	—	—	12,876
Paula A. Sneed . . . . .	2018	34,548	—	—	—	—	—	—
	2017	23,426	—	—	—	—	—	15,805
Abhijit Y. Talwalkar . . . . .	2018	3,486	—	—	—	—	—	—
	2017	1,438	—	—	—	—	—	—
Mark C. Trudeau . . . . .	2018	4,988	—	—	—	—	—	—
	2017	3,452	—	—	—	—	—	—
John C. Van Scoter <sup>(5)</sup> . . . . .	2018	35,783	—	—	—	—	—	—
	2017	27,322	—	—	—	—	—	6,896
Laura H. Wright . . . . .	2018	8,940	—	—	—	—	—	—
	2017	7,404	—	—	—	—	—	—

(1) Each option provides the right to purchase one share at the exercise price. Subject to acceleration upon certain events, the share options are exercisable in equal installments on anniversaries of the grant dates

(2) Mr. Lynch holds restricted share units (“RSUs”). Subject to acceleration upon certain events, the RSUs vest over time on anniversaries of the grant dates, are settled in shares upon vesting on a one-for-one basis, and receive dividend equivalent units.

(3) The performance share unit (“PSU”) amounts in the table above assume achievement of target level of performance including target dividend equivalent units through September 28, 2018 and September 29, 2017, respectively. Under the terms of the PSUs, shares of stock are earned based on the company’s earnings per share growth relative to the Standard & Poor’s 500 Non-Financial Companies Index over a three-year performance cycle, subject to various conditions, and the PSUs earn dividend equivalent units. Subject to acceleration upon certain events, vesting of reserved PSUs occurs when the management development and compensation committee certifies year three results following the close of the three-year performance cycle. Annual PSU awards were granted on November 9, 2015, November 14, 2016 and November 13, 2017.

(4) Mr. Lynch served as Chief Executive Officer of the Company until March 8, 2017 and as Executive Chairman of the Company until March 14, 2018. Since March 2018, Mr. Lynch has served as Non-Executive Chairman of the board of directors. Shares held as of September 28, 2018 includes 15,000 shares held in a charitable trust and 21,300 shares held in a grantor retained annuity trust.

## 6. Security Ownership of Board of Directors and Executive Officers (Continued)

- (5) Includes 22,627 shares as of September 28, 2018 and September 29, 2017 held by a limited liability company owned by Mr. Van Scoter and his spouse. Also includes 400 shares held by Mr. Van Scoter's spouse as of September 28, 2018 and September 29, 2017.

### *Executive Management*

The following table sets forth the shares, options and share units held as of fiscal year end 2018 and 2017 by each member of our executive management serving in such position as of fiscal year end 2018.

	Year	Shares Held	Options Held	Options Exercise Price <sup>(1)</sup>	Fiscal Years of Expiration	RSUs Held <sup>(2)</sup>	PSUs Held <sup>(3)</sup>
<b>Executive Management:</b>							
Terrence R. Curtin <sup>(4)</sup> . . . . .	2018	58,122	861,250	\$34.05 - \$93.36	2023 - 2028	2,848	114,961
	2017	40,475	814,350	\$34.05 - \$72.13	2022 - 2027	7,966	93,783
John S. Jenkins, Jr. . . . .	2018	15,967	189,400	\$61.50 - \$93.36	2025 - 2028	6,336	31,041
	2017	8,823	185,150	\$51.61 - \$66.74	2024 - 2027	6,788	30,046
Shad W. Kroeger <sup>(5)</sup> . . . . .	2018	2,592	90,050	\$51.61 - \$93.36	2024 - 2028	427	13,082
Steven T. Merkt . . . . .	2018	2,126	285,800	\$51.61 - \$93.36	2024 - 2028	31,810	44,891
	2017	1,915	220,250	\$51.61 - \$66.74	2024 - 2027	34,697	41,754
Heath A. Mitts . . . . .	2018	12,908	138,800	\$66.74 - \$93.36	2027 - 2028	39,792	27,153
	2017	10,736	79,100	\$66.74	2027	58,662	15,337
Timothy J. Murphy . . . . .	2018	5,302	100,800	\$34.05 - \$93.36	2023 - 2028	535	16,848
	2017	4,084	94,600	\$33.88 - \$66.74	2022 - 2027	1,631	12,541
Kevin N. Rock <sup>(6)</sup> . . . . .	2018	42,182	234,350	\$34.05 - \$93.36	2022 - 2028	12,136	24,385
	2017	35,668	202,300	\$34.05 - \$72.13	2022 - 2027	2,227	23,007
Joan E. Wainwright . . . . .	2018	45,071	69,788	\$61.50 - \$93.36	2025 - 2028	9,870	17,739
	2017	39,818	110,050	\$51.61 - \$66.74	2024 - 2027	2,609	18,047

