

TE Connectivity Ltd.  
Form 10-K  
November 14, 2017

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

(Mark One)

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

For the fiscal year ended September 29, 2017

or

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

**001-33260**

(Commission File Number)

**TE CONNECTIVITY LTD.**

(Exact name of registrant as specified in its charter)

**Switzerland**

(Jurisdiction of Incorporation)

**98-0518048**

(IRS Employer Identification No.)

**Rheinstrasse 20, CH-8200 Schaffhausen, Switzerland**

(Address of principal executive offices)

**+41 (0)52 633 66 61**

(Registrant's telephone number)

**Securities registered pursuant to Section 12(b) of the Act:**

**Title of each class**  
Common Shares, Par Value CHF 0.57

**Name of each exchange on which registered**  
New York Stock Exchange

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## Securities registered pursuant to Section 12(g) of the Act: None

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

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

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

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

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

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. Yes  No

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

The aggregate market value of the registrant's common shares held by non-affiliates of the registrant was \$26.4 billion as of March 31, 2017, the last business day of the registrant's most recently completed second fiscal quarter. Directors and executive officers of the registrant are considered affiliates for purposes of this calculation but should not necessarily be deemed affiliates for any other purpose.

The number of common shares outstanding as of November 9, 2017 was 351,637,204.

## DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement to be filed in connection with the registrant's 2018 annual general meeting of shareholders are incorporated by reference into Part III of this Form 10-K.

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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 discussed in "Risk Factors" and other risks identified in this Annual Report 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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**PART I**

**ITEM 1. 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 2017, 2016, and 2015 ended on September 29, 2017, September 30, 2016, and September 25, 2015, respectively. Fiscal 2017 and 2015 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 \$180 billion.

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

	<b>Fiscal</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
Transportation Solutions	53%	53%	52%
Industrial Solutions	27	26	26
Communications Solutions	20	21	22
Total	100%	100%	100%

Below is a description of our reportable segments and the primary products, markets, and competitors of each segment. See Notes 1 and 21 to the Consolidated Financial Statements for additional information regarding our segments.

***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; 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.



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*Commercial transportation (14% 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 (12% 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, 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 markets:

*Industrial equipment (50% 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, therapeutic, surgical, tubing, and minimally invasive interventional applications.

*Aerospace, defense, oil, and gas (31% of segment's net sales).* We provide components and solutions for the commercial aerospace industry from the initial stages of aircraft design to aftermarket support. Our defense products include ruggedized electronic interconnects serving military aviation, marine, and ground vehicles including electronic warfare and space systems. Our oil and gas products include cables and electronics used for harsh subsea environments in the offshore oil and gas and civil marine industries and in shipboard, subsea, and sonar applications.

*Energy (19% 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. We are also a leader in developing, manufacturing, installing, and maintaining some of the world's most advanced subsea fiber optic communications systems. The primary products sold by the Communications Solutions segment include terminals and connector systems and components; undersea telecommunication systems; relays; heat shrink tubing; and antennas. The Communications Solutions segment's products are used in the following markets:

*Data and devices (38% 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,

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and wireless infrastructure industries. Additionally, we deliver a range of connectivity solutions for the Internet of Things, smart phones, tablet computers, notebooks, and virtual reality applications to help our customers meet their current challenges and future innovations.

*Subsea communications (36% of segment's net sales).* Our products are used in undersea fiber optic telecommunication systems. With vertically integrated undersea communications systems and services, we support the telecommunications and oil and gas industries and other customers seeking marine services.

*Appliances (26% 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). Also, the Subsea Communications business competes against Nokia (Alcatel-Lucent Submarine Networks) and NEC.

**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 this 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 cyclicality in our results and distinguishes us from our competitors.

No single customer accounted for a significant amount of our net sales in fiscal 2017, 2016, or 2015.



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**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		
	2017	2016	2015
Americas <sup>(2)</sup>	34%	34%	34%
Europe/Middle East/Africa ("EMEA")	34	34	33
Asia Pacific	32	32	33
Total	100%	100%	100%

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- (1) Net sales to external customers are attributed to individual countries based on the legal entity that records the sale.
- (2) The Americas region includes our Subsea Communications business.

See Note 21 to the Consolidated Financial Statements for additional geographic information relating to our business.

We sell our products into approximately 150 countries primarily through direct selling efforts to manufacturers. We also sell our products indirectly via third-party distributors. In fiscal 2017, our direct sales represented approximately 80% of total net sales.

We maintain distribution centers around the world. 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 believe our balanced sales distribution lowers our exposure to any particular geography and improves our financial profile.

Products are generally delivered to 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. We contract with a wide range of transport providers to deliver our products via road, rail, sea, and air.

**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.

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Customer orders typically fluctuate from quarter to quarter based upon business conditions and cancellation of unfilled orders prior to shipment of goods. Backlog by reportable segment was as follows:

	<b>Fiscal Year End</b>	
	<b>2017</b>	<b>2016</b>
	<b>(in millions)</b>	
Transportation Solutions	\$ 1,681	\$ 1,343
Industrial Solutions	1,032	875
Communications Solutions <sup>(1)</sup>	1,157	1,387
<b>Total</b>	<b>\$ 3,870</b>	<b>\$ 3,605</b>

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(1) Includes our Subsea Communications business' backlog of \$739 million and \$1,047 million at fiscal year end 2017 and 2016, respectively. Subsea Communications is a project-based business; its backlog may fluctuate as a result of program timing.

We expect that the majority of our backlog at fiscal year end 2017 will be filled during fiscal 2018.

### **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.

### **Research and Development**

We are engaged in both internal and external research and development in an effort to introduce new products to enhance the effectiveness, ease of use, safety, and reliability of our existing products, and to expand the applications for which the uses of our products are appropriate. We continually evaluate developing technologies in areas where we may have technological or marketing expertise for possible investment or acquisition.

Our research and development expense was as follows:

	<b>Fiscal</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<b>(in millions)</b>		
Transportation Solutions	\$ 344	\$ 312	\$ 262
Industrial Solutions	137	136	128
Communications Solutions	114	118	150
<b>Total</b>	<b>\$ 595</b>	<b>\$ 566</b>	<b>\$ 540</b>



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Our capital spending and investment in product and process engineering and development enable us to consistently provide innovative, high-quality products with efficient manufacturing methods. In fiscal 2017, we derived approximately 20% of our net sales from new products, including product extensions, introduced within the previous three fiscal years.

**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.

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**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 2017, we employed approximately 78,000 people worldwide, of whom 24,000 were in the Americas region, 29,000 were in the EMEA region, and 25,000 were in the Asia Pacific region. Of our total employees, approximately 49,000 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.

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**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 2017, we concluded that it was probable that we would incur investigation and remediation costs at these sites in the range of \$15 million to \$43 million, and that the best estimate within this range was \$19 million. We do not anticipate any material capital expenditures during fiscal 2018 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 United States Securities and Exchange Commission ("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.

**ITEM 1A. RISK FACTORS**

*Investors should carefully consider the risks described below before investing in our securities. These risks are not the only ones facing us. Our business is also subject to general risks that affect many other companies. Additional risks not currently known to us or that we currently believe are immaterial may also impair our business operations, financial condition, and liquidity.*

**Risks Relating to the Macroeconomic Environment and Our Global Presence**

*Conditions in global or regional economies, capital and money markets, and banking systems, and cyclical industry demand may adversely affect our results of operations, financial position, and cash flows.*

Our business and operating results have been and will continue to be affected by economic conditions regionally or globally, including the cost and availability of consumer and business credit, end demand from consumer and industrial markets, and concerns as to sovereign debt levels including credit rating downgrades and defaults on sovereign debt and significant bank failures or defaults. Any of these economic factors could cause our customers to experience deterioration of their businesses, cash flow, and ability to obtain financing. As a result, existing or potential customers may delay or

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cancel plans to purchase our products and may not be able to fulfill their obligations to us in a timely fashion or in full. Further, our vendors may experience similar problems, which may impact their ability to fulfill our orders or meet agreed service and quality levels. If regional or global economic conditions deteriorate, our results of operations, financial position, and cash flows could be materially adversely affected. Also, deterioration in economic conditions could trigger the recognition of impairment charges for our goodwill or other long-lived assets. Impairment charges, if any, may be material to our results of operations and financial position.

***Foreign currency exchange rates may adversely affect our results.***

A significant portion of our business is conducted outside the United States ("U.S."), and changes in the relative values of currencies may have a significant effect on our results of operations, financial position, and cash flows.

We are exposed to the effects of changes in foreign currency exchange rates on our costs and revenue. Approximately 55% of our net sales for fiscal 2017 were invoiced in currencies other than the U.S. dollar, and we expect non-U.S. dollar revenue to continue to represent a significant portion of our future net revenue. We have elected not to hedge this foreign currency exposure. Therefore, when the U.S. dollar strengthens in relation to the currencies of the countries where we sell our products, such as the euro or Asian currencies, our U.S. dollar reported revenue and income will decrease.

We manage certain cash, intercompany, and other balance sheet currency exposures in part by entering into financial derivative contracts. In addition to the risk of non-performance by the counterparty to these contracts, our efforts to manage these risks might not be successful.

***We could suffer significant business interruptions.***

Our operations and those of our suppliers and customers, and the supply chains that support their operations, may be vulnerable to interruption by natural disasters such as earthquakes, tsunamis, typhoons, or floods; or other disasters such as fires, explosions, acts of terrorism or war, disease, or failures of management information or other systems due to internal or external causes. If a business interruption occurs and we are unsuccessful in our continuing efforts to minimize the impact of these events, our business, results of operations, financial position, and cash flows could be materially adversely affected.

***We could be adversely affected by a decline in the market value of our pension plans' investment portfolios or a reduction in returns on plan assets.***

Concerns about deterioration in the global economy, together with concerns about credit, inflation, or deflation, have caused and could continue to cause significant volatility in the price of all securities, including fixed income and equity securities, which has reduced and could further reduce the value of our pension plans' investment portfolios. In addition, the expected returns on plan assets may not be achieved. A decrease in the value of our pension plans' investment portfolios or a reduction in returns on plan assets could have an adverse effect on our results of operations, financial position, and cash flows.

***Disruption in credit markets and volatility in equity markets may affect our ability to access sufficient funding.***

The global equity markets have been volatile and at times credit markets have been disrupted, which has reduced the availability of investment capital and credit. Downgrades of sovereign debt credit ratings have similarly affected the availability and cost of capital. As a result, we may be unable to access adequate funding to operate and grow our business. Our inability to access adequate funding or to generate sufficient cash from operations may require us to reconsider certain projects and capital

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expenditures. The extent of any impact will depend on several factors, including our operating cash flows, the duration of tight credit conditions and volatile equity markets, our credit ratings and credit capacity, the cost of financing, and other general economic and business conditions.

#### ***We are subject to global risks of political, economic, and military instability.***

Our workforce; manufacturing, research, administrative, and sales facilities; markets; customers; and suppliers are located throughout the world. As a result, we are exposed to risks that could negatively affect sales or profitability, including:

tariffs, trade barriers, and trade disputes;

regulations related to customs and import/export matters;

variations in lengths of payment cycles and challenges in collecting accounts receivable;

tax law and regulatory changes in the U.S. and EU among other jurisdictions, including tax law and regulatory changes that may be effected as a result of tax policy recommendations from quasi-governmental organizations such as the Organisation for Economic Co-operation and Development ("OECD"), examinations by taxing authorities, variations in tax laws from country to country, changes to the terms of income tax treaties, and difficulties in the tax-efficient repatriation of cash generated or held in a number of jurisdictions;

employment regulations and local labor conditions, including increases in employment costs, particularly in low-cost regions in which we currently operate;

difficulties protecting intellectual property;

instability in economic or political conditions, including sovereign debt levels, Eurozone uncertainty, inflation, recession, actual or anticipated military or political conflicts, and any impact as a result of the expected exit of the United Kingdom from the EU; and

the impact of each of the foregoing on our outsourcing and procurement arrangements.

We have sizeable operations in China, including 14 manufacturing sites. In addition, approximately 18% of our net sales in fiscal 2017 were made to customers in China. Economic conditions in China have been and may continue to be volatile and uncertain. In addition, the legal and regulatory system in China is still developing and subject to change. Accordingly, our operations and transactions with customers in China could be adversely affected by changes to market conditions, changes to the regulatory environment, or interpretation of Chinese law.

In addition, any downgrade by rating agencies of long-term U.S. sovereign debt or downgrades or defaults of sovereign debt of other nations may negatively affect global financial markets and economic conditions, which could negatively affect our business, financial condition, and liquidity.

#### **Risks Relating to the Industry in Which We Operate**

##### ***We are dependent on the automotive and other industries.***

We are dependent on end market dynamics to sell our products, and our operating results could be adversely affected by cyclical and reduced demand in these markets. Periodic downturns in our customers' industries can significantly reduce demand for certain of our products, which could have a material adverse effect on our results of operations, financial position, and cash flows.

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Approximately 40% of our net sales for fiscal 2017 were to customers in the automotive industry. The automotive industry is dominated by large manufacturers that can exert significant price pressure on their suppliers. Additionally, the automotive industry has historically experienced significant downturns during periods of deteriorating global or regional economic or credit conditions. As a



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supplier of automotive electronics products, our sales of these products and our profitability have been and could continue to be negatively affected by significant declines in global or regional economic and credit conditions and changes in the operations, products, business models, part-sourcing requirements, financial condition, and market share of automotive manufacturers, as well as potential consolidations among automotive manufacturers.

During fiscal 2017, approximately 13% of our net sales were to customers in the industrial equipment end market; 8% of our net sales were to customers in the aerospace, defense, oil, and gas end market; and 8% of our net sales were to customers in the commercial transportation market. Demand for industrial equipment is dependent upon economic conditions, including customer investment in intelligent buildings, factory automation, and process control systems, as well as market conditions in the medical, rail transportation, solar and lighting, and other major industrial markets we serve. The aerospace and defense industry has undergone significant fluctuations in demand, depending on worldwide economic and political conditions. Demand in the oil and gas market is impacted by oil price volatility. The commercial transportation industry can experience variability in demand depending on the economic environment and market conditions in the heavy truck, construction, agriculture, and recreational vehicle markets.

***We encounter competition in substantially all areas of the electronic components industry.***

We operate in highly competitive markets for electronic components, and expect that both direct and indirect competition will increase in the future. Our overall competitive position depends on a number of factors including the price, quality, and performance of our products; the level of customer service; the development of new technology; our ability to participate in emerging markets; and customers' expectations relating to socially responsible operations. The competition we experience across product lines from other companies ranges in size from large, diversified manufacturers to small, highly specialized manufacturers. The electronic components industry has become increasingly concentrated and globalized in recent years, and our major competitors have significant financial resources and technological capabilities. A number of these competitors compete with us primarily on price, and in some instances may enjoy lower production costs for certain products. We cannot provide assurance that additional competitors will not enter our markets, or that we will be able to compete successfully against existing or new competitors. Increased competition may result in price reductions, reduced margins, or loss of market share, any of which could materially and adversely affect our results of operations, financial position, and cash flows.

***We are dependent on market acceptance of our new product introductions and product innovations for future revenue.***

Substantially all markets in which we operate are impacted by technological change or change in consumer tastes and preferences, which are rapid in certain end markets. Our operating results depend substantially upon our ability to continually design, develop, introduce, and sell new and innovative products; to modify existing products; and to customize products to meet customer requirements driven by such change. There are numerous risks inherent in these processes, including the risk that we will be unable to anticipate the direction of technological change or that we will be unable to develop and market profitable new products and applications in time to satisfy customer demands.

***Like other suppliers to the electronics industry, we are subject to continuing pressure to lower our prices.***

We have historically experienced, and we expect to continue to experience, continuing pressure to lower our prices. In recent years, we have experienced price erosion averaging from 1% to 2% each year. To maintain our margins, we must continue to reduce our costs by similar amounts. We cannot provide assurance that continuing pressures to reduce our prices will not have a material adverse effect on our margins, results of operations, financial position, and cash flows.

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*We may be negatively affected as our customers and vendors continue to consolidate.*

Many of the industries to which we sell our products, as well as many of the industries from which we buy materials, have become more concentrated in recent years, including the automotive, data and devices, and aerospace and defense industries. Consolidation of customers may lead to decreased product purchases from us. In addition, as our customers buy in larger volumes, their volume buying power has increased, enabling them to negotiate more favorable pricing and find alternative sources from which to purchase. Our materials suppliers similarly have increased their ability to negotiate favorable pricing. These trends may adversely affect the margins on our products, particularly for commodity components.

*The life cycles of certain of our products can be very short.*

The life cycles of certain of our products can be very short relative to their development cycle. As a result, the resources devoted to product sales and marketing may not result in material revenue and, from time to time, we may need to write off excess or obsolete inventory or equipment. If we were to incur significant engineering expenses and investments in inventory and equipment that we were not able to recover, and we were not able to compensate for those expenses, our results of operations, financial position, and cash flows could be materially and adversely affected.

**Risks Relating to Our Operations**

*Our results are sensitive to raw material availability, quality, and cost.*

We are a large buyer of resins, chemicals and additives, and metals, including copper, gold, silver, aluminum, brass, steel, and zinc. 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. In addition, the price of many of these raw materials, including gold and copper, continues to fluctuate. If we have difficulty obtaining these raw materials, the quality of available raw materials deteriorates, or there are significant price increases for these raw materials, it could have a substantial impact on the price we pay for raw materials. To the extent we cannot compensate for cost increases through productivity improvements or price increases to our customers, our margins may decline, materially affecting our results of operations, financial position, and cash flows. In addition, we use financial instruments to hedge the volatility of certain commodities prices. The success of our hedging program depends on accurate forecasts of planned consumption of the hedged commodity materials. We could experience unanticipated hedge gains or losses if these forecasts are inaccurate.

In accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act, the SEC established annual disclosure and reporting requirements for those companies who use tin, tantalum, tungsten, or gold ("conflict minerals" or "3TG") mined from the Democratic Republic of Congo ("DRC") and adjoining countries (together with the DRC, the "Covered Countries") in their products. These requirements could affect the sourcing, pricing, and availability of 3TG used in the manufacture of certain of our products. As a result, there may only be a limited pool of suppliers who can demonstrate that they do not source any 3TG from the Covered Countries, and we cannot provide assurance that we will be able to obtain non-conflict 3TG in sufficient quantities or at competitive prices. Further, since our supply chain is complex, we may face reputational challenges with our customers and other stakeholders if we are unable to sufficiently verify the origins and chain of custody for all conflict minerals used in our products through our due diligence procedures.

*We may use components and products manufactured by third parties.*

We may rely on third-party suppliers for the components used in our products, and we may rely on third-party manufacturers to manufacture certain of our assemblies and finished products. Our results of operations, financial position, and cash flows could be adversely affected if such third parties lack sufficient quality control or if there are significant changes in their financial or business condition. If these third parties fail to deliver quality products, parts, and components on time and at reasonable prices, we could have difficulties fulfilling our orders, sales and profits could decline, and our commercial reputation could be damaged.

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***Our future success is significantly dependent on our ability to attract and retain executive management employees, and limitations affecting retention and hiring, including Swiss regulations, could have a negative impact on our business and increase our expenses.***

Our success depends to a significant extent upon our continued ability to retain our executive management employees and hire new executive management employees to replace, succeed, or add to members of our executive management team. Our executive management team has significant industry experience and would be difficult to replace. Competition for executive talent is intense, and we compete for these personnel with other companies that are regulated by the laws of jurisdictions that provide significantly greater flexibility than Switzerland, our jurisdiction of incorporation, in compensation practices for executive management employees.

***Security breaches and other disruptions to our information technology infrastructure could interfere with our operations, compromise confidential information, and expose us to liability which could materially adversely impact our business and reputation.***

Security breaches and other disruptions to our information technology infrastructure could interfere with our operations; compromise information belonging to us, our employees, customers, and suppliers; and expose us to liability which could adversely impact our business and reputation. In the normal course of business, we rely on information technology networks and systems, some of which are managed by third parties, to process, transmit, and store electronic information, and to manage or support a variety of business processes and activities. Additionally, we collect and store certain data, including proprietary business information and customer and employee data, and may have access to confidential or personal information in certain of our businesses that is subject to privacy and security laws, regulations, and customer-imposed controls. Despite our cybersecurity measures (including employee and third-party training, monitoring of networks and systems, and maintenance of backup and protective systems) which are continuously reviewed and upgraded to mitigate persistent and continuously evolving cyber security threats, our information technology networks and infrastructure may still be vulnerable to damage, disruptions, or shutdowns due to attack by hackers or breaches, employee error or malfeasance, power outages, computer viruses, telecommunication or utility failures, systems failures, natural disasters, or other catastrophic events. Any such events could result in legal claims or proceedings, liability or penalties under privacy laws, disruption in operations, and damage to our reputation, which could materially adversely affect our business. While we have experienced, and expect to continue to experience, these types of threats to our information technology networks and infrastructure, to date none of these threats have had a material impact on our business or operations.

***Covenants in our debt instruments may adversely affect us.***

Our five-year unsecured senior revolving credit facility ("Credit Facility") contains financial and other covenants, such as a limit on the ratio of Consolidated Total Debt to Consolidated EBITDA (as defined in the Credit Facility) and limits on the amount of subsidiary debt and incurrence of liens. Our outstanding notes' indentures contain customary covenants including limits on incurrence of liens, sale and lease-back transactions, and our ability to consolidate, merge, and sell assets.

Although none of these covenants are presently restrictive to our operations, our continued ability to meet the Credit Facility financial covenant can be affected by events beyond our control, and we cannot provide assurance that we will continue to comply with the covenant. A breach of any of our covenants could result in a default under our Credit Facility or indentures. Upon the occurrence of certain defaults under our Credit Facility and indentures, the lenders or trustee could elect to declare all amounts outstanding thereunder to be immediately due and payable, and our lenders could terminate commitments to extend further credit under our Credit Facility. If the lenders or trustee accelerate the repayment of borrowings, we cannot provide assurance that we will have sufficient assets or access to lenders or capital markets to repay or fund the repayment of any amounts outstanding

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under our Credit Facility and our other affected indebtedness. Acceleration of any debt obligation under any of our material debt instruments may permit the holders or trustee of our other material debt to accelerate payment of debt obligations to the creditors thereunder.

