TE Connectivity Ltd.
Form 10-Q
April 25, 2018

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended March 30, 2018

Or

o **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	**98-0518048**
(Jurisdiction of Incorporation)	(I.R.S. Employer Identification No.)

Rheinstrasse 20
CH-8200 Schaffhausen, Switzerland
(Address of principal executive offices)

+41 (0)52 633 66 61
(Registrant's telephone number)

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 ý No o

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

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

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. o

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

The number of common shares outstanding as of April 20, 2018 was 350,139,019.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

TE CONNECTIVITY LTD.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	For the Quarters Ended March 30, 2018	For the Quarters Ended March 31, 2017	For the Six Months Ended March 30, 2018	For the Six Months Ended March 31, 2017
	(in millions, except per share data)			
Net sales	$ 3,745	$ 3,227	$ 7,225	$ 6,290
Cost of sales	2,502	2,117	4,805	4,113
Gross margin	1,243	1,110	2,420	2,177
Selling, general, and administrative expenses	428	407	811	774
Research, development, and engineering expenses	182	161	358	317
Acquisition and integration costs	3	2	5	4
Restructuring and other charges, net	6	59	41	106
Operating income	624	481	1,205	976
Interest income	4	6	8	11
Interest expense	(29)	(32)	(55)	(63)
Other income (expense), net	1	(10)	3	(19)
Income from continuing operations before income taxes	600	445	1,161	905
Income tax expense	(108)	(39)	(708)	(93)
Income from continuing operations	492	406	453	812
Income (loss) from discontinued operations, net of income taxes	(2)	(1)	(3)	2
Net income	$ 490	$ 405	$ 450	$ 814
Basic earnings per share:				
Income from continuing operations	$ 1.40	$ 1.14	$ 1.29	$ 2.28
Income (loss) from discontinued operations	(0.01)		(0.01)	0.01
Net income	1.40	1.14	1.28	2.29
Diluted earnings per share:				
Income from continuing operations	$ 1.39	$ 1.13	$ 1.28	$ 2.26
Income (loss) from discontinued operations	(0.01)		(0.01)	0.01
Net income	1.38	1.13	1.27	2.27
Dividends paid per common share	$ 0.40	$ 0.37	$ 0.80	$ 0.74
Weighted-average number of shares outstanding:				
Basic	351	356	351	356

Diluted	354	359	355	359

See Notes to Condensed Consolidated Financial Statements.

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TE CONNECTIVITY LTD.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

	For the Quarters Ended		For the Six Months Ended	
	March 30, 2018	March 31, 2017	March 30, 2018	March 31, 2017
	(in millions)			
Net income.	$ 490	$ 405	$ 450	$ 814
Other comprehensive income (loss):				
Currency translation	114	83	181	(102)
Adjustments to unrecognized pension and postretirement benefit costs, net of income taxes	8	12	15	25
Gains (losses) on cash flow hedges, net of income taxes	(49)	19	(47)	35
Other comprehensive income (loss)	73	114	149	(42)
Comprehensive income.	$ 563	$ 519	$ 599	$ 772

See Notes to Condensed Consolidated Financial Statements.

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TE CONNECTIVITY LTD.

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

	March 30, 2018	September 29, 2017
	(in millions, except share data)	
Assets		
Current assets:		
Cash and cash equivalents	$ 559	$ 1,218
Accounts receivable, net of allowance for doubtful accounts of $22 and $21, respectively	2,643	2,290
Inventories	2,045	1,813
Prepaid expenses and other current assets	713	605
Total current assets	5,960	5,926
Property, plant, and equipment, net	3,676	3,400
Goodwill	5,730	5,651
Intangible assets, net	1,786	1,841
Deferred income taxes	1,631	2,141
Other assets	464	444
Total Assets	$ 19,247	$ 19,403
Liabilities and Shareholders' Equity		
Current liabilities:		
Short-term debt	$ 675	$ 710
Accounts payable	1,613	1,436
Accrued and other current liabilities	1,729	1,626
Deferred revenue	147	75
Total current liabilities	4,164	3,847
Long-term debt	3,335	3,634
Long-term pension and postretirement liabilities	1,149	1,160
Deferred income taxes	238	236
Income taxes	302	293
Other liabilities	579	482
Total Liabilities	9,767	9,652
Commitments and contingencies (Note 7)		
Shareholders' equity:		
Common shares, CHF 0.57 par value, 357,069,981 shares authorized and issued	157	157
Accumulated earnings	9,957	10,175
Treasury shares, at cost, 6,444,345 and 5,356,369 shares, respectively	(585)	(421)
Accumulated other comprehensive loss	(49)	(160)
Total Shareholders' Equity	9,480	9,751
Total Liabilities and Shareholders' Equity	$ 19,247	$ 19,403