- (1) Each option provides the right to purchase one share at the exercise price. Subject to acceleration upon certain events, the share options are exercisable in equal installments on anniversaries of the grant dates.
- (2) Executive management holds RSUs. Subject to acceleration upon certain events, the RSUs vest over time on anniversaries of the grant dates, are settled in shares upon vesting on a one-for-one basis, and receive dividend equivalent units
- (3) The PSU amounts in the table above assume achievement of target level of performance including target dividend equivalent units through September 29, 2017 and September 30, 2016, respectively. Under the terms of the PSUs, shares of stock are earned based on the company's earnings per share growth relative to the Standard & Poor's 500 Non-Financial Companies Index over a three-year performance cycle, subject to various conditions, and the PSUs earn dividend equivalent units. Subject to acceleration upon certain events, vesting of reserved PSUs occurs when the management development and compensation committee certifies year three results following the close of the three-year performance cycle. Annual PSU awards were granted on November 9, 2015, November 14, 2016 and November 13, 2017.
- (4) Mr. Curtin is a member of the board of directors and chief executive officer.
- (5) Mr. Kroeger became a member of executive management in December 2017.
- (6) Includes 18,676 shares held in a family trust over which Mr. Rock has dispositive power.

For additional information regarding share-based compensation arrangements, see the TE Group's consolidated financial statements and our Swiss Statutory Compensation Report.

## 7. Significant Shareholders

The following table sets forth the information indicated for persons or groups known to us to be beneficial owners of more than 5% of our outstanding shares beneficially owned as of September 28, 2018.

<u>Name and Address of Beneficial Owner</u>	<u>Number of Shares</u>	<u>Percentage of Class</u>
Harris Associates L.P. <sup>(1)</sup> . . . . . 111 S. Wacker Drive, Suite 4600 Chicago, IL 60606	25,536,233	7.4%
Dodge & Cox <sup>(2)</sup> . . . . . 555 California Street, 40th Floor San Francisco, CA 94104	24,697,064	7.2%
The Vanguard Group <sup>(3)</sup> . . . . . 100 Vanguard Blvd. Malvern, PA 19355	23,834,061	6.9%
Capital World Investors <sup>(4)</sup> . . . . . 333 South Hope Street Los Angeles, CA 90071	17,471,631	5.1%

- (1) This information is based on a Schedule 13G/A filed with the SEC on February 14, 2018 by Harris Associates L.P. and its general partner, Harris Associates Inc., which reported sole voting power and sole dispositive power as follows: sole voting power—23,005,132 and sole dispositive power—25,536,233. As a result of advisory and other relationships with persons who own the shares, Harris Associates L.P. may be deemed to be the beneficial owner of the shares.
- (2) This information is based on a Schedule 13G/A filed with the SEC on February 13, 2018 by Dodge & Cox, which reported sole voting power and sole dispositive power as follows: sole voting power—23,788,203 and sole dispositive power—24,697,064.
- (3) This information is based on a Schedule 13G/A filed with the SEC on February 8, 2018 by The Vanguard Group, which reported sole voting power, sole dispositive power and shared dispositive power as follows: sole voting power—428,089, sole dispositive power—23,340,636, and shared dispositive power—493,425.
- (4) This information is based on a Schedule 13G filed with the SEC on February 14, 2018 by Capital World Investors, which reported sole voting power and sole dispositive power as follows: sole voting power—17,462,727, and sole dispositive power—17,471,631.