The indentures governing our outstanding senior notes contain covenants that may require us to offer to buy back the notes for a price equal to 101% of the principal amount, plus accrued and unpaid interest to the repurchase date, upon a change of control triggering event (as defined in the indentures). We cannot provide assurance that we will have sufficient funds available or access to funding to repurchase tendered notes in that event, which could result in a default under the notes. Any future debt that we incur may contain covenants regarding repurchases in the event of a change of control triggering event.

***The market price of our shares may fluctuate widely.***

The market price of our shares may fluctuate widely, depending upon many factors, including:

our quarterly or annual earnings;

quarterly or annual sales or earnings guidance that we may provide or changes thereto;

actual or anticipated fluctuations in our operating results;

volatility in financial markets and market fluctuations caused by global and regional economic conditions and investors' concerns about potential risks to future economic growth;

changes in earnings estimates by securities analysts or our ability to meet those estimates;

changes in accounting standards, policies, guidance, interpretations, or principles;

tax legislative and regulatory actions and proposals in Switzerland, the U.S., and other jurisdictions;

announcements by us or our competitors of significant acquisitions or dispositions; and

the operating and stock price performance of comparable companies and companies that serve end markets important to our business.

**Risks Relating to Strategic Transactions**

***Future acquisitions may not be successful.***

We regularly evaluate the possible acquisition of strategic businesses, product lines, or technologies which have the potential to strengthen our market position or enhance our existing product offerings. We cannot provide assurance that we will identify or successfully complete transactions with acquisition candidates in the future. We also cannot provide assurance that completed acquisitions will be successful. If an acquired business fails to operate as anticipated or cannot be successfully integrated with our existing business, our results of operations, financial position, and cash flows could be materially and adversely affected.

***Future acquisitions could require us to issue additional debt or equity.***

If we were to make a substantial acquisition with cash, the acquisition may need to be financed in part through funding from banks, public offerings or private placements of debt or equity securities, or other arrangements. This acquisition financing might decrease our ratio of

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earnings to fixed charges and adversely affect other leverage measures. We cannot provide assurance that sufficient acquisition financing would be available to us on acceptable terms if and when required. If we were to make an acquisition partially or wholly funded by issuing equity securities or equity-linked securities, the issued securities may have a dilutive effect on the interests of the holders of our shares.

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***Divestitures of some of our businesses or product lines may have a material adverse effect on our results of operations, financial position, and cash flows.***

We continue to evaluate the strategic fit of specific businesses and products which may result in additional divestitures. Any divestitures may result in significant write-offs, including those related to goodwill and other intangible assets, which could have a material adverse effect on our results of operations and financial position. Divestitures could involve additional risks, including difficulties in the separation of operations, services, products, and personnel; the diversion of management's attention from other business concerns; the disruption of our business; and the potential loss of key employees. There can be no assurance that we will be successful in addressing these or any other significant risks encountered.

**Risks Relating to Intellectual Property, Litigation, and Regulations**

***Our ability to compete effectively depends, in part, on our ability to maintain the proprietary nature of our products and technology.***

The electronics industry is characterized by litigation regarding patent and other intellectual property rights. Within this industry, companies have become more aggressive in asserting and defending patent claims against competitors. There can be no assurance that we will not be subject to future litigation alleging infringement or invalidity of certain of our intellectual property rights or that we will not have to pursue litigation to protect our property rights. Depending on the importance of the technology, product, patent, trademark, or trade secret in question, an unfavorable outcome regarding one of these matters may have a material adverse effect on our results of operations, financial position, and cash flows.

***We are a defendant to a variety of litigation in the course of our business that could cause a material adverse effect on our results of operations, financial position, and cash flows.***

In the normal course of business, we are, from time to time, a defendant in litigation, including litigation alleging the infringement of intellectual property rights, anti-competitive behavior, product liability, breach of contract, and employment-related claims. In certain circumstances, patent infringement and antitrust laws permit successful plaintiffs to recover treble damages. The defense of these lawsuits may divert our management's attention, and we may incur significant expenses in defending these lawsuits. In addition, we may be required to pay damage awards or settlements, or become subject to injunctions or other equitable remedies, that could cause a material adverse effect on our results of operations, financial position, and cash flows.

***If any of our operations are found not to comply with applicable antitrust or competition laws or applicable trade regulations, our business may suffer.***

Our operations are subject to applicable antitrust and competition laws in the jurisdictions in which we conduct our business, in particular the U.S. and the EU. These laws prohibit, among other things, anticompetitive agreements and practices. If any of our commercial agreements and practices with respect to the electronic components or other markets are found to violate or infringe such laws, we may be subject to civil and other penalties. We may also be subject to third-party claims for damages. Further, agreements that infringe these antitrust and competition laws may be void and unenforceable, in whole or in part, or require modification in order to be lawful and enforceable. If we are unable to enforce our commercial agreements, whether at all or in material part, our results of operations, financial position, and cash flows could be adversely affected. Further, any failure to maintain compliance with trade regulations could limit our ability to import and export raw materials and finished goods into or from the relevant jurisdiction, which could negatively impact our results of operations, financial position, and cash flows.

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*We could be adversely affected by violations of the U.S. Foreign Corrupt Practices Act, the United Kingdom's Bribery Act, and similar worldwide anti-bribery laws.*

The U.S. Foreign Corrupt Practices Act, the United Kingdom's Bribery Act, and similar worldwide anti-bribery laws generally prohibit companies and their intermediaries from making improper payments to government officials for the purpose of obtaining or retaining business. Our policies mandate compliance with these anti-bribery laws. We operate in many parts of the world that have experienced governmental corruption to some degree, and in certain circumstances, strict compliance with anti-bribery laws may conflict with local customs and practices. Despite our training and compliance program, we cannot provide assurance that our internal control policies and procedures always will protect us from reckless or criminal acts committed by our employees or agents. Violations of these laws, or allegations of such violations, could disrupt our business and result in a material adverse effect on our results of operations, financial position, and cash flows.

*Our operations expose us to the risk of material environmental liabilities, litigation, government enforcement actions, and reputational risk.*

We are subject to numerous federal, state, and local environmental protection and health and safety laws and regulations in the various countries where we operate and where our products are sold. These laws and regulations govern, among other things:

- the generation, storage, use, and transportation of hazardous materials;
- emissions or discharges of substances into the environment;
- investigation and remediation of hazardous substances or materials at various sites;
- greenhouse gas emissions;
- product hazardous material content; and
- the health and safety of our employees.

We may not have been, or we may not always be, in compliance with all environmental and health and safety laws and regulations. If we violate these laws, we could be fined, criminally charged, or otherwise sanctioned by regulators. In addition, environmental and health and safety laws are becoming more stringent, resulting in increased costs and compliance burdens.

Certain environmental laws assess liability on current or previous owners or operators of real property for the costs of investigation, removal, and remediation of hazardous substances or materials at their properties or at properties at which they have disposed of hazardous substances. Liability for investigation, removal, and remediation costs under certain federal and state laws is retroactive, strict, and joint and several. In addition to cleanup actions brought by governmental authorities, private parties could bring personal injury or other claims due to the presence of, or exposure to, hazardous substances. We have received notifications from the U.S. Environmental Protection Agency, other environmental agencies, and third parties that conditions at a number of currently and formerly-owned or operated sites where we and others have disposed of hazardous substances require investigation, cleanup, and other possible remedial action and require that we reimburse the government or otherwise pay for the costs of investigation and remediation and for natural resource damage claims from such sites. We also have independently investigated various sites and determined that further investigation and/or remediation is necessary.

While we plan for future capital and operating expenditures to maintain compliance with environmental laws, we cannot provide assurance that our costs of complying with current or future environmental protection and health and safety laws, or our liabilities arising from past or future releases of, or exposures to, hazardous substances will not exceed our estimates or adversely affect our

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results of operations, financial position, and cash flows or that we will not be subject to additional environmental claims for personal injury, property damage, and/or cleanup in the future based on our past, present, or future business activities.

***Our products are subject to various requirements related to chemical usage, hazardous material content, and recycling.***

The EU, China, and other jurisdictions in which our products are sold have enacted or are proposing to enact laws addressing environmental and other impacts from product disposal, use of hazardous materials in products, use of chemicals in manufacturing, recycling of products at the end of their useful life, and other related matters. These laws include but are not limited to the EU Restriction of Hazardous Substances, End of Life Vehicle, and Waste Electrical and Electronic Equipment Directives; the EU REACH Regulation; and the China law on Management Methods for Controlling Pollution by Electronic Information Products. These laws prohibit the use of certain substances in the manufacture of our products and directly and indirectly impose a variety of requirements for modification of manufacturing processes, registration, chemical testing, labeling, and other matters. These laws continue to proliferate and expand in these and other jurisdictions to address other materials and other aspects of our product manufacturing and sale. These laws could make the manufacture or sale of our products more expensive or impossible, could limit our ability to sell our products in certain jurisdictions, and could result in liability for product recalls, penalties, or other claims.

**Risks Relating to Our Swiss Jurisdiction of Incorporation**

***As a Swiss corporation, we have less flexibility with respect to certain aspects of capital management involving the issuance of shares.***

As a Swiss corporation, our board of directors may not declare and pay dividends or distributions on our shares or reclassify reserves on our standalone unconsolidated Swiss balance sheet without shareholder approval and without satisfying certain other requirements. In addition, our articles of association allow us to create authorized share capital that can be issued by the board of directors, but this authorization is limited to (i) authorized share capital up to 50% of the existing registered shares with such authorization valid for a maximum of two years, which authorization period ends on March 2, 2018, approved by our shareholders at our March 2, 2016 annual meeting of shareholders and (ii) conditional share capital of up to 50% of the existing registered shares that may be issued only for specific purposes. Additionally, subject to specified exceptions, Swiss law grants preemptive rights to existing shareholders to subscribe for new issuances of shares from authorized share capital and advance subscription rights to existing shareholders to subscribe for new issuances of shares from conditional share capital. Swiss law also does not provide much flexibility in the various terms that can attach to different classes of shares, and reserves for approval by shareholders many types of corporate actions, including the creation of shares with preferential rights with respect to liquidation, dividends, and/or voting. Moreover, under Swiss law, we generally may not issue registered shares for an amount below par value without prior shareholder approval to decrease the par value of our registered shares. Any such actions for which our shareholders must vote will require that we file a preliminary proxy statement with the SEC and convene a meeting of shareholders, which would delay the timing to execute such actions. Such limitations provide the board of directors less flexibility with respect to our capital management. While we do not believe that Swiss law requirements relating to the issuance of shares will have a material adverse effect on us, we cannot provide assurance that situations will not arise where such flexibility would have provided substantial benefits to our shareholders and such limitations on our capital management flexibility would make our stock less attractive to investors.



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***We might not be able to make distributions on our shares without subjecting shareholders to Swiss withholding tax.***

In order to make distributions on our shares to shareholders free of Swiss withholding tax, we anticipate making distributions to shareholders through a reduction of contributed surplus (as determined for Swiss tax and statutory purposes). Various tax law and corporate law proposals in Switzerland, if passed in the future, may affect our ability to pay dividends or distributions to our shareholders free from Swiss withholding tax. There can be no assurance that we will be able to meet the legal requirements for future distributions to shareholders through dividends from contributed surplus or through a reduction of registered share capital, or that Swiss withholding rules would not be changed in the future. In addition, over the long term, the amount of registered share capital available for reductions will be limited. Our ability to pay dividends or distributions to our shareholders free from Swiss withholding tax is a significant component of our capital management and shareholder return practices that we believe is important to our shareholders, and any restriction on our ability to do so could make our stock less attractive to investors.

***Currency fluctuations between the U.S. dollar and the Swiss franc may limit the amount available for any future distributions on our shares without subjecting shareholders to Swiss withholding tax.***

Under Swiss law, the registered share capital in our unconsolidated Swiss statutory financial statements is required to be denominated in Swiss francs. Since distributions that are effected through a return of contributed surplus or registered share capital are expected to be paid in U.S. dollars, shareholder resolutions with respect to such distributions must take into account the Swiss francs denomination of the registered share capital. If the U.S. dollar were to increase in value relative to the Swiss franc, the U.S. dollar amount of registered share capital available for future distributions without Swiss withholding tax will decrease.

***We have certain limitations on our ability to repurchase our shares.***

The Swiss Code of Obligations regulates a corporation's ability to hold or repurchase its own shares. We and our subsidiaries may only repurchase shares to the extent that sufficient freely distributable reserves (including contributed surplus as determined for Swiss tax and statutory purposes) are available. The aggregate par value of our registered shares held by us and our subsidiaries may not exceed 10% of our registered share capital. We may repurchase our registered shares beyond the statutory limit of 10%, however, only if our shareholders have adopted a resolution at a general meeting of shareholders authorizing the board of directors to repurchase registered shares in an amount in excess of 10% and the repurchased shares are dedicated for cancellation. Additionally, various tax law and corporate law proposals in Switzerland, if passed in the future, may affect our ability to repurchase our shares. Our ability to repurchase our shares is a significant component of our capital management and shareholder return practices that we believe is important to our shareholders, and any restriction on our ability to repurchase our shares could make our stock less attractive to investors.

***Registered holders of our shares must be registered as shareholders with voting rights in order to vote at shareholder meetings.***

Our articles of association contain a provision regarding voting rights that is required by Swiss law for Swiss companies like us that issue registered shares (as opposed to bearer shares). This provision provides that to be able to exercise voting rights, holders of our shares must be registered in our share register (Aktienbuch) as shareholders with voting rights. Only shareholders whose shares have been registered with voting rights on the record date may participate in and vote at our shareholders' meetings, but all shareholders will be entitled to dividends, distributions, preemptive rights, advance subscription rights, and liquidation proceeds. The board of directors may, in its discretion, refuse to

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register shares as shares with voting rights if a shareholder does not fulfill certain disclosure requirements in our articles of association. Additionally, various proposals in Switzerland for corporate law changes, if passed in the future, may require shareholder registration in order to exercise voting rights for shareholders who hold their shares in street name through brokerages and banks. Such a registration requirement could make our stock less attractive to investors.

***Certain provisions of our articles of association may reduce the likelihood of any unsolicited acquisition proposal or potential change of control that our shareholders might consider favorable.***

Our articles of association contain provisions that could be considered "anti-takeover" provisions because they would make it harder for a third party to acquire us without the consent of our incumbent board of directors. Under these provisions, among others:

shareholders may act only at shareholder meetings and not by written consent, and

restrictions will apply to any merger or other business combination between our company and any holder of 15% or more of our issued voting shares who became such without the prior approval of our board of directors.

These provisions may only be amended by the affirmative vote of the holders of 80% of our issued voting shares, which could have the effect of discouraging an unsolicited acquisition proposal or delaying, deferring, or preventing a change of control transaction that might involve a premium price, or otherwise be considered favorable by our shareholders. Our articles of association also contain provisions permitting our board of directors to issue new shares from authorized or conditional capital (in either case, representing a maximum of 50% of the shares presently registered in the commercial register and in case of issuances from authorized capital, until March 2, 2018 unless re-authorized by shareholders for a subsequent two-year period) without shareholder approval and without regard for shareholders' preemptive rights or advance subscription rights, for the purpose of the defense of an actual, threatened, or potential unsolicited takeover bid, in relation to which the board of directors, upon consultation with an independent financial advisor, has not recommended acceptance to the shareholders. We note that Swiss courts have not addressed whether or not a takeover bid of this nature is an acceptable reason under Swiss law for withdrawing or limiting preemptive rights with respect to authorized share capital or advance subscription rights with respect to conditional share capital. In addition, the New York Stock Exchange ("NYSE"), on which our shares are listed, requires shareholder approval for issuances of shares equal to 20% or more of the outstanding shares or voting power, with limited exceptions.

***Legislative and regulatory actions and proposals in Switzerland, the U.S., and other jurisdictions could cause a material change in our worldwide effective corporate tax rate.***

Various U.S. and non-U.S. legislative and regulatory proposals have been directed at multinational companies with operations in lower-tax jurisdictions. There has been heightened focus on adoption of such legislation and on other initiatives, such as:

the OECD's initiative to develop agreed-upon best practices to prevent base erosion and profit shifting, which contemplate changes to numerous long-standing tax principles related to the distribution of profits between affiliated entities in different tax jurisdictions,

corporate tax reform in Switzerland, which is proposed in response to OECD and EU concerns,

EU and other country efforts to adopt certain OECD proposals and modified OECD proposals (including the Anti-Tax Avoidance Directive, state aid cases, and various transparency proposals), and

tax policy in the U.S., such as federal tax reform and revisions to the Model Income Tax Treaty.

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If these proposals are adopted in the main jurisdictions in which we do business, they could, among other things, cause double taxation, increase audit risk, and materially increase our worldwide corporate effective tax rate. We cannot predict the outcome of any specific legislative proposals or initiatives, and we cannot provide assurance that any such legislation or initiative will not apply to us.

***Legislation in the U.S. could adversely impact our results of operations, financial position, and cash flows.***

Various U.S. federal and state legislative proposals have been introduced in recent years that may negatively impact the growth of our business by denying government contracts to U.S. companies that have moved to lower-tax jurisdictions.

We expect the U.S. Congress to continue to consider implementation and/or expansion of policies that would restrict the federal and state governments from contracting with entities that have corporate locations abroad. We cannot predict the likelihood that, or final form in which, any such proposed legislation might become law, the nature of regulations that may be promulgated under any future legislative enactments, the effect such enactments and increased regulatory scrutiny may have on our business, or the outcome of any specific legislative proposals. Therefore, we cannot provide assurance that any such legislative action will not apply to us. In addition, we are unable to predict whether the final form of any potential legislation discussed above also would affect our indirect sales to U.S. federal or state governments or the willingness of our non-governmental customers to do business with us. As a result of these uncertainties, we are unable to assess the potential impact of any proposed legislation in this area and cannot provide assurance that the impact will not be materially adverse to us.

***Swiss law differs from the laws in effect in the U.S. and may afford less protection to holders of our securities.***

As we are organized under the laws of Switzerland, it may not be possible to enforce court judgments obtained in the U.S. against us in Switzerland based on the civil liability provisions of the U.S. federal or state securities laws. In addition, there is some uncertainty as to whether the courts of Switzerland would recognize or enforce judgments of U.S. courts obtained against us or our directors or officers based on the civil liability provisions of the U.S. federal or state securities laws or hear actions against us or those persons based on those laws. We have been advised that the U.S. and Switzerland currently do not have a treaty providing for the reciprocal recognition and enforcement of judgments in civil and commercial matters. Some remedies available under the laws of U.S. jurisdictions, including some remedies available under the U.S. federal securities laws, would not be allowed in Swiss courts as they are contrary to that nation's public policy.

Swiss law differs in certain material respects from laws generally applicable to U.S. corporations and their shareholders. These differences include the manner in which directors must disclose transactions in which they have an interest, the rights of shareholders to bring class action and derivative lawsuits, and the scope of indemnification available to directors and officers. Thus, holders of our securities may have more difficulty protecting their interests than would holders of securities of a corporation incorporated in a jurisdiction of the U.S.

Table of Contents**ITEM 2. PROPERTIES**

Our principal executive office is located in Schaffhausen, Switzerland. As of fiscal year end 2017, we owned approximately 20 million square feet and leased approximately 10 million square feet of manufacturing, warehousing, and office space. We believe our facilities are suitable for the conduct of our business and adequate for our current needs.

We manufacture our products in approximately 25 countries worldwide. Our manufacturing sites focus on various aspects of our manufacturing processes, including our primary processes of stamping, plating, molding, extrusion, beaming, and assembly. We consider the productive capacity of our manufacturing facilities sufficient. As of fiscal year end 2017, our principal centers of manufacturing output by segment and geographic region were as follows:

	<b>Transportation Solutions</b>	<b>Industrial Solutions</b>	<b>Communications Solutions</b>	<b>Total</b>
	<b>(number of manufacturing facilities)</b>			
Americas	11	23	6	40
EMEA	18	22	3	43
Asia Pacific	7	7	7	21
Total	36	52	16	104

**ITEM 3. LEGAL PROCEEDINGS**

In the normal course of business, we are subject to various legal proceedings and claims, including 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. In addition, we operate in an industry susceptible to significant patent legal claims. At any given time in the normal course of business, we are involved as either a plaintiff or defendant in a number of patent infringement actions. If infringement of a third party's patent were to be determined against us, we might be required to make significant royalty or other payments or might be subject to an injunction or other limitation on our ability to manufacture or sell one or more products. If a patent owned by or licensed to us were determined to be invalid or unenforceable, we might be required to reduce the value of the patent on our Consolidated Balance Sheet and to record a corresponding charge, which could be significant in amount.

Management believes that these legal proceedings and claims likely will be resolved over an extended period of time. 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.

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

Our common shares are listed and traded on the NYSE under the symbol "TEL." The following table sets forth the high and low closing sales prices of our common shares as reported by the NYSE for the quarterly periods of fiscal 2017 and 2016:

	Market Price Range			
	Fiscal			
	2017		2016	
	High	Low	High	Low
First Quarter	\$ 71.60	\$ 61.03	\$ 67.61	\$ 56.85
Second Quarter	76.53	67.31	65.75	52.27
Third Quarter	80.03	71.93	63.69	57.32
Fourth Quarter	83.22	77.61	64.54	54.83

The number of registered holders of our common shares at November 9, 2017 was 21,658.