See Notes to Condensed Consolidated Financial Statements.

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TE CONNECTIVITY LTD.

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(UNAUDITED)

	Common Shares		Treasury Shares					
	Shares	**Amount**	**Shares**	**Amount**	**Contributed Surplus**	**Accumulated Earnings**	**Accumulated Other Comprehensive Loss**	**Total Shareholders' Equity**
					(in millions)			
Balance at September 29, 2017	357	$ 157	(5)	$ (421)	$	$ 10,175	$ (160)	$ 9,751
Adoption of ASU No. 2018-02						38	(38)	
Net income						450		450
Other comprehensive income							149	149
Share-based compensation expense					52			52
Dividends approved						(617)		(617)
Exercise of share options			2	94				94
Restricted share award vestings and other activity			1	125	(52)	(89)		(16)
Repurchase of common shares			(4)	(383)				(383)
Balance at March 30, 2018	357	$ 157	(6)	$ (585)	$	$ 9,957	$ (49)	$ 9,480
Balance at September 30, 2016	383	$ 168	(28)	$ (1,624)	$ 1,801	$ 8,682	$ (542)	$ 8,485
Adoption of ASU No. 2016-09						165		165
Net income						814		814
Other comprehensive loss							(42)	(42)
Share-based compensation expense					47			47
Dividends approved					(569)			(569)
Exercise of share options			2	64				64
Restricted share award vestings and other activity			1	126	(132)			(6)
Repurchase of common shares			(3)	(205)				(205)
Balance at March 31, 2017	383	$ 168	(28)	$ (1,639)	$ 1,147	$ 9,661	$ (584)	$ 8,753

See Notes to Condensed Consolidated Financial Statements.

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TE CONNECTIVITY LTD.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	For the Six Months Ended March 30, 2018	For the Six Months Ended March 31, 2017
	(in millions)	
Cash Flows From Operating Activities:		
Net income	$ 450	$ 814
(Income) loss from discontinued operations, net of income taxes	3	(2)
Income from continuing operations	453	812
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	341	312
Deferred income taxes	499	(118)
Provision for losses on accounts receivable and inventories	23	9
Share-based compensation expense	52	47
Other	(17)	12
Changes in assets and liabilities, net of the effects of acquisitions and divestitures:		
Accounts receivable, net	(337)	(215)
Inventories	(244)	(69)
Prepaid expenses and other current assets	(107)	32
Accounts payable	187	148
Accrued and other current liabilities	(224)	13
Deferred revenue	72	(83)
Income taxes	2	33
Other	27	(8)
Net cash provided by operating activities	727	925
Cash Flows From Investing Activities:		
Capital expenditures	(447)	(289)
Proceeds from sale of property, plant, and equipment	7	8
Other	(2)	(16)
Net cash used in investing activities	(442)	(297)
Cash Flows From Financing Activities:		
Net increase (decrease) in commercial paper	225	(162)
Proceeds from issuance of debt	119	89
Repayment of debt	(708)	
Proceeds from exercise of share options	94	64
Repurchase of common shares	(381)	(198)
Payment of common share dividends to shareholders	(281)	(263)
Other	(32)	(22)
Net cash used in financing activities	(964)	(492)
Effect of currency translation on cash	20	(10)
Net increase (decrease) in cash and cash equivalents	(659)	126
Cash and cash equivalents at beginning of period	1,218	647

Cash and cash equivalents at end of period	$	559	$	773

See Notes to Condensed Consolidated Financial Statements.