## 8. Subsidiaries

We are the ultimate holding company of all subsidiaries of the TE Group. Our direct subsidiaries and significant subsidiaries of the TE Group, as determined based on net sales or total assets, were as follows as of fiscal year end 2018:

<u>Entity Name</u>	<u>Jurisdiction</u>	<u>Direct or Indirect Holding<sup>(1)</sup></u>	<u>Nominal Capital (in millions)</u>	<u>Purpose<sup>(2)</sup></u>
Tyco Electronics Group S.A. . . . . .	Luxembourg	Direct	\$ 1	F
Tyco Electronics Holdings (Bermuda) No. 7 Limited . . . . .	Bermuda	Direct	\$ —	F
TE Connectivity Corporation . . . . .	United States	Indirect	\$ 625	M
TE Connectivity Germany GmbH . . . . .	Germany	Indirect	EUR 78	M
TE Connectivity HK Limited. . . . .	Hong Kong	Indirect	\$ 380	S
TE Connectivity Holding International II S.a r.l. . . . .	Luxembourg	Indirect	\$ —	F
TE Connectivity Solutions GmbH . . . . .	Switzerland	Indirect	CHF —	S
Tyco Electronics (Shanghai) Co., Ltd. . . . .	China	Indirect	CNY 6	M
Tyco Electronics AMP Korea Co., Ltd. . . . .	South Korea	Indirect	KRW6,812	M
Tyco Electronics Holding S.a r.l. . . . .	Luxembourg	Indirect	\$ 593	F
Tyco Electronics Japan G.K. . . . .	Japan	Indirect	JPY 21,835	M
Tyco Electronics Singapore Pte Ltd. . . . .	Singapore	Indirect	\$ 183	S
Tyco Electronics Subsea Communications LLC <sup>(3)</sup> . . . . .	United States	Indirect	\$ —	M

- (1) All subsidiaries labelled as “direct” are wholly-owned by us. All subsidiaries labelled as “indirect” are wholly-owned indirectly by us.
- (2) “F” denotes the primary purpose as a holding or financing company; “M” denotes the primary purpose as manufacturing and production; “S” denotes the primary purpose as sales and distribution.
- (3) This indirect subsidiary is held for sale as of fiscal year end 2018 and was subsequently sold in fiscal 2019.

During fiscal 2018 and 2017, subsidiaries distributed CHF 680 million (equivalent to \$710 million) and CHF 56 million (equivalent to \$58 million), respectively, to us. The distributions are included in income from distributions made by subsidiaries in our statements of operations. Also during fiscal 2017, a subsidiary made a return of capital distribution to us in the amount of CHF 9 million (equivalent to \$9 million), reducing our investment in that subsidiary.

## 9. Subsequent Events

We have evaluated subsequent events through November 13, 2018, the date the Swiss Statutory Financial Statements were issued, and determined that no significant subsequent events have occurred through this date requiring adjustment to the Swiss Statutory Financial Statements or disclosures.

## Proposed Appropriation of Accumulated Earnings

Our board of directors will propose, in conjunction with our annual general meeting, that we carry forward unappropriated accumulated earnings of CHF 625 million as included in our balance sheet as of September 28, 2018.



## **Report of the Statutory Auditor on the Swiss Statutory Financial Statements of TE Connectivity Ltd.**

**To the General meeting of  
TE CONNECTIVITY LTD., SCHAFFHAUSEN**

### **Report of the Statutory Auditor on the financial statements**

As Statutory Auditor, we have audited the accompanying financial statements of TE Connectivity Ltd. (the “Company”), which comprise the balance sheet as of September 28, 2018, and the statement of operations and notes for the year then ended.

#### *Board of Directors’ Responsibility*

The board of directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the Company’s articles of association. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The board of directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

#### *Auditor’s Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity’s preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

In our opinion, the financial statements for the year ended September 28, 2018 comply with Swiss law and the Company’s articles of association.

### **Report on Key Audit Matters based on the circular 1/2015 of the Federal Audit Oversight Authority**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. We have determined that there are no key audit matters to communicate in our report.

### **Report on Other Legal Requirements**

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (“AOA”) and independence (Article 728 Code of Obligations (“CO”), and Article 11, AOA) and that there are no circumstances incompatible with our independence.

In accordance with Article 728a, paragraph 1, item 3, CO, and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the board of directors.

We further confirm that the proposed appropriation of accumulated earnings complies with Swiss law and the Company's articles of association. We recommend that the financial statements submitted to you be approved.

**Deloitte AG**

/s/ Matthias Gschwend  
Licensed Audit Expert  
Auditor in charge

/s/ Dominik Voegtli  
Licensed Audit Expert

Zurich, November 13, 2018

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**TE Connectivity Ltd.**  
**Swiss Statutory Compensation Report**  
**September 28, 2018**

**TE CONNECTIVITY LTD.**  
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## A. General

Under the Swiss ordinance against excessive pay in stock exchange listed companies (the “Minder Ordinance”) we are required to prepare a separate Swiss Statutory Compensation Report each year that contains specific items in a presentation format determined by these regulations. This report must be included in the materials made available to our shareholders each year.

