
WHEN TECHNOLOGY CONNECTS, SO DOES HUMANITY.



CORPORATE DATA

REGISTERED & PRINCIPAL EXECUTIVE OFFICE

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INDEPENDENT AUDITORS

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Philadelphia, PA 19103
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STOCK EXCHANGE

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

FORM 10-K

Copies of the company's Annual Report on Form 10-K for the fiscal year that ended September 27, 2019 may be obtained by shareholders without charge upon written request to:

TE Connectivity Ltd.
Mühlenstrasse 26
CH-8200 Schaffhausen
Switzerland

The Annual Report on Form 10-K is also available on the company's website at www.te.com.

SHAREHOLDER SERVICES

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

TE Connectivity's transfer agent at:

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

www.shareowneronline.com

Beneficial shareholders (shares held with a bank or broker) should contact the bank or brokerage holding their shares with their requests. Other shareholder inquiries may be directed to TE Connectivity Shareholder Services at the company's registered and principal executive office above.

www.te.com

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001-AR-FY2019

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

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

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

The risk factors described in this Annual Report and those discussed in our Annual Report on Form 10-K for the fiscal year ended September 27, 2019 filed with the United States ("U.S.") Securities and Exchange Commission (the "SEC") could cause our results to differ materially from those expressed in forward-looking statements. There may be other risks and uncertainties that we are unable to predict at this time or that we currently do not expect to have a material adverse effect on our business.

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BUSINESS

General

TE Connectivity Ltd. (“TE Connectivity” or the “Company,” which may be referred to as “we,” “us,” or “our”) is a global industrial technology leader creating a safer, sustainable, productive, and connected future. Our broad range of connectivity and sensor solutions, proven in the harshest environments, enable 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. Fiscal 2019, 2018, and 2017 were 52 weeks in length and ended on September 27, 2019, September 28, 2018, and September 29, 2017, respectively. For fiscal years in which there are 53 weeks, the fourth quarter reporting period includes 14 weeks, with the next such occurrence taking place in fiscal 2022.

Segments

We operate through three reportable segments: Transportation Solutions, Industrial Solutions, and Communications Solutions. We believe our segments serve a combined market of approximately \$190 billion.

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

	Fiscal		
	2019	2018	2017
Transportation Solutions	58 %	59 %	58 %
Industrial Solutions	30	28	29
Communications Solutions	12	13	13
Total	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>

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

Transportation Solutions

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

- *Automotive (73% of segment’s net sales)*—We are one of the leading providers of advanced automobile connectivity solutions. The automotive industry uses our products in automotive technologies for body and chassis systems, convenience applications, driver information, infotainment solutions, miniaturization solutions, motor and powertrain applications, and safety and security systems. Hybrid and electronic mobility solutions include in-vehicle technologies, battery technologies, and charging solutions.

- *Commercial transportation (15% of segment's net sales)*—We deliver reliable connectivity products designed to withstand harsh environmental conditions for on- and off-highway vehicles and recreational transportation, including heavy trucks, construction, agriculture, buses, and other vehicles.
- *Sensors (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, Aptiv, Sumitomo, Sensata, Honeywell, Molex, and Amphenol.

Industrial Solutions

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

- *Industrial equipment (49% 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. Our products are also used by the solar industry. The medical industry uses our products in imaging, diagnostic, surgical, and minimally invasive interventional applications.
- *Aerospace, defense, oil, and gas (33% of segment's net sales)*—We design, develop, and manufacture a comprehensive portfolio of critical electronic components and systems for the harsh operating conditions of the aerospace, defense, and marine industries. Our products and systems are designed and manufactured to operate effectively in harsh conditions ranging from the depths of the ocean to the far reaches of space.
- *Energy (18% of segment's net sales)*—Our products are used by OEMs and utility companies in the electrical power industry and include a wide range of solutions for the electrical power generation, transmission, distribution, and industrial markets.

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

Communications Solutions

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

- *Data and devices (59% of segment's net sales)*—We deliver products and solutions that are used in a variety of equipment architectures within the networking equipment, data center equipment, and wireless infrastructure industries. Additionally, we deliver a range of connectivity solutions for the Internet of Things, smartphones, tablet computers, notebooks, and virtual reality applications to help our customers meet their current challenges and future innovations.
- *Appliances (41% 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, air purifiers, floor care devices, and microwaves. Our expansive range of standard products is supplemented by an array of custom-designed solutions.

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

Customers

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

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

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

No single customer accounted for a significant amount of our net sales in fiscal 2019, 2018, or 2017.

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⁽¹⁾ as a percentage of our total net sales were as follows:

	Fiscal		
	2019	2018	2017
Europe/Middle East/Africa (“EMEA”)	36 %	38 %	36 %
Asia-Pacific	33	34	35
Americas	31	28	29
Total	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>

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

We sell our products into approximately 150 countries primarily through direct selling efforts to manufacturers. In fiscal 2019, our direct sales represented approximately 80% of total net sales. We also sell our products indirectly via third-party distributors.

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

Seasonality and Backlog

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

Certain of our end markets experience some seasonality. Our sales in 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 in the energy market typically increase in the third and fourth fiscal quarters as customer activity increases.

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

	<u>Fiscal Year End</u>	
	<u>2019</u>	<u>2018</u>
	(in millions)	
Transportation Solutions	\$ 1,639	\$ 1,779
Industrial Solutions	1,315	1,245
Communications Solutions	361	441
Total	<u>\$ 3,315</u>	<u>\$ 3,465</u>

We expect that the majority of our backlog at fiscal year end 2019 will be filled during fiscal 2020.

Competition

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

Raw Materials

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

Intellectual Property

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

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

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

Management Team and Employees

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

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

We have employees located throughout the world. As of fiscal year end 2019, we employed approximately 78,000 people worldwide, of whom 31,000 were in the EMEA region, 22,000 were in the Asia-Pacific region, and 25,000 were in the Americas 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.

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 2019, we concluded that we would incur investigation and remediation costs at these sites in the reasonably possible range of \$15 million to \$43 million, and we accrued \$18 million as the probable loss, which was the best estimate within this range. We do not anticipate any material capital expenditures during fiscal 2020 for environmental control facilities or other costs of compliance with laws or regulations relating to greenhouse gas emissions.

Available Information

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

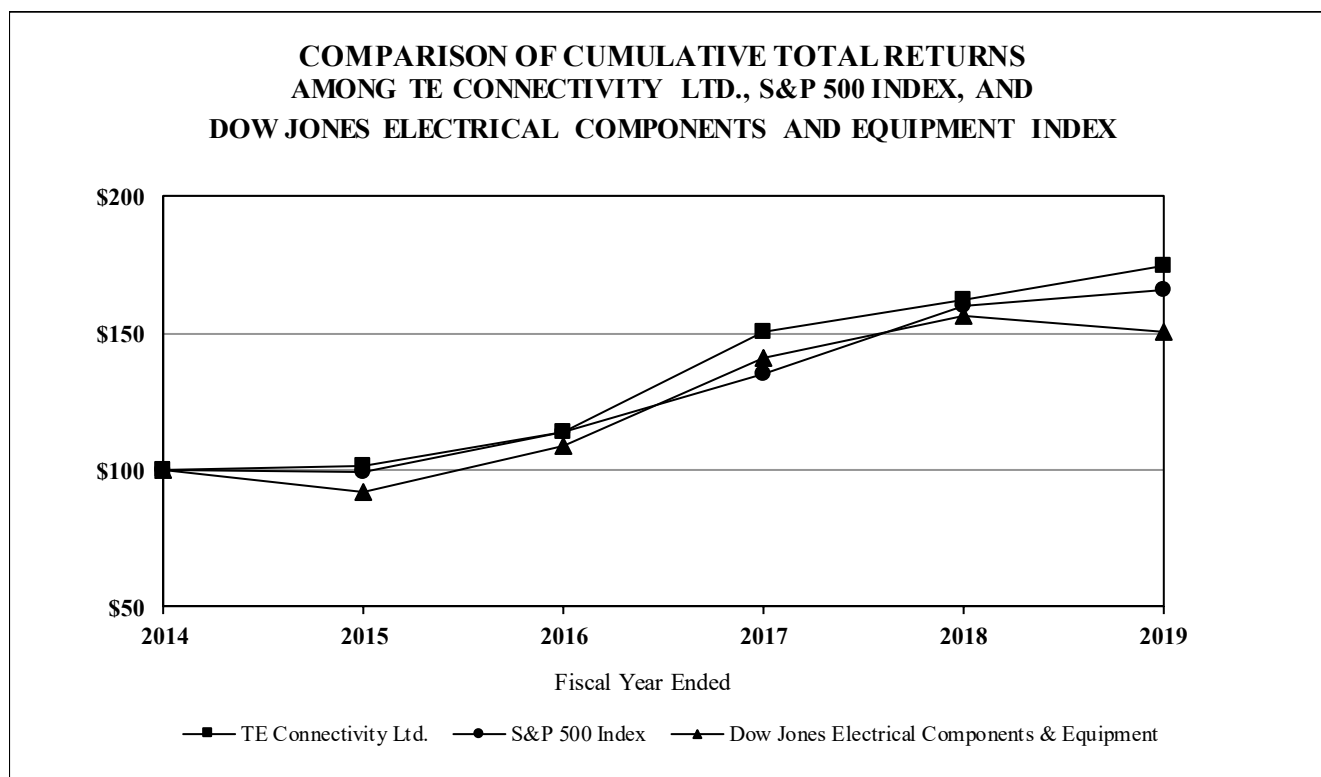
MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information and Holders

Our common shares are listed and traded on the NYSE under the symbol "TEL." As of November 6, 2019, there were 19,412 shareholders of record of our common shares.

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 2014 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.