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TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Basis of Presentation and Accounting Pronouncements

Basis of Presentation

The unaudited Condensed Consolidated Financial Statements of TE Connectivity Ltd. ("TE Connectivity" or the "Company," which may be referred to as "we," "us," or "our") have been prepared in United States ("U.S.") dollars, in accordance with accounting principles generally accepted in the U.S. ("GAAP") and the instructions to Form 10-Q under the Securities Exchange Act of 1934, as amended. In management's opinion, the unaudited Condensed Consolidated Financial Statements contain all normal recurring adjustments necessary for a fair presentation of interim results. The results of operations reported for interim periods are not necessarily indicative of the results of operations for the entire fiscal year or any subsequent interim period.

The year-end balance sheet data was derived from audited financial statements, but does not include all of the information and disclosures required by GAAP. These financial statements should be read in conjunction with our audited Consolidated Financial Statements contained in our Annual Report on Form 10-K for the fiscal year ended September 29, 2017.

Unless otherwise indicated, references in the Condensed Consolidated Financial Statements to fiscal 2018 and fiscal 2017 are to our fiscal years ending September 28, 2018 and ended September 29, 2017, respectively.

Recently Issued Accounting Pronouncement

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09 which codified Accounting Standards Codification ("ASC") 606, *Revenue from Contracts with Customers*. This guidance supersedes ASC 605, *Revenue Recognition*, and introduces a single, comprehensive, five-step revenue recognition model. ASC 606 also enhances disclosures related to revenue recognition. ASC 606, as amended, is effective for us beginning in fiscal 2019, and we intend to adopt the new standard using the modified retrospective approach applied to contracts that are not completed as of that date. We are continuing to assess the impact of adopting ASC 606. Based on the ongoing evaluation of our current contracts and revenue streams, we do not expect that adoption will have a material impact on our results of operations or financial position. 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 Pronouncement

In February 2018, the FASB issued ASU No. 2018-02, an update to ASC 220, *Income Statement Reporting Comprehensive Income*, to allow a reclassification from accumulated other comprehensive income (loss) for stranded tax effects resulting from the Tax Cuts and Jobs Act (the "Act"). See Note 10 for additional information regarding the Act. We elected to early adopt this update in the quarter ended March 30, 2018 and reclassify the stranded tax effects resulting from the change in the U.S. federal corporate income tax rate. This change in accounting principle resulted in a reclassification of $38 million, primarily associated with our pension plans, during the period of adoption. The reclassification increased both accumulated other comprehensive loss and accumulated earnings with no impact to total shareholders' equity.

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TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

1. Basis of Presentation and Accounting Pronouncements (Continued)

In March 2017, the FASB issued ASU No. 2017-07, an update to ASC 715, *Compensation Retirement Benefits,* which changes the income statement presentation of net periodic pension and postretirement benefit costs. The ASU requires that service costs be presented with other employee compensation costs within operating income and that other cost components be presented outside of operating income. We elected to early adopt this update in the quarter ended December 29, 2017. The update was applied retrospectively and did not have a material impact on our Condensed Consolidated Statements of Operations.

2. Restructuring and Other Charges, Net

Net restructuring and other charges consisted of the following:

	For the Quarters Ended		For the Six Months Ended	
	March 30, 2018	March 31, 2017	March 30, 2018	March 31, 2017
	(in millions)			
Restructuring charges, net	$ 10	$ 59	$ 45	$ 105
Other charges (credits), net	(4)		(4)	1
	$ 6	$ 59	$ 41	$ 106

Net restructuring charges by segment were as follows:

	For the Quarters Ended		For the Six Months Ended	
	March 30, 2018	March 31, 2017	March 30, 2018	March 31, 2017
	(in millions)			
Transportation Solutions	$ 1	$ 33	$ 5	$ 57
Industrial Solutions	7	19	30	39
Communications Solutions	2	7	10	9
Restructuring charges, net	$ 10	$ 59	$ 45	$ 105

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TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

2. Restructuring and Other Charges, Net (Continued)

Activity in our restructuring reserves was as follows:

	Balance at September 29, 2017	Charges	Changes in Estimates	Cash Payments	Non-Cash Items	Currency Translation	Balance at March 30, 2018
				(in millions)			
Fiscal 2018 Actions:							
Employee severance	$	$ 30	$	$ (8)	$	$ 1	$ 23
Facility and other exit costs		6					6
Total		36		(8)		1	29
Fiscal 2017 Actions:							
Employee severance	103	4	(2)	(42)		2	65
Facility and other exit costs	1	1		(2)			
Total	104	5	(2)	(44)		2	65
Pre-Fiscal 2017 Actions:							
Employee severance	36	6	(2)	(14)		1	27
Facility and other exit costs	9	4		(5)			8
Property, plant, and equipment		1	(3)	3	(1)		
Total	45	11	(5)	(16)	(1)	1	35
Total Activity	$ 149	$ 52	$ (7)	$ (68)	$ (1)	$ 4	$ 129

Fiscal 2018 Actions

During fiscal 2018, we initiated a restructuring program associated with footprint consolidation and structural improvements primarily impacting the Industrial Solutions segment. In connection with this program, during the six months ended March 30, 2018, we recorded restructuring charges of $36 million. We expect to complete significantly all restructuring actions commenced during the six months ended March 30, 2018 by the end of fiscal 2019 and to incur total charges of approximately $40 million.

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 the six months ended March 30, 2018 and March 31, 2017, we recorded net restructuring charges of $3 million and $100 million, respectively. We expect to complete all restructuring actions commenced during fiscal 2017 by the end of fiscal 2019 and anticipate that any additional charges will be insignificant.

Pre-Fiscal 2017 Actions

Prior to fiscal 2017, we initiated a restructuring program associated with headcount reductions impacting all segments and product line closures in the Communications Solutions segment. During the six months ended March 30, 2018 and March 31, 2017, we recorded net restructuring charges of

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TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

2. Restructuring and Other Charges, Net (Continued)

$6 million and $5 million, respectively, related to pre-fiscal 2017 actions. We expect to incur additional charges of approximately $15 million related to pre-fiscal 2017 actions with the remaining charges related to employee severance primarily in the Communications Solutions segment.

Total Restructuring Reserves

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

	March 30, 2018	September 29, 2017
	(in millions)	
Accrued and other current liabilities	$ 116	$ 130
Other liabilities	13	19
Restructuring reserves	$ 129	$ 149

3. Inventories

Inventories consisted of the following:

	March 30, 2018	September 29, 2017
	(in millions)	
Raw materials	$ 342	$ 306
Work in progress	662	580
Finished goods	910	810
Inventoried costs on long-term contracts	131	117
Inventories	$ 2,045	$ 1,813

4. Goodwill

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

	Transportation Solutions	Industrial Solutions	Communications Solutions	Total
		(in millions)		
September 29, 2017[1]	$ 2,011	$ 3,047	$ 593	$ 5,651
Currency translation and other	25	46	8	79
March 30, 2018[1]	$ 2,036	$ 3,093	$ 601	$ 5,730

(1) At March 30, 2018 and September 29, 2017, accumulated impairment losses for the Transportation Solutions, Industrial Solutions, and Communications Solutions segments were $2,191 million, $669 million, and $1,514 million, respectively.

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TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

5. Intangible Assets, Net

Intangible assets consisted of the following:

	March 30, 2018			September 29, 2017		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	(in millions)					
Customer relationships	$ 1,461	$ (351)	$ 1,110	$ 1,433	$ (300)	$ 1,133
Intellectual property	1,276	(620)	656	1,263	(575)	688
Other	37	(17)	20	36	(16)	20
Total	$ 2,774	$ (988)	$ 1,786	$ 2,732	$ (891)	$ 1,841

Intangible asset amortization expense was $45 million and $41 million for the quarters ended March 30, 2018 and March 31, 2017, respectively, and $90 million and $83 million for the six months ended March 30, 2018 and March 31, 2017, respectively.