Our executive management (as defined under Swiss law, hereafter referred to as “Executive Management”) for fiscal 2018 consisted of Terrence Curtin, Chief Executive Officer; John Jenkins, Jr., Executive Vice President and General Counsel; Shadrak Kroeger, President, Communication Solutions; Heath Mitts, Executive Vice President and Chief Financial Officer (“CFO”); Steven Merkt, President, Transportation Solutions; Timothy Murphy, Senior Vice President and Chief Human Resource Officer; Kevin Rock, President, Industrial Solutions; and Joan Wainwright, President, Channel and Customer Experience. Compensation for fiscal 2018 for Joseph Donahue, former Executive Vice President and Chief Operating Officer, is included as he served as member of executive management through his retirement as an executive on December 31, 2017. Compensation for Thomas Lynch, former Executive Chairman is included until his March 14, 2018 transition to Non-Executive Chairman of the Board of Directors. Mr. Lynch’s board compensation is included in Table 1 below. James O’Toole, former President, Communications Solutions, is included as he served as a member of executive management through his retirement on December 31, 2017.

Jane Leipold former Senior Vice President Global Human Resources is included as a member of Executive Management for fiscal 2017 but is not included for fiscal 2018.

The following sets forth, for the years ended September 28, 2018 and September 29, 2017, the compensation of the members of the Board of Directors and Executive Management for all the functions that they have performed for TE Connectivity Ltd. (“TE Connectivity” or the “Company,” which may be referred to as “we,” “us,” or “our”). This report contains all elements of compensation paid, granted or promised to the Board of Directors and Executive Management.

For more detailed information about compensation for our Board of Directors and Executive Management, please review our Definitive Proxy Statement for our 2019 Annual Meeting of Shareholders. You may access this report on the Investor Relations section of our website at <http://investors.te.com/financial-reports/annual-reports/default.aspx>.

## B. Compensation of the Board of Directors

Compensation paid for fiscal 2018 to each director who is not our salaried employee, or an employee of our subsidiaries was based on the following fee structures:

	Fee Structure	
	Cash	Equity
Annual retainer . . . . .	\$ 90,000	\$185,000
Additional annual fees:		
Non-Executive Chairman <sup>(1)</sup> . . . . .	\$170,000	
Lead Independent Director . . . . .	\$ 40,000	
Audit Committee Chair . . . . .	\$ 25,000	
Audit Committee Member . . . . .	\$ 10,000	
Nominating, Governance & Compliance Committee Chair . .	\$ 15,000	
Management, Development & Compensation Committee Chair . . . . .	\$ 20,000	
Science Advisory Board Retainer . . . . .	\$ 10,000	

(1) The fee structure reflects a new retainer for Mr. Lynch for his work as Non-Executive Chairman which became effective on March 14, 2018

Compensation paid for fiscal 2017 to each director who is not our salaried employee, or an employee of our subsidiaries was based on the following fee structures:

	Fee Structure	
	Cash	Equity
Annual retainer . . . . .	\$90,000	\$185,000
Additional annual fees:		
Lead Independent Director . . . . .	\$40,000	
Audit Committee Chair . . . . .	\$25,000	
Audit Committee Member . . . . .	\$10,000	
Nominating, Governance & Compliance Committee Chair . . .	\$15,000	
Management, Development & Compensation Committee Chair . . . . .	\$20,000	
Science Advisory Board Retainer . . . . .	\$10,000	

In addition to the compensation described above, our board governance principles encourage directors to attend certain continuing education courses that are related to their duties as directors and provide that we will reimburse the costs associated with attending one course every two years. TE Connectivity will also provide Company matching gift contributions on behalf of certain directors under TE Connectivity's matching gift program up to a maximum of \$10,000 per year.

Our board members also receive non-compensatory reimbursement for expenses incurred in attending board and committee meetings or performing other services for us in their capacities as directors. Such expenses include food, lodging and transportation. Directors who are our employees or employees of our subsidiaries do not receive any compensation for their services as directors.

Each non-employee director received the equity component of their compensation in the form of a grant of common shares of TE Connectivity Ltd.



The following table discloses the cash and equity awards paid to each of our non-employee directors for fiscal 2018 and 2017.