**Dividends**

The following table sets forth the dividends paid on our common shares during the quarterly periods of fiscal 2017 and 2016:

	Fiscal			
	2017		2016	
First Quarter	\$	0.37	\$	0.33
Second Quarter		0.37		0.33
Third Quarter		0.40		0.37
Fourth Quarter		0.40		0.37

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. We may from time to time enter into financing agreements that contain financial covenants and restrictions, some of which may limit our ability to pay dividends.

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**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 2012 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					
	2012 <sup>(1)</sup>	2013	2014	2015	2016	2017
TE Connectivity Ltd.	\$ 100.00	\$ 156.17	\$ 180.06	\$ 182.33	\$ 205.56	\$ 270.74
S&P 500 Index	100.00	120.06	143.64	142.79	163.93	194.44
Dow Jones Electrical Components and Equipment Index	100.00	137.38	153.26	140.75	167.09	215.47

(1) \$100 invested on September 28, 2012 in TE Connectivity Ltd.'s common shares and in indexes. Indexes calculated on month-end basis.

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**Issuer Purchases of Equity Securities**

The following table presents information about our purchases of our common shares during the quarter ended September 29, 2017:

<b>Period</b>	<b>Total Number of Shares Purchased<sup>(1)</sup></b>	<b>Average Price Paid Per Share<sup>(1)</sup></b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs<sup>(2)</sup></b>	<b>Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs<sup>(2)</sup></b>
July 1 July 28, 2017	798,930	\$ 80.67	796,800	\$ 651,293,669
July 29 September 1, 2017	1,396,676	79.06	1,396,371	540,894,749
September 2 September 29, 2017	760,955	81.11	745,037	480,479,256
<b>Total</b>	<b>2,956,561</b>	<b>\$ 80.02</b>	<b>2,938,208</b>	

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(1) These columns include the following transactions which occurred during the quarter ended September 29, 2017:

- (i) the acquisition of 18,353 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 2,938,208 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.

Table of Contents**ITEM 6. 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				
	2017	2016 <sup>(1)</sup>	2015	2014	2013
(in millions, except per share data)					
<b>Statement of Operations Data</b>					
Net sales	\$ 13,113	\$ 12,238	\$ 12,233	\$ 11,973	\$ 11,390
Acquisition and integration costs	6	22	55	31	14
Restructuring and other charges, net <sup>(2)</sup>	148	2	152	19	222
Other income (expense), net <sup>(3)</sup>	(9)	(632)	(55)	63	(183)
Income tax (expense) benefit <sup>(3)</sup>	(255)	779	(337)	(146)	75
Amounts attributable to TE Connectivity Ltd.:					
Income from continuing operations	1,673	1,941	1,238	1,614	1,154
Income from discontinued operations, net of income taxes <sup>(4)</sup>	10	68	1,182	167	122
Net income	\$ 1,683	\$ 2,009	\$ 2,420	\$ 1,781	\$ 1,276
<b>Per Share Data</b>					
Basic earnings per share attributable to TE Connectivity Ltd.:					
Income from continuing operations	\$ 4.71	\$ 5.30	\$ 3.06	\$ 3.94	\$ 2.76
Net income	4.74	5.49	5.98	4.34	3.05
Diluted earnings per share attributable to TE Connectivity Ltd.:					
Income from continuing operations	\$ 4.67	\$ 5.26	\$ 3.01	\$ 3.87	\$ 2.73
Net income	4.70	5.44	5.89	4.27	3.02
Dividends and cash distributions paid per common share	\$ 1.54	\$ 1.40	\$ 1.24	\$ 1.08	\$ 0.92
<b>Balance Sheet Data</b>					
Total assets	\$ 19,403	\$ 17,608	\$ 20,589	\$ 20,132	\$ 18,446
Long-term liabilities	5,805	6,057	7,429	7,128	6,000
Total shareholders' equity	\$ 9,751	\$ 8,485	\$ 9,585	\$ 9,007	\$ 8,380

(1) Fiscal 2016 was a 53-week year.

(2) 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.

(3) For fiscal 2017, 2016, and 2015, see Notes 15 and 16 to the Consolidated Financial Statements for additional information. 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. Fiscal 2013 income tax (expense) benefit and net other income (expense) included a \$331 million income tax benefit associated with the effective settlement of all undisputed tax matters for the years 1997 through 2000 and the related impact of \$231 million to other expense pursuant to the Tax Sharing Agreement with Tyco International plc and Covidien plc, respectively.

(4) Fiscal 2015 included the gain on the sale of our Broadband Network Solutions business. See Note 4 to the Consolidated Financial Statements for additional information.



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**ITEM 7. 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 "Risk Factors" and "Forward-Looking Information."

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 2017 highlights included the following:

Our fiscal 2017 net sales increased 7.1% over fiscal 2016 levels due to growth in the Transportation Solutions and Industrial Solutions segments and, to a lesser degree, the Communications Solutions segment. On an organic basis, our net sales increased 6.0% in fiscal 2017 as compared to fiscal 2016.

Our net sales by segment were as follows:

*Transportation Solutions* Our net sales increased 8.2% as a result of increased sales in the automotive and commercial transportation end markets and, to a lesser degree, the sensors end market.

*Industrial Solutions* Our net sales increased 9.1% due to increased sales in the industrial equipment end market where we benefitted from sales contributions from recent acquisitions, partially offset by decreased sales in the aerospace, defense, oil, and gas and the energy end markets.

*Communications Solutions* Our net sales increased 1.9% due primarily to sales increases in the appliances and subsea communications end markets, partially offset by sales declines in the data and devices end market resulting from the divestiture of our Circuit Protection Devices ("CPD") business in fiscal 2016.

During fiscal 2017, our shareholders approved a dividend payment to shareholders of \$1.60 per share, payable in four equal quarterly installments of \$0.40 beginning in the third quarter of fiscal 2017 and ending in the second quarter of fiscal 2018.

Net cash provided by continuing operating activities was \$2,322 million in fiscal 2017.

**Outlook**

In the first quarter of fiscal 2018, we expect our net sales to be between \$3.35 billion and \$3.45 billion as compared to \$3,063 million in the first quarter of fiscal 2017. We expect our net sales



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to be between \$13.7 billion and \$14.1 billion in fiscal 2018 as compared to \$13,113 million in fiscal 2017. These increases reflect sales growth in the Transportation Solutions and Industrial Solutions segments, and to a lesser degree, the Communications Solutions segment relative to the same periods of fiscal 2017.

Additional information regarding expectations for our reportable segments for the first quarter of fiscal 2018 as compared to the same period of fiscal 2017 and for fiscal 2018 compared to fiscal 2017 is as follows:

*Transportation Solutions* We expect our net sales to increase in the automotive end market due primarily to increased content per vehicle and sales contributions from a recent acquisition. We expect global automotive production to be flat in the first quarter of fiscal 2018 and to increase approximately 1% in fiscal 2018. We also expect continued growth in the commercial transportation and sensors end markets.

*Industrial Solutions* We expect our net sales to increase in the industrial equipment end market due primarily to continued growth in the factory automation and controls market and the medical market.

*Communications Solutions* We expect our net sales growth in the appliances and the data and devices end markets to be partially offset by sales declines in the subsea communications end market.

In the first quarter of fiscal 2018, we expect diluted earnings per share from continuing operations to be in the range of \$1.12 to \$1.16 per share. We expect diluted earnings per share from continuing operations to be in the range of \$4.78 to \$4.98 per share in 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 2017, we acquired two businesses for a combined cash purchase price of \$250 million, net of cash acquired.

We acquired four businesses, including the Creganna Medical group ("Creganna"), for a combined cash purchase price of \$1.3 billion, net of cash acquired, during fiscal 2016.

During fiscal 2015, we acquired Measurement Specialties, Inc. ("Measurement Specialties"), a leading global designer and manufacturer of sensors and sensor-based systems. The total value paid was approximately \$1.7 billion, net of cash acquired, and included \$225 million for the repayment of Measurement Specialties' debt and accrued interest. Also during fiscal 2015, we acquired three additional businesses for \$241 million in cash, net of cash acquired.

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

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**Divestiture**

During fiscal 2016, we sold our 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:

	2017		Fiscal 2016		2015	
	(\$ in millions)					
Transportation Solutions	\$ 7,039	53%	\$ 6,503	53%	\$ 6,351	52%
Industrial Solutions	3,507	27	3,215	26	3,179	26
Communications Solutions	2,567	20	2,520	21	2,703	22
Total	\$ 13,113	100%	\$ 12,238	100%	\$ 12,233	100%

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

	2017		Fiscal 2016		2015							
	Change in Net Sales versus Prior Fiscal Year				Change in Net Sales versus Prior Fiscal Year							
	Net Sales Growth	Organic Net Sales Growth	Acquisitions	Divestiture	Net Sales Growth	Organic Net Sales Growth	Acquisitions	Divestiture				
	(\$ in millions)											
Transportation Solutions	\$ 536	8.2%	\$ 553	8.5%	\$ (47)	\$ 30	152	2.4%	\$ 310	4.9%	\$ (174)	\$ 16
Industrial Solutions	292	9.1	50	1.6	(20)	262	36	1.1	(89)	(2.8)	(63)	188
Communications Solutions	47	1.9	133	5.4	(16)	(70)	(183)	(6.8)	(43)	(1.6)	(17)	(123)
Total	\$ 875	7.1%	\$ 736	6.0%	\$ (83)	\$ 222	\$ 5	178	1.5%	\$ (254)	\$ 81	

Net sales increased \$875 million, or 7.1%, in fiscal 2017 as compared to fiscal 2016. The increase in net sales resulted from organic net sales growth of 6.0% and net sales contributions from acquisitions and a divestiture of 1.8%, 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 \$238 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.

Net sales were flat in fiscal 2016 as compared to fiscal 2015. Organic net sales growth of 1.5% and net sales contributions from acquisitions and a divestiture of 0.6% were offset by the negative impact of foreign currency translation of 2.1% due to the weakening of certain foreign currencies. Organic net sales were adversely affected by price erosion of \$188 million in fiscal 2016. As discussed above, the additional week contributed \$238 million in net sales in fiscal 2016.

See further discussion of net sales below under "Segment Results."



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**Net Sales by Geographic Region.** Our business operates in three geographic regions the Americas, EMEA, and Asia Pacific 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 150 countries, and approximately 55% of our net sales were invoiced in currencies other than the U.S. dollar in fiscal 2017. The percentage of net sales in fiscal 2017 by major currencies invoiced was as follows:

Currencies	Percentage
U.S. dollar	45%
Euro	28
Chinese renminbi	12
Japanese yen	6
All others	9
<b>Total</b>	<b>100%</b>

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

	2017		Fiscal 2016		2015	
	(\$ in millions)					
Americas	\$ 4,401	34%	\$ 4,199	34%	\$ 4,138	34%
EMEA	4,401	34	4,116	34	3,992	33
Asia Pacific	4,311	32	3,923	32	4,103	33
<b>Total</b>	<b>\$ 13,113</b>	<b>100%</b>	<b>\$ 12,238</b>	<b>100%</b>	<b>\$ 12,233</b>	<b>100%</b>

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

	Fiscal											
	2017						2016					
	Change in Net Sales versus Prior Fiscal Year			Change in Net Sales versus Prior Fiscal Year			Change in Net Sales versus Prior Fiscal Year			Change in Net Sales versus Prior Fiscal Year		
	Net	Organic Net	Acquisitions	Net	Organic Net	Acquisitions	Net	Organic Net	Acquisitions	Net	Organic Net	Acquisitions
	Sales Growth	Sales Growth	Translation	Sales Growth	Sales Growth	Translation	Sales Growth	Sales Growth	Translation	Sales Growth	Sales Growth	Translation
	(\$ in millions)											
Americas	\$ 202	4.8%	\$ 100	2.4%	\$ 6	\$ 96	61	1.5%	\$ 15	0.4%	\$ (58)	\$ 104
EMEA	285	6.9	139	3.4	(23)	169	124	3.1	194	4.9	(141)	71
Asia Pacific	388	9.9	497	12.7	(66)	(43)	(180)	(4.4)	(31)	(0.7)	(55)	(94)
<b>Total</b>	<b>\$ 875</b>	<b>7.1%</b>	<b>\$ 736</b>	<b>6.0%</b>	<b>(83)</b>	<b>\$ 222</b>	<b>\$ 5</b>	<b>%</b>	<b>178</b>	<b>1.5%</b>	<b>(254)</b>	<b>\$ 81</b>

Table of Contents**Cost of Sales and Gross Margin**

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

	Fiscal			Fiscal	Fiscal
	2017	2016	2015	2017 versus 2016	2016 versus 2015
	(\$ in millions)				
Cost of sales	\$ 8,663	\$ 8,205	\$ 8,146	\$ 458	\$ 59
As a percentage of net sales	66.1%	67.0%	66.6%	(0.9)%	0.4%
Gross margin	\$ 4,450	\$ 4,033 <sup>(1)</sup>	\$ 4,087	\$ 417	\$ (54)
As a percentage of net sales	33.9%	33.0%	33.4%	0.9%	(0.4)%

(1)

Fiscal 2016 included an additional week which contributed \$89 million in gross margin.

Gross margin increased \$417 million in fiscal 2017 as compared to fiscal 2016 due primarily to higher volume and lower material costs, partially offset by price erosion. In fiscal 2016, gross margin decreased \$54 million as compared to fiscal 2015. In fiscal 2016, gross margin included charges of \$10 million from the amortization of acquisition-related fair value adjustments to acquired inventories and customer order backlog associated primarily with Creganna. In fiscal 2015, gross margin included charges of \$36 million from the amortization of acquisition-related fair value adjustments to acquired inventories and customer order backlog associated primarily with Measurement Specialties. Excluding these charges, gross margin decreased in fiscal 2016 due primarily to unfavorable product mix and price erosion, partially offset by lower material costs.

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 2017, we purchased approximately 188 million pounds of copper, 122,000 troy ounces of gold, and 2.6 million troy ounces of silver. The following table presents the average prices incurred related to copper, gold, and silver.

Measure	Fiscal		
	2017	2016	2015
Copper Lb.	\$ 2.44	\$ 2.49	\$ 3.06
Gold Troy oz.	1,229	1,212	1,267
Silver Troy oz.	16.75	16.08	18.51

In fiscal 2018, we expect to purchase approximately 200 million pounds of copper, 130,000 troy ounces of gold, and 2.6 million troy ounces of silver.

**Operating Expenses**

The following table presents operating expense information:

	Fiscal			Fiscal	Fiscal
	2017	2016	2015	2017 versus 2016	2016 versus 2015
	(\$ in millions)				
Selling, general, and administrative expenses	\$ 1,591	\$ 1,463	\$ 1,504	\$ 128	\$ (41)
As a percentage of net sales	12.1%	12.0%	12.3%	0.1%	(0.3)%
Research, development, and engineering expenses	\$ 658	\$ 644	\$ 627	\$ 14	\$ 17
Acquisition and integration costs	6	22	55	(16)	(33)
Restructuring and other charges, net	148	2	152	146	(150)

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**Selling, General, and Administrative Expenses.** Selling, general, and administrative expenses increased \$128 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. In fiscal 2016, selling, general, and administrative expenses decreased \$41 million as compared to fiscal 2015 due primarily to cost control measures and savings attributable to restructuring actions.

**Acquisition and Integration Costs.** We incurred acquisition and integration costs of \$6 million, \$22 million, and \$55 million during fiscal 2017, 2016, and 2015, respectively. In fiscal 2016, acquisition and integration costs related primarily to the acquisitions of Creganna and Measurement Specialties. In fiscal 2015, acquisition and integration costs related primarily to the acquisitions of Measurement Specialties and the SEACON Group.

**Restructuring and Other Charges, 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 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. During fiscal 2015, we initiated a restructuring program associated with headcount reductions and product line closures, primarily impacting the Communications Solutions and Industrial Solutions segments.

In connection with these initiatives, we recorded net restructuring charges of \$147 million, \$125 million, and \$93 million in fiscal 2017, 2016, and 2015, respectively. Annualized cost savings related to actions initiated in fiscal 2017 are expected to be approximately \$125 million and are expected to be realized by the end of fiscal 2019. Cost savings will be reflected primarily in cost of sales and selling, general, and administrative expenses. During fiscal 2018, we expect net restructuring charges to be similar to fiscal 2017 levels, and we expect total spending, which will be funded with cash from operations, to be approximately \$130 million.

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

During fiscal 2017, 2016, and 2015, we incurred net other charges of \$1 million, \$21 million, and \$59 million, respectively, primarily in connection with the divestiture of certain businesses.

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

**Operating Income**

The following table presents operating income and operating margin information:

	Fiscal			Fiscal	Fiscal
	2017	2016	2015	2017	2016
				versus	versus
				2016	2015
	(\$ in millions)				
Operating income	\$ 2,047	\$ 1,902 <sup>(1)</sup>	\$ 1,749	\$ 145	\$ 153
Operating margin	15.6%	15.5%	14.3%	0.1%	1.2%

(1) Fiscal 2016 included an additional week which contributed \$55 million in operating income.



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Operating income included the following:

	Fiscal		
	2017	2016	2015
	(in millions)		
Acquisition related charges:			
Acquisition and integration costs	\$ 6	\$ 22	\$ 55
Charges associated with the amortization of acquisition-related fair value adjustments	5	10	36
Restructuring charges related to acquisitions			3
	11	32	94
Restructuring and other charges, net	148	2	149
<b>Total</b>	<b>\$ 159</b>	<b>\$ 34</b>	<b>\$ 243</b>

See discussion of operating income below under "Segment Results."

**Non-Operating Items**

The following table presents select non-operating information:

	Fiscal			Fiscal	Fiscal
	2017	2016	2015	2017	2016
				versus	versus
				2016	2015
	(\$ in millions)				
Other expense, net	\$ 9	\$ 632	\$ 55	\$ (623)	\$ 577
Income tax expense (benefit)	255	(779)	337	1,034	(1,116)
Effective tax rate	13.2%	(67.0)%	21.4%	80.2%	(88.4)%

Income from discontinued operations, net of income taxes \$ 10 \$ 68 \$ 1,182 \$ (58) \$ (1,114)

**Other Expense, Net.** In fiscal 2017, 2016, and 2015, 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 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 2017, 2016, and 2015.

The valuation allowance for deferred tax assets was \$3,627 million and \$3,096 million at fiscal year end 2017 and 2016, 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 2017, certain subsidiaries had approximately \$22 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 from Discontinued Operations, Net of Income Taxes.** During fiscal 2015, we sold our Broadband Network Solutions ("BNS") business for \$3.0 billion in cash and recognized a pre-tax gain of \$1.1 billion on the transaction. During fiscal 2016, we recognized an additional pre-tax gain of \$29 million on the divestiture, related primarily to pension and net working capital adjustments.

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In fiscal 2006, the former shareholders of Com-Net initiated a lawsuit related to our fiscal 2001 acquisition of Com-Net. In connection with the Com-Net case, we recorded a reserve and pre-tax charges of \$127 million during fiscal 2015. During fiscal 2016, we recorded pre-tax credits of \$30 million, representing a release of excess reserves. These amounts were reflected in income from discontinued operations on the Consolidated Statements of Operations as the Com-Net case was associated with our former Wireless Systems business which was sold in fiscal 2009.

The BNS and Wireless Systems businesses met the discontinued operations criteria and were reported as such in all periods presented on the Consolidated Financial Statements. Prior to reclassification to discontinued operations, the BNS and Wireless Systems businesses were included in the former Network Solutions and Wireless Systems segments, respectively. See Note 4 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>:

	2017		Fiscal 2016		2015	
	(\$ in millions)					
Automotive	\$ 5,228	74%	\$ 4,912	75%	\$ 4,780	75%
Commercial transportation	997	14	825	13	820	13
Sensors	814	12	766	12	751	12
Total	\$ 7,039	100%	\$ 6,503	100%	\$ 6,351	100%

(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:

	2017		Fiscal 2016		2015						
	Change in Net Sales versus Prior Fiscal Year			Change in Net Sales versus Prior Fiscal Year							
	Net Sales Growth	Organic Net Sales Growth	Translation	Net Sales Growth	Organic Net Sales Growth	Translation					
	(\$ in millions)										
Automotive	\$ 316	6.4%	\$ 349	7.1%	\$ (33)	\$ 132	2.8%	\$ 266	5.6%	\$ (134)	
Commercial transportation	172	20.8	181	21.9	(9)	5	0.6	21	2.6	(16)	
Sensors	48	6.3	23	3.0	(5)	30	15	2.0	23	3.1	(24)
Total	\$ 536	8.2%	\$ 553	8.5%	\$ (47)	\$ 30	152	2.4%	\$ 310	4.9%	\$ (174)

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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

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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.

In fiscal 2016, net sales in the Transportation Solutions segment increased \$152 million, or 2.4%, from fiscal 2015 due primarily to organic net sales growth of 4.9%, partially offset by the negative impact of foreign currency translation of 2.7%. As discussed above, the additional week contributed \$130 million in net sales in fiscal 2016. Our organic net sales by primary industry end market were as follows:

*Automotive* Our organic net sales increased 5.6% in fiscal 2016. The increase was due primarily to growth of 8.4% in the Asia Pacific region and 5.9% in the EMEA region, partially offset by a decrease of 0.9% in the Americas region. In the Asia Pacific region, our growth was driven by increased electrification and market share gains in China. In the EMEA region, our organic net sales increased due to electrification and new model launches. The Americas region was adversely impacted by market weakness in North America and macroeconomic conditions in South America.

*Commercial transportation* Our organic net sales increased 2.6% in fiscal 2016 due primarily to growth in the heavy truck market in the EMEA region and China.

*Sensors* Our organic net sales increased 3.1% in fiscal 2016 primarily as a result of increased sales in the automotive, aerospace and defense, and industrial equipment markets.