The aggregate amortization expense on intangible assets is expected to be as follows:

	(in millions)
Remainder of fiscal 2018	$ 94
Fiscal 2019	185
Fiscal 2020	177
Fiscal 2021	174
Fiscal 2022	173
Fiscal 2023	173
Thereafter	810
Total	$ 1,786

6. Debt

During the six months ended March 30, 2018, Tyco Electronics Group S.A. ("TEGSA"), our 100%-owned subsidiary, repaid, at maturity, $708 million of 6.55% senior notes due October 2017.

We reclassified $325 million of 2.375% senior notes due December 2018 from long-term debt to short-term debt on the Condensed Consolidated Balance Sheet during the six months ended March 30, 2018.

During the six months ended March 30, 2018, TEGSA entered into an uncommitted revolving credit facility under which it borrowed €100 million at a 0% interest rate with repayment due at maturity in December 2018.

As of March 30, 2018, TEGSA had $225 million of commercial paper outstanding at a weighted-average interest rate of 2.26%. TEGSA had no commercial paper outstanding at September 29, 2017.

The fair value of our debt, based on indicative valuations, was approximately $4,223 million and $4,622 million at March 30, 2018 and September 29, 2017, respectively.

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TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

7. 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 March 30, 2018, we concluded that it was probable that we would incur investigation and remediation costs at these sites in the range of $15 million to $45 million, and we accrued $19 million which was the best estimate within this range. We believe that any potential payment of such estimated amounts will not have a material adverse effect on our results of operations, financial position, or cash flows.

Guarantees

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

At March 30, 2018, we had outstanding letters of credit, letters of guarantee, and surety bonds of $285 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 $46 million and $50 million at March 30, 2018 and September 29, 2017, respectively.

Tax Sharing Agreement

Under a Tax Sharing Agreement, we, Tyco International plc ("Tyco International"), and Covidien plc ("Covidien") share 31%, 27%, and 42%, respectively, of income tax liabilities that arise from adjustments made by tax authorities to the collective income tax returns for certain of our, Tyco International's, and Covidien's income tax liabilities for periods prior to and including June 29, 2007. Pursuant to the Tax Sharing Agreement, we entered into certain guarantee commitments and

TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

7. Commitments and Contingencies (Continued)

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.

8. Financial Instruments

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

At March 30, 2018 and September 29, 2017, our cross-currency swap contracts were in a liability position of $178 million and $96 million, respectively, and were recorded in other liabilities on the Condensed Consolidated Balance Sheets. At March 30, 2018 and September 29, 2017, collateral paid to our counterparties approximated the derivative positions and was recorded in prepaid expenses and other current assets on the Condensed Consolidated Balance Sheets. The impacts of our cross-currency swap contracts were as follows:

	For the Quarters Ended		For the Six Months Ended	
	March 30, 2018	March 31, 2017	March 30, 2018	March 31, 2017
	(in millions)			
Gains (losses) recorded in other comprehensive income (loss)	$ (22)	$ 8	$ (32)	$ (8)
Gains (losses) excluded from the hedging relationship[1]	(31)	(16)	(50)	54

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

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

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TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

8. Financial Instruments (Continued)

hedges was $3,111 million and $3,110 million at March 30, 2018 and September 29, 2017, respectively. The impacts of our hedging program were as follows:

	For the Quarters Ended		For the Six Months Ended	
	March 30, 2018	March 31, 2017	March 30, 2018	March 31, 2017
	(in millions)			
Foreign currency exchange gains (losses)[1]	$ (79)	$ (78)	$ (145)	$ 144

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

9. Retirement Plans

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

	U.S. Plans For the Quarters Ended		Non-U.S. Plans For the Quarters Ended	
	March 30, 2018	March 31, 2017	March 30, 2018	March 31, 2017
	(in millions)			
Service cost	$ 4	$ 3	$ 11	$ 13
Interest cost	11	11	11	9
Expected return on plan assets	(15)	(14)	(17)	(17)
Amortization of net actuarial loss	5	10	5	10
Amortization of prior service credit			(1)	(1)
Net periodic pension benefit cost	$ 5	$ 10	$ 9	$ 14