<u>Name</u>	<u>Fiscal Year</u>	<u>Fees Earned or Paid in Cash (\$)<sup>(1)</sup></u>	<u>Stock Awards (\$)<sup>(2)</sup></u>	<u>Dividend Equivalent Units and Other Compensation (\$)<sup>(3)</sup></u>	<u>Total (\$)<sup>(5)</sup></u>
Pierre Brondeau . . . . .	2018	\$145,000	\$191,201	\$ 5,120	\$341,321
	2017	\$145,000	\$195,348	\$19,594	\$359,942
Carol (John) Davidson . . . . .	2018	\$100,000	\$191,201	\$ 5,000	\$296,201
	2017	\$100,000	\$195,348	\$ 7,996	\$303,344
William Jeffrey . . . . .	2018	\$100,000	\$191,201	—	\$291,201
	2017	\$100,000	\$195,348	\$ 3,995	\$299,343
Thomas Lynch <sup>(4)</sup> . . . . .	2018	\$151,667	—	—	\$151,667
Yong Nam . . . . .	2018	\$ 90,000	\$191,201	—	\$281,201
	2017	\$ 90,000	\$195,348	—	\$285,348
Daniel Phelan . . . . .	2018	\$110,000	\$191,201	\$12,620	\$313,821
	2017	\$110,000	\$195,348	\$24,594	\$329,942
Paula Sneed . . . . .	2018	\$ 90,000	\$191,201	\$12,258	\$293,459
	2017	\$ 90,000	\$195,348	\$29,998	\$315,346
Abhijit Talwalkar . . . . .	2018	\$100,000	\$191,201	\$10,000	\$301,201
	2017	\$ 58,333	\$106,829	\$47,996	\$213,158
Mark Trudeau . . . . .	2018	\$100,000	\$191,201	—	\$291,201
	2017	\$100,000	\$195,348	—	\$295,348
John Van Scoter . . . . .	2018	\$ 90,000	\$191,201	\$ 2,750	\$283,951
	2017	\$ 90,000	\$195,348	\$10,482	\$295,830
Laura Wright . . . . .	2018	\$115,000	\$191,201	\$10,000	\$316,201
	2017	\$115,000	\$195,348	\$12,996	\$323,344

(1) The amounts shown represent the amount of cash compensation earned in fiscal 2018 and 2017 for Board and committee services. Mr. Lynch received additional fees for his work as Non-Executive Chairman for one month during the second-quarter and the last two full quarters of 2018. Dr. Brondeau received additional fees for his work as Lead Independent Director for fiscal 2018 and 2017. For fiscal 2018 and 2017, Dr. Brondeau, Mr. Phelan, and Ms. Wright each received additional fees for their role as chairs of the nominating, governance and compliance committee, the management development and compensation committee and the audit committee, respectively. For fiscal 2018 and fiscal 2017, Mr. Davidson and Mr. Trudeau each received an additional cash retainer for serving on the audit committee. Mr. Talwalkar received an additional cash retainer for serving on the audit committee for fiscal 2018 and for one month during the second-quarter and the last two full quarters of fiscal 2017. For fiscal 2018 and fiscal 2017, Dr. Jeffrey received an additional fee for his role on the Science Advisory board.

(2) On November 13, 2017, Dr. Brondeau, Mr. Davidson, Dr. Jeffrey, Mr. Nam, Mr. Phelan, Ms. Sneed, Mr. Trudeau, Mr. Talwalkar, Mr. Van Scoter and Ms. Wright each received a grant of 2,048 common shares. In determining the number of common shares issued, we used the average daily closing price for the 20-day period prior to the grant date (\$90.33 per share), the same methodology used to determine employee equity awards. The grant date fair value of these awards, as shown above for fiscal year 2018, was calculated by using the closing price of TE Connectivity Ltd. common shares on the date of grant (\$93.36 per share). On November 14, 2016, Dr. Brondeau, Mr. Davidson, Dr. Jeffrey, Mr. Nam, Mr. Phelan, Ms. Sneed, Mr. Trudeau, Mr. Van Scoter and Ms. Wright each received a grant of 2,927 common shares. In determining the number of common shares issued, we used the average daily closing price for the 20-day period prior to the grant date (\$63.20 per share), the same methodology used to determine employee equity awards. The grant date fair value of these awards, as shown above for fiscal year 2017, was calculated by using the closing price of TE Connectivity Ltd. common shares on the date of grant (\$66.74 per share). On March 9, 2017, Mr. Talwalkar received a grant of 1,438 common shares. In determining the number of common shares to be issued, we used the average daily closing price for the 20-day period prior to the grant date (\$75.06 per share), the same methodology used to determine employee equity awards. The grant date fair value of this award as shown above for fiscal 2017, was calculated by using the closing price of TE Connectivity Ltd. common shares on the date of grant (\$74.29 per share). The common shares vested immediately.