	Fiscal Year End					
	2014 ⁽¹⁾	2015	2016	2017	2018	2019
TE Connectivity Ltd.	\$ 100.00	\$ 101.30	\$ 114.21	\$ 150.45	\$ 162.08	\$ 174.62
S&P 500 Index	100.00	99.41	114.13	135.36	159.61	165.55
Dow Jones Electrical Components and Equipment Index	100.00	91.84	109.03	140.59	156.34	150.52

(1) \$100 invested on September 26, 2014 in TE Connectivity Ltd.'s common shares and in indexes. Indexes calculated on month-end basis.

Issuer Purchases of Equity Securities

The following table presents information about our purchases of our common shares during the quarter ended September 27, 2019:

Period	Total Number of Shares Purchased ⁽¹⁾	Average Price Paid Per Share ⁽¹⁾	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ⁽²⁾	Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs ⁽²⁾
June 29–July 26, 2019	671,633	\$ 92.76	670,900	\$ 1,616,977,103
July 27–August 30, 2019	1,007,600	89.85	1,003,000	1,526,870,086
August 31–September 27, 2019	289,992	92.77	282,100	1,500,732,017
Total	<u>1,969,225</u>	\$ 91.27	<u>1,956,000</u>	

(1) These columns include the following transactions which occurred during the quarter ended September 27, 2019:

- (i) the acquisition of 13,225 common shares from individuals 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 1,956,000 common shares, summarized on a trade-date basis, in conjunction with the share repurchase program announced in September 2007.

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

SELECTED FINANCIAL DATA

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

	As of or for Fiscal				
	2019	2018	2017	2016 ⁽¹⁾	2015
(in millions, except per share data)					
Statement of Operations Data					
Net sales	\$ 13,448	\$ 13,988	\$ 12,185	\$ 11,352	\$ 11,524
Acquisition and integration costs	27	14	6	22	55
Restructuring and other charges (credits), net ⁽²⁾	255	126	147	(2)	152
Other income (expense), net ⁽³⁾	2	1	(42)	(677)	(55)
Income tax (expense) benefit ⁽⁴⁾	15	344	(180)	826	(306)
Income from continuing operations	1,946	2,584	1,540	1,847	1,180
Income (loss) from discontinued operations, net of income taxes ⁽⁵⁾	(102)	(19)	143	162	1,240
Net income	1,844	2,565	1,683	2,009	2,420
Per Share Data					
Basic earnings per share:					
Income from continuing operations	\$ 5.76	\$ 7.38	\$ 4.34	\$ 5.05	\$ 2.91
Net income	5.46	7.33	4.74	5.49	5.98
Diluted earnings per share:					
Income from continuing operations	\$ 5.72	\$ 7.32	\$ 4.30	\$ 5.01	\$ 2.87
Net income	5.42	7.27	4.70	5.44	5.89
Dividends paid per common share	\$ 1.80	\$ 1.68	\$ 1.54	\$ 1.40	\$ 1.24
Balance Sheet Data					
Total assets	\$ 19,694	\$ 20,386	\$ 19,403	\$ 17,608	\$ 20,589
Long-term liabilities	5,584	5,145	5,805	6,057	7,429
Total shareholders’ equity	10,570	10,831	9,751	8,485	9,585

(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.

(3) Fiscal 2016 and 2015 net other income (expense) was recorded primarily pursuant to the Tax Sharing Agreement with Tyco International plc and Covidien plc. Fiscal 2016 included \$604 million of other expense related to the effective settlement of tax matters for the years 1997 through 2000 and \$46 million of other expense related to a tax settlement in another tax jurisdiction. Fiscal 2015 included \$84 million of other expense related to the effective settlement of all undisputed tax matters for the years 2001 through 2007.

(4) For fiscal 2019, 2018, and 2017, see Note 15 to the Consolidated Financial Statements for additional information. Fiscal 2016 included a \$1,135 million income tax benefit related to the effective settlement of tax matters for the years 1997 through 2000, partially offset by a \$91 million income tax charge related to an increase to the valuation allowance for certain U.S. deferred tax assets. Additionally, 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. Fiscal 2015 included a \$216 million income tax charge associated with the tax impacts of certain intercompany legal entity restructurings made in connection with our integration of Measurement Specialties, Inc; a \$201 million income tax benefit related to the effective settlement of all undisputed tax matters for the years 2001 through 2007; and a \$63 million income tax benefit associated with the effective settlement of all undisputed tax matters for the years 2008 through 2010.

- (5) Fiscal 2019 included a pre-tax loss of \$86 million on the sale of our Subsea Communications business. Fiscal 2015 included a pre-tax gain of \$1.1 billion on the sale of our Broadband Network Solutions business. For additional information regarding discontinued operations, see Note 4 to the Consolidated Financial Statements.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our Consolidated Financial Statements and the accompanying notes included elsewhere in this Annual Report. The following discussion may contain forward-looking statements that reflect our plans, estimates, and beliefs. Our actual results could differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to these differences include those factors discussed below and elsewhere in this Annual Report, particularly in "Forward-Looking Information," and in "Part I. Item 1A. Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended September 27, 2019 filed with the SEC.

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

Discussion of our financial condition and results of operations for fiscal 2019 compared to fiscal 2018 is presented below. Discussion of our financial condition and results of operations for fiscal 2018 compared to fiscal 2017 can be found in "Part II. Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the fiscal year ended September 28, 2018.

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 industrial technology leader creating a safer, sustainable, productive, and connected future. Our broad range of connectivity and sensor solutions, proven in the harshest environments, enable advancements in transportation, industrial applications, medical technology, energy, data communications, and the home.

Fiscal 2019 included the following:

- Our fiscal 2019 net sales decreased 3.9% from fiscal 2018 levels due to sales declines in the Communications Solutions and Transportation Solutions segments, partially offset by growth in the Industrial Solutions segment. On an organic basis, our net sales decreased 1.7% in fiscal 2019 as compared to fiscal 2018.
- Our net sales by segment were as follows:
 - *Transportation Solutions*—Our net sales decreased 5.7% due primarily to sales declines in the automotive end market.
 - *Industrial Solutions*—Our net sales increased 2.5% primarily as a result of increased sales in the aerospace, defense, oil, and gas end market.
 - *Communications Solutions*—Our net sales decreased 9.2% due to sales declines in both the appliances and the data and devices end markets.
- During fiscal 2019, our shareholders approved a dividend payment to shareholders of \$1.84 per share, payable in four equal quarterly installments of \$0.46 beginning in the third quarter of fiscal 2019 and ending in the second quarter of fiscal 2020.
- Net cash provided by continuing operating activities was \$2,454 million in fiscal 2019.

Outlook

In the first quarter of fiscal 2020, we expect our net sales to be between \$3.0 billion and \$3.2 billion as compared to \$3.35 billion in the first quarter of fiscal 2019. We expect our net sales to be between \$12.7 billion and \$13.3 billion in fiscal 2020 as compared to \$13.4 billion in fiscal 2019. These decreases are primarily due to sales declines in the Communications Solutions and Transportation Solutions segments. Additional information regarding expectations for our reportable segments for the first quarter of fiscal 2020 as compared to the same period of fiscal 2019 and for fiscal 2020 compared to fiscal 2019 is as follows:

- *Transportation Solutions*—We expect our net sales to decrease in the automotive end market as a result of declines in global automotive production. However, we expect our content gains to partially offset the impact of the overall market decline. We expect our net sales to decrease in the commercial transportation end market as a result of market weakness.
- *Industrial Solutions*—We expect our net sales declines in the industrial equipment end market to be largely offset by sales increases in the aerospace, defense, oil, and gas and the energy end markets. In the industrial equipment end market, market weakness in industrial applications is expected to be partially offset by continued growth in medical applications.
- *Communications Solutions*—We expect our net sales to decline in both the data and devices and the appliances end markets due to market weakness across all regions and reduced demand resulting from high inventory levels at distributors.

We expect diluted earnings per share from continuing operations to be in the range of \$0.93 to \$0.99 per share in the first quarter of fiscal 2020. In fiscal 2020, we expect diluted earnings per share from continuing operations to be in the range of \$4.21 to \$4.61 per share.

The outlook for the first quarter of fiscal 2020 as compared to the same period of fiscal 2019 reflects the negative impact of foreign currency exchange rates on net sales and earnings per share of approximately \$62 million and \$0.03 per share, respectively. The outlook for fiscal 2020 as compared to fiscal 2019 reflects the negative impact of foreign currency exchange rates on net sales and earnings per share of approximately \$229 million and \$0.11 per share, respectively.

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.”

Swiss Parliament approved the Federal Act on Tax Reform and AHV Financing (“Swiss Tax Reform”) in September 2018, and it was approved by public vote in May 2019. Certain measures became effective in fiscal 2019 and accordingly are reflected on our Consolidated Financial Statements.

In October 2019, the canton of Schaffhausen enacted Swiss Tax Reform into law. We are currently assessing the impacts of the cantonal implementation, including reductions in tax rates. We expect to recognize approximately \$350 million of income tax expense related to the write-down of certain deferred tax assets to the lower tax rates in the first quarter of fiscal 2020, the period of enactment. This income tax charge is not reflected in the above outlook; however, our outlook does reflect an expected increase of approximately 400 basis points in our effective tax rate in fiscal 2020 as a result of other provisions of Swiss Tax Reform. See Note 15 to the Consolidated Financial Statements for additional information regarding Swiss Tax Reform.

Acquisitions

During fiscal 2019, we acquired three businesses for a combined cash purchase price of \$296 million, net of cash acquired. The acquisitions were reported as part of our Transportation Solutions segment from the date of acquisition.

We acquired two businesses during fiscal 2018 for a combined cash purchase price of \$153 million, net of cash acquired. In fiscal 2019, we received \$13 million as a result of a customary net working capital settlement for one of the acquisitions. The acquisitions were reported as part of our Industrial Solutions segment from the date of acquisition.

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

Pending Acquisition

During fiscal 2019, we entered into a business combination agreement and commenced a voluntary public tender offer for all outstanding shares of First Sensor AG (“First Sensor”), a provider of sensing solutions based in Germany. The offer was accepted for approximately 72% of First Sensor’s shares. The transaction, including the assumption of First Sensor’s outstanding net debt and minority interest, is valued at approximately €307 million. Completion of the offer will be subject to customary closing conditions, including regulatory approvals. We expect to complete the transaction in fiscal 2020.