	U.S. Plans For the Six Months Ended		Non-U.S. Plans For the Six Months Ended	
	March 30, 2018	March 31, 2017	March 30, 2018	March 31, 2017
	(in millions)			
Service cost	$ 7	$ 6	$ 23	$ 26
Interest cost	22	22	21	18
Expected return on plan assets	(30)	(27)	(34)	(35)
Amortization of net actuarial loss	11	20	11	21
Amortization of prior service credit			(3)	(3)

Net periodic pension benefit cost	$	10	$	21	$	18	$	27

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

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TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

9. Retirement Plans (Continued)

During the six months ended March 30, 2018, we contributed $26 million to our non-U.S. pension plans.

10. Income Taxes

We recorded income tax expense of $108 million and $39 million for the quarters ended March 30, 2018 and March 31, 2017, respectively. The income tax expense for the quarter ended March 30, 2018 included a $17 million income tax benefit resulting from lapses of statutes of limitations in certain non-U.S. jurisdictions. The income tax expense for the quarter ended March 31, 2017 included a $24 million income tax benefit resulting from lapses of statutes of limitations in the U.S. and certain non-U.S. jurisdictions, and a $22 million income tax benefit associated with the tax impacts of certain intercompany transactions.

We recorded income tax expense of $708 million and $93 million for the six months ended March 30, 2018 and March 31, 2017, respectively. The tax expense for the six months ended March 30, 2018 included $567 million of income tax expense related to the tax impacts of the Tax Cuts and Jobs Act and a $61 million net income tax benefit related to certain legal entity restructurings. See "Tax Cuts and Jobs Act" below for additional information. The tax expense for the six months ended March 31, 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, as well as a $24 million income tax benefit resulting from lapses of statutes of limitations in the U.S. and certain non-U.S. jurisdictions.

We record accrued interest and penalties related to uncertain tax positions as part of income tax expense. As of March 30, 2018 and September 29, 2017, we had $59 million and $60 million, respectively, of accrued interest and penalties related to uncertain tax positions on the Condensed Consolidated Balance Sheets, recorded primarily in income taxes. During the six months ended March 30, 2018, we recognized $1 million of income tax benefits related to interest and penalties on the Condensed Consolidated Statement of Operations.

Although it is difficult to predict the timing or results of our worldwide examinations, we estimate that approximately $30 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 Condensed Consolidated Balance Sheet as of March 30, 2018.

Tax Cuts and Jobs Act

On December 22, 2017, the President of the U.S. signed the Tax Cuts and Jobs Act (the "Act") into law. The Act includes numerous significant changes to existing tax law, including a permanent reduction in the U.S. federal corporate income tax rate from 35% to 21%, further limitations on the deductibility of interest expense and certain executive compensation, repeal of the corporate Alternative Minimum Tax, and imposition of a territorial tax system with a one-time repatriation tax on deemed repatriated earnings of foreign subsidiaries. While some of the new provisions of the Act will impact us in fiscal 2019 and beyond, the change in the tax rate was effective January 1, 2018. In the

TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

10. Income Taxes (Continued)

period of enactment, we were required to revalue our U.S. federal deferred tax assets and liabilities at the new tax rate. Accordingly, during the quarter ended December 29, 2017, we recorded income tax expense of $567 million primarily in connection with the write-down of our U.S. federal deferred tax asset for net operating loss and interest carryforwards to the lower tax rate. Included in the expense of $567 million was an income tax benefit of $34 million related to the reduction in the existing valuation allowance recorded against certain U.S. federal tax credit carryforwards. The limitations on interest expense deductions contained in the Act are expected to increase prospective taxable income and thereby allow the utilization of more tax credits in future years. As a Swiss corporation, the one-time repatriation tax imposed by the Act will not be significant to us.