- (3) Amounts shown represent the value of dividend equivalent units earned on current and prior DSU awards calculated using the market value on the date of the dividend for the first quarter of fiscal 2018 and fiscal 2017, Company matching gift contributions made on behalf of certain directors under TE Connectivity's matching gift program, and amounts reimbursed to Ms. Sneed, Dr. Jeffrey, Ms. Wright, Mr. Davidson and Mr. Talwalkar in fiscal 2017 for expenses incurred when attending continuing education courses. In fiscal 2017, Mr. Talwalkar received fees in the amount of \$45,000 for consulting services performed prior to being elected to the board.
- (4) Mr. Lynch was a member of Executive Management until March 14, 2018 when he was elected to our Board of Directors as Non-Executive Chairman. Cash compensation for Mr. Lynch was pro-rated for service during fiscal year 2018.
- (5) The Company has not made any loans or extended credit to any current or former member of the Board of Directors.

### C. Compensation of Executive Management

The following table presents information concerning Executive Management's fiscal 2018 and 2017 compensation.

Name and Principal Position	Year	Salary <sup>(3)</sup> (\$)	Bonus (\$)	Stock Awards <sup>(4)</sup> (\$)	Option Awards <sup>(5)</sup> (\$)	Non-Equity Incentive Plan Compensation <sup>(6)</sup> (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings <sup>(7)</sup> (\$)	All Other Compensation <sup>(8)</sup> (\$)	Total <sup>(9)</sup> (\$)
Terrence Curtin, Chief Executive Officer . . . . .	2018	\$1,136,539	—	\$3,359,093	\$3,118,595	\$2,164,875	—	\$ 457,909	\$10,237,011
Terrence Curtin, Chief Executive Officer . . . . .	2017	\$1,024,231	—	\$3,431,771	\$3,461,614	\$2,239,875	—	\$ 269,205	\$10,426,696
All Other Executive Management <sup>(1)(2)</sup> . . . . .	2018	\$5,035,014	—	\$7,740,793	\$5,230,049	\$5,844,452	\$ 0	\$2,156,390	\$26,006,698
	2017	\$5,793,647	—	\$8,308,677	\$8,121,011	\$9,066,307	\$291	\$1,950,577	\$33,240,510

- (1) For fiscal 2018, the Executive Management team for Swiss reporting purposes includes Mr. Jenkins, Mr. Kroeger, Mr. Merkt, Mr. Mitts, Mr. Murphy, Mr. Rock and Ms. Wainwright. Compensation for Mr. Lynch, Mr. Donahue and Mr. O'Toole is also reported as they were members of executive management for part of fiscal 2018.
- (2) For fiscal 2017, the Executive Management team for Swiss reporting purposes includes Mr. Lynch, Mr. Donahue, Mr. Jenkins, Mr. Merkt, Mr. Mitts, Mr. Murphy, Mr. O'Toole, Mr. Rock, and Ms. Wainwright. Compensation for Ms. Leipold is also reported as she was a former member of executive management. Mr. Lynch served as Chief Executive Officer until March 8, 2017 at which time he transitioned to the role of Executive Chairman. Mr. Curtin assumed the role of Chief Executive Officer on March 8, 2017.
- (3) Amounts shown are not reduced to reflect Executive Management's elections, if any, to defer receipt of salary into the Supplemental Savings and Retirement Plan ("SSRP"), a nonqualified supplemental retirement plan for management and executive level employees.
- (4) This amount represents the grant date fair value of restricted stock units ("RSUs") and performance stock units ("PSUs") calculated using the provisions of Accounting Standards Codification ("ASC") 718, *Compensation—Stock Compensation*. The value of PSUs included in the table assumes target performance. All dividend equivalent units earned on unvested RSUs and PSUs are reported in the All Other Compensation column.
- (5) This amount represents the grant date fair value of stock options calculated using the provisions of ASC 718.
- (6) Represents amounts earned under the TE Connectivity Ltd. annual incentive program. Amounts shown are not reduced to reflect Executive Management's elections, if any, to defer receipt of awards into the SSRP.
- (7) Represents the aggregate change in actuarial present value of the accumulated benefits for four executives in fiscal 2018 and 2017 under the frozen pension plan.
- (8) See the All Other Compensation table below for a breakdown of amounts which include perquisites, matching contributions associated with the Company's 401(k) plan and nonqualified defined contribution plan, dividend equivalent units and other amounts. The amounts reflected in the table for perquisites are our incremental cost. We also provide group life, health, hospitalization and medical reimbursement plans which do not discriminate in scope, terms or operation in favor of officers and are available to all full-time employees; the values of the benefits are not shown in the table.
- (9) The company has not made any loans or extended credit to any current or former member of Executive Management.