Discontinued Operations

In fiscal 2019, we sold our Subsea Communications (“SubCom”) business for net cash proceeds of \$297 million and incurred a pre-tax loss on sale of \$86 million. The SubCom business met the held for sale and discontinued operations criteria and has been reported as such in all periods presented on our Consolidated Financial Statements. Prior to reclassification to discontinued operations, the SubCom business was included in the Communications Solutions segment.

See Note 4 to the Consolidated Financial Statements for additional information regarding discontinued operations.

Results of Operations

Net Sales

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

	Fiscal			
	2019		2018	
	(\$ in millions)			
Transportation Solutions	\$ 7,821	58 %	\$ 8,290	59 %
Industrial Solutions	3,954	30	3,856	28
Communications Solutions	1,673	12	1,842	13
Total	<u>\$ 13,448</u>	<u>100 %</u>	<u>\$ 13,988</u>	<u>100 %</u>

The following table provides an analysis of the change in our net sales by segment:

	Change in Net Sales for Fiscal 2019 versus Fiscal 2018					
	Net Sales Growth		Organic Net Sales Growth		Translation Acquisitions	
	(\$ in millions)					
Transportation Solutions	\$ (469)	(5.7)%	\$ (232)	(2.8)%	\$ (274)	\$ 37
Industrial Solutions	98	2.5	120	3.1	(95)	73
Communications Solutions	(169)	(9.2)	(129)	(7.0)	(40)	—
Total	<u>\$ (540)</u>	<u>(3.9)%</u>	<u>\$ (241)</u>	<u>(1.7)%</u>	<u>\$ (409)</u>	<u>\$ 110</u>

Net sales decreased \$540 million, or 3.9%, in fiscal 2019 as compared to fiscal 2018. The decrease in net sales resulted from the negative impact of foreign currency translation of 3.0% due to the weakening of certain foreign currencies

and organic net sales declines 1.7%, partially offset by sales contributions from acquisitions of 0.8%. Price erosion adversely affected organic net sales by \$108 million in fiscal 2019.

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

Net Sales by Geographic Region. Our business operates in three geographic regions—EMEA, Asia-Pacific, and the Americas—and our results of operations are influenced by changes in foreign currency exchange rates. Increases or decreases in the value of the U.S. dollar, compared to other currencies, will directly affect our reported results as we translate those currencies into U.S. dollars at the end of each fiscal period. We sell our products into approximately 150 countries, and approximately 60% of our net sales were invoiced in currencies other than the U.S. dollar in fiscal 2019. The percentage of net sales in fiscal 2019 by major currencies invoiced was as follows:

Currencies	Percentage
U.S. dollar	42 %
Euro	30
Chinese renminbi	13
Japanese yen	6
All others	9
Total	100 %

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

	Fiscal			
	2019		2018	
	(\$ in millions)			
EMEA	\$ 4,823	36 %	\$ 5,255	38 %
Asia-Pacific	4,401	33	4,762	34
Americas	4,224	31	3,971	28
Total	\$ 13,448	100 %	\$ 13,988	100 %

The following table provides an analysis of the change in our net sales by geographic region:

	Change in Net Sales for Fiscal 2019 versus Fiscal 2018					
	Net Sales		Organic Net		Translation	Acquisitions
	Growth		Sales Growth			
	(\$ in millions)					
EMEA	\$ (432)	(8.2)%	\$ (231)	(4.4)%	\$ (269)	\$ 68
Asia-Pacific	(361)	(7.6)	(248)	(5.2)	(120)	7
Americas	253	6.4	238	6.0	(20)	35
Total	\$ (540)	(3.9)%	\$ (241)	(1.7)%	\$ (409)	\$ 110

Cost of Sales and Gross Margin

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

	Fiscal		Change
	2019	2018	
	(\$ in millions)		
Cost of sales	\$ 9,054	\$ 9,243	\$ (189)
As a percentage of net sales	67.3 %	66.1 %	
Gross margin	\$ 4,394	\$ 4,745	\$ (351)
As a percentage of net sales	32.7 %	33.9 %	

In fiscal 2019, gross margin decreased \$351 million as compared to fiscal 2018, primarily as a result of lower volume, unfavorable product mix, negative foreign currency translation, and price erosion, partially offset by lower material costs. Gross margin as a percentage of net sales decreased to 32.7% in fiscal 2019 from 33.9% in fiscal 2018.

We use a wide variety of raw materials in the manufacture of our products. Cost of sales and gross margin are subject to variability in raw material prices which continue to fluctuate for many of the raw materials we use, including copper, gold, and silver. In fiscal 2019, we purchased approximately 172 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	
		2019	2018
Copper	Lb.	\$ 2.93	\$ 2.86
Gold	Troy oz.	1,309	1,281
Silver	Troy oz.	16.42	17.15

In fiscal 2020, we expect to purchase approximately 170 million pounds of copper, 120,000 troy ounces of gold, and 2.4 million troy ounces of silver.

Operating Expenses

The following table presents operating expense information:

	Fiscal		Change
	2019	2018	
	(\$ in millions)		
Selling, general, and administrative expenses	\$ 1,490	\$ 1,594	\$ (104)
As a percentage of net sales	11.1 %	11.4 %	
Restructuring and other charges, net	255	126	129

Selling, General, and Administrative Expenses. In fiscal 2019, selling, general, and administrative expenses decreased \$104 million as compared to fiscal 2018 due primarily to lower incentive compensation costs as well as cost control measures and savings attributable to restructuring actions. Selling, general, and administrative expenses as a percentage of net sales decreased to 11.1% in fiscal 2019 from 11.4% in fiscal 2018.

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 2019, we initiated a restructuring program associated with footprint consolidation and structural improvements impacting all segments. During fiscal 2018, we initiated a restructuring program associated with footprint consolidation and structural improvements primarily impacting the Industrial Solutions and Transportation Solutions segments. In connection with these initiatives, we incurred net restructuring charges of \$255 million and \$140 million in fiscal 2019 and 2018, respectively. Annualized cost savings related to actions initiated in fiscal 2019 are expected to be approximately \$220 million and are expected to be realized by the end of fiscal 2021. Cost savings will be reflected primarily in cost of sales and selling, general, and administrative expenses.

In response to market weakness in fiscal 2019, we initiated incremental restructuring actions, primarily consisting of employee severance, to broaden the scope of our cost reduction initiatives and accelerate cost reduction and factory footprint consolidation activities. We previously disclosed that we expected total restructuring charges to be approximately \$375 million in fiscal 2019. We now expect certain of these actions to occur in fiscal 2020 or 2021. For fiscal 2020, we currently expect total restructuring charges to be approximately \$200 million to \$250 million and total spending, which will be funded with cash from operations, to be approximately \$300 million.

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		Change
	2019	2018	
	(\$ in millions)		
Operating income	\$ 1,978	\$ 2,331	\$ (353)
Operating margin	14.7 %	16.7 %	

Operating income included the following:

	Fiscal	
	2019	2018
	(in millions)	
Acquisition-related charges:		
Acquisition and integration costs	\$ 27	\$ 14
Charges associated with the amortization of acquisition-related fair value adjustments	3	8
	30	22
Restructuring and other charges, net	255	126
Other items ⁽¹⁾	17	—
Total	<u>\$ 302</u>	<u>\$ 148</u>

(1) Represents the write-off of certain spare parts.

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

Non-Operating Items

The following table presents select non-operating information:

	Fiscal		Change
	2019	2018	
	(\$ in millions)		
Interest expense	\$ 68	\$ 107	\$ (39)
Income tax benefit	15	344	(329)
Effective tax rate	(0.8)%	(15.4)%	
Loss from discontinued operations, net of income taxes	\$ (102)	\$ (19)	\$ (83)

Interest Expense. Interest expense decreased \$39 million during the fiscal 2019 due primarily to the expansion of our cross-currency swap program. Under the terms of the fiscal 2019 contracts, we receive interest in U.S. dollars at a weighted-average rate of 2.9% per annum and pay no interest. See Note 13 to the Consolidated Financial Statements for additional information regarding our cross-currency swap program.

Income Taxes. See Note 15 to the Consolidated Financial Statements for discussion of items impacting income tax benefit and the effective tax rate for fiscal 2019 and 2018, including Swiss Tax Reform and the U.S. Tax Cuts and Jobs Act.

The valuation allowance for deferred tax assets was \$4,970 million and \$2,191 million at fiscal year end 2019 and 2018, 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 2019, certain subsidiaries had approximately \$26 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.

Loss from Discontinued Operations, Net of Income Taxes. During fiscal 2019, we sold our SubCom business for net cash proceeds of \$297 million and incurred a pre-tax loss on sale of \$86 million. The net sales of the business were \$41 million and \$702 million in fiscal 2019 and 2018, respectively. The results for fiscal 2019 represent one month of activity. In fiscal 2018, net sales and operating income were negatively impacted by production delays on a program. 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 industry end market⁽¹⁾:

	Fiscal			
	2019		2018	
	(\$ in millions)			
Automotive	\$ 5,686	73 %	\$ 6,092	74 %
Commercial transportation	1,221	15	1,280	15
Sensors	914	12	918	11
Total	\$ 7,821	100 %	\$ 8,290	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 by industry end market:

	Change in Net Sales for Fiscal 2019 versus Fiscal 2018					
	Net Sales		Organic Net		Translation	Acquisitions
	Growth		Sales Growth			
	(\$ in millions)					
Automotive	\$ (406)	(6.7)%	\$ (198)	(3.3)%	\$ (208)	\$ —
Commercial transportation	(59)	(4.6)	(48)	(3.9)	(40)	29
Sensors	(4)	(0.4)	14	1.4	(26)	8
Total	<u>\$ (469)</u>	<u>(5.7)%</u>	<u>\$ (232)</u>	<u>(2.8)%</u>	<u>\$ (274)</u>	<u>\$ 37</u>

Net sales in the Transportation Solutions segment decreased \$469 million, or 5.7%, in fiscal 2019 from fiscal 2018 primarily as a result of the negative impact of foreign currency translation of 3.3% and organic net sales declines of 2.8%. Our organic net sales by industry end market were as follows:

- *Automotive*—Our organic net sales decreased 3.3% in fiscal 2019. The decrease resulted from declines of 6.4% and 3.4% in the Asia–Pacific and EMEA regions, respectively, partially offset by growth of 3.7% in the Americas region. Our declines in the Asia–Pacific and EMEA regions resulted primarily from declines in automotive production. In the Americas region, our growth was attributable to electrification and market share gains.
- *Commercial transportation*—Our organic net sales decreased 3.9% in fiscal 2019 as a result of market weakness in all regions.
- *Sensors*—Our organic net sales increased 1.4% in fiscal 2019 due primarily to growth in the industrial equipment end market.