The Act makes broad and complex changes to the U.S. Internal Revenue Code, and in certain instances, lacks clarity and is subject to interpretation until additional IRS guidance is issued. The ultimate impact of the Act may differ from our estimates due to changes in the interpretations and assumptions we made as well as any forthcoming regulatory guidance. One area requiring guidance is a transition rule regarding limitations on interest expense deductions. The Act does not address the treatment of the carryforward of disallowed interest expense generated under the prior law. Our interpretation is that the carryforward of interest should survive and will be deductible in future periods subject to the new interest limitations. Accordingly, during the quarter ended December 29, 2017, we revalued our beginning deferred tax asset related to our interest carryforwards to $223 million to reflect the lower tax rate. It is possible additional regulatory guidance could be issued contrary to this interpretation at which point we may be required to record a charge to income tax expense to revalue or eliminate the related deferred tax asset. On April 2, 2018, the Treasury Department and the IRS issued Notice 2018-28 stating their intention to issue regulations consistent with our position related to the carryforward of the disallowed interest expense.

11. Earnings Per Share

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

	For the Quarters Ended		For the Six Months Ended	
	March 30, 2018	March 31, 2017	March 30, 2018	March 31, 2017
	(in millions)			
Basic	351	356	351	356
Dilutive impact of share-based compensation arrangements	3	3	4	3
Diluted	354	359	355	359

There were one million share options that were not included in the computation of diluted earnings per share for the six months ended March 30, 2018 and March 31, 2017 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 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

12. Shareholders' Equity

Common Shares

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

Dividends

In March 2018, our shareholders approved a dividend payment to shareholders of $1.76 per share, payable in four equal quarterly installments of $0.44 per share beginning in the third quarter of fiscal 2018 and ending in the second quarter of fiscal 2019.

Upon shareholders' approval of a dividend payment, we record a liability with a corresponding charge to shareholders' equity. At March 30, 2018 and September 29, 2017, the unpaid portion of the dividends recorded in accrued and other current liabilities on the Condensed Consolidated Balance Sheets totaled $617 million and $281 million, respectively.

Share Repurchase Program

During the six months ended March 30, 2018, our board of directors authorized an increase of $1.5 billion in the share repurchase program. Common shares repurchased under the share repurchase program were as follows:

	For the Six Months Ended	
	March 30, 2018	March 31, 2017
	(in millions)	
Number of common shares repurchased	4	3
Repurchase value	$ 383	$ 205

At March 30, 2018, we had $1.6 billion of availability remaining under our share repurchase authorization.

13. Share Plans

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

	For the Quarters Ended		For the Six Months Ended	
	March 30, 2018	March 31, 2017	March 30, 2018	March 31, 2017
	(in millions)			
Share-based compensation expense	$ 23	$ 23	$ 52	$ 47

As of March 30, 2018, there was $180 million of unrecognized compensation expense related to share-based awards, which is expected to be recognized over a weighted-average period of 2.1 years.

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TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

13. Share Plans (Continued)

During the quarter ended December 29, 2017, we granted the following share-based awards as part of our annual incentive plan grant:

	Shares	Weighted-Average Grant-Date Fair Value
	(in millions)	
Share options	1.4	$ 16.47
Restricted share awards	0.5	93.36
Performance share awards	0.2	93.36

As of March 30, 2018, we had 20 million shares available for issuance under our stock and incentive plans, of which the TE Connectivity Ltd. 2007 Stock and Incentive Plan, amended and restated as of March 8, 2017, was the primary plan.

Share-Based Compensation Assumptions

The weighted-average assumptions we used in the Black-Scholes-Merton option pricing model for the options granted as part of our annual incentive plan grant were as follows:

Expected share price volatility	20%
Risk free interest rate	2.2%
Expected annual dividend per share	$ 1.60
Expected life of options (in years)	5.3

14. Segment Data

Net sales by segment were as follows:

	For the Quarters Ended March 30, 2018	For the Quarters Ended March 31, 2017	For the Six Months Ended March 30, 2018	For the Six Months Ended March 31, 2017
	(in millions)			
Transportation Solutions	$ 2,134	$ 1,755	$ 4,166	$ 3,430
Industrial Solutions	972	853	1,854	1,648
Communications Solutions	639	619	1,205	1,212
Total[(1)]	$ 3,745	$ 3,227	$ 7,225	$ 6,290

(1) Intersegment sales were not material and were recorded at selling prices that approximated market prices.