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

	Fiscal			Fiscal	Fiscal
	2017	2016	2015	2017	2016
				versus	versus
				2016	2015
	(\$ in millions)				
Operating income	\$ 1,299	\$ 1,191	\$ 1,193	\$ 108	\$ (2)
Operating margin	18.5%	18.3%	18.8%	0.2%	(0.5)%

In fiscal 2017, operating income in the Transportation Solutions segment increased \$108 million from fiscal 2016. Operating income in the Transportation Solutions segment was flat in fiscal 2016 as

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compared to fiscal 2015. The Transportation Solutions segment's operating income included the following:

	Fiscal		
	2017	2016	2015
	(in millions)		
<b>Acquisition related charges:</b>			
Acquisition and integration costs	\$ 3	\$ 9	\$ 28
Charges associated with the amortization of acquisition-related fair value adjustments			30
Restructuring charges related to acquisitions			3
	3	9	61
Restructuring and other charges, net	67	46	39
<b>Total</b>	<b>\$ 70</b>	<b>\$ 55</b>	<b>\$ 100</b>

Excluding these items, operating income increased in fiscal 2017 primarily as a result of higher volume, partially offset by price erosion. In fiscal 2016, excluding these items, operating income decreased primarily as a result of price erosion and the negative impact of changes in foreign currency exchange rates, partially offset by lower material costs.

### **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>:

	2017		Fiscal 2016		2015	
	(\$ in millions)					
Industrial equipment	\$ 1,747	50%	\$ 1,419	44%	\$ 1,323	42%
Aerospace, defense, oil, and gas	1,075	31	1,100	34	1,151	36
Energy	685	19	696	22	705	22
<b>Total</b>	<b>\$ 3,507</b>	<b>100%</b>	<b>\$ 3,215</b>	<b>100%</b>	<b>\$ 3,179</b>	<b>100%</b>

(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:

	2017						Fiscal 2016					
	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	\$ 328	23.1%	\$ 77	5.5%	\$ (10)	\$ 261	\$ 96	7.3%	\$ (69)	(5.2)%	\$ (14)	\$ 179
	(25)	(2.3)	(19)	(1.7)	(7)	1	(51)	(4.4)	(45)	(3.8)	(15)	9

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Aerospace, defense, oil, and gas																				
Energy	(11)	(1.6)	(8)	(1.0)	(3)	(9)	(1.3)	25	3.6	(34)										
Total	\$	292	9.1%	\$	50	1.6%	\$	(20)	\$	262	\$	36	1.1%	\$	(89)	(2.8)%	\$	(63)	\$	188

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

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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 the factory automation and controls market and the medical market.

*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.

Net sales in the Industrial Solutions segment increased \$36 million, or 1.1%, in fiscal 2016 as compared to fiscal 2015 due to sales contributions from acquisitions of 5.9%, partially offset by organic net sales declines of 2.8% and the negative impact of foreign currency translation of 2.0%. As discussed above, the additional week contributed \$65 million in net sales in fiscal 2016. Our organic net sales by primary industry end market were as follows:

*Industrial equipment* Our organic net sales decreased 5.2% in fiscal 2016 as a result of weakness in industrial markets, particularly in the Americas and Asia Pacific regions.

*Aerospace, defense, oil, and gas* Our organic net sales decreased 3.8% in fiscal 2016. The decrease was attributable to declines in the oil and gas market, partially offset by growth in the commercial aerospace market and, to a lesser degree, the defense market. In the oil and gas market, our organic net sales decrease was due to continued market weakness resulting from declines in oil prices. In the commercial aerospace market, our organic net sales increased due primarily to customer growth and market share gains.

*Energy* Our organic net sales increased 3.6% in fiscal 2016 primarily as a result of growth in the Americas and EMEA regions.

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

	Fiscal			Fiscal 2017 versus 2016	Fiscal 2016 versus 2015
	2017	2016	2015		
	(\$ in millions)				
Operating income	\$ 364	\$ 343	\$ 352	\$ 21	\$ (9)
Operating margin	10.4%	10.7%	11.1%	(0.3)%	(0.4)%

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Operating income in the Industrial Solutions segment increased \$21 million in fiscal 2017 as compared to fiscal 2016 and decreased \$9 million in fiscal 2016 as compared to fiscal 2015. The Industrial Solutions segment's operating income included the following:

	Fiscal		
	2017	2016	2015
	(in millions)		
<b>Acquisition related charges:</b>			
Acquisition and integration costs	\$ 3	\$ 13	\$ 27
Charges associated with the amortization of acquisition-related fair value adjustments	5	10	6
	8	23	33
<b>Restructuring and other charges, net</b>	<b>73</b>	<b>31</b>	<b>44</b>
<b>Total</b>	<b>\$ 81</b>	<b>\$ 54</b>	<b>\$ 77</b>

Excluding these items, operating income increased in fiscal 2017 primarily as a result of higher volume, partially offset by price erosion. In fiscal 2016, excluding these items, operating income decreased due primarily to unfavorable product mix and price erosion, partially offset by lower material costs.

### **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>:

	2017		Fiscal 2016		2015	
			(\$ in millions)			
Data and devices	\$ 963	38%	\$ 1,020	40%	\$ 1,357	50%
Subsea communications	928	36	885	35	709	26
Appliances	676	26	615	25	637	24
<b>Total</b>	<b>\$ 2,567</b>	<b>100%</b>	<b>\$ 2,520</b>	<b>100%</b>	<b>\$ 2,703</b>	<b>100%</b>

(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:

	2017				Fiscal 2016			
	Change in Net Sales versus Prior Fiscal Year		Change in Net Sales versus Prior Fiscal Year		Change in Net Sales versus Prior Fiscal Year		Change in Net Sales versus Prior Fiscal Year	
	Net	Organic Net	Translation	Divestiture	Net	Organic Net	Translation	Divestiture
	Sales Growth	Sales Growth	Sales Growth	Sales Growth	Sales Growth	Sales Growth	Sales Growth	Sales Growth
	(\$ in millions)							
Data and devices	\$ (57)	(5.6)%	\$ 23	2.3%	\$ (10)	\$ (70)	\$ (337)	(24.8)%
	43	4.9	43	4.9	176	24.8	176	24.8
	(6)	(17.8)%	\$ (6)	(123)	(6)	(123)	(6)	(123)



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Subsea communications													
Appliances	61	9.9		67	10.8	(6)		(22)	(3.5)	(11)	(1.8)	(11)	
Total	\$ 47	1.9%	\$ 133	5.4%	\$ (16)	(70)	\$ (183)	(6.8)%	\$ (43)	(1.6)%	\$ (17)	(123)	

Net sales in the Communications Solutions segment increased \$47 million, or 1.9%, in fiscal 2017 as compared to fiscal 2016 as a result of organic net sales growth of 5.4%, partially offset by sales declines resulting from a divestiture of 2.8% and the negative impact of foreign currency translation of

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0.7%. Fiscal 2016 included an additional week which contributed \$43 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.

*Subsea communications* Our organic net sales increased 4.9% in fiscal 2017 as a result of increased project activity.

*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.

In fiscal 2016, net sales in the Communications Solutions segment decreased \$183 million, or 6.8%, as compared to fiscal 2015 due to sales declines resulting from a divestiture of 4.6%, organic net sales declines of 1.6%, and the negative impact of foreign currency translation of 0.6%. As discussed above, the additional week contributed \$43 million in net sales in fiscal 2016. Our organic net sales by primary industry end market were as follows:

*Data and devices* Our organic net sales decreased 17.8% in fiscal 2016 as a result of the strategic exit of certain low margin product lines and market weakness in all regions.

*Subsea communications* Our organic net sales increased 24.8% in fiscal 2016 due to increased project activity.

*Appliances* Our organic net sales decreased 1.8% in fiscal 2016 due primarily to high inventory levels at distributors in the first half of the year and lower demand in the Asia Pacific and Americas regions, partially offset by growth in the EMEA region.

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

	Fiscal			Fiscal	
	2017	2016	2015	2017 versus 2016	2016 versus 2015
	(\$ in millions)				
Operating income	\$ 384	\$ 368	\$ 204	\$ 16	\$ 164
Operating margin	15.0%	14.6%	7.5%	0.4%	7.1%

In the Communications Solutions segment, operating income increased \$16 million in fiscal 2017 as compared to fiscal 2016 and increased \$164 million in fiscal 2016 as compared to fiscal 2015. The Communications Solutions segment's operating income included the following:

	Fiscal		
	2017	2016	2015
	(in millions)		
Restructuring and other charges (credits), net	\$ 8	\$ (75) <sup>(1)</sup>	\$ 66

(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 fiscal 2017 due primarily to higher volume and improved manufacturing productivity, partially offset by price erosion. In fiscal 2016, excluding these items, operating income increased as a result of lower material costs and savings attributable to restructuring actions, partially offset by the impact of unfavorable product mix, lower volume, and price erosion.



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**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. 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, including through the possible repurchase of our debt in accordance with applicable law. Payment of our \$708 million of 6.55% senior notes due in October 2017 was made after fiscal year end 2017. 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 2017, 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 2017, we had approximately \$6.3 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 approximately \$1.2 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 \$278 million to \$2,322 million in fiscal 2017 as compared to \$2,044 million in fiscal 2016. The increase resulted primarily from higher pre-tax income levels, an increase in accrued and other current liabilities related to employee 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.

Net cash provided by continuing operating activities was \$2,044 million in fiscal 2016 as compared to \$1,636 million in fiscal 2015. The increase resulted primarily from the favorable effects of changes in accounts receivable and inventory levels, partially offset by an increase in net payments related to pre-separation tax matters.

The amount of income taxes paid, net of refunds, during fiscal 2017, 2016, and 2015 was \$323 million, \$806 million, and \$350 million, respectively. In fiscal 2017, 2016, and 2015, these amounts included refunds of \$23 million, payments of \$471 million, and payments of \$47 million, respectively, related to pre-separation tax matters. During fiscal 2016 and 2015, we received net reimbursements of \$321 million and \$7 million, respectively, from Tyco International and Covidien pursuant to their indemnifications for pre-separation tax matters.

See Note 12 to the Consolidated Financial Statements for further information regarding the Tax Sharing Agreement associated with pre-separation tax matters. For additional information regarding payments related to pre-separation tax matters, see Note 15 to the Consolidated Financial Statements.

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Pension contributions in fiscal 2017, 2016, and 2015 were \$48 million, \$67 million, and \$66 million, respectively. We expect pension contributions to be \$62 million in fiscal 2018, before consideration of any voluntary contributions. There were no voluntary pension contributions in fiscal 2017, 2016, or 2015.

**Cash Flows from Investing Activities**

Capital expenditures were \$702 million, \$628 million, and \$600 million in fiscal 2017, 2016, and 2015, respectively. We expect fiscal 2018 capital spending levels to be approximately 5% 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.

We acquired two businesses during fiscal 2017 for a combined cash purchase price of \$250 million, net of cash acquired. During fiscal 2016, we acquired four businesses, including Creganna, for a combined cash purchase price of \$1.3 billion, net of cash acquired. During fiscal 2015, we acquired Measurement Specialties. The total value paid for the transaction was approximately \$1.7 billion, net of cash acquired, and included \$225 million for the repayment of Measurement Specialties' debt and accrued interest. Also during fiscal 2015, we acquired three additional businesses for \$241 million in cash, 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. We received net cash proceeds of \$3.0 billion related to the sale of our BNS business during fiscal 2015. See Note 4 to the Consolidated Financial Statements for further information.

**Cash Flows from Financing Activities and Capitalization**

Total debt at fiscal year end 2017 and 2016 was \$4,344 million and \$4,070 million, respectively. See Note 11 to the Consolidated Financial Statements for additional information regarding debt.

During August 2017, TEGSA, our 100%-owned subsidiary, issued \$400 million aggregate principal amount of 3.125% senior notes due August 2027 and \$100 million aggregate principal amount of 3.45% senior notes due August 2024. The 3.45% senior notes were issued under an existing indenture under which TEGSA had previously issued \$250 million aggregate principal amount. The notes are TEGSA's unsecured senior obligations and rank equally in right of payment with all existing and any future senior indebtedness of TEGSA and senior to any subordinated indebtedness that TEGSA may incur.

TEGSA 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 2017 or 2016.

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 2017, 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

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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 \$546 million, \$509 million, and \$502 million in fiscal 2017, 2016, and 2015, 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 2016 and 2015, our board of directors authorized increases of \$1.0 billion and \$3.0 billion, respectively, in the share repurchase program. We repurchased approximately 8 million of our common shares for \$621 million, 43 million of our common shares for \$2,610 million, and 18 million of our common shares for \$1,163 million under the share repurchase program during fiscal 2017, 2016, and 2015, respectively. At fiscal year end 2017, we had \$480 million 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 2017:

	Total	Payments Due by Fiscal Year					Thereafter
		2018	2019	2020	2021	2022	
				(in millions)			
Debt <sup>(1)</sup>	\$ 4,356	\$ 710	\$ 580	\$ 250	\$ 500	\$ 2,316	
Interest payments on debt <sup>(2)</sup>	1,239	146	119	109	88	674	
Operating leases	454	110	85	62	51	104	
Purchase obligations <sup>(3)</sup>	485	460	12	10		3	
Total contractual cash obligations <sup>(4)(5)(6)</sup>	\$ 6,534	\$ 1,426	\$ 796	\$ 181	\$ 630	\$ 3,097	

(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 swaps.

(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 \$501 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

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payments. We expect to contribute \$62 million to pension plans in fiscal 2018, before consideration of any voluntary contributions.  
See Note 14 to the

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Consolidated Financial Statements for additional information regarding these plans and our estimates of future contributions and benefit payments.

- (6) Other long-term liabilities of \$482 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 2018 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 2017, we had outstanding letters of credit, letters of guarantee, and surety bonds of \$298 million.

**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



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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 Communications Solutions segment, 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.

**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 that constitutes a business for which discrete financial information is available and regularly reviewed by segment management. At fiscal year end 2017, we had six reporting units, five of which contained goodwill. There were two reporting units in each of our three segments. 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

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generally 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 2017 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

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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 2017, a 25-basis point decrease in the discount rate would have increased the present value of our pension obligations by \$134 million; a 25-basis point increase would have decreased the present value of our pension obligations by \$120 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 2017 pension expense by \$11 million.

The long-term target asset allocation in our U.S. plans' master trust is 10% equity and 90% fixed income. 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 2017, our target asset allocation is 45% equity and 55% fixed income.

#### **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

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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," as well as other risks described 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;



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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 U.S. and non-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.

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**ITEM 7A. 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, foreign currency forward contracts, and foreign currency swap 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, foreign currency forward contracts, or foreign currency swap contracts from the fiscal year end 2017 market rates would have changed the unrealized value of our contracts by \$122 million. A 10% appreciation or depreciation of the underlying currency in our cross-currency swap contracts, foreign currency forward contracts, or foreign currency swap contracts from the fiscal year end 2016 market rates would have changed the unrealized value of our contracts by \$112 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 swaps to convert a portion of fixed-rate debt into variable-rate debt. We use forward starting interest rate swaps and options to enter into interest rate swaps to manage interest rate exposure in periods prior to the anticipated issuance of fixed-rate debt. We also utilize investment swaps to manage earnings exposure on certain nonqualified deferred compensation liabilities.

Based on our floating rate debt balances at fiscal year end 2017 and 2016, an increase in the levels of the U.S. dollar interest rates by 0.5%, with all other variables held constant, would have resulted in an immaterial increase in interest expense in both fiscal 2017 and 2016.

**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 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. At fiscal year end 2016, our commodity hedges, which related to expected purchases of gold, silver, and copper, were in a net gain position of \$11 million and had a notional value of \$232 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

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value of our forward contracts by \$33 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 2016 prices would have changed the unrealized value of our forward contracts by \$24 million.

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

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The following Consolidated Financial Statements and schedule specified by this Item, together with the reports thereon of Deloitte & Touche LLP, are presented following Item 15 and the signature pages of this report:

Financial Statements:

Reports of Independent Registered Public Accounting Firm

Consolidated Statements of Operations for the Fiscal Years Ended September 29, 2017, September 30, 2016, and September 25, 2015

Consolidated Statements of Comprehensive Income for the Fiscal Years Ended September 29, 2017, September 30, 2016, and September 25, 2015

Consolidated Balance Sheets as of September 29, 2017 and September 30, 2016

Consolidated Statements of Shareholders' Equity for the Fiscal Years Ended September 29, 2017, September 30, 2016, and September 25, 2015

Consolidated Statements of Cash Flows for the Fiscal Years Ended September 29, 2017, September 30, 2016, and September 25, 2015

Notes to Consolidated Financial Statements

Financial Statement Schedule:

Schedule II Valuation and Qualifying Accounts

All other financial statements and schedules have been omitted since the information required to be submitted has been included on the Consolidated Financial Statements and related notes or because they are either not applicable or not required under the rules of Regulation S-X.

**ITEM 9A. 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 29, 2017. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 29, 2017.

**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.





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Based on this evaluation, management concluded our internal control over financial reporting was effective as of September 29, 2017.

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 29, 2017, which is included in this Annual Report.

**Changes in Internal Control Over Financial Reporting**

During the quarter ended September 29, 2017, 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.

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**PART III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

Information concerning directors, executive officers, and corporate governance may be found under the captions "Agenda Item No. 1 Election of Directors," "Nominees for Election," "Corporate Governance," "The Board of Directors and Board Committees," and "Executive Officers" in our definitive proxy statement for our 2018 Annual General Meeting of Shareholders (the "2018 Proxy Statement"), which will be filed with the SEC within 120 days after the close of our fiscal year. Such information is incorporated herein by reference. The information in the 2018 Proxy Statement under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" is incorporated herein by reference.

**Code of Ethics**

We have adopted a guide to ethical conduct, which applies to all employees, officers, and directors. Our Guide to Ethical Conduct meets the requirements of a "code of ethics" as defined by Item 406 of Regulation S-K and applies to our Chief Executive Officer, Chief Financial Officer, and Chief Accounting Officer, as well as all other employees and directors. Our Guide to Ethical Conduct also meets the requirements of a code of business conduct and ethics under the listing standards of the NYSE. Our Guide to Ethical Conduct is posted on our website at [www.te.com](http://www.te.com) under the heading "Corporate Responsibility Governance Guide to Ethical Conduct." We also will provide a copy of our Guide to Ethical Conduct to shareholders upon request. We intend to disclose any amendments to our Guide to Ethical Conduct, as well as any waivers for executive officers or directors, on our website.

**ITEM 11. EXECUTIVE COMPENSATION**

Information concerning executive compensation may be found under the captions "Compensation Discussion and Analysis," "Management Development and Compensation Committee Report," "Compensation Committee Interlocks and Insider Participation," "Executive Officer Compensation," and "Compensation of Non-Employee Directors" in our 2018 Proxy Statement. Such information is incorporated herein by reference.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information in our 2018 Proxy Statement under the caption "Security Ownership of Certain Beneficial Owners and Management" is incorporated herein by reference.

Table of Contents**Equity Compensation Plan Information**

The following table provides information as of fiscal year end 2017 with respect to common shares issuable under our equity compensation plans:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b) <sup>(3)</sup>	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c) <sup>(4)</sup>
Equity compensation plans approved by security holders:			
2007 Stock and Incentive Plan, amended and restated as of March 8, 2017 <sup>(1)</sup>	9,031,547	\$ 55.12	21,065,385
Equity compensation plans not approved by security holders:			
Equity awards under the 2010 Stock and Incentive Plan, amended and restated as of March 9, 2017 <sup>(2)</sup>	1,451,893	60.88	1,733,230
<b>Total</b>	<b>10,483,440</b>		<b>22,798,615</b>

- (1) The TE Connectivity Ltd. 2007 Stock and Incentive Plan, amended and restated as of March 8, 2017 (the "2017 Plan"), provides 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") to board members, officers, and non-officer employees. The 2017 Plan provides for a maximum of 69,843,452 common shares to be issued as Awards, subject to adjustment as provided under the terms of the 2017 Plan.
- (2) In connection with the acquisition of ADC Telecommunications, Inc. ("ADC") in fiscal 2011, we assumed equity awards issued under plans sponsored by ADC and the remaining pool of shares available for grant under the plans. Subsequent to the acquisition, we registered 6,764,455 shares related to the plans via Forms S-3 and S-8 and renamed the primary ADC plan the TE Connectivity Ltd. 2010 Stock and Incentive Plan, amended and restated as of March 9, 2017 (the "2010 Plan"). Grants under the 2010 Plan are settled in TE Connectivity common shares.
- (3) Does not take into account restricted, performance, or deferred share unit awards that do not have exercise prices.
- (4) The 2017 Plan and the 2010 Plan apply weightings of 1.80 and 1.21, respectively, to outstanding nonvested restricted, performance, and deferred share units. The remaining shares issuable under both the 2017 Plan and the 2010 Plan are increased by forfeitures and cancellations, among other factors.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information in our 2018 Proxy Statement under the captions "Corporate Governance," "The Board of Directors and Board Committees," and "Certain Relationships and Related Transactions" is incorporated herein by reference.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information in our 2018 Proxy Statement under the caption "Agenda Item No. 7 Election of Auditors Agenda Item No. 7.1" is incorporated herein by reference.