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

	Fiscal		Change
	2019	2018	
	(\$ in millions)		
Operating income	\$ 1,226	\$ 1,578	\$ (352)
Operating margin	15.7 %	19.0 %	

Operating income in the Transportation Solutions segment decreased \$352 million in fiscal 2019 as compared to fiscal 2018. The Transportation Solutions segment's operating income included the following:

	Fiscal	
	2019	2018
	(in millions)	
Acquisition-related charges:		
Acquisition and integration costs	\$ 17	\$ 8
Charges associated with the amortization of acquisition-related fair value adjustments	—	4
	17	12
Restructuring and other charges, net	144	33
Other items	14	—
Total	<u>\$ 175</u>	<u>\$ 45</u>

Excluding these items, operating income decreased in fiscal 2019 primarily as a result of lower volume, unfavorable product mix, and price erosion, 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 industry end market⁽¹⁾:

	Fiscal			
	2019		2018	
	(\$ in millions)			
Industrial equipment	\$ 1,949	49 %	\$ 1,987	52 %
Aerospace, defense, oil, and gas	1,306	33	1,157	30
Energy	699	18	712	18
Total	<u>\$ 3,954</u>	<u>100 %</u>	<u>\$ 3,856</u>	<u>100 %</u>

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

The following table provides an analysis of the change in the Industrial Solutions segment's net sales by industry end market:

	Change in Net Sales for Fiscal 2019 versus Fiscal 2018					
	Net Sales		Organic Net		Translation	Acquisition
	Growth		Sales Growth			
	(\$ in millions)					
Industrial equipment	\$ (38)	(1.9)%	\$ (66)	(3.4)%	\$ (45)	\$ 73
Aerospace, defense, oil, and gas	149	12.9	165	14.1	(16)	—
Energy	(13)	(1.8)	21	2.7	(34)	—
Total	<u>\$ 98</u>	<u>2.5 %</u>	<u>\$ 120</u>	<u>3.1 %</u>	<u>\$ (95)</u>	<u>\$ 73</u>

In the Industrial Solutions segment, net sales increased \$98 million, or 2.5%, in fiscal 2019 from fiscal 2018 due to organic net sales growth of 3.1% and sales contributions from an acquisition of 1.9%, partially offset by the negative impact of foreign currency translation of 2.5%. Our organic net sales by industry end market were as follows:

- **Industrial equipment**—Our organic net sales decreased 3.4% in fiscal 2019 primarily as a result of market weakness in industrial applications, particularly in the Asia-Pacific and EMEA regions, partially offset by strength in medical applications.

- *Aerospace, defense, oil, and gas*—Our organic net sales increased 14.1% in fiscal 2019 due to growth in the oil and gas, commercial aerospace, and defense markets.
- *Energy*—Our organic net sales increased 2.7% in fiscal 2019 primarily as a result of growth in the Americas region, partially offset by declines in the EMEA region.

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

	Fiscal		Change
	2019	2018	
	(\$ in millions)		
Operating income	\$ 543	\$ 465	\$ 78
Operating margin	13.7 %	12.1 %	

Operating income in the Industrial Solutions segment increased \$78 million in fiscal 2019 from fiscal 2018. The Industrial Solutions segment’s operating income included the following:

	Fiscal	
	2019	2018
	(in millions)	
Acquisition-related charges:		
Acquisition and integration costs	\$ 10	\$ 6
Charges associated with the amortization of acquisition-related fair value adjustments	3	4
	13	10
Restructuring and other charges, net	63	80
Other items	2	—
Total	\$ 78	\$ 90

Excluding these items, operating income increased in fiscal 2019 primarily as a result of higher volume and improved manufacturing productivity.

Communications Solutions

Net Sales. The following table presents the Communications Solutions segment’s net sales and the percentage of total net sales by industry end market⁽¹⁾:

	Fiscal			
	2019		2018	
	(\$ in millions)			
Data and devices	\$ 993	59 %	\$ 1,068	58 %
Appliances	680	41	774	42
Total	\$ 1,673	100 %	\$ 1,842	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 Communications Solutions segment's net sales by industry end market:

	Change in Net Sales for Fiscal 2019 versus Fiscal 2018				
	Net Sales		Organic Net		Translation
	Growth		Sales Growth		
	(\$ in millions)				
Data and devices	\$ (75)	(7.0)%	\$ (58)	(5.4)%	\$ (17)
Appliances	(94)	(12.1)	(71)	(9.3)	(23)
Total	<u>\$ (169)</u>	<u>(9.2)%</u>	<u>\$ (129)</u>	<u>(7.0)%</u>	<u>\$ (40)</u>

Net sales in the Communications Solutions segment decreased \$169 million, or 9.2%, in fiscal 2019 as compared to fiscal 2018 due to organic net sales declines of 7.0% and the negative impact of foreign currency translation of 2.2%. Our organic net sales by industry end market were as follows:

- *Data and devices*—Our organic net sales decreased 5.4% in fiscal 2019 as a result of market weakness across all regions.
- *Appliances*—Our organic net sales decreased 9.3% in fiscal 2019 due to market weakness across all regions and reduced demand resulting from high inventory levels at distributors.

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

	Fiscal		Change
	2019	2018	
	(\$ in millions)		
Operating income	\$ 209	\$ 288	\$ (79)
Operating margin	12.5 %	15.6 %	

In the Communications Solutions segment, operating income decreased \$79 million in fiscal 2019 as compared to fiscal 2018. The Communications Solutions segment's operating income included the following:

	Fiscal	
	2019	2018
	(in millions)	
Restructuring and other charges, net	\$ 48	\$ 13
Other items	1	—
Total	<u>\$ 49</u>	<u>\$ 13</u>

Excluding these items, operating income decreased in fiscal 2019 due primarily to lower volume.

Liquidity and Capital Resources

Our ability to fund our future capital needs will be affected by our ability to continue to generate cash from operations and may be affected by our ability to access the capital markets, money markets, or other sources of funding, as well as the capacity and terms of our financing arrangements. We believe that cash generated from operations and, to the extent necessary, these other sources of potential funding will be sufficient to meet our anticipated capital needs for the foreseeable future, including the payment of \$350 million of floating rate senior notes due in fiscal 2020, the pending acquisition of First Sensor, and cash spending related to restructuring initiatives. We may use excess cash to purchase a portion of our common shares pursuant to our authorized share repurchase program, to acquire strategic businesses or product lines, to pay dividends on our common shares, or to reduce our outstanding debt. The cost or availability of future funding may be impacted by financial market conditions. We will continue to monitor financial markets and respond as necessary to changing conditions.

As of fiscal year end 2019, 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 2019, we had approximately \$9.1 billion of cash, cash equivalents, and intercompany deposits, principally in our subsidiaries, that we have the ability to distribute to TEGSA and TE Connectivity Ltd. but we consider to be permanently reinvested. We estimate that up to \$1.0 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 \$153 million to \$2,454 million in fiscal 2019 as compared to \$2,301 million in fiscal 2018. The increase resulted primarily from higher collections of accounts receivable and fluctuations in cash collateral requirements under our cross-currency swap contracts, partially offset by a decrease in pre-tax income levels.

The amount of income taxes paid, net of refunds, during fiscal 2019 and 2018 was \$338 million and \$393 million, respectively. We do not expect a significant change in our income tax payments as a result of Swiss Tax Reform. See Note 15 to the Consolidated Financial Statements for additional information regarding Swiss Tax Reform.

Pension contributions in fiscal 2019 and 2018, were \$45 million and \$54 million, respectively. We expect pension contributions to be \$68 million in fiscal 2020, before consideration of any voluntary contributions.

Cash Flows from Investing Activities

Capital expenditures were \$749 million and \$935 million in fiscal 2019 and 2018, respectively. We expect fiscal 2020 capital spending levels to be approximately 5-6% of net sales. We believe our capital funding levels are adequate to support new programs, and we continue to invest in our manufacturing infrastructure to further enhance productivity and manufacturing capabilities.

During fiscal 2019, we acquired three businesses for a combined cash purchase price of \$296 million, net of cash acquired. We acquired two businesses during fiscal 2018 for a combined cash purchase price of \$153 million, net of cash acquired. In fiscal 2019, we received \$13 million as a result of a customary net working capital settlement for one of the acquisitions. See Note 5 to the Consolidated Financial Statements for additional information regarding acquisitions.

During fiscal 2019, we received net cash proceeds of \$297 million related to the sale of our SubCom business. See additional information in Note 4 to the Consolidated Financial Statements.

Cash Flows from Financing Activities and Capitalization

Total debt at fiscal year end 2019 and 2018 was \$3,965 million and \$4,000 million, respectively. See Note 11 to the Consolidated Financial Statements for additional information regarding debt.