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TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

14. Segment Data (Continued)

Operating income by segment was as follows:

	For the Quarters Ended		For the Six Months Ended	
	March 30, 2018	March 31, 2017	March 30, 2018	March 31, 2017
	(in millions)			
Transportation Solutions	$ 428	$ 305	$ 848	$ 653
Industrial Solutions	126	88	228	158
Communications Solutions	70	88	129	165
Total	$ 624	$ 481	$ 1,205	$ 976

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TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

15. 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 five-year unsecured senior revolving 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 (UNAUDITED)
For the Quarter Ended March 30, 2018

	TE Connectivity Ltd.	TEGSA	Other Subsidiaries	Consolidating Adjustments	Total
			(in millions)		
Net sales	$	$	$ 3,745	$	$ 3,745
Cost of sales			2,502		2,502
Gross margin			1,243		1,243
Selling, general, and administrative expenses, net	41	9	378		428
Research, development, and engineering expenses			182		182
Acquisition and integration costs			3		3
Restructuring and other charges, net			6		6
Operating income (loss)	(41)	(9)	674		624
Interest income		1	3		4
Interest expense		(29)			(29)
Other income, net			1		1
Equity in net income of subsidiaries	550	557		(1,107)	
Equity in net loss of subsidiaries of discontinued operations	(2)	(2)		4	
Intercompany interest income (expense), net	(17)	30	(13)		
Income from continuing operations before income taxes	490	548	665	(1,103)	600
Income tax expense			(108)		(108)
Income from continuing operations	490	548	557	(1,103)	492
Loss from discontinued operations, net of income taxes			(2)		(2)
Net income	490	548	555	(1,103)	490
Other comprehensive income	73	73	94	(167)	73
Comprehensive income	$ 563	$ 621	$ 649	$ (1,270)	$ 563

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TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

15. Tyco Electronics Group S.A. (Continued)

Condensed Consolidating Statement of Operations (UNAUDITED)
For the Quarter Ended March 31, 2017

	TE Connectivity Ltd.	TEGSA	Other Subsidiaries	Consolidating Adjustments	Total
			(in millions)		
Net sales	$	$	$ 3,227	$	$ 3,227
Cost of sales			2,117		2,117
Gross margin			1,110		1,110
Selling, general, and administrative expenses, net	48	18	341		407
Research, development, and engineering expenses			161		161
Acquisition and integration costs			2		2
Restructuring and other charges, net			59		59
Operating income (loss)	(48)	(18)	547		481
Interest income			6		6
Interest expense		(32)			(32)
Other expense, net			(10)		(10)
Equity in net income of subsidiaries	462	483		(945)	
Equity in net income (loss) of subsidiaries of discontinued operations	(1)	10		(9)	
Intercompany interest income (expense), net	(8)	29	(21)		
Income from continuing operations before income taxes	405	472	522	(954)	445
Income tax expense			(39)		(39)
Income from continuing operations	405	472	483	(954)	406
Income (loss) from discontinued operations, net of income taxes[(1)]		(11)	10		(1)
Net income	405	461	493	(954)	405
Other comprehensive income	114	114	106	(220)	114
Comprehensive income	$ 519	$ 575	$ 599	$ (1,174)	$ 519

(1) Includes the internal allocation of gains and losses associated with the divestiture of our Broadband Network Solutions ("BNS") business.

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TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

15. Tyco Electronics Group S.A. (Continued)

Condensed Consolidating Statement of Operations (UNAUDITED)
For the Six Months Ended March 30, 2018

	TE Connectivity Ltd.	TEGSA	Other Subsidiaries	Consolidating Adjustments	Total
			(in millions)		
Net sales	$	$	$ 7,225	$	$ 7,225
Cost of sales			4,805		4,805
Gross margin			2,420		2,420
Selling, general, and administrative expenses, net	88	6	717		811
Research, development, and engineering expenses			358		358
Acquisition and integration costs			5		5
Restructuring and other charges, net			41		41
Operating income (loss)	(88)	(6)	1,299		1,205
Interest income		1	7		8
Interest expense		(55)			(55)
Other income, net			3		