Table of Contents**PART IV****ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

- (a)
1. Financial Statements. See Item 8.
  2. Financial Statement Schedule. See Item 8.
  3. Exhibit Index:

Exhibit Number	Description	Incorporated by Reference Herein		
		Form	Exhibit	Filing Date
2.1	<u>Separation and Distribution Agreement among Tyco International Ltd., Covidien Ltd. and Tyco Electronics Ltd., dated as of June 29, 2007</u>	Current Report on Form 8-K	2.1	July 5, 2007
2.2	<u>Stock and Asset Purchase Agreement, dated as of January 27, 2015, by and among TE Connectivity Ltd., CommScope Holding Company, Inc. and CommScope, Inc.</u>	Current Report on Form 8-K	2.1	January 29, 2015
2.3	<u>Share Purchase Agreement dated as of February 1, 2016 by and between TE Connectivity Ltd. and Cregstar Holdco Limited</u>	Quarterly Report on Form 10-Q for the quarterly period ended March 25, 2016	2.1	April 21, 2016
3.1	<u>Articles of Association of TE Connectivity Ltd., as amended and restated</u>	Current Report on Form 8-K	3.1	May 16, 2017
3.2	<u>Organizational Regulations of TE Connectivity Ltd., as amended and restated</u>	Current Report on Form 8-K	3.2	March 6, 2015
4.1(a)	<u>Indenture among Tyco Electronics Group S.A., Tyco Electronics Ltd. and Deutsche Bank Trust Company Americas, as trustee, dated as of September 25, 2007</u>	Annual Report on Form 10-K for the fiscal year ended September 28, 2007	4.1(a)	December 14, 2007
4.1(b)	<u>Second Supplemental Indenture among Tyco Electronics Group S.A., Tyco Electronics Ltd. and Deutsche Bank Trust Company Americas, as trustee, dated as of September 25, 2007</u>	Annual Report on Form 10-K for the fiscal year ended September 28, 2007	4.1(c)	December 14, 2007
4.1(c)	<u>Third Supplemental Indenture among Tyco Electronics Group S.A., Tyco Electronics Ltd. and Deutsche Bank Trust Company Americas, as trustee, dated as of September 25, 2007</u>	Annual Report on Form 10-K for the fiscal year ended September 28, 2007	4.1(d)	December 14, 2007

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Exhibit Number	Description	Incorporated by Reference Herein		
		Form	Exhibit	Filing Date
4.1(d)	<u>Fifth Supplemental Indenture among Tyco Electronics Group S.A., Tyco Electronics Ltd. and Deutsche Bank Trust Company Americas, as trustee, dated as of December 20, 2010</u>	Current Report on Form 8-K	4.1	December 20, 2010
4.1(e)	<u>Seventh Supplemental Indenture among Tyco Electronics Group S.A., TE Connectivity Ltd. and Deutsche Bank Trust Company Americas, as trustee, dated as of February 3, 2012</u>	Current Report on Form 8-K	4.2	February 3, 2012
4.1(f)	<u>Eighth Supplemental Indenture among Tyco Electronics Group S.A., TE Connectivity Ltd. and Deutsche Bank Trust Company Americas, as trustee, dated as of November 25, 2013</u>	Current Report on Form 8-K	4.1	November 25, 2013
4.1(g)	<u>Ninth Supplemental Indenture among Tyco Electronics Group S.A., TE Connectivity Ltd. and Deutsche Bank Trust Company Americas, as trustee, dated as of July 31, 2014</u>	Current Report on Form 8-K	4.1	July 31, 2014
4.1(h)	<u>Tenth Supplemental Indenture among Tyco Electronics Group S.A., TE Connectivity Ltd. and Deutsche Bank Trust Company Americas, as trustee, dated July 31, 2014</u>	Current Report on Form 8-K	4.2	July 31, 2014
4.1(i)	<u>Twelfth Supplemental Indenture among Tyco Electronics Group S.A., TE Connectivity Ltd. and Deutsche Bank Trust Company Americas, as trustee, dated as of February 27, 2015</u>	Current Report on Form 8-K	4.1	February 27, 2015
4.1(j)	<u>Thirteenth Supplemental Indenture among Tyco Electronics Group S.A., as issuer, TE Connectivity Ltd., as guarantor, and Deutsche Bank Trust Company Americas, as trustee, dated as of January 28, 2016</u>	Current Report on Form 8-K	4.1	January 28, 2016
4.1(k)	<u>Fourteenth Supplemental Indenture among Tyco Electronics Group S.A., as issuer, TE Connectivity Ltd., as guarantor, and Deutsche Bank Trust Company Americas, as trustee, dated as of August 3, 2017</u>	Current Report on Form 8-K	4.2	August 3, 2017
10.1	<u>Tax Sharing Agreement among Tyco International Ltd., Covidien Ltd. and Tyco Electronics Ltd., dated as of June 29, 2007</u>	Current Report on Form 8-K	10.1	July 5, 2007

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Exhibit Number	Description	Incorporated by Reference Herein		
		Form	Exhibit	Filing Date
10.2	<u>Five-Year Senior Credit Agreement among Tyco Electronics Group S.A., as borrower, TE Connectivity Ltd., as guarantor, the lenders parties thereto and Deutsche Bank AG New York Branch, as administrative agent, dated as of June 24, 2011</u>	Current Report on Form 8-K	10.1	June 27, 2011
10.3	<u>First Amendment to the Five-Year Senior Credit Agreement dated as of August 2, 2013 among Tyco Electronics Group S.A., as borrower, TE Connectivity Ltd., as guarantor, the lenders parties thereto and Deutsche Bank AG New York Branch, as administrative agent</u>	Current Report on Form 8-K	10.1	August 2, 2013
10.4	<u>Second Amendment to the Five-Year Senior Credit Agreement dated as of December 9, 2015 by and among Tyco Electronics Group S.A., as borrower, TE Connectivity Ltd., as guarantor, the lenders parties thereto, and Deutsche Bank AG New York Branch, as existing administrative agent, and Bank of America, N.A., as administrative agent</u>	Current Report on Form 8-K	10.1	December 9, 2015
10.5	<u>TE Connectivity Ltd. 2007 Stock and Incentive Plan (amended and restated as of March 8, 2017)</u>	Current Report on Form 8-K	10.1	March 9, 2017
10.6	* <u>TE Connectivity Ltd. Employee Stock Purchase Plan (as amended and restated)</u>			
10.7	<u>Form of Option Award Terms and Conditions</u>	Quarterly Report on Form 10-Q for the quarterly period ended December 24, 2010	10.3	January 24, 2011
10.8	* <u>Form of Option Award Terms and Conditions for Option Grants Beginning in November 2017</u>			
10.9	<u>Form of Restricted Unit Award Terms and Conditions</u>	Quarterly Report on Form 10-Q for the quarterly period ended December 24, 2010	10.4	January 24, 2011
10.10	* <u>Form of Restricted Stock Unit Award Terms and Conditions for RSU Grants Beginning in November 2017</u>			



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Exhibit Number	Description	Incorporated by Reference Herein		
		Form	Exhibit	Filing Date
10.11	<u>Form of Performance Stock Unit Award Terms and Conditions</u>	Quarterly Report on Form 10-Q for the quarterly period ended December 28, 2012	10.1	January 25, 2013
10.12	<u>Form of Performance Stock Unit Award Terms and Conditions for Performance Cycles Starting in Fiscal Year 2016 and Fiscal Year 2017</u>	Annual Report on Form 10-K for the fiscal year ended September 30, 2016	10.11	November 15, 2016
10.13	* <u>Form of Performance Stock Unit Award Terms and Conditions for Performance Cycles Starting in and After Fiscal Year 2018</u>			
10.14	<u>TE Connectivity Change in Control Severance Plan for Certain U.S. Executives (as amended and restated)</u>	Annual Report on Form 10-K for the fiscal year ended September 25, 2015	10.10	November 10, 2015
10.15	<u>TE Connectivity Severance Plan for U.S. Executives (as amended and restated)</u>	Annual Report on Form 10-K for the fiscal year ended September 25, 2015	10.11	November 10, 2015
10.16	<u>Tyco Electronics Ltd. Deferred Compensation Plan for Directors</u>	Annual Report on Form 10-K for the fiscal year ended September 28, 2007	10.16	December 14, 2007
10.17	<u>Tyco Electronics Corporation Supplemental Savings and Retirement Plan</u>	Annual Report on Form 10-K for the fiscal year ended September 25, 2009	10.13	November 18, 2009
10.18	<u>Tyco Electronics Ltd. UK Savings Related Share Plan</u>	Annual Report on Form 10-K for the fiscal year ended September 28, 2007	10.23	December 14, 2007
10.19	<u>Form of Indemnification Agreement</u>	Annual Report on Form 10-K for the fiscal year ended September 30, 2016	10.17	November 15, 2016
10.20	* <u>TE Connectivity Ltd. 2010 Stock and Incentive Plan (amended and restated March 9, 2017)</u>			
10.21	<u>Employment Agreement between Thomas J. Lynch and Tyco Electronics Corporation dated December 15, 2015</u>	Current Report on Form 8-K	10.1	December 16, 2015

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Exhibit Number	Description	Incorporated by Reference Herein		
		Form	Exhibit	Filing Date
10.22	<u>Employment Agreement between Terrence R. Curtin and Tyco Electronics Corporation dated December 15, 2015</u>	Current Report on Form 8-K	10.2	December 16, 2015
10.23	<u>Employment Agreement between Joseph B. Donahue and Tyco Electronics Corporation dated December 15, 2015</u>	Current Report on Form 8-K	10.4	December 16, 2015
10.24	<u>Employment Agreement between Steven T. Merkt and Tyco Electronics Corporation dated December 15, 2015</u>	Current Report on Form 8-K	10.6	December 16, 2015
10.25	<u>Employment Agreement between Heath A. Mitts and Tyco Electronics Corporation dated September 30, 2016</u>	Current Report on Form 8-K	10.1	October 3, 2016
21.1	* <u>Subsidiaries of TE Connectivity Ltd.</u>			
23.1	* <u>Consent of Independent Registered Public Accounting Firm</u>			
24.1	* <u>Power of Attorney</u>			
31.1	* <u>Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>			
31.2	* <u>Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>			
32.1	** <u>Certification by the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>			
101	* Financial statements from the Annual Report on Form 10-K of TE Connectivity Ltd. for the fiscal year ended September 29, 2017, filed on November 14, 2017, formatted in XBRL: (i) the Consolidated Statements of Operations, (ii) the Consolidated Statements of Comprehensive Income, (iii) the Consolidated Balance Sheets, (iv) the Consolidated Statements of Shareholders' Equity, (v) the Consolidated Statements of Cash Flows, and (vi) the Notes to Consolidated Financial Statements			

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The schedules to the Stock and Asset Purchase Agreement and Share Purchase Agreement have been omitted from this filing pursuant to Item 601(b)(2) of Regulation S-K. We will furnish copies of such schedules to the SEC upon its request; provided, however, that we may request confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934 for any schedule so furnished.

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Management contract or compensatory plan or arrangement

\*

Filed herewith

\*\*

Furnished herewith



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Signature	Title	Date
* _____ Thomas J. Lynch	Director	November 14, 2017
* _____ Yong Nam	Director	November 14, 2017
* _____ Daniel J. Phelan	Director	November 14, 2017
* _____ Paula A. Sneed	Director	November 14, 2017
* _____ Abhijit Y. Talwalkar	Director	November 14, 2017
* _____ Mark C. Trudeau	Director	November 14, 2017
* _____ John C. Van Scoter	Director	November 14, 2017
* _____ Laura H. Wright	Director	November 14, 2017

\*  
John S. Jenkins, Jr., by signing his name hereto, does sign this document on behalf of the above noted individuals, pursuant to powers of attorney duly executed by such individuals, which have been filed as Exhibit 24.1 to this Report.

By: /s/ JOHN S. JENKINS, JR.  
\_\_\_\_\_  
John S. Jenkins, Jr.  
*Attorney-in-fact*

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**TE CONNECTIVITY LTD.**

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

We have audited the accompanying consolidated balance sheets of TE Connectivity Ltd. and subsidiaries (the "Company") as of September 29, 2017 and September 30, 2016, and 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 29, 2017. Our audits also included the financial statement schedule listed in the Index at Item 15. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of September 29, 2017 and September 30, 2016, and the results of its operations and its cash flows for each of the three fiscal years in the period ended September 29, 2017, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of September 29, 2017, 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 14, 2017 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

Philadelphia, Pennsylvania  
November 14, 2017

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

We have audited the internal control over financial reporting of TE Connectivity Ltd. and subsidiaries (the "Company") as of September 29, 2017, based on criteria established in *Internal Control Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. 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 conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. 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 the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 29, 2017, based on the criteria established in *Internal Control Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule of the Company as of and for the fiscal year ended September 29, 2017, and our report dated November 14, 2017 expressed an unqualified opinion on those consolidated financial statements and financial statement schedule.

/s/ Deloitte & Touche LLP

Philadelphia, Pennsylvania  
November 14, 2017



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## TE CONNECTIVITY LTD.

## CONSOLIDATED STATEMENTS OF OPERATIONS

Fiscal Years Ended September 29, 2017, September 30, 2016, and September 25, 2015

	Fiscal		
	2017	2016	2015
	(in millions, except per share data)		
Net sales	\$ 13,113	\$ 12,238	\$ 12,233
Cost of sales	8,663	8,205	8,146
<b>Gross margin</b>	4,450	4,033	4,087
Selling, general, and administrative expenses	1,591	1,463	1,504
Research, development, and engineering expenses	658	644	627
Acquisition and integration costs	6	22	55
Restructuring and other charges, net	148	2	152
<b>Operating income</b>	2,047	1,902	1,749
Interest income	20	19	17
Interest expense	(130)	(127)	(136)
Other expense, net	(9)	(632)	(55)
<b>Income from continuing operations before income taxes</b>	1,928	1,162	1,575
Income tax (expense) benefit	(255)	779	(337)
<b>Income from continuing operations</b>	1,673	1,941	1,238
Income from discontinued operations, net of income taxes	10	68	1,182
<b>Net income</b>	\$ 1,683	\$ 2,009	\$ 2,420
<b>Basic earnings per share:</b>			
Income from continuing operations	\$ 4.71	\$ 5.30	\$ 3.06
Income from discontinued operations	0.03	0.19	2.92
Net income	4.74	5.49	5.98
<b>Diluted earnings per share:</b>			
Income from continuing operations	\$ 4.67	\$ 5.26	\$ 3.01
Income from discontinued operations	0.03	0.18	2.88
Net income	4.70	5.44	5.89
<b>Dividends paid per common share</b>	\$ 1.54	\$ 1.40	\$ 1.24
<b>Weighted-average number of shares outstanding:</b>			
Basic	355	366	405
Diluted	358	369	411

See Notes to Consolidated Financial Statements.



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TE CONNECTIVITY LTD.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Fiscal Years Ended September 29, 2017, September 30, 2016, and September 25, 2015

	2017	Fiscal 2016	2015
	(in millions)		
<b>Net income</b>	\$ 1,683	\$ 2,009	\$ 2,420
<b>Other comprehensive income (loss):</b>			
Currency translation	37	(92)	(312)
Adjustments to unrecognized pension and postretirement benefit costs, net of income taxes	330	(88)	(46)
Gains on cash flow hedges, net of income taxes	15	11	2
<b>Other comprehensive income (loss)</b>	382	(169)	(356)
<b>Comprehensive income.</b>	\$ 2,065	\$ 1,840	\$ 2,064

See Notes to Consolidated Financial Statements.

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## TE CONNECTIVITY LTD.

## CONSOLIDATED BALANCE SHEETS

As of September 29, 2017 and September 30, 2016

	Fiscal Year End	
	2017	2016
	(in millions, except share data)	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 1,218	\$ 647
Accounts receivable, net of allowance for doubtful accounts of \$21 and \$17, respectively	2,290	2,046
Inventories	1,813	1,596
Prepaid expenses and other current assets	605	486
Total current assets	5,926	4,775
Property, plant, and equipment, net	3,400	3,052
Goodwill	5,651	5,492
Intangible assets, net	1,841	1,879
Deferred income taxes	2,141	2,111
Other assets	444	299
<b>Total Assets</b>	<b>\$ 19,403</b>	<b>\$ 17,608</b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Short-term debt	\$ 710	\$ 331
Accounts payable	1,436	1,090
Accrued and other current liabilities	1,626	1,437
Deferred revenue	75	208
Total current liabilities	3,847	3,066
Long-term debt	3,634	3,739
Long-term pension and postretirement liabilities	1,160	1,502
Deferred income taxes	236	207
Income taxes	293	247
Other liabilities	482	362
<b>Total Liabilities</b>	<b>9,652</b>	<b>9,123</b>
Commitments and contingencies (Note 12)		
Shareholders' equity:		
Common shares, CHF 0.57 par value, 357,069,981 shares authorized and issued, and 382,835,381 shares authorized and issued, respectively	157	168
Contributed surplus		1,801
Accumulated earnings	10,175	8,682
Treasury shares, at cost, 5,356,369 and 27,554,005 shares, respectively	(421)	(1,624)
Accumulated other comprehensive loss	(160)	(542)
<b>Total Shareholders' Equity</b>	<b>9,751</b>	<b>8,485</b>

<b>Total Liabilities and Shareholders' Equity</b>	\$	19,403	\$	17,608
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See Notes to Consolidated Financial Statements.

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## TE CONNECTIVITY LTD.

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Fiscal Years Ended September 29, 2017, September 30, 2016, and September 25, 2015

	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 26, 2014</b>	419	\$ 184	(11)	\$ (644)	\$ 5,231	\$ 4,253	\$ (17)	\$ 9,007
Net income						2,420		2,420
Other comprehensive loss							(356)	(356)
Share-based compensation expense					95			95
Dividends approved					(526)			(526)
Exercise of share options			3	103				103
Restricted share award vestings and other activity			1	143	(138)			5
Repurchase of common shares			(18)	(1,163)				(1,163)
Cancellation of treasury shares	(5)	(2)	5	305	(303)			
<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>	383	\$ 168	(28)	\$ (1,624)	\$ 1,801	\$ 8,682	\$ (542)	\$ 8,485
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>	357	\$ 157	(5)	\$ (421)	\$	\$ 10,175	\$ (160)	\$ 9,751

See Notes to Consolidated Financial Statements.



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## TE CONNECTIVITY LTD.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Fiscal Years Ended September 29, 2017, September 30, 2016, and September 25, 2015

	Fiscal		
	2017	2016	2015
	(in millions)		
<b>Cash Flows From Operating Activities:</b>			
Net income	\$ 1,683	\$ 2,009	\$ 2,420
Income from discontinued operations, net of income taxes	(10)	(68)	(1,182)
Income from continuing operations	1,673	1,941	1,238
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:			
Depreciation and amortization	635	585	616
Deferred income taxes	(75)	178	40
Provision for losses on accounts receivable and inventories	19	17	36
Tax sharing expense	8	632	52
Share-based compensation expense	99	91	89
Gain on divestiture		(144)	
Other	10	102	126
Changes in assets and liabilities, net of the effects of acquisitions and divestitures:			
Accounts receivable, net	(253)	116	(210)
Inventories	(211)	16	(220)
Prepaid expenses and other current assets	(72)	282	36
Accounts payable	308	(75)	(5)
Accrued and other current liabilities	225	(4)	(155)
Deferred revenue	(137)	26	12
Income taxes	7	(1,764)	(52)
Other	86	45	33
Net cash provided by continuing operating activities	2,322	2,044	1,636
Net cash provided by (used in) discontinued operating activities	(1)	(97)	294
Net cash provided by operating activities	2,321	1,947	1,930
<b>Cash Flows From Investing Activities:</b>			
Capital expenditures	(702)	(628)	(600)
Proceeds from sale of property, plant, and equipment	19	8	17
Acquisition of businesses, net of cash acquired	(250)	(1,336)	(1,725)
Proceeds from divestiture of business, net of cash retained by sold business	4	333	
Proceeds from divestiture of discontinued operations, net of cash retained by sold operations		(19)	2,957
Other	(3)	61	12
Net cash provided by (used in) continuing investing activities	(932)	(1,581)	661
Net cash used in discontinued investing activities			(25)
Net cash provided by (used in) investing activities	(932)	(1,581)	636
<b>Cash Flows From Financing Activities:</b>			
Net increase (decrease) in commercial paper	(330)	330	(328)
Proceeds from issuance of debt	589	352	617
Repayment of debt		(501)	(473)
Proceeds from exercise of share options	117	90	103
Repurchase of common shares	(614)	(2,787)	(1,023)
Payment of common share dividends to shareholders	(546)	(509)	(502)
Transfers (to) from discontinued operations	(1)	(97)	269
Other	(30)	(30)	(17)



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Net cash used in continuing financing activities	(815)	(3,152)	(1,354)
Net cash provided by (used in) discontinued financing activities	1	97	(269)
Net cash used in financing activities	(814)	(3,055)	(1,623)
Effect of currency translation on cash	(4)	7	(71)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>571</b>	<b>(2,682)</b>	<b>872</b>
<b>Cash and cash equivalents at beginning of fiscal year</b>	<b>647</b>	<b>3,329</b>	<b>2,457</b>
<b>Cash and cash equivalents at end of fiscal year</b>	<b>\$ 1,218</b>	<b>\$ 647</b>	<b>\$ 3,329</b>

**Supplemental Cash Flow Information:**

Interest paid	\$ 128	\$ 117	\$ 128
Income taxes paid, net of refunds	323	806	350

See Notes to Consolidated Financial Statements.

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**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. We are also a leader in developing, manufacturing, installing, and maintaining some of the world's most advanced subsea fiber optic communications systems.

***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 2017, 2016, and 2015 ended on September 29, 2017, September 30, 2016, and September 25, 2015, respectively. Fiscal 2017 and 2015 were 52 weeks in length. Fiscal 2016 was a 53-week year.

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**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.

Contract revenues for construction related projects, which are generated in the Communications Solutions segment, 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.

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.

Additionally, certain of our long-term contracts in the Communications Solutions segment have warranty obligations. Estimated warranty costs for each contract are determined based on the contract terms and technology-specific considerations. These costs are included in total estimated contract costs and are accrued over the construction period of the respective contracts under percentage-of-completion accounting.

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.

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**TE CONNECTIVITY LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

***Inventories***

Inventories are recorded at the lower of cost or market value using the first-in, first-out cost method, except for inventoried costs incurred in the performance of long-term contracts primarily by the Communications Solutions segment.

***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 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 2017, we had six reporting units, five of which contained goodwill. There were two reporting units in each of our three segments. 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

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**TE CONNECTIVITY LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

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 generally 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.

***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 2017, 2016, and 2015 were \$595 million, \$566 million, and \$540 million, respectively.