During fiscal 2019, TEGSA, our 100%-owned subsidiary, issued €350 million aggregate principal amount of fixed-to-floating rate senior notes due June 2021. The fixed-to-floating rate senior notes bear interest at a rate of 0% until June 2020 and then at a rate of three-month Euro Interbank Offered Rate (“EURIBOR”) plus 0.30% per year until maturity. In June 2020, we may, at our option, redeem the fixed-to-floating rate senior notes, as a whole, at 100% of the principal amount. Also, during fiscal 2019, TEGSA issued \$350 million aggregate principal amount of floating rate senior notes due June 2020. The floating rate senior notes bear interest at a rate of three-month London Interbank Offered Rate (“LIBOR”) plus 0.45% per year. The fixed-to-floating rate senior notes and floating rate senior 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 total commitments of \$1.5 billion. The Credit Facility was amended in November 2018 primarily to extend the maturity date from December 2020 to November 2023. The amended Credit Facility contains provisions that allow for incremental commitments of up to \$500 million, an option to temporarily increase the financial ratio covenant following a qualified acquisition, and borrowings in designated currencies. TEGSA had no borrowings under the Credit Facility at fiscal year end 2019 or 2018.

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 2019, we were in compliance with all of our debt covenants and believe that we will continue to be in compliance with our existing covenants for the foreseeable future.

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

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

Payments of common share dividends to shareholders were \$608 million and \$588 million in fiscal 2019 and 2018, respectively. See Note 17 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.

In both fiscal 2019 and 2018, our board of directors authorized increases of \$1.5 billion in our share repurchase program. We repurchased approximately 12 million of our common shares for \$1,014 million and approximately 10 million of our common shares for \$966 million under the share repurchase program during fiscal 2019 and 2018, respectively. At fiscal year end 2019, we had \$1.5 billion of availability remaining under our share repurchase authorization.

Commitments and Contingencies

The following table provides a summary of our contractual obligations and commitments for debt, minimum lease payment obligations under non-cancelable leases, and other obligations at fiscal year end 2019:

	Total	Payments Due by Fiscal Year					Thereafter
		2020	2021	2022	2023	2024	
				(in millions)			
Debt ⁽¹⁾	\$ 3,975	\$ 571	\$ 633	\$ 500	\$ 602	\$ 350	\$ 1,319
Interest payments on debt ⁽²⁾	979	115	103	88	79	72	522
Operating leases ⁽³⁾	540	117	102	81	67	55	118
Purchase obligations ⁽⁴⁾	632	623	6	—	—	—	3
Total contractual cash obligations⁽⁵⁾⁽⁶⁾⁽⁷⁾	\$ 6,126	\$ 1,426	\$ 844	\$ 669	\$ 748	\$ 477	\$ 1,962

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

(2) Interest payments exclude the impact of our interest rate swap and cross-currency swap contracts. Interest payments on debt are projected for future periods using rates in effect as of fiscal year end 2019 and are subject to change in future periods.

- (3) See “Recently Issued Accounting Pronouncements” in Note 2 to the Consolidated Financial Statements for information regarding our adoption of Accounting Standards Codifications (“ASC”) 842, *Leases*, in fiscal 2020.
- (4) Purchase obligations consist primarily of commitments for purchases of goods and services.
- (5) The above table does not reflect unrecognized income tax benefits of \$542 million and related accrued interest and penalties of \$42 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.
- (6) The above table does not reflect pension obligations to certain employees and former employees. We are obligated to make contributions to our pension plans; however, we are unable to determine the amount of plan contributions due to the inherent uncertainties of obligations of this type, including timing, interest rate charges, investment performance, and amounts of benefit payments. We expect to contribute \$68 million to pension plans in fiscal 2020, before consideration of any voluntary contributions. See Note 14 to the Consolidated Financial Statements for additional information regarding these plans and our estimates of future contributions and benefit payments.
- (7) Other long-term liabilities of \$427 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 2020 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 2019, we had outstanding letters of credit, letters of guarantee, and surety bonds of \$309 million.

As discussed above, in fiscal 2019, we sold our SubCom business. In connection with the sale, we contractually agreed to continue to honor performance guarantees and letters of credit related to the SubCom business’ projects that existed as of the date of sale. These guarantees had a combined value of approximately \$1.55 billion as of fiscal year end 2019 and are expected to expire at various dates through fiscal 2025; however, the majority are expected to expire by fiscal year end 2020. Also, under the terms of the definitive agreement, we are required to issue up to \$300 million of new performance guarantees, subject to certain limitations, for projects entered into by the SubCom business following the sale for a period of up to three years. At fiscal year end 2019, there were no such new performance guarantees outstanding. We have contractual recourse against the SubCom business if we are required to perform on any SubCom guarantees; however, based on historical experience, we do not anticipate having to perform. See Note 4 to the Consolidated Financial Statements for additional information regarding the divestiture of the SubCom business.

Critical Accounting Policies and Estimates

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

Revenue Recognition

We account for revenue in accordance with ASC 606, *Revenue from Contracts with Customers*. Our revenues are generated principally from the sale of our products. Revenue is recognized as performance obligations under the terms of a contract, such as a purchase order with a customer, are satisfied; generally this occurs with the transfer of control. We transfer control and recognize revenue when we ship product to our customers, the customers accept and have legal title for the product, and we have a right to payment for such product. Revenue is measured as the amount of consideration that we expect to receive in exchange for those products and excludes taxes assessed by governmental authorities and collected from customers concurrent with the sale of products. Shipping and handling costs are treated as fulfillment costs and are included in cost of sales. Since we typically invoice our customers when we satisfy our performance obligations, we do not have material contract assets or contract liabilities. Our credit terms are customary and do not contain significant financing components that extend beyond one year of fulfillment of performance obligations. We apply the practical expedient of ASC 606 with respect to financing components and do not evaluate contracts in which payment is due within one year of satisfaction of the related performance obligation. Since our performance obligations to deliver products are part of contracts that generally have original durations of one year or less, we have elected to use the optional exemption to not disclose the aggregate amount of transaction prices associated with unsatisfied or partially satisfied performance obligations as of fiscal year end 2019.

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 do not account for these warranties as separate performance obligations.

Although products are generally sold at fixed prices, certain distributors and customers receive incentives or awards, such as sales rebates, return allowances, scrap allowances, and other rights, which are accounted for as variable consideration. We estimate these amounts in the same period revenue is recognized based on the expected value to be provided to customers and reduce revenue accordingly. Our estimates of variable consideration and ultimate determination of the estimated amounts to include in the transaction price are based primarily on our assessment of anticipated performance and historical and forecasted information that is reasonably available to us.

See Note 2 to the Consolidated Financial Statements for information regarding our adoption of ASC 606 in fiscal 2019.

Goodwill and Other Intangible Assets

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

We test for goodwill impairment at the reporting unit level. A reporting unit is generally an operating segment or one level below an operating segment (a "component") if the component constitutes a business for which discrete financial information is available and regularly reviewed by segment management. At fiscal year end 2019, we had five reporting units, all of which contained goodwill. There were two reporting units in both the Transportation Solutions and Industrial Solutions segments and one reporting unit in the Communications Solutions segment. When changes occur in the composition of one or more reporting units, goodwill is reassigned to the reporting units affected based on their relative fair

values. We review our reporting unit structure each year as part of our annual goodwill impairment test, or more frequently based on changes in our structure.

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

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

Fair value estimates used in the step I goodwill impairment tests are calculated using an income approach based on the present value of future cash flows of each reporting unit. The income approach has been supported by guideline analyses (a market approach). These approaches incorporate several 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 2019 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, including Swiss Tax Reform, also could affect recorded deferred tax assets and liabilities in the future. See Note 15 to the Consolidated Financial Statements for additional information regarding Swiss Tax Reform. Management is not aware of any other such changes that would have a material effect on our results of operations, financial position, or cash flows.

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

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

Net periodic pension benefit cost is based on the utilization of the projected unit credit method of calculation and is charged to earnings on a systematic basis over the expected average remaining service lives of current participants, or, for inactive plans, over the remaining life expectancy of 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 2019, a 25-basis-point decrease in the discount rate would have increased the present value of our pension obligations by \$150 million; a 25-basis-point increase would have decreased the present value of our pension obligations by \$131 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 2019 pension expense by \$11 million.

At fiscal year end 2019, the long-term target asset allocation in our U.S. plans' master trust is 5% return-seeking assets and 95% liability-hedging assets. Asset re-allocation to meet that target is occurring over a multi-year period based on the funded status. We expect to reach our target allocation when the funded status of the plans exceeds 115%. Based on the funded status of the plans as of fiscal year end 2019, our target asset allocation is 67% return-seeking and 33% liability-hedging.

Accounting Pronouncements

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

Non-GAAP Financial Measure

Organic Net Sales Growth

We present organic net sales growth as we believe it is appropriate for investors to consider this adjusted financial measure in addition to results in accordance with GAAP. Organic net sales growth represents net sales growth (the most comparable GAAP financial measure) excluding the impact of foreign currency exchange rates, and acquisitions and divestitures that occurred in the preceding twelve months, if any. Organic net sales growth is a useful measure of our

performance because it excludes items that are not completely under management's control, such as the impact of changes in foreign currency exchange rates, and items that do not reflect the underlying growth of the company, such as acquisition and divestiture activity.

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

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

Forward-Looking Information

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

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

The following and other risks, which are described in greater detail in "Part I. Item 1A. Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended September 27, 2019 filed with the SEC and elsewhere in this Annual Report, could cause our results to differ materially from those expressed in forward-looking statements:

- conditions in the global or regional economies and global capital markets, and cyclical industry conditions;
- conditions affecting demand for products in the industries we serve, particularly the automotive industry;
- competition and pricing pressure;
- market acceptance of our new product introductions and product innovations and product life cycles;
- raw material availability, quality, and cost;
- fluctuations in foreign currency exchange rates and impacts of offsetting hedges;
- financial condition and consolidation of customers and vendors;
- reliance on third-party suppliers;

- risks associated with current and future acquisitions and divestitures;
- global risks of business interruptions such as natural disasters;
- global risks of political, economic, and military instability, including volatile and uncertain economic conditions in China;
- risks associated with security breaches and other disruptions to our information technology infrastructure;
- risks related to compliance with current and future environmental and other laws and regulations;
- our ability to protect our intellectual property rights;
- risks of litigation;
- our ability to operate within the limitations imposed by our debt instruments;
- the possible effects on us of various non-U.S. and U.S. legislative proposals and other initiatives that, if adopted, could materially increase our worldwide corporate effective tax rate and negatively impact our U.S. government contracts business;
- various risks associated with being a Swiss corporation;
- the impact of fluctuations in the market price of our shares; and
- the impact of certain provisions of our articles of association on unsolicited takeover proposals.