## All Other Compensation

Name	Year	Perquisites <sup>(a)</sup> (\$)	Insurance Premiums <sup>(b)</sup> (\$)	Dollar Value of Dividends not factored into Grant Date Fair Value <sup>(c)</sup> (\$)	Company Contributions to DC plans <sup>(d)</sup> (\$)	Employee Stock Purchase Plan ("ESPP") Company Match <sup>(e)</sup> (\$)	Payment for unused vacation/ personal time <sup>(f)</sup> (\$)	Total All Other Compensation (\$)
Terrence Curtin . . . . .	2018	\$ 52,570	—	\$202,754	\$202,585	—	—	\$ 457,909
Terrence Curtin . . . . .	2017	—	—	\$160,380	\$108,825	—	—	\$ 269,205
All Other Executive								
Management . . . . .	2018	\$482,470	\$811	\$722,211	\$904,609	\$1,950	\$44,339	\$2,156,390
	2017	\$331,690	\$735	\$863,557	\$718,229	\$1,950	\$34,416	\$1,950,577

(a) Perquisites consisting of the following:

Amounts in fiscal 2018 for Mr. Curtin include the incremental pre-tax cost to us of non-business use of our aircraft. Mr. Curtin is permitted to use the corporate aircraft for business and non-business purposes.

Amounts in fiscal 2018 for All Other Executive Management include the incremental pre-tax cost to us for non-business use of our aircraft for two executives and the value and tax gross-up amount of a retirement gift for one executive. Amounts in fiscal 2017 for All Other Executive Management also include the value of an attendance gift for one executive that was provided to all attendees at a certain business meeting.

Amounts for All Other Executive Management include various miscellaneous fees and expenses, personal tax preparation assistance, international tax payments and U.S. tax gross-up payments pertaining to expatriate assignments for two executives in fiscal 2018 and fiscal 2017. Due to the timing of payments, the following range of exchange rates, primarily as determined by TE Connectivity finance, were used to convert amounts reported or paid in EUR to U.S. dollars: \$1.13–\$1.25: EUR in fiscal 2018 and EUR to U.S. dollars: \$1.04–\$1.20: EUR in fiscal 2017.

Amounts for All Other Executive management also include relocation expenses for two executives in fiscal 2018 and one executive in fiscal 2017.

- (b) Additional income reported for participation in a Company paid split dollar life insurance program for one executive in fiscal 2018 and fiscal 2017.
- (c) The value of dividend equivalent units credited in the fiscal year to each individual's unvested RSUs and PSUs using the closing price on the date of the crediting. The dividend equivalent unit value associated with the PSUs reflects target performance and will be adjusted based on certified performance results following the close of the three-year performance period.
- (d) Contributions made on behalf of Executive Management under TE Connectivity's qualified defined contribution plan and accruals on behalf of Executive Management under the SSRP (a nonqualified defined contribution excess plan).

Name	Year	Company Matching Contribution (Qualified Plan) <sup>(*)</sup> (\$)	Company Contribution (Non-Qualified Plan) (\$)
Terrence Curtin . . . . .	2018	\$ 16,500	\$ 186,085
Terrence Curtin . . . . .	2017	\$ 16,000	\$ 92,825
All Other Executive Management . . . . .	2018	\$ 124,411	\$ 780,198
	2017	\$ 156,388	\$ 561,841

(\*) Included in the amount above is an additional matching contribution in fiscal 2018 and fiscal 2017 for two executives as a result of a frozen defined benefit plan.