***Income Taxes***

Income taxes are computed in accordance with the provisions of Accounting Standards Codification ("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.

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**TE CONNECTIVITY LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

***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.

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 2017, 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.

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**TE CONNECTIVITY LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

*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).

*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.

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**TE CONNECTIVITY LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

***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.

***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 2017, 2016, and 2015.

***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.



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**TE CONNECTIVITY LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

*Acquisitions*

We account for acquired businesses using the acquisition method of accounting. This method requires, among other things, that most assets acquired and liabilities assumed be recognized at fair value as of the acquisition date. We allocate the purchase price of acquired businesses to the tangible and intangible assets acquired and liabilities assumed based on estimated fair values, or as required by ASC 805, *Business Combinations*. The excess of the purchase price over the identifiable assets acquired and liabilities assumed is recorded as goodwill. We may engage independent third-party appraisal firms to assist us in determining the fair values of assets acquired and liabilities assumed. Such valuations require management to make significant estimates and assumptions, especially with respect to intangible assets.

*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 retrospective basis, is effective for us in the first quarter of fiscal 2019. Based on amounts recorded as of September 29, 2017, adoption would result in approximately a \$120 million cumulative-effect adjustment to beginning accumulated earnings and a \$120 million decrease in total assets, primarily in other assets. Future transactions prior to adoption of this update could significantly change the impact at adoption.

In February 2016, the FASB issued ASU No. 2016-02 which codified ASC 842, *Leases*. This guidance, which requires lessees to recognize a lease liability and a right-of-use asset for most leases, is effective for us in the first quarter of fiscal 2020. We will adopt the new standard using a modified retrospective transition approach which requires application of the new guidance for all periods presented. We are currently assessing the impact that adoption will have on our financial position.

In May 2014, the FASB issued ASU No. 2014-09 which codified ASC topic 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 in the first quarter of fiscal 2019 and allows for either a full retrospective or a modified retrospective approach at adoption. We are continuing to assess the impact of adopting ASC 606. Based on the initial evaluation of our current

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## TE CONNECTIVITY LTD.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

contracts and revenue streams, we do not expect that adoption will have a material impact on our results of operations or financial position and plan to adopt the new standard using the modified retrospective approach. We are in the process of identifying necessary changes to accounting policies, processes, financial statement disclosures, internal controls, and systems to enable compliance with this new standard. We believe we are following an appropriate timeline to allow for the proper recognition, reporting, and disclosure of revenue upon adoption of ASC 606 at the beginning of fiscal 2019.

*Recently Adopted Accounting Pronouncements*

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, Net**

Net restructuring and other charges consisted of the following:

	Fiscal		
	2017	2016	2015
	(in millions)		
Restructuring charges, net	\$ 147	\$ 125	\$ 93
Gain on divestiture		(144)	
Other charges, net	1	21	59
	\$ 148	\$ 2	\$ 152

**Restructuring Charges, Net**

Net restructuring charges by segment were as follows:

	Fiscal		
	2017	2016	2015
	(in millions)		
Transportation Solutions	\$ 67	\$ 39	\$ 6
Industrial Solutions	72	28	29
Communications Solutions	8	58	58
Restructuring charges, net	\$ 147	\$ 125	\$ 93



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## TE CONNECTIVITY LTD.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 3. Restructuring and Other Charges, Net (Continued)

Activity in our restructuring reserves is summarized as follows:

	Balance at Beginning of Fiscal Year	Charges	Changes in Estimate	Cash Payments	Non-Cash Items	Currency Translation and Other	Balance at End of Fiscal Year
(in millions)							
<b>Fiscal 2017 Activity:</b>							
Fiscal 2017 Actions:							
Employee severance	\$	\$ 143	\$ (5)	\$ (40)	\$	\$ 5	\$ 103
Facility and other exit costs		2		(1)			1
Property, plant, and equipment		9			(9)		
Total		154	(5)	(41)	(9)	5	104
Fiscal 2016 Actions:							
Employee severance	54	8	(9)	(27)			26
Facility and other exit costs		3		(3)			
Total	54	11	(9)	(30)			26
Fiscal 2015 Actions:							
Employee severance	13		(2)	(4)		(1)	6
Pre-Fiscal 2015 Actions:							
Employee severance	12		(3)	(3)		(2)	4
Facility and other exit costs	12	1		(4)			9
Total	24	1	(3)	(7)		(2)	13
Total fiscal 2017 activity	\$ 91	\$ 166	\$ (19)	\$ (82)	\$ (9)	\$ 2	\$ 149
<b>Fiscal 2016 Activity:</b>							
Fiscal 2016 Actions:							
Employee severance	\$	\$ 86	\$	\$ (32)	\$	\$	\$ 54
Facility and other exit costs		3		(3)			
Property, plant, and equipment		41			(41)		
Total		130		(35)	(41)		54

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Fiscal 2015 Actions:

Employee severance	45	3	(4)	(31)	13
Facility and other exit costs	1			(1)	
<b>Total</b>	<b>46</b>	<b>3</b>	<b>(4)</b>	<b>(32)</b>	<b>13</b>

Pre-Fiscal 2015 Actions:

Employee severance	24		(6)	(8)	2	12
Facility and other exit costs	14	2		(4)		12
<b>Total</b>	<b>38</b>	<b>2</b>	<b>(6)</b>	<b>(12)</b>	<b>2</b>	<b>24</b>

Total fiscal 2016 activity

\$ 84	\$ 135	\$ (10)	\$ (79)	\$ (41)	2	\$ 91
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## TE CONNECTIVITY LTD.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 3. Restructuring and Other Charges, Net (Continued)

	Balance at Beginning of Fiscal Year	Charges	Changes in Estimate	Cash Payments	Non-Cash Items	Currency Translation and Other	Balance at End of Fiscal Year							
(in millions)														
<b>Fiscal 2015 Activity:</b>														
Fiscal 2015 Actions:														
Employee severance	\$	\$ 68	\$	\$ (23)	\$	\$	\$ 45							
Facility and other exit costs		3		(2)			1							
Property, plant, and equipment		21			(21)									
Total		92		(25)	(21)		46							
Pre-Fiscal 2015 Actions:														
Employee severance		91	2	(4)	(54)	(11)	24							
Facility and other exit costs		23	3	(13)		1	14							
Total		114	5	(4)	(67)	(10)	38							
Total fiscal 2015 activity	\$	114	\$	97	\$	(4)	\$	(92)	\$	(21)	\$	(10)	\$	84

**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 2017, we recorded net restructuring charges of \$149 million. We expect to complete all restructuring actions commenced during fiscal 2017 by the end of fiscal 2019 and to incur total charges of approximately \$160 million with remaining charges primarily related to employee severance.

The following table summarizes expected, incurred, and remaining charges for the fiscal 2017 program by segment:

	Total Expected Charges	Cumulative Charges Incurred	Remaining Expected Charges
(in millions)			
Transportation Solutions	\$ 75	\$ 72	\$ 3
Industrial Solutions	77	75	2
Communications Solutions	8	2	6
Total	\$ 160	\$ 149	\$ 11

*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 2017 and 2016, we recorded net restructuring charges of \$2 million and \$130 million, respectively. We expect to complete all restructuring actions commenced during fiscal 2016 by the end of fiscal 2019 and to incur total charges of approximately \$155 million with remaining charges related primarily to employee severance.

Table of Contents**TE CONNECTIVITY LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****3. Restructuring and Other Charges, Net (Continued)**

The following table summarizes expected, incurred, and remaining charges for the fiscal 2016 program by segment:

	<b>Total Expected Charges</b>	<b>Cumulative Charges Incurred</b>	<b>Remaining Expected Charges</b>
	(in millions)		
Transportation Solutions	\$ 38	\$ 37	\$ 1
Industrial Solutions	28	28	
Communications Solutions	89	67	22
Total	\$ 155	\$ 132	\$ 23

***Fiscal 2015 Actions***

During fiscal 2015, we initiated a restructuring program associated with headcount reductions and product line closures, primarily impacting the Communications Solutions and Industrial Solutions segments. In connection with this program, during fiscal 2017, 2016, and 2015, we recorded net restructuring credits of \$2 million, credits of \$1 million, and charges of \$92 million, respectively. We do not expect to incur any additional charges related to restructuring programs commenced in fiscal 2015.

***Pre-Fiscal 2015 Actions***

During fiscal 2017, 2016, and 2015, we recorded net restructuring credits of \$2 million, credits of \$4 million, and charges of \$1 million, respectively, related to pre-fiscal 2015 actions. We do not expect to incur any additional charges related to pre-fiscal 2015 actions.

***Total Restructuring Reserves***

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

	<b>Fiscal Year End</b>	
	<b>2017</b>	<b>2016</b>
	(in millions)	
Accrued and other current liabilities	\$ 130	\$ 64
Other liabilities	19	27
Restructuring reserves	\$ 149	\$ 91

**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.

**Other Charges, Net**



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During fiscal 2016, we incurred costs of \$21 million, associated primarily with the divestiture of certain businesses.

Table of Contents**TE CONNECTIVITY LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****3. Restructuring and Other Charges, Net (Continued)**

During fiscal 2015, we incurred costs of \$59 million, consisting primarily of \$36 million of legal and professional fees and \$18 million of charges associated with the exit of a facility. These costs were incurred in connection with the sale of our Broadband Network Solutions ("BNS") business but were not directly related to the business sold and accordingly were recorded in continuing operations. See Note 4 for additional information regarding the divestiture of BNS.

**4. Discontinued Operations**

The following table presents certain components of income from discontinued operations, net of income taxes:

	2017	Fiscal 2016	2015
	(in millions)		
Net sales from discontinued operations	\$	\$	\$ 1,595
Pre-tax income from discontinued operations	\$ 3	\$ 30	\$ 118
Pre-tax gain on sale of discontinued operations	3	29	1,105
Income tax (expense) benefit	4	9	(41)
Income from discontinued operations, net of income taxes	\$ 10	\$ 68	\$ 1,182

During fiscal 2015, we sold our BNS business for \$3.0 billion in cash and recognized a pre-tax gain of \$1.1 billion on the transaction. In the U.S., income taxes associated with the gain on the sale of assets were largely offset by income tax benefits realized on the sale of several subsidiaries. In certain non-U.S. jurisdictions, the sale was exempt from income taxes. During fiscal 2016, we recognized an additional pre-tax gain of \$29 million on the divestiture, related primarily to pension and net working capital adjustments.

In fiscal 2006, the former shareholders of Com-Net initiated a lawsuit related to our fiscal 2001 acquisition of Com-Net. In October 2015, the Court of Common Pleas in Allegheny County, Pennsylvania entered final judgment in favor of the sellers and against us for \$127 million plus costs. Consequently, we recorded a reserve and pre-tax charges of \$127 million during fiscal 2015. During fiscal 2016, we settled all matters in dispute and paid the sellers an aggregate amount of \$96 million. In connection with the settlements, we recorded pre-tax credits of \$30 million, representing a release of excess reserves, during fiscal 2016. These amounts were reflected in income from discontinued operations on the Consolidated Statements of Operations as the Com-Net case was associated with our former Wireless Systems business which was sold in fiscal 2009.

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

Table of Contents**TE CONNECTIVITY LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****5. Acquisitions***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:

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

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.

Table of Contents**TE CONNECTIVITY LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****5. Acquisitions (Continued)**

Acquired intangible assets consisted of the following:

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

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.

***Fiscal 2015 Acquisitions***

In October 2014, we acquired 100% of the outstanding shares of Measurement Specialties, Inc. ("Measurement Specialties"), a leading global designer and manufacturer of sensors and sensor-based systems, for \$86.00 in cash per share. The total value paid was approximately \$1.7 billion, net of cash acquired, and included \$225 million for the repayment of Measurement Specialties' debt and accrued interest. Measurement Specialties offers a broad portfolio of technologies including pressure, vibration, force, temperature, humidity, ultrasonic, position, and fluid sensors, for a wide range of applications and industries. This business has been reported as part of our Transportation Solutions segment from the date of acquisition.

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## TE CONNECTIVITY LTD.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 5. Acquisitions (Continued)

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:

	(in millions)
Cash and cash equivalents	\$ 37
Accounts receivable	84
Inventories	110
Other current assets	20
Property, plant, and equipment	95
Goodwill	1,064
Intangible assets	547
Other non-current assets	9
<b>Total assets acquired</b>	<b>1,966</b>
Short-term debt	20
Accounts payable	48
Other current liabilities	67
Long-term debt	203
Deferred income taxes	98
Other non-current liabilities	9
<b>Total liabilities assumed</b>	<b>445</b>
<b>Net assets acquired</b>	<b>1,521</b>
Cash and cash equivalents acquired	(37)
<b>Net cash paid</b>	<b>\$ 1,484</b>

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. The valuation of tangible assets was derived using a combination of the income, market, and cost approaches. 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.

Acquired intangible assets consisted of the following:

	Amount	Weighted-Average Amortization Period
	(in millions)	(in years)
Customer relationships	\$ 370	18
Developed technology	161	9
Trade names and trademarks	4	1
Customer order backlog	12	< 1
<b>Total</b>	<b>\$ 547</b>	<b>15</b>



Table of Contents**TE CONNECTIVITY LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****5. Acquisitions (Continued)**

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

Goodwill of \$1,064 million was recognized in the transaction, 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 Transportation Solutions segment and is not deductible for tax purposes. However, prior to its merger with us, Measurement Specialties completed certain acquisitions that resulted in goodwill with an estimated value of \$23 million that is deductible primarily for U.S. tax purposes, which we will deduct through 2030.

During fiscal 2015, Measurement Specialties contributed net sales of \$548 million to our Consolidated Statement of Operations. Due to the commingled nature of our operations, it is not practicable to separately identify operating income of Measurement Specialties on a stand-alone basis.

During fiscal 2015, we acquired three additional businesses for \$241 million in cash, net of cash acquired.

***Pro Forma Financial Information***

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 and the Measurement Specialties acquisition occurred at the beginning of fiscal 2014:

	<b>Pro Forma for Fiscal</b>	
	<b>2016</b>	<b>2015</b>
	<b>(in millions, except per share data)</b>	
Net sales	\$ 12,471	\$ 12,613
Net income	2,038	2,448
Diluted earnings per share	\$ 5.52	\$ 5.96

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

Table of Contents**TE CONNECTIVITY LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****6. Inventories**

Inventories consisted of the following:

	<b>Fiscal Year End</b>	
	<b>2017</b>	<b>2016</b>
	<b>(in millions)</b>	
Raw materials	\$ 306	\$ 241
Work in progress	580	504
Finished goods	810	669
Inventoried costs on long-term contracts	117	182
<b>Inventories</b>	<b>\$ 1,813</b>	<b>\$ 1,596</b>

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

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

	<b>Fiscal Year End</b>	
	<b>2017</b>	<b>2016</b>
	<b>(in millions)</b>	
Land and improvements	\$ 178	\$ 159
Buildings and improvements	1,399	1,272
Machinery and equipment	7,306	6,890
Construction in process	697	567
<b>Gross property, plant, and equipment</b>	<b>9,580</b>	<b>8,888</b>
Accumulated depreciation	(6,180)	(5,836)
<b>Property, plant, and equipment, net</b>	<b>\$ 3,400</b>	<b>\$ 3,052</b>

Depreciation expense was \$466 million, \$436 million, and \$463 million in fiscal 2017, 2016, and 2015, respectively.

**8. Goodwill**

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

	<b>Transportation Solutions</b>	<b>Industrial Solutions</b>	<b>Communications Solutions</b>	<b>Total</b>
	<b>(in millions)</b>			
Fiscal year end 2015 <sup>(1)</sup>	\$ 1,863	\$ 2,253	\$ 708	\$ 4,824
Acquisitions	60	776		836
Divestiture of business			(117)	(117)
Currency translation	(20)	(24)	(7)	(51)



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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

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(1) At fiscal year end 2017, 2016, and 2015, accumulated impairment losses for the Transportation Solutions and Industrial Solutions segments were \$2,191 million and \$669 million, respectively. Accumulated impairment

Table of Contents**TE CONNECTIVITY LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****8. Goodwill (Continued)**

losses for the Communications Solutions segment were \$1,514 million at fiscal year end 2017 and 2016 and \$1,626 million at fiscal year end 2015.

During fiscal 2017, we acquired two businesses and recognized goodwill of \$130 million, which benefitted the Transportation Solutions and Industrial Solutions segments. During fiscal 2016, we acquired four businesses and recognized goodwill of \$836 million, which benefitted the Industrial Solutions and Transportation Solutions segments. In fiscal 2017, we finalized the purchase price allocation of our fiscal 2016 acquisitions, and the associated goodwill was reduced to \$802 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.

During fiscal 2016, net goodwill of \$117 million was written-off in connection with the sale of our CPD business. See Note 3 for additional information regarding the divestiture of CPD.

We completed our annual goodwill impairment test in the fourth quarter of fiscal 2017 and determined that no impairment existed.

**9. Intangible Assets, Net**

Intangible assets consisted of the following:

	Fiscal Year End					
	2017		2016			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	(in millions)					
Customer relationships	\$ 1,433	\$ (300)	\$ 1,133	\$ 1,332	\$ (212)	\$ 1,120
Intellectual property	1,263	(575)	688	1,300	(563)	737
Other	36	(16)	20	36	(14)	22
Total	\$ 2,732	\$ (891)	\$ 1,841	\$ 2,668	\$ (789)	\$ 1,879

Intangible asset amortization expense was \$169 million, \$149 million, and \$153 million for fiscal 2017, 2016, and 2015, respectively. The aggregate amortization expense on intangible assets is expected to be as follows:

	(in millions)
Fiscal 2018	\$ 184
Fiscal 2019	181
Fiscal 2020	174
Fiscal 2021	171
Fiscal 2022	170
Thereafter	961
Total	\$ 1,841



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## TE CONNECTIVITY LTD.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**10. Accrued and Other Current Liabilities**

Accrued and other current liabilities consisted of the following:

	Fiscal Year End	
	2017	2016
	(in millions)	
Accrued payroll and employee benefits	\$ 596	\$ 431
Dividends payable to shareholders	281	263
Income taxes payable	121	149
Restructuring reserves	130	64
Interest payable	58	56
Other	440	474
<b>Accrued and other current liabilities</b>	<b>\$ 1,626</b>	<b>\$ 1,437</b>

**11. Debt**

Debt was as follows:

	Fiscal Year End	
	2017	2016
	(in millions)	
Commercial paper, at a weighted-average interest rate of 0.69% at fiscal year end 2016	\$	\$ 330
6.55% senior notes due 2017	708	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	650	618
3.45% senior notes due 2024	350	250
3.70% senior notes due 2026	350	350
3.125% senior notes due 2027	400	
7.125% senior notes due 2037	477	477
Other	96	3
<b>Total principal debt</b>	<b>4,356</b>	<b>4,061</b>
Unamortized discounts and debt issuance costs	(26)	(26)
Effects of fair value hedge-designated interest rate swaps	14	35
<b>Total debt</b>	<b>\$ 4,344</b>	<b>\$ 4,070</b>

During August 2017, Tyco Electronics Group S.A. ("TEGSA"), our 100%-owned subsidiary, issued \$400 million aggregate principal amount of 3.125% senior notes due August 2027 and \$100 million aggregate principal amount of 3.45% senior notes due August 2024. The 3.45% senior notes were issued under an existing indenture under which TEGSA had previously issued \$250 million aggregate principal amount. The notes are TEGSA's unsecured senior obligations and rank equally in right of payment with all existing and any future senior

indebtedness of TEGSA and senior to any subordinated indebtedness that TEGSA may incur.

Table of Contents**TE CONNECTIVITY LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****11. Debt (Continued)**

TEGSA 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 2017 or 2016.

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  $\frac{1}{2}$  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 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.

Principal payments required for debt are as follows:

	(in millions)
Fiscal 2018	\$ 710
Fiscal 2019	580
Fiscal 2020	
Fiscal 2021	250
Fiscal 2022	500
Thereafter	2,316
<b>Total</b>	<b>\$ 4,356</b>

The fair value of our debt, based on indicative valuations, was approximately \$4,622 million and \$4,424 million at fiscal year end 2017 and 2016, respectively.

Table of Contents**TE CONNECTIVITY LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****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 2017, we concluded that it was probable that we would incur investigation and remediation costs at these sites in the range of \$15 million to \$43 million, and that the best estimate within this range was \$19 million. 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 \$153 million, \$143 million, and \$141 million for fiscal 2017, 2016, and 2015, respectively. At fiscal year end 2017, future minimum lease payments under non-cancelable operating lease obligations were as follows:

	(in millions)
Fiscal 2018	\$ 110
Fiscal 2019	85
Fiscal 2020	62
Fiscal 2021	51
Fiscal 2022	42
Thereafter	104
<b>Total</b>	<b>\$ 454</b>

*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.

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**TE CONNECTIVITY LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

At fiscal year end 2017, we had outstanding letters of credit, letters of guarantee, and surety bonds of \$298 million.

We generally record estimated product warranty costs when contract revenues are recognized under the percentage-of-completion method for construction related contracts; other warranty reserves are not significant. The estimation is based primarily on historical experience and actual warranty claims. Amounts accrued for warranty claims were \$50 million and \$48 million at fiscal year end 2017 and 2016, respectively.

***Tax Sharing Agreement***

In fiscal 2007, we became an independent, publicly traded company owning the former electronics businesses of Tyco International plc ("Tyco International"). On June 29, 2007, Tyco International distributed all of our shares, as well as its shares of its former healthcare businesses ("Covidien"), to its common shareholders (the "separation"). As a result of subsequent transactions, Tyco International and Covidien now operate as part of Johnson Controls International plc and Medtronic plc, respectively.

Upon separation, we entered into a Tax Sharing Agreement, 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 arise from adjustments made by tax authorities to our, Tyco International's, and Covidien's income tax returns. 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 Internal Revenue Service ("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.