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

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

Foreign Currency Exposures

As part of managing the exposure to changes in foreign currency exchange rates, we utilize cross-currency swap contracts and foreign currency forward contracts, a portion of which are designated as cash flow hedges. The objective of these contracts is to minimize impacts to cash flows and profitability due to changes in foreign currency exchange rates on intercompany and other cash transactions. In addition, we utilize cross-currency swap contracts to hedge our net investment in certain foreign operations. A 10% appreciation or depreciation of the underlying currency in our cross-currency swap contracts or foreign currency forward contracts from the fiscal year end 2019 market rates would have changed the unrealized value of our contracts by \$282 million. A 10% appreciation or depreciation of the underlying currency in our cross-currency swap contracts or foreign currency forward contracts from the fiscal year end 2018 market rates would have changed the unrealized value of our contracts by \$101 million. Such gains or losses on these contracts would generally be offset by the losses or gains on the revaluation or settlement of the underlying transactions.

Interest Rate and Investment Exposures

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

Based on our floating rate debt balances at fiscal year end 2019 and 2018, a 50-basis-point increase in the levels of the U.S. dollar interest rates, with all other variables held constant, would have resulted in an immaterial increase in interest expense in both fiscal 2019 and 2018.

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 2019, our commodity hedges, which related to expected purchases of gold, silver, and copper, were in a net gain position of \$1 million and had a notional value of \$316 million. At fiscal year end 2018, our commodity hedges, which related to expected purchases of gold, silver, and copper, were in a net loss position of \$34 million and had a notional value of \$401 million. 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 2019 prices would have changed the unrealized value of our forward contracts by \$32 million. A 10% appreciation or depreciation of the price of a troy ounce of gold, a troy ounce of silver, and a pound of copper, from the fiscal year end 2018 prices would have changed the unrealized value of our forward contracts by \$37 million.

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

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of September 27, 2019. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 27, 2019.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our internal control over financial reporting based on the framework in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded our internal control over financial reporting was effective as of September 27, 2019.

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 27, 2019, which is included in this Annual Report.

Changes in Internal Control Over Financial Reporting

During the quarter ended September 27, 2019, 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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TE CONNECTIVITY LTD.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of TE Connectivity Ltd. and subsidiaries (the "Company") as of September 27, 2019 and September 28, 2018, the related consolidated statements of operations, comprehensive income, shareholders' equity, and cash flows, for each of the three years in the period ended September 27, 2019, and the related notes and the schedule listed in the Index (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of September 27, 2019 and September 28, 2018, and the results of its operations and its cash flows for each of the three years in the period ended September 27, 2019, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of September 27, 2019, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated November 12, 2019, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

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

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

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current-period audit of the financial statements that were communicated or required to be communicated to the audit committee and that (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Goodwill — Transportation Solutions Reportable Segment — Refer to Notes 2 and 8 to the financial statements

Critical Audit Matter Description

The Company's evaluation of goodwill for impairment involves comparing the carrying amount of each reporting unit to its fair value on the first day of the fourth fiscal quarter or whenever the Company believes a triggering event requiring a more frequent assessment has occurred. The Company uses the income approach based on the present value of future cash flows to estimate fair value. The income approach is supported by guideline analyses (a market approach). These approaches incorporate several assumptions including future growth rates, discount rates, and market activity in assessing fair value and are reporting unit specific. The goodwill balance was \$5.7 billion as of September 27, 2019, of which \$1.1 billion was allocated to a reporting unit within the Transportation Solutions reportable segment. The fair value of this reporting unit exceeded its carrying amount as of the measurement date and, therefore, no impairment was recognized.

We identified goodwill for this reporting unit as a critical audit matter because of the significant judgments made by

management to estimate its fair value, especially considering future growth rates were based on an expectation of an increase in net sales in a product portfolio with limited historical operating results and limited available third-party industry reports. This required a high degree of auditor judgment and an increased extent of effort, including the need to involve our fair value specialists, when performing audit procedures to evaluate the reasonableness of management's estimates and assumptions related to forecasts of future revenue and operating margin and the selection of a discount rate.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the forecasts of future revenue and operating margin (the "forecasts"), and the selection of a discount rate for a reporting unit within the Transportation Solutions reportable segment included the following, among others:

- We tested the effectiveness of controls over management's goodwill impairment evaluation, including those over the determination of the fair value, such as controls related to forecasts and management's selection of the discount rate.
- We evaluated management's ability to accurately forecast future revenue and operating margin by comparing actual results to management's historical forecasts.
- We evaluated the reasonableness of management's forecasts by comparing the forecasts to:
 - Historical operating results of the reporting unit.
 - Historical operating results of the Company's other reporting units.
 - Internal communications to management and the board of directors.
 - External communications made by management to analysts and investors.
 - Third-party industry reports for similar products.
- With the assistance of our fair value specialists, we evaluated the reasonableness of the (1) valuation methodology and (2) discount rate by:
 - Testing the source information underlying the determination of the discount rate and the mathematical accuracy of the calculation.
 - Developing a range of independent estimates and comparing those to the discount rate selected by management.

Income Taxes — Realizability of Deferred Tax Assets — Refer to Notes 2 and 15 to the financial statements

Critical Audit Matter Description

The Company recognizes deferred income taxes for temporary differences between the amount of assets and liabilities recognized for financial reporting and tax purposes. 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. Future realization of deferred tax assets depends on the existence of sufficient taxable income of the appropriate character prior to expiration. Sources of taxable income include future reversals of deferred tax assets and liabilities, expected future taxable income, taxable income in prior carryback years if permitted under the tax law, and tax planning strategies. Management has determined that it is more likely than not that sufficient taxable income will be generated in the future to realize a portion of its deferred tax assets, and therefore, a valuation allowance of \$5.0 billion has been recorded to offset the Company's gross deferred tax assets as of September 27, 2019 of \$7.7 billion.

We identified the realizability of deferred tax assets as a critical audit matter because of the Company's tax structure and the significant judgments and estimates made by management to determine that sufficient taxable income will be generated in the future prior to expiration to realize a portion of its deferred tax assets. This required a high degree of auditor judgment and an increased extent of effort, including the need to involve our income tax specialists, when performing audit procedures to evaluate the appropriateness of qualifying tax planning strategies and the reasonableness of management's estimates of taxable income prior to expiration.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the determination that it is more likely than not that sufficient taxable income will be generated in the future to realize deferred tax assets included the following, among others:

- We tested the effectiveness of controls over management’s estimates of the realization of the deferred tax assets, including those over the estimates of taxable income, the approval of tax planning strategies and the determination of whether it is more likely than not that the deferred tax assets will be realized prior to expiration.
- We evaluated management’s ability to accurately estimate taxable income by comparing actual results to management’s historical estimates and evaluating whether there have been any changes that would impact management’s ability to continue accurately estimating taxable income.
- We tested the reasonableness of management’s estimates of taxable income by comparing the estimates to:
 - Historical taxable income.
 - Internal communications and the Company’s strategic plan approved by management and the board of directors.
 - Management’s history of carrying out its stated plans and its ability to carry out its plans considering contractual commitments, available financing, or debt covenants.
- We evaluated whether the estimates of future taxable income were consistent with evidence obtained in other areas of the audit.
- We evaluated whether the taxable income in prior carryback years was of the appropriate character and available under the tax law.
- With the assistance of our income tax specialists, we evaluated (1) the appropriateness of qualifying tax planning strategies, including that they were prudent, feasible and would more likely than not result in the realization of deferred tax assets and (2) management’s assessment that sufficient taxable income will be generated in the future to realize a portion of the deferred tax assets prior to expiration.

/s/ Deloitte & Touche LLP

Philadelphia, Pennsylvania
November 12, 2019

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of TE Connectivity Ltd. and subsidiaries (the “Company”) as of September 27, 2019, based on criteria established in *Internal Control—Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 27, 2019, based on criteria established in *Internal Control—Integrated Framework* (2013) issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the financial statements as of and for the fiscal year ended September 27, 2019, of the Company and our report dated November 12, 2019 expressed an unqualified opinion on those financial statements.

Basis for Opinion

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

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

Definition and Limitations of Internal Control over Financial Reporting

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

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

/s/ Deloitte & Touche LLP

Philadelphia, Pennsylvania
November 12, 2019

TE CONNECTIVITY LTD.

CONSOLIDATED STATEMENTS OF OPERATIONS

Fiscal Years Ended September 27, 2019, September 28, 2018, and September 29, 2017

	Fiscal		
	2019	2018	2017
	(in millions, except per share data)		
Net sales	\$ 13,448	\$ 13,988	\$ 12,185
Cost of sales	9,054	9,243	8,002
Gross margin	4,394	4,745	4,183
Selling, general, and administrative expenses	1,490	1,594	1,543
Research, development, and engineering expenses	644	680	611
Acquisition and integration costs	27	14	6
Restructuring and other charges, net	255	126	147
Operating income	1,978	2,331	1,876
Interest income	19	15	16
Interest expense	(68)	(107)	(130)
Other income (expense), net	2	1	(42)
Income from continuing operations before income taxes	1,931	2,240	1,720
Income tax (expense) benefit	15	344	(180)
Income from continuing operations	1,946	2,584	1,540
Income (loss) from discontinued operations, net of income taxes	(102)	(19)	143
Net income	\$ 1,844	\$ 2,565	\$ 1,683
Basic earnings per share:			
Income from continuing operations	\$ 5.76	\$ 7.38	\$ 4.34
Income (loss) from discontinued operations	(0.30)	(0.05)	0.40
Net income	5.46	7.33	4.74
Diluted earnings per share:			
Income from continuing operations	\$ 5.72	\$ 7.32	\$ 4.30
Income (loss) from discontinued operations	(0.30)	(0.05)	0.40
Net income	5.42	7.27	4.70
Weighted-average number of shares outstanding:			
Basic	338	350	355
Diluted	340	353	358

See Notes to Consolidated Financial Statements.