- (e) For fiscal 2018 and 2017 the Company matching contribution made under the TE Connectivity employee stock purchase plan for one executive.
- (f) For fiscal 2018 and 2017, amount includes the value of unused vacation and personal time paid to one executive pursuant to local state law requirements.

**Report of the Statutory Auditor on the Swiss Statutory Compensation Report of TE Connectivity Ltd.**

To the General meeting of  
**TE CONNECTIVITY LTD., SCHAFFHAUSEN**

We have audited Tables 1 and 2 within the accompanying compensation report of TE Connectivity Ltd. for the year ended September 28, 2018.

**Board of Directors' Responsibility**

The Board of Directors is responsible for the preparation and overall fair presentation of the compensation report in accordance with Swiss law and the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (the "Ordinance"). The Board of Directors is also responsible for designing the compensation system and defining individual compensation packages.

**Auditor's Responsibility**

Our responsibility is to express an opinion on the accompanying compensation report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the compensation report complies with Swiss law and articles 14–16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the compensation report with regard to compensation, loans and credits in accordance with articles 14–16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the compensation report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the compensation report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Opinion**

In our opinion, the compensation report of TE Connectivity Ltd. for the year ended September 28, 2018 complies with Swiss law and articles 14–16 of the Ordinance.

**Deloitte AG**

/s/ Matthias Gschwend  
Licensed audit expert  
Auditor in charge

/s/ Dominik Voegtli  
Licensed audit expert

Zurich, December 13, 2018

Enclosure: Compensation report





# BOARD OF DIRECTORS

**Thomas J. Lynch**  
Non-Executive Chairman  
TE Connectivity Ltd.

**Dr. Pierre R. Brondeau\***  
President, Chairman, and  
Chief Executive Officer,  
FMC Corporation

**Terrence R. Curtin**  
Director and  
Chief Executive Officer,  
TE Connectivity Ltd.

**Carol A. "John" Davidson**  
Retired Senior Vice President,  
Controller and Chief Accounting  
Officer,  
Tyco International Ltd.

**Dr. William A. Jeffrey**  
Chief Executive Officer,  
SRI International

**Yong Nam**  
Advisor to the CEO,  
Daelim Industrial Co. Ltd.  
Former Chief Executive Officer,  
LG Electronics Inc.

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Retired Chief of Staff,  
GlaxoSmithKline plc

**Paula A. Sneed**  
Chair and Chief Executive Officer,  
Phelps Prescott Group, LLC  
Retired Executive Vice President,  
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**Abhijit Y. Talwalkar**  
Former President and  
Chief Executive Officer,  
LSI Corporation

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President and  
Chief Executive Officer,  
Mallinckrodt plc

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Former President and  
Chief Executive Officer,  
eSolar, Inc.

**Laura H. Wright**  
Founder, GSB Advisors  
Retired Chief Financial Officer,  
Southwest Airlines Co.

*\*Lead Independent Director of the TE Connectivity Ltd. Board of Directors*

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# LEADERSHIP TEAM AND OFFICERS

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Chief Executive Officer  
and Director

**Claudia Anderson**  
Vice President,  
Customer Experience

**Mario Calastri**  
Senior Vice President,  
Treasurer

**Joel Dubs**  
Senior Vice President,  
Operations

**Joseph F. Eckroth, Jr.**  
Senior Vice President,  
Chief Information Officer

**Kari Janavitz**  
Vice President,  
Chief Marketing Officer

**John S. Jenkins, Jr.**  
Executive Vice President,  
General Counsel

**Arvind Kaushal**  
Senior Vice President,  
Chief Strategy Officer

**Shad W. Kroeger**  
President,  
Communications Solutions

**Nitin Mathur**  
Vice President,  
Chief Digital & eBusiness Officer

**Jimmy McDonald**  
Vice President,  
Chief Supply Chain Officer

**Steven T. Merkt**  
President,  
Transportation Solutions

**Heath A. Mitts**  
Executive Vice President,  
Chief Financial Officer

**Timothy J. Murphy**  
Senior Vice President,  
Chief Human Resources Officer

**Robert J. Ott**  
Senior Vice President,  
Corporate Controller

**Jeanne Quirk**  
Senior Vice President,  
Mergers and Acquisitions

**Eric J. Resch**  
Senior Vice President,  
Chief Tax Officer

**Kevin N. Rock**  
President,  
Industrial Solutions

**Joan E. Wainwright**  
President,  
Channel and Customer Experience