**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 2017, 2016, and 2015.

***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, foreign currency forward contracts, and foreign currency swap 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



Table of Contents**TE CONNECTIVITY LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****13. Financial Instruments and Fair Value Measurements (Continued)**

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 the maturities of these contracts in fiscal 2022, we will pay the principal amount of the loans in euros and receive U.S. dollars from our counterparties.

We hedge our net investment in certain foreign operations using intercompany non-derivative financial instruments denominated in the same currencies. The aggregate notional value of these hedges was \$3,110 million and \$3,480 million at fiscal year end 2017 and 2016, respectively. The impacts of our hedging program were as follows:

	Fiscal		
	2017	2016	2015
	(in millions)		
Foreign exchange gains (losses)	\$ (74)	\$ (45)	\$ 353

These foreign exchange gains and losses were recorded as currency translation, a component of accumulated other comprehensive income (loss), offsetting foreign exchange losses and gains attributable to the translation of the net investment. See Note 19 for additional information.

***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 swaps to convert a portion of fixed-rate debt into variable-rate debt. We use forward starting interest rate swaps and options to enter into interest rate swaps to manage interest rate exposure in periods prior to the anticipated issuance of fixed-rate debt. We also utilize investment swaps 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.

At fiscal year end 2017 and 2016, our commodity hedges had notional values of \$314 million and \$232 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 2017 and 2016.

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## TE CONNECTIVITY LTD.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 14. Retirement Plans

*Defined Benefit Pension Plans*

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

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

	U.S. Plans			Non-U.S. Plans		
	Fiscal			Fiscal		
	2017	2016	2015	2017	2016	2015
	(\$ in millions)					
Service cost	\$ 12	\$ 9	\$ 9	\$ 50	\$ 48	\$ 45
Interest cost	43	50	48	35	52	58
Expected return on plan assets	(53)	(59)	(67)	(68)	(68)	(72)
Amortization of net actuarial loss	40	40	25	41	36	33
Other				(4)	(6)	(5)
Net periodic pension benefit cost	\$ 42	\$ 40	\$ 15	\$ 54	\$ 62	\$ 59

*Weighted-average assumptions used to determine net pension benefit cost during the fiscal year:*

Discount rate	3.58%	4.38%	4.34%	1.44%	2.50%	2.77%	
Expected return on plan assets	5.93%	6.97%	7.20%	5.21%	5.98%	6.46%	
Rate of compensation increase		%	%	%	2.52%	2.81%	2.86%

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## 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 U.S. and non-U.S. defined benefit pension plans:

	U.S. Plans		Non-U.S. Plans	
	Fiscal		Fiscal	
	2017	2016	2017	2016
	(\$ in millions)			
<i>Change in benefit obligation:</i>				
Benefit obligation at beginning of fiscal year	\$ 1,250	\$ 1,170	\$ 2,535	\$ 2,188
Service cost	12	9	50	48
Interest cost	43	50	35	52
Actuarial loss	(34)	102	(301)	368
Benefits and administrative expenses paid	(82)	(81)	(69)	(85)
Currency translation			29	(63)
Other	2		13	27
Benefit obligation at end of fiscal year	1,191	1,250	2,292	2,535
<i>Change in plan assets:</i>				
Fair value of plan assets at beginning of fiscal year	929	879	1,371	1,167
Actual return on plan assets	115	130	49	261
Employer contributions	1	1	47	66
Benefits and administrative expenses paid	(82)	(81)	(69)	(85)
Currency translation			(2)	(59)
Other			6	21
Fair value of plan assets at end of fiscal year	963	929	1,402	1,371
Funded status	\$ (228)	\$ (321)	\$ (890)	\$ (1,164)
<i>Amounts recognized on the Consolidated Balance Sheets:</i>				
Other assets	\$	\$	\$ 50	\$
Accrued and other current liabilities	(5)	(5)	(22)	(20)
Long-term pension and postretirement liabilities	(223)	(316)	(918)	(1,144)
Net amount recognized	\$ (228)	\$ (321)	\$ (890)	\$ (1,164)

*Weighted-average assumptions used to determine pension benefit obligation at fiscal year end:*

Discount rate	3.77%	3.58%	1.87%	1.44%
Rate of compensation increase	%	%	2.53%	2.52%

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## 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 U.S. and non-U.S. defined benefit pension plans were as follows:

	U.S. Plans		Non-U.S. Plans	
	Fiscal		Fiscal	
	2017	2016	2017	2016
	(in millions)			
<i>Change in net loss:</i>				
Unrecognized net loss at beginning of fiscal year	\$ 428	\$ 436	\$ 839	\$ 711
Current year change recorded in accumulated other comprehensive income (loss)	(96)	32	(285)	164
Amortization reclassified to earnings	(40)	(40)	(41)	(36)
Unrecognized net loss at end of fiscal year	\$ 292	\$ 428	\$ 513	\$ 839
<i>Change in prior service credit:</i>				
Unrecognized prior service credit at beginning of fiscal year	\$	\$	\$ (70)	\$ (66)
Current year change recorded in accumulated other comprehensive income (loss)	2		5	(10)
Amortization reclassified to earnings <sup>(1)</sup>			6	6
Unrecognized prior service credit at end of fiscal year	\$ 2	\$	\$ (59)	\$ (70)

(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 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 U.S. and non-U.S. defined benefit pension plans as compared to fiscal 2016. In fiscal 2016, unrecognized actuarial losses recorded in accumulated other comprehensive income (loss) were primarily the result of lower discount rates partially offset by favorable asset performance for both U.S. and non-U.S. defined benefit pension plans as compared to fiscal 2015.

The estimated amortization of actuarial losses from accumulated other comprehensive income (loss) into net periodic pension benefit cost for U.S. and non-U.S. defined benefit pension plans in fiscal 2018 is expected to be \$22 million and \$24 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 2018 is expected to be \$6 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 U.S. and non-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.



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## TE CONNECTIVITY LTD.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**14. Retirement Plans (Continued)**

The long-term target asset allocation in our U.S. plans' master trust is 10% equity and 90% fixed income. 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 2017, our target asset allocation is 45% equity and 55% fixed income.

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

	Target	U.S. Plans		Non-U.S. Plans		
		Fiscal Year End 2017	Fiscal Year End 2016	Target	Fiscal Year End 2017	Fiscal Year End 2016
Asset category:						
Equity securities	45%	50%	45%	27%	30%	41%
Fixed income	55	50	55	52	49	33
Insurance contracts and other investments				19	19	24
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 \$6 million and \$56 million to our U.S. and non-U.S. pension plans, respectively, in fiscal 2018. We may also make voluntary contributions at our discretion.

Benefit payments, which reflect future expected service, as appropriate, are expected to be paid as follows:

	U.S. Plans		Non-U.S. Plans	
	(in millions)			
Fiscal 2018	\$	75	\$	71
Fiscal 2019		71		76
Fiscal 2020		72		77
Fiscal 2021		73		79
Fiscal 2022		74		85
Fiscal 2023-2027		371		485

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## TE CONNECTIVITY LTD.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**14. Retirement Plans (Continued)**

Presented below is the accumulated benefit obligation for all U.S. and non-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.

	U.S. Plans		Non-U.S. Plans	
	Fiscal Year End		Fiscal Year End	
	2017	2016	2017	2016
	(in millions)			
Accumulated benefit obligation	\$ 1,191	\$ 1,250	\$ 2,167	\$ 2,389
Pension plans with accumulated benefit obligations in excess of plan assets:				
Accumulated benefit obligation	1,191	1,250	1,402	2,380
Fair value of plan assets	963	929	581	1,361
Pension plans with projected benefit obligations in excess of plan assets:				
Projected benefit obligation	1,191	1,250	1,524	2,534
Fair value of plan assets	963	929	583	1,371

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

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## TE CONNECTIVITY LTD.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 14. Retirement Plans (Continued)

	Fiscal Year End 2016							
	U.S. Plans				Non-U.S. Plans			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	(in millions)							
Equity:								
U.S. equity securities <sup>(1)</sup>	\$ 248	\$	\$	\$ 248	\$ 64	\$	\$	\$ 64
Non-U.S. equity securities <sup>(1)</sup>	190			190	62			62
Commingled equity funds <sup>(2)</sup>						456		456
Fixed income:								
Government bonds <sup>(3)</sup>		67		67		226		226
Corporate bonds <sup>(4)</sup>		397		397		13		13
Commingled bond funds <sup>(5)</sup>						262		262
Other <sup>(6)</sup>		11		11		177	91	268
Subtotal	\$ 438	\$ 475	\$	913	\$ 126	\$ 1,134	\$ 91	1,351
Items to reconcile to fair value of plan assets <sup>(7)</sup>				16				20
Fair value of plan assets				\$ 929				\$ 1,371

- 
- (1) U.S. and non-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 2017 and 2016.

***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 \$68 million, \$59 million, and \$60 million for fiscal 2017, 2016, and 2015, 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. Total deferred compensation liabilities were \$157 million and \$132 million at fiscal year end 2017 and 2016, respectively. 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 \$20 million and \$45 million at fiscal year end 2017 and 2016, 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. The decrease in the accumulated postretirement benefit obligation during fiscal 2017 was primarily attributable to a plan curtailment that was recognized on the Consolidated Statement of Operations; activity during fiscal 2016 and 2015 was not significant.

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## 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:

	Fiscal		
	2017	2016	2015
	(in millions)		
Current income tax expense (benefit):			
U.S.:			
Federal	\$ (2)	\$ (1,115)	\$ (67)
State	9	(163)	12
Non-U.S.	323	321	352
	330	(957)	297
Deferred income tax expense (benefit):			
U.S.:			
Federal	(58)	173	87
State	(9)	20	5
Non-U.S.	(8)	(15)	(52)
	(75)	178	40
Income tax expense (benefit)	\$ 255	\$ (779)	\$ 337

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

	Fiscal		
	2017	2016	2015
	(in millions)		
U.S.	\$ (75)	\$ (115)	\$ (31)
Non-U.S.	2,003	1,277	1,606
Income from continuing operations before income taxes	\$ 1,928	\$ 1,162	\$ 1,575

Table of Contents**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:

	2017	Fiscal 2016	2015
	(in millions)		
Notional U.S. federal income tax expense at the statutory rate	\$ 675	\$ 407	\$ 551
Adjustments to reconcile to the income tax expense (benefit):			
U.S. state income tax expense (benefit), net		(93)	11
Other expense Tax Sharing Agreement <sup>1</sup>	3	221	18
Tax law changes	7	(3)	10
Tax credits	(9)	(10)	(9)
Non-U.S. net earnings <sup>(2)</sup>	(355)	(342)	(275)
Change in accrued income tax liabilities	24	(1,056)	(183)
Valuation allowance	(1)	97	(3)
Legal entity restructuring and intercompany transactions	(40)	39	211
Divestitures		(31)	
Excess tax benefits from share-based payments	(40)		
Other	(9)	(8)	6
Income tax expense (benefit)	\$ 255	\$ (779)	\$ 337

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

(2) Excludes items which are separately presented.

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 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 which resolved all aspects of the disputed debt matter with the IRS through the year 2007, 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.

In fiscal 2016, the increase to the valuation allowance for deferred tax assets primarily related 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.

Table of Contents**TE CONNECTIVITY LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****15. Income Taxes (Continued)**

The income tax expense for fiscal 2015 included a \$264 million income tax benefit related to the effective settlement of all undisputed tax matters for the years 2001 through 2010, partially offset by 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. Also, income tax expense for fiscal 2015 included an income tax charge of \$29 million associated with the tax impacts of certain intercompany dividends related to the restructuring and sale of our BNS business.

See "IRS Audits" below for additional information regarding settlements with the IRS.

**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>2017</b>	<b>2016</b>
	<b>(in millions)</b>	
<b>Deferred tax assets:</b>		
Accrued liabilities and reserves	\$ 356	\$ 286
Tax loss and credit carryforwards	5,265	4,656
Inventories	48	46
Pension and postretirement benefits	231	349
Deferred revenue	8	11
Interest	366	470
Unrecognized income tax benefits	10	10
Other	22	32
	6,306	5,860
<b>Deferred tax liabilities:</b>		
Intangible assets	(653)	(761)
Property, plant, and equipment	(22)	(15)
Other	(99)	(84)
	(774)	(860)
Net deferred tax asset before valuation allowance	5,532	5,000
Valuation allowance	(3,627)	(3,096)
Net deferred tax asset	\$ 1,905	\$ 1,904

Table of Contents**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 2017 were as follows:

	Expiration Period			Total
	Through Fiscal 2022	Fiscal 2023 Through Fiscal 2037	No Expiration	
(in millions)				
U.S. Federal:				
Net operating loss carryforwards	\$ 143	\$ 1,171	\$	\$ 1,314
Tax credit carryforwards	24	119	57	200
Capital loss carryforwards	10			10
U.S. State:				
Net operating loss carryforwards.	52	49		101
Tax credit carryforwards	9	15	7	31
Non-U.S.:				
Net operating loss carryforwards	11	998	2,568	3,577
Tax credit carryforwards		1	2	3
Capital loss carryforwards			29	29
Total tax loss and credit carryforwards	\$ 249	\$ 2,353	\$ 2,663	\$ 5,265

The valuation allowance for deferred tax assets of \$3,627 million and \$3,096 million at fiscal year end 2017 and 2016, 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 2017, tax loss and credit carryforwards increased due primarily to tax losses of \$709 million (tax effected) generated in connection with the net write-down of investments in subsidiaries in certain jurisdictions, offset by the impacts of a statutory rate reduction in the same jurisdictions. The valuation allowance was increased by a corresponding amount due to the uncertainty of future realization of these tax losses. Additionally, the valuation allowance decreased by \$165 million in connection with the adoption of ASU No. 2016-09 related to share-based payments. See Note 2 for additional information regarding recently adopted accounting pronouncements. 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 2017, certain subsidiaries had approximately \$22 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

Table of Contents**TE CONNECTIVITY LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****15. Income Taxes (Continued)**

investments in subsidiaries. As of fiscal year end 2017, we had approximately \$6.3 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 approximately \$1.2 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.

**Uncertain Tax Positions**

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. As of fiscal year end 2016, we had total unrecognized income tax benefits of \$490 million. If recognized in future years, \$370 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		
	2017	2016	2015
	(in millions)		
Balance at beginning of fiscal year	\$ 490	\$ 1,368	\$ 1,595
Additions related to prior years tax positions	40	75	24
Reductions related to prior years tax positions	(9)	(817)	(291)
Additions related to current year tax positions	70	124	97
Acquisitions		4	
Settlements	(4)	(205)	(29)
Reductions due to lapse of applicable statute of limitations	(86)	(59)	(28)
Balance at end of fiscal year	\$ 501	\$ 490	\$ 1,368

We record accrued interest and penalties related to uncertain tax positions as part of income tax expense (benefit). As of fiscal year end 2017 and 2016, we had \$60 million and \$54 million, respectively, of accrued interest and penalties related to uncertain tax positions on the Consolidated Balance Sheets, recorded primarily in income taxes. During fiscal 2017, 2016, and 2015, we recognized income tax benefits of \$5 million, benefits of \$765 million, and expense of \$7 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.

Table of Contents**TE CONNECTIVITY LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****15. Income Taxes (Continued)**

As of fiscal year end 2017, under applicable statutes, the following tax years remained subject to examination in the major tax jurisdictions indicated:

<b>Jurisdiction</b>	<b>Open Years</b>
China	2007 through 2017
Czech Republic	2014 through 2017
Germany	2013 through 2017
Hong Kong	2011 through 2017
Ireland	2012 through 2017
Italy	2013 through 2017
Japan	2011 through 2017
Korea	2012 through 2017
Luxembourg	2012 through 2017
Netherlands	2012 through 2017
Singapore	2012 through 2017
Spain	2013 through 2017
Switzerland	2012 through 2017
United Kingdom	2015 through 2017
U.S. federal	2014 through 2017

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 \$40 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 2017.

**IRS Audits*****1997-2000 Audit Years***

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. See Note 12 for further information regarding the Tax Sharing Agreement.

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



Table of Contents**TE CONNECTIVITY LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****15. Income Taxes (Continued)**

payment, we received net reimbursements of \$303 million from Tyco International and Covidien pursuant to their indemnifications for pre-separation tax matters.

***2001-2007 Audit Years***

In fiscal 2015, the IRS effectively settled its audit of tax matters for the years 2001 through 2007, excluding the disputed debt matter which was subsequently resolved during fiscal 2016 as discussed above. Consequently, in fiscal 2015, we recognized an income tax benefit of \$201 million, representing a reduction in tax reserves for the matters that were effectively settled, and other expense of \$84 million, representing a reduction of associated indemnification receivables, pursuant to the Tax Sharing Agreement with Tyco International and Covidien.

***2008-2010 Audit Years***

In fiscal 2015, the IRS effectively settled its audit of tax matters for the years 2008 through 2010, excluding the disputed debt matter which was subsequently resolved consistent with the terms of the disputed debt settlement discussed above. Consequently, in fiscal 2015, we recognized an income tax benefit of \$63 million, representing a reduction in tax reserves for the matters that were effectively settled.

**16. Other Expense, Net**

In fiscal 2017, 2016, and 2015, we recorded net other expense of \$9 million, \$632 million, and \$55 million, respectively, primarily pursuant to the Tax Sharing Agreement with Tyco International and Covidien. The net other expense in fiscal 2016 included \$604 million related to the effective settlement of tax matters for the years 1997 through 2000 which resolved all aspects of the disputed debt matter with the IRS through the year 2007 and \$46 million related to a tax settlement in another tax jurisdiction. The net other expense in fiscal 2015 included \$84 million related to the effective settlement of undisputed tax matters for the years 2001 through 2007. See Notes 12 and 15 for further information regarding the Tax Sharing Agreement and settlements, respectively.

**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:

	Fiscal		
	2017	2016	2015
	(in millions)		
Basic	355	366	405
Dilutive impact of share-based compensation arrangements	3	3	6
Diluted	358	369	411

There were one million, three million, and one million share options that were not included in the computation of diluted earnings per share for fiscal 2017, 2016, and 2015, respectively, because the instruments' underlying exercise prices were greater than the average market prices of our common shares and inclusion would be antidilutive.

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**TE CONNECTIVITY LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**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 2016, our shareholders approved for a period of two years ending on March 2, 2018, 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.

*Common Shares Held in Treasury*

At fiscal year end 2017, approximately 5 million common shares were held in treasury and owned by one of our subsidiaries. At fiscal year end 2016, approximately 28 million common shares were held in treasury, of which 2 million were 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, 2016, and 2015, our shareholders approved the cancellation of 26 million, 31 million, and 5 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 2017 and 2016, Swiss Contributed Surplus was CHF 7,300 million and CHF 7,878 million, respectively (equivalent to \$6,420 million and \$6,992 million, respectively).

*Dividends*

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.

Table of Contents**TE CONNECTIVITY LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****18. Shareholders' Equity (Continued)**

Our shareholders approved the following dividends on our common shares:

<b>Approval Date</b>	<b>Annual Payment Per Share</b>	<b>Payment Dates</b>
March 2014	CHF 1.04 (equivalent to \$1.16), payable in four quarterly installments of \$0.29	Third quarter of fiscal 2014 Fourth quarter of fiscal 2014 First quarter of fiscal 2015 Second quarter of fiscal 2015
March 2015	\$1.32 (equivalent to CHF 1.27), 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 (equivalent to CHF 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 (equivalent to CHF 1.62), 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

Upon shareholders' approval of a dividend payment, we record a liability with a corresponding charge to shareholders' equity. At fiscal year end 2017 and 2016, the unpaid portion of the dividends recorded in accrued and other current liabilities on the Consolidated Balance Sheets totaled \$281 million and \$263 million, respectively.

***Share Repurchase Program***

During fiscal 2016 and 2015, our board of directors authorized increases of \$1.0 billion and \$3.0 billion, respectively, in the share repurchase program. Common shares repurchased under the share repurchase program were as follows:

	<b>Fiscal</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<b>(in millions)</b>		
Number of common shares repurchased	8	43	18
Repurchase value	\$ 621	\$ 2,610	\$ 1,163

At fiscal year end 2017, we had \$480 million of availability remaining under our share repurchase authorization.

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## 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 2014	\$ 720	\$ (692)	\$ (45)	\$ (17)
Other comprehensive loss before reclassifications	(536)	(147)	(44)	(727)
Amounts reclassified from accumulated other comprehensive income (loss)	224 <sup>(2)</sup>	75	45	344
Income tax benefit		26	1	27
Net other comprehensive income (loss), net of tax	(312)	(46)	2	(356)
Balance at fiscal year end 2015	408	(738)	(43)	(373)
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
Net other comprehensive income (loss), net of tax	(92)	(88)	11	(169)
Balance at fiscal year end 2016	316	(826)	(32)	(542)
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)
Net other comprehensive income, net of tax	37	330	15	382
Balance at fiscal year end 2017	\$ 353	\$ (496)	\$ (17)	\$ (160)

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

(2) Represents net currency translation reclassified as a result of the sale of our BNS business. This net loss is included in income from discontinued operations on the Consolidated Statement of Operations. See Note 4 for additional information regarding the divestiture of BNS.



Table of Contents**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. In March 2017, our shareholders approved an increase of 10 million shares in the number of shares available for awards under the 2017 Plan. As of fiscal year end 2017, 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 23 million shares remained available for issuance under our plans as of fiscal year end 2017.

***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		
	2017	2016	2015
	(in millions)		
Share-based compensation expense	\$ 99	\$ 91	\$ 89

We recognized a related tax benefit associated with our share-based compensation arrangements of \$32 million, \$29 million, and \$29 million in fiscal 2017, 2016, and 2015, 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 2016	2,287,004	\$ 58.47
Granted	821,016	67.72
Vested	(937,917)	52.89
Forfeited	(179,319)	63.12
Nonvested at fiscal year end 2017	1,990,784	\$ 64.40

Table of Contents**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 2017, 2016, and 2015 was \$67.72, \$64.88, and \$62.45, respectively.