TE CONNECTIVITY LTD.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Fiscal Years Ended September 27, 2019, September 28, 2018, and September 29, 2017

	2019	Fiscal 2018 (in millions)	2017
Net income	\$ 1,844	\$ 2,565	\$ 1,683
Other comprehensive income (loss):			
Currency translation	(48)	(117)	37
Adjustments to unrecognized pension and postretirement benefit costs, net of income taxes	(195)	83	330
Gains (losses) on cash flow hedges, net of income taxes	46	(74)	15
Other comprehensive income (loss)	(197)	(108)	382
Comprehensive income	\$ 1,647	\$ 2,457	\$ 2,065

See Notes to Consolidated Financial Statements.

TE CONNECTIVITY LTD.

CONSOLIDATED BALANCE SHEETS

As of September 27, 2019 and September 28, 2018

	Fiscal Year End	
	2019	2018
	(in millions, except share data)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 927	\$ 848
Accounts receivable, net of allowance for doubtful accounts of \$25 and \$22, respectively	2,320	2,361
Inventories	1,836	1,857
Prepaid expenses and other current assets	471	661
Assets held for sale	—	472
Total current assets	5,554	6,199
Property, plant, and equipment, net	3,574	3,497
Goodwill	5,740	5,684
Intangible assets, net	1,596	1,704
Deferred income taxes	2,776	2,144
Other assets	454	1,158
Total assets	\$ 19,694	\$ 20,386
Liabilities and shareholders' equity		
Current liabilities:		
Short-term debt	\$ 570	\$ 963
Accounts payable	1,357	1,548
Accrued and other current liabilities	1,613	1,711
Liabilities held for sale	—	188
Total current liabilities	3,540	4,410
Long-term debt	3,395	3,037
Long-term pension and postretirement liabilities	1,367	1,102
Deferred income taxes	156	207
Income taxes	239	312
Other liabilities	427	487
Total liabilities	9,124	9,555
Commitments and contingencies (Note 12)		
Shareholders' equity:		
Common shares, CHF 0.57 par value, 350,951,381 shares authorized and issued, and 357,069,981 shares authorized and issued, respectively	154	157
Accumulated earnings	12,256	12,114
Treasury shares, at cost, 15,862,337 and 12,279,603 shares, respectively	(1,337)	(1,134)
Accumulated other comprehensive loss	(503)	(306)
Total shareholders' equity	10,570	10,831
Total liabilities and shareholders' equity	\$ 19,694	\$ 20,386

See Notes to Consolidated Financial Statements.

TE CONNECTIVITY LTD.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Fiscal Years Ended September 27, 2019, September 28, 2018, and September 29, 2017

	<u>Common Shares</u>		<u>Treasury Shares</u>		<u>Contributed</u>	<u>Accumulated</u>	<u>Accumulated</u>	<u>Other</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>	<u>Surplus</u>	<u>Earnings</u>	<u>Comprehensive</u>	<u>Loss</u>	<u>Shareholders'</u>
	(in millions)								
Balance at fiscal year end									
2016	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	—	—	—	—	(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)	—	—	—
Balance at fiscal year end									
2017	357	\$ 157	(5)	\$ (421)	\$ —	\$ 10,175	\$ (160)	\$	9,751
Adoption of ASU No. 2018-02	—	—	—	—	—	38	(38)	—	—
Net income	—	—	—	—	—	2,565	—	—	2,565
Other comprehensive loss	—	—	—	—	—	—	(108)	—	(108)
Share-based compensation expense	—	—	—	—	98	—	—	—	98
Dividends	—	—	—	—	—	(610)	—	—	(610)
Exercise of share options	—	—	1	100	—	—	—	—	100
Restricted share award vestings and other activity	—	—	2	153	(98)	(54)	—	—	1
Repurchase of common shares	—	—	(10)	(966)	—	—	—	—	(966)
Balance at fiscal year end									
2018	357	\$ 157	(12)	\$ (1,134)	\$ —	\$ 12,114	\$ (306)	\$	10,831
Adoption of ASU No. 2016-16	—	—	—	—	—	(443)	—	—	(443)
Net income	—	—	—	—	—	1,844	—	—	1,844
Other comprehensive loss	—	—	—	—	—	—	(197)	—	(197)
Share-based compensation expense	—	—	—	—	75	—	—	—	75
Dividends	—	—	—	—	—	(613)	—	—	(613)
Exercise of share options	—	—	1	85	—	—	—	—	85
Restricted share award vestings and other activity	—	—	1	154	(75)	(77)	—	—	2
Repurchase of common shares	—	—	(12)	(1,014)	—	—	—	—	(1,014)
Cancellation of treasury shares	(6)	(3)	6	572	—	(569)	—	—	—
Balance at fiscal year end									
2019	351	\$ 154	(16)	\$ (1,337)	\$ —	\$ 12,256	\$ (503)	\$	10,570

See Notes to Consolidated Financial Statements.

TE CONNECTIVITY LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Fiscal Years Ended September 27, 2019, September 28, 2018, and September 29, 2017

	Fiscal		
	2019	2018	2017
	(in millions)		
Cash flows from operating activities:			
Net income	\$ 1,844	\$ 2,565	\$ 1,683
(Income) loss from discontinued operations, net of income taxes	102	19	(143)
Income from continuing operations	1,946	2,584	1,540
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:			
Depreciation and amortization	690	667	611
Deferred income taxes	(218)	(791)	(142)
Provision for losses on accounts receivable and inventories	43	30	20
Share-based compensation expense	75	95	95
Other	51	5	25
Changes in assets and liabilities, net of the effects of acquisitions and divestitures:			
Accounts receivable, net	31	(269)	(204)
Inventories	64	(247)	(270)
Prepaid expenses and other current assets	144	(63)	(62)
Accounts payable	(178)	201	314
Accrued and other current liabilities	(15)	5	224
Income taxes	(135)	54	(1)
Other	(44)	30	123
Net cash provided by continuing operating activities	2,454	2,301	2,273
Net cash provided by (used in) discontinued operating activities	(32)	150	48
Net cash provided by operating activities	2,422	2,451	2,321
Cash flows from investing activities:			
Capital expenditures	(749)	(935)	(679)
Proceeds from sale of property, plant, and equipment	43	23	19
Acquisition of businesses, net of cash acquired	(283)	(153)	(250)
Proceeds from divestiture of discontinued operation, net of cash retained by sold operation	297	—	—
Other	2	(8)	1
Net cash used in continuing investing activities	(690)	(1,073)	(909)
Net cash used in discontinued investing activities	(2)	(21)	(23)
Net cash used in investing activities	(692)	(1,094)	(932)
Cash flows from financing activities:			
Net increase (decrease) in commercial paper	(51)	270	(330)
Proceeds from issuance of debt	746	119	589
Repayment of debt	(691)	(708)	—
Proceeds from exercise of share options	85	100	117
Repurchase of common shares	(1,091)	(879)	(614)
Payment of common share dividends to shareholders	(608)	(588)	(546)
Transfers (to) from discontinued operations	(34)	129	25
Other	(33)	(36)	(30)
Net cash used in continuing financing activities	(1,677)	(1,593)	(789)
Net cash provided by (used in) discontinued financing activities	34	(129)	(25)
Net cash used in financing activities	(1,643)	(1,722)	(814)
Effect of currency translation on cash	(8)	(5)	(4)
Net increase (decrease) in cash, cash equivalents, and restricted cash	79	(370)	571
Cash, cash equivalents, and restricted cash at beginning of fiscal year	848	1,218	647
Cash, cash equivalents, and restricted cash at end of fiscal year	\$ 927	\$ 848	\$ 1,218
Supplemental cash flow information:			
Interest paid on debt, net	\$ 75	\$ 127	\$ 128
Income taxes paid, net of refunds	338	393	323

See Notes to Consolidated Financial Statements.

TE CONNECTIVITY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

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

Description of the Business

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

We operate through three reportable segments:

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

Use of Estimates

The preparation of the Consolidated Financial Statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. Actual results could differ from these estimates.

Fiscal Year

We have a 52- or 53-week fiscal year that ends on the last Friday of September. Fiscal 2019, 2018, and 2017 were 52 weeks in length and ended on September 27, 2019, September 28, 2018, and September 29, 2017, respectively. For fiscal years in which there are 53 weeks, the fourth quarter reporting period includes 14 weeks, with the next such occurrence taking place in fiscal 2022.

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 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

We account for revenue in accordance with Accounting Standards Codification (“ASC”) 606, *Revenue from Contracts with Customers*, which introduced a single, comprehensive, five-step revenue recognition model. Our revenues are generated principally from the sale of our products. Revenue is recognized as performance obligations under the terms of a contract, such as a purchase order with a customer, are satisfied; generally this occurs with the transfer of control. We transfer control and recognize revenue when we ship product to our customers, the customers accept and have legal title for the product, and we have a right to payment for such product. Revenue is measured as the amount of consideration that we

TE CONNECTIVITY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

expect to receive in exchange for those products and excludes taxes assessed by governmental authorities and collected from customers concurrent with the sale of products. Shipping and handling costs are treated as fulfillment costs and are included in cost of sales. Since we typically invoice our customers when we satisfy our performance obligations, we do not have material contract assets or contract liabilities. Our credit terms are customary and do not contain significant financing components that extend beyond one year of fulfillment of performance obligations. We apply the practical expedient of ASC 606 with respect to financing components and do not evaluate contracts in which payment is due within one year of satisfaction of the related performance obligation. Since our performance obligations to deliver products are part of contracts that generally have original durations of one year or less, we have elected to use the optional exemption to not disclose the aggregate amount of transaction prices associated with unsatisfied or partially satisfied performance obligations as of fiscal year end 2019. See Note 20 for net sales disaggregated by industry end market and geographic region which is summarized by segment and that we consider meaningful to depict the nature, amount, timing, and uncertainty of revenue and cash flows affected by economic factors.