The total fair value of restricted share awards that vested during fiscal 2017, 2016, and 2015 was \$50 million, \$51 million, and \$58 million, respectively.

As of fiscal year end 2017, there was \$74 million of unrecognized compensation cost related to nonvested restricted share awards. The cost is expected to be recognized over a weighted-average period of 1.7 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:

	Shares	Weighted-Average Grant-Date Fair Value
Outstanding at fiscal year end 2016	626,625	\$ 60.56
Granted	376,380	62.88
Vested	(281,417)	51.61
Forfeited	(18,181)	65.12
Outstanding at fiscal year end 2017	703,407	\$ 65.13

The weighted-average grant-date fair value of performance share awards granted during fiscal 2017, 2016, and 2015 was \$62.88, \$55.15, and \$61.65, respectively.

The total fair value of performance share awards that vested during both fiscal 2017 and 2016 was \$15 million. The total fair value of performance share awards that vested in fiscal 2015 was insignificant.

As of fiscal year end 2017, there was \$28 million of unrecognized compensation cost related to nonvested performance share awards. The cost is expected to be recognized over a weighted-average period of 1.2 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,

Table of Contents**TE CONNECTIVITY LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****20. Share Plans (Continued)**

depending on the terms and conditions of the particular grant. Options generally vest and become 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 2016	9,104,380	\$ 45.79		
Granted	2,076,300	66.76		
Exercised	(3,313,145)	34.96		
Expired	(2,307)	45.08		
Forfeited	(180,135)	63.24		
Outstanding at fiscal year end 2017	7,685,093	\$ 55.70	7.0	\$ 210
Vested and expected to vest at fiscal year end 2017	7,228,213	\$ 55.14	7.0	\$ 202
Exercisable at fiscal year end 2017	3,482,445	\$ 44.91	5.4	\$ 133

The weighted-average exercise price of share option awards granted during fiscal 2017, 2016, and 2015 was \$66.76, \$65.70, and \$61.70, respectively.

The total intrinsic value of options exercised during fiscal 2017, 2016, and 2015 was \$130 million, \$67 million, and \$107 million, respectively. We received cash related to the exercise of options of \$117 million, \$90 million, and \$103 million in fiscal 2017, 2016, and 2015, respectively.

As of fiscal year end 2017, there was \$37 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 1.9 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.



Table of Contents**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		
	2017	2016	2015
Weighted-average grant-date fair value	\$ 12.80	\$ 14.26	\$ 18.77
Assumptions:			
Expected share price volatility	24%	26%	36%
Risk free interest rate	1.9%	2.0%	2.0%
Expected annual dividend per share	\$ 1.48	\$ 1.32	\$ 1.16
Expected life of options (in years)	5.6	5.7	6.0

**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. We aggregate our operating segments into reportable segments based upon similar economic characteristics and business groupings of products, services, and customers.

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		
	2017	2016	2015	2017	2016	2015
	(in millions)					
Transportation Solutions	\$ 7,039	\$ 6,503	\$ 6,351	\$ 1,299	\$ 1,191	\$ 1,193
Industrial Solutions	3,507	3,215	3,179	364	343	352
Communications Solutions	2,567	2,520	2,703	384	368 <sup>(1)</sup>	204
Total	\$ 13,113	\$ 12,238	\$ 12,233	\$ 2,047	\$ 1,902	\$ 1,749

(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 2017, 2016, or 2015.

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



Table of Contents**TE CONNECTIVITY LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****21. Segment and Geographic Data (Continued)**

Depreciation and amortization and capital expenditures were as follows:

	Depreciation and Amortization			Capital Expenditures		
	2017	Fiscal 2016	2015	2017	Fiscal 2016	2015
	(in millions)					
Transportation Solutions	\$359	\$337	\$347	\$471	\$429	\$400
Industrial Solutions	165	131	123	122	107	104
Communications Solutions	111	117	146	109	92	96
Total	\$635	\$585	\$616	\$702	\$628	\$600

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

	Segment Assets		
	2017	2016	2015
	(in millions)		
Transportation Solutions	\$ 4,072	\$ 3,501	\$ 3,310
Industrial Solutions	1,905	1,720	1,720
Communications Solutions	1,526	1,473	1,625
Total segment assets <sup>(1)</sup>	7,503	6,694	6,655
Other current assets	1,823	1,133	4,150
Other non-current assets	10,077	9,781	9,784
Total assets	\$ 19,403	\$ 17,608	\$ 20,589

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

Table of Contents**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		
	2017	2016	2015	2017	2016	2015
	(in millions)					
<b>Americas:</b>						
U.S.	\$ 4,063	\$ 3,901	\$ 3,817	\$ 980	\$ 922	\$ 887
Other Americas	338	298	321	100	93	87
Total Americas	4,401	4,199	4,138	1,080	1,015	974
<b>Europe/Middle East/Africa:</b>						
Switzerland	3,016	2,979	2,992	80	62	55
Germany	235	127	117	412	334	313
Other Europe/Middle East/Africa	1,150	1,010	883	742	630	588
Total Europe/Middle East/Africa	4,401	4,116	3,992	1,234	1,026	956
<b>Asia Pacific:</b>						
China	2,414	2,165	2,367	555	491	529
Other Asia Pacific	1,897	1,758	1,736	531	520	461
Total Asia Pacific	4,311	3,923	4,103	1,086	1,011	990
Total	\$ 13,113	\$ 12,238	\$ 12,233	\$ 3,400	\$ 3,052	\$ 2,920

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

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## TE CONNECTIVITY LTD.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 22. Quarterly Financial Data (unaudited)

Summarized quarterly financial data was as follows:

	Fiscal							
	2017				2016			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter <sup>(1)</sup>	Third Quarter <sup>(2)</sup>	Fourth Quarter <sup>(3)</sup>
	(in millions, except per share data)							
Net sales	\$ 3,063	\$ 3,227	\$ 3,367	\$ 3,456	\$ 2,833	\$ 2,952	\$ 3,121	\$ 3,332
Gross margin	1,065	1,108	1,138	1,139	945	962	1,022	1,104
Acquisition and integration costs	2	2	1	1	5	3	11	3
Restructuring and other charges (credits), net	47	59	19	23	40	(99)	31	30
Income from continuing operations	406	406	432	429	324	389	791	437
Income (loss) from discontinued operations, net of income taxes	3	(1)	3	5	29	(9)	48	
Net income	\$ 409	\$ 405	\$ 435	\$ 434	\$ 353	\$ 380	\$ 839	\$ 437
<b>Basic earnings per share:</b>								
Income from continuing operations	\$ 1.14	\$ 1.14	\$ 1.22	\$ 1.22	\$ 0.84	\$ 1.07	\$ 2.22	\$ 1.23
Net income	1.15	1.14	1.23	1.23	0.92	1.04	2.35	1.23
<b>Diluted earnings per share:</b>								
Income from continuing operations	\$ 1.13	\$ 1.13	\$ 1.21	\$ 1.21	\$ 0.83	\$ 1.06	\$ 2.19	\$ 1.22
Net income	1.14	1.13	1.22	1.22	0.91	1.03	2.32	1.22

(1) Results for the second quarter of fiscal 2016 included a pre-tax gain of \$146 million on the sale of our CPD business.

(2) Results for the third quarter of fiscal 2016 included a \$1,135 million income tax benefit associated with the effective settlement of tax matters for the years 1997 through 2000 which resolved all aspects of the disputed debt matter with the IRS through the year 2007 and the related impact of \$604 million to other expense pursuant to the Tax Sharing Agreement with Tyco International and Covidien. In addition, results for the third quarter of fiscal 2016 included a \$91 million income tax charge related to an increase to the valuation allowance for certain U.S. deferred tax assets, and an \$83 million net income tax benefit related to tax settlements in certain other tax jurisdictions and the related impact of \$46 million to other expense pursuant to the Tax Sharing Agreement with Tyco International and Covidien.

(3) Results for the fourth quarter of fiscal 2016 included an additional week. See Note 1 for additional information regarding our fiscal year end.

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## TE CONNECTIVITY LTD.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 23. 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 29, 2017**

	TE Connectivity Ltd.	TEGSA	Other Subsidiaries	Consolidating Adjustments	Total
	(in millions)				
Net sales	\$	\$	\$ 13,113	\$	\$ 13,113
Cost of sales			8,663		8,663
<b>Gross margin</b>			4,450		4,450
Selling, general, and administrative expenses, net <sup>(1)</sup>	184	1,911	(504)		1,591
Research, development, and engineering expenses			658		658
Acquisition and integration costs			6		6
Restructuring and other charges, net			148		148
<b>Operating income (loss)</b>	(184)	(1,911)	4,142		2,047
Interest income			20		20
Interest expense		(129)	(1)		(130)
Other expense, net			(9)		(9)
Equity in net income of subsidiaries	1,889	3,819		(5,708)	
Equity in net income of subsidiaries of discontinued operations	10	23		(33)	
Intercompany interest income (expense), net	(32)	110	(78)		
<b>Income from continuing operations before income taxes</b>	1,683	1,912	4,074	(5,741)	1,928
Income tax expense			(255)		(255)
<b>Income from continuing operations</b>	1,683	1,912	3,819	(5,741)	1,673
Income (loss) from discontinued operations, net of income taxes <sup>(2)</sup>		(13)	23		10
<b>Net income</b>	1,683	1,899	3,842	(5,741)	1,683
Other comprehensive income	382	382	375	(757)	382
<b>Comprehensive income</b>	\$ 2,065	\$ 2,281	\$ 4,217	\$ (6,498)	\$ 2,065

(1)

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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.

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## TE CONNECTIVITY LTD.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 23. 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	Consolidating Adjustments	Total
	(in millions)				
Net sales	\$	\$	\$ 12,238	\$	\$ 12,238
Cost of sales			8,205		8,205
<b>Gross margin</b>			4,033		4,033
Selling, general, and administrative expenses, net <sup>(1)</sup>	168	95	1,200		1,463
Research, development, and engineering expenses			644		644
Acquisition and integration costs			22		22
Restructuring and other charges (credits), net	2	(1)	1		2
<b>Operating income (loss)</b>	(170)	(94)	2,166		1,902
Interest income			19		19
Interest expense		(126)	(1)		(127)
Other expense, net			(632)		(632)
Equity in net income of subsidiaries	2,139	2,261		(4,400)	
Equity in net income of subsidiaries of discontinued operations	67	168		(235)	
Intercompany interest income (expense), net	(28)	98	(70)		
<b>Income from continuing operations before income taxes</b>	2,008	2,307	1,482	(4,635)	1,162
Income tax benefit			779		779
<b>Income from continuing operations</b>	2,008	2,307	2,261	(4,635)	1,941
Income (loss) from discontinued operations, net of income taxes <sup>(2)</sup>	1	(101)	168		68
<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>	\$ 1,840	\$ 2,037	\$ 2,286	\$ (4,323)	\$ 1,840

(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.





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## TE CONNECTIVITY LTD.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 23. Tyco Electronics Group S.A. (Continued)

**Condensed Consolidating Statement of Operations**  
**For the Fiscal Year Ended September 25, 2015**

	TE Connectivity Ltd.	TEGSA	Other Subsidiaries	Consolidating Adjustments	Total
	(in millions)				
Net sales	\$	\$	\$ 12,233	\$	\$ 12,233
Cost of sales			8,146		8,146
<b>Gross margin</b>			4,087		4,087
Selling, general, and administrative expenses, net <sup>(1)</sup>	163	835	506		1,504
Research, development, and engineering expenses			627		627
Acquisition and integration costs			55		55
Restructuring and other charges, net			152		152
<b>Operating income (loss)</b>	(163)	(835)	2,747		1,749
Interest income			17		17
Interest expense		(135)	(1)		(136)
Other expense, net			(55)		(55)
Equity in net income of subsidiaries	1,398	2,318		(3,716)	
Equity in net income of subsidiaries of discontinued operations	1,182	365		(1,547)	
Intercompany interest income (expense), net	3	50	(53)		
<b>Income from continuing operations before income taxes</b>	2,420	1,763	2,655	(5,263)	1,575
Income tax expense			(337)		(337)
<b>Income from continuing operations</b>	2,420	1,763	2,318	(5,263)	1,238
Income from discontinued operations, net of income taxes		817	365		1,182
<b>Net income</b>	2,420	2,580	2,683	(5,263)	2,420
Other comprehensive loss	(356)	(356)	(368)	724	(356)
<b>Comprehensive income</b>	\$ 2,064	\$ 2,224	\$ 2,315	\$ (4,539)	\$ 2,064

- (1) TEGSA selling, general, and administrative expenses include losses of \$846 million related to intercompany transactions. These losses are offset by corresponding gains recorded by other subsidiaries.

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## TE CONNECTIVITY LTD.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 23. Tyco Electronics Group S.A. (Continued)

Condensed Consolidating Balance Sheet  
As of September 29, 2017

	TE Connectivity Ltd.	TEGSA	Other Subsidiaries	Consolidating Adjustments	Total
	(in millions)				
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$	\$	\$ 1,218	\$	\$ 1,218
Accounts receivable, net			2,290		2,290
Inventories			1,813		1,813
Intercompany receivables	49	1,914	60	(2,023)	
Prepaid expenses and other current assets	4	96	505		605
Total current assets	53	2,010	5,886	(2,023)	5,926
Property, plant, and equipment, net			3,400		3,400
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)	
Other assets		6	438		444
<b>Total Assets</b>	\$ 12,013	\$ 26,152	\$ 29,057	\$ (47,819)	\$ 19,403
<b>Liabilities and Shareholders' Equity</b>					
Current liabilities:					
Short-term debt	\$	\$ 708	\$ 2	\$	\$ 710
Accounts payable	2		1,434		1,436
Accrued and other current liabilities	286	59	1,281		1,626
Deferred revenue			75		75
Intercompany payables	1,974		49	(2,023)	
Total current liabilities	2,262	767	2,841	(2,023)	3,847
Long-term debt		3,629	5		3,634
Intercompany loans payable		9,700	4,027	(13,727)	
Long-term pension and postretirement liabilities			1,160		1,160
Deferred income taxes			236		236
Income taxes			293		293
Other liabilities		96	386		482
<b>Total Liabilities</b>	2,262	14,192	8,948	(15,750)	9,652
<b>Total Shareholders' Equity</b>	9,751	11,960	20,109	(32,069)	9,751

<b>Total Liabilities and Shareholders' Equity</b>	\$	12,013	\$	26,152	\$	29,057	\$	(47,819)	\$	19,403
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Table of Contents**TE CONNECTIVITY LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****23. Tyco Electronics Group S.A. (Continued)****Condensed Consolidating Balance Sheet  
As of September 30, 2016**

	TE Connectivity Ltd.	TEGSA	Other Subsidiaries	Consolidating Adjustments	Total
	(in millions)				
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$	\$	\$ 647	\$	\$ 647
Accounts receivable, net			2,046		2,046
Inventories			1,596		1,596
Intercompany receivables	37	1,314	48	(1,399)	
Prepaid expenses and other current assets	3	17	466		486
Total current assets	40	1,331	4,803	(1,399)	4,775
Property, plant, and equipment, net			3,052		3,052
Goodwill			5,492		5,492
Intangible assets, net			1,879		1,879
Deferred income taxes			2,111		2,111
Investment in subsidiaries	10,053	19,425		(29,478)	
Intercompany loans receivable	22	3,739	10,313	(14,074)	
Other assets		14	285		299
<b>Total Assets</b>	\$ 10,115	\$ 24,509	\$ 27,935	\$ (44,951)	\$ 17,608
<b>Liabilities and Shareholders' Equity</b>					
Current liabilities:					
Short-term debt	\$	\$ 330	\$ 1	\$	\$ 331
Accounts payable	1		1,089		1,090
Accrued and other current liabilities	266	57	1,114		1,437
Deferred revenue			208		208
Intercompany payables	1,363		36	(1,399)	
Total current liabilities	1,630	387	2,448	(1,399)	3,066
Long-term debt		3,737	2		3,739
Intercompany loans payable		10,314	3,760	(14,074)	
Long-term pension and postretirement liabilities			1,502		1,502
Deferred income taxes			207		207
Income taxes			247		247
Other liabilities		18	344		362
<b>Total Liabilities</b>	1,630	14,456	8,510	(15,473)	9,123
<b>Total Shareholders' Equity</b>	8,485	10,053	19,425	(29,478)	8,485

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<b>Total Liabilities and Shareholders' Equity</b>	\$	10,115	\$	24,509	\$	27,935	\$	(44,951)	\$	17,608
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## TE CONNECTIVITY LTD.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 23. 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	\$ 2,630	\$ (230)	\$ 2,322
Net cash used in discontinued operating activities			(1)		(1)
Net cash provided by (used in) operating activities	(180)	102	2,629	(230)	2,321
<b>Cash Flows From Investing Activities:</b>					
Capital expenditures			(702)		(702)
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 investing activities		(865)	(920)	853	(932)
<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 to discontinued operations			(1)		(1)
Other		(5)	(25)		(30)
Net cash provided by (used in) continuing financing activities	180	763	(1,135)	(623)	(815)
Net cash provided by discontinued financing activities			1		1
Net cash provided by (used in) financing activities	180	763	(1,134)	(623)	(814)
Effect of currency translation on cash			(4)		(4)
<b>Net increase in cash and cash equivalents</b>			571		571
<b>Cash and cash equivalents at beginning of fiscal year</b>			647		647
<b>Cash and cash equivalents at end of fiscal year</b>	\$	\$	\$ 1,218	\$	\$ 1,218

- (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.



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## TE CONNECTIVITY LTD.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 23. 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	\$ 2,206	\$ (336)	\$ 2,044
Net cash used in discontinued operating activities			(97)		(97)
Net cash provided by (used in) operating activities	(37)	211	2,109	(336)	1,947
<b>Cash Flows From Investing Activities:</b>					
Capital expenditures			(628)		(628)
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
Proceeds from divestiture of discontinued operations, net of cash retained by sold operations <sup>(2)</sup>		(120)	101		(19)
Intercompany distribution receipts <sup>(1)</sup>	1,082	1,729		(2,811)	
Change in intercompany loans		(1,244)		1,244	
Other			61		61
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			(97)		(97)
Other		(4)	(26)		(30)
Net cash used in continuing financing activities	(1,045)	(775)	(3,235)	1,903	(3,152)
Net cash provided by discontinued financing activities			97		97
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>			(2,682)		(2,682)
<b>Cash and cash equivalents at beginning of fiscal year</b>			3,329		3,329

<b>Cash and cash equivalents at end of fiscal year</b>	\$	\$	\$	647	\$	\$	647
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- (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.

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## TE CONNECTIVITY LTD.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 23. Tyco Electronics Group S.A. (Continued)

Condensed Consolidating Statement of Cash Flows  
For the Fiscal Year Ended September 25, 2015

	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>	\$ 1,186	\$ 1,270	\$ 1,841	\$ (2,661)	\$ 1,636
Net cash provided by discontinued operating activities			294		294
Net cash provided by operating activities	1,186	1,270	2,135	(2,661)	1,930
<b>Cash Flows From Investing Activities:</b>					
Capital expenditures			(600)		(600)
Proceeds from sale of property, plant, and equipment			17		17
Acquisition of businesses, net of cash acquired			(1,725)		(1,725)
Proceeds from divestiture of discontinued operations, net of cash retained by sold operations		709	2,248		2,957
Change in intercompany loans		(1,304)		1,304	
Other			12		12
Net cash provided by (used in) continuing investing activities		(595)	(48)	1,304	661
Net cash used in discontinued investing activities			(25)		(25)
Net cash provided by (used in) investing activities		(595)	(73)	1,304	636
<b>Cash Flows From Financing Activities:</b>					
Changes in parent company equity <sup>(2)</sup>	80	624	(704)		
Net decrease in commercial paper		(328)			(328)
Proceeds from issuance of debt		617			617
Repayment of debt		(250)	(223)		(473)
Proceeds from exercise of share options			103		103
Repurchase of common shares	(916)		(107)		(1,023)
Payment of common share dividends to shareholders	(515)		13		(502)
Intercompany distributions <sup>(1)</sup>		(1,335)	(1,326)	2,661	
Loan activity with parent	165		1,139	(1,304)	
Transfers from discontinued operations			269		269
Other		(4)	(13)		(17)
Net cash used in continuing financing activities	(1,186)	(676)	(849)	1,357	(1,354)
Net cash used in discontinued financing activities			(269)		(269)
Net cash used in financing activities	(1,186)	(676)	(1,118)	1,357	(1,623)
Effect of currency translation on cash			(71)		(71)
<b>Net increase (decrease) in cash and cash equivalents</b>		(1)	873		872
<b>Cash and cash equivalents at beginning of fiscal year</b>		1	2,456		2,457

<b>Cash and cash equivalents at end of fiscal year</b>	\$	\$	\$	3,329	\$	\$	3,329
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- (1) During fiscal 2015, other subsidiaries made distributions to TEGSA in the amount of \$1,326 million and TEGSA made distributions to TE Connectivity Ltd. in the amount of \$1,335 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.

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## TE CONNECTIVITY LTD.

## SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS

Fiscal Years Ended September 29, 2017, September 30, 2016, and September 25, 2015

Description	Balance at Beginning of Fiscal Year	Additions Charged to Costs and Expenses	Acquisitions, Divestitures, and Other (in millions)	Deductions	Balance at End of Fiscal Year
<b>Fiscal 2017:</b>					
Allowance for doubtful accounts receivable	\$ 17	\$ 8	\$	\$ (4)	\$ 21
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
<b>Fiscal 2015:</b>					
Allowance for doubtful accounts receivable	\$ 14	\$ 2	\$ 3	\$ (1)	\$ 18
Valuation allowance on deferred tax assets	1,706	1,627	1	(97)	3,237