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 do not account for these warranties as separate performance obligations.

Although products are generally sold at fixed prices, certain distributors and customers receive incentives or awards, such as sales rebates, return allowances, scrap allowances, and other rights, which are accounted for as variable consideration. We estimate these amounts in the same period revenue is recognized based on the expected value to be provided to customers and reduce revenue accordingly. Our estimates of variable consideration and ultimate determination of the estimated amounts to include in the transaction price are based primarily on our assessment of anticipated performance and historical and forecasted information that is reasonably available to us.

Inventories

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

Property, Plant, and Equipment, Net

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

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

TE CONNECTIVITY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

At fiscal year end 2019, we had five reporting units, all of which contained goodwill. There were two reporting units in both the Transportation Solutions and Industrial Solutions segments and one reporting unit in the Communications Solutions segment. When changes occur in the composition of one or more reporting units, goodwill is reassigned to the reporting units affected based on their relative fair values.

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

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

Fair value estimates used in the step I goodwill impairment tests are calculated using an income approach based on the present value of future cash flows of each reporting unit. The income approach has been supported by guideline analyses (a market approach). These approaches incorporate several 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 2019, 2018, and 2017 were \$572 million, \$606 million, and \$548 million, respectively.

Income Taxes

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

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

TE CONNECTIVITY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (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. 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 2019, 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 certain of our cross-currency swap contracts. The likelihood of performance on the guarantees has been assessed as remote. For all other derivative financial instruments, we are not required to provide, nor do we require counterparties to provide, collateral or other security.

Fair Value Measurements

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

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

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

TE CONNECTIVITY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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, or, for inactive plans, over the remaining life expectancy of participants.

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

Share-Based Compensation

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

Earnings Per Share

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

TE CONNECTIVITY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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 are included in earnings.

Restructuring Charges

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

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

Contingent Liabilities

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

Recently Issued Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02 which codified ASC 842, *Leases*. This guidance, as subsequently amended, requires lessees to recognize a lease liability and a right-of-use asset for most leases and is effective for us in the first quarter of fiscal 2020. In fiscal 2019, we substantially completed the process of updating policies, internal controls, financial statement disclosures, and systems to incorporate the impact of the new standard in our financial reporting processes. In fiscal 2020, we are adopting the standard using the optional transition method permitted by ASU No. 2018-11, which allows for application of the standard at the adoption date and no restatement of comparative periods. We plan to elect the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allows for the carry forward of historical lease classification of existing and expired leases. We expect to record right-of-use assets and related lease liabilities of approximately \$530 million on our Consolidated Balance Sheet. Adoption will not have a material impact on our results of operations or cash flows.

Recently Adopted Accounting Pronouncements

In August 2017, the FASB issued ASU No. 2017-12, an update to ASC 815, *Derivatives and Hedging*. The update improves and simplifies hedge accounting and related disclosures. We elected to early adopt this update, which did not have a material impact on our Consolidated Financial Statements, in fiscal 2019.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

In October 2016, the FASB issued ASU No. 2016-16, an update to ASC 740, *Income Taxes*. This 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 was adopted on a modified retrospective basis in fiscal 2019 and resulted in a \$443 million cumulative-effect adjustment to beginning accumulated earnings, which represented the net reversal of all balances associated with deferred tax impacts of intra-entity transfers of assets other than inventory. This included a decrease in other assets of \$798 million, an increase in deferred tax assets of \$418 million, and a decrease in prepaid expenses and other current assets of \$63 million on the Consolidated Balance Sheet.

In May 2014, the FASB issued ASU No. 2014-09 which codified ASC 606, *Revenue from Contracts with Customers*. This guidance supersedes ASC 605, *Revenue Recognition*, and introduces a single, comprehensive, five-step revenue recognition model. ASC 606 also enhances disclosures related to revenue recognition. We adopted ASC 606, as amended, in fiscal 2019 using a modified retrospective approach. Prior period amounts have not been adjusted and continue to be reported under the accounting standards in effect for those periods. Transition impacts, which relate primarily to incentive compensation arrangements, were not material to our results of operations or financial position. Because the impact of adoption was immaterial, we have not recorded a cumulative-effect adjustment to beginning accumulated earnings.

3. Restructuring and Other Charges, Net

Net restructuring and other charges consisted of the following:

	Fiscal		
	2019	2018	2017
	(in millions)		
Restructuring charges, net	\$ 255	\$ 140	\$ 146
Gain on divestiture	—	(2)	—
Other charges (credits), net	—	(12)	1
Restructuring and other charges, net	\$ 255	\$ 126	\$ 147

Net restructuring charges by segment were as follows:

	Fiscal		
	2019	2018	2017
	(in millions)		
Transportation Solutions	\$ 144	\$ 42	\$ 69
Industrial Solutions	63	83	73
Communications Solutions	48	15	4
Restructuring charges, net	\$ 255	\$ 140	\$ 146

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Activity in our restructuring reserves was as follows:

	Balance at Beginning of Fiscal Year	Charges	Changes in Estimate	Cash Payments (in millions)	Non-Cash Items	Currency Translation	Balance at End of Fiscal Year
Fiscal 2019 Activity:							
Fiscal 2019 Actions:							
Employee severance	\$ —	\$ 252	\$ (3)	\$ (55)	\$ (3)	\$ (3)	\$ 188
Facility and other exit costs	—	2	—	(1)	—	—	1
Property, plant, and equipment	—	3	—	—	(3)	—	—
Total	—	257	(3)	(56)	(6)	(3)	189
Fiscal 2018 Actions:							
Employee severance	114	3	(5)	(57)	—	(3)	52
Facility and other exit costs	4	4	(2)	(5)	—	—	1
Property, plant, and equipment	—	2	(2)	—	—	—	—
Total	118	9	(9)	(62)	—	(3)	53
Fiscal 2017 Actions:							
Employee severance	36	2	(4)	(19)	—	(1)	14
Pre-Fiscal 2017 Actions:							
Employee severance	13	4	(3)	(6)	—	(1)	7
Facility and other exit costs	—	4	—	(3)	—	—	1
Property, plant, and equipment	—	1	(3)	—	2	—	—
Total	13	9	(6)	(9)	2	(1)	8
Total fiscal 2019 activity	\$ 167	\$ 277	\$ (22)	\$ (146)	\$ (4)	\$ (8)	\$ 264
Fiscal 2018 Activity:							
Fiscal 2018 Actions:							
Employee severance	\$ —	\$ 130	\$ —	\$ (16)	\$ —	\$ —	\$ 114
Facility and other exit costs	—	6	—	(2)	—	—	4
Property, plant, and equipment	—	6	—	—	(6)	—	—
Total	—	142	—	(18)	(6)	—	118
Fiscal 2017 Actions:							
Employee severance	102	5	(10)	(60)	—	(1)	36
Facility and other exit costs	1	2	—	(3)	—	—	—
Property, plant, and equipment	—	1	(2)	2	(1)	—	—
Total	103	8	(12)	(61)	(1)	(1)	36
Pre-Fiscal 2017 Actions:							
Employee severance	35	7	(9)	(19)	—	(1)	13
Facility and other exit costs	—	6	—	(5)	—	(1)	—
Property, plant, and equipment	—	1	(3)	3	(1)	—	—
Total	35	14	(12)	(21)	(1)	(2)	13
Total fiscal 2018 activity	\$ 138	\$ 164	\$ (24)	\$ (100)	\$ (8)	\$ (3)	\$ 167
Fiscal 2017 Activity:							
Fiscal 2017 Actions:							
Employee severance	\$ —	\$ 141	\$ (5)	\$ (39)	\$ —	\$ 5	\$ 102
Facility and other exit costs	—	2	—	(1)	—	—	1
Property, plant, and equipment	—	9	—	—	(9)	—	—
Total	—	152	(5)	(40)	(9)	5	103
Pre-Fiscal 2017 Actions:							
Employee severance	76	8	(13)	(33)	—	(3)	35
Facility and other exit costs	1	4	—	(5)	—	—	—
Total	77	12	(13)	(38)	—	(3)	35
Total fiscal 2017 activity	\$ 77	\$ 164	\$ (18)	\$ (78)	\$ (9)	\$ 2	\$ 138

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Fiscal 2019 Actions

During fiscal 2019, we initiated a restructuring program associated with footprint consolidation and structural improvements impacting all segments. In connection with this program, during fiscal 2019, we recorded net restructuring charges of \$254 million. We expect to complete all restructuring actions commenced during fiscal 2019 by the end of fiscal 2021 and to incur additional charges of approximately \$35 million related primarily to employee severance and facility exit costs in the Transportation Solutions and Industrial Solutions segments.

The following table summarizes expected, incurred, and remaining charges for the fiscal 2019 program by segment:

	Total Expected Charges	Cumulative Charges Incurred	Remaining Expected Charges
	(in millions)		
Transportation Solutions	\$ 160	\$ 144	\$ 16
Industrial Solutions	80	66	14
Communications Solutions	49	44	5
Total	\$ 289	\$ 254	\$ 35

Fiscal 2018 Actions

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

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 2019, 2018, and 2017, we recorded net restructuring credits of \$2 million, credits of \$4 million, and charges of \$147 million, respectively. We anticipate that any additional charges will be insignificant for restructuring actions commenced during fiscal 2017.

Pre-Fiscal 2017 Actions

During fiscal 2019, 2018, and 2017, we recorded net restructuring charges of \$3 million, charges of \$2 million, and credits of \$1 million, respectively. We anticipate that any additional charges will be insignificant for restructuring actions commenced prior to fiscal 2017.

Total Restructuring Reserves

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

	Fiscal Year End	
	2019	2018
	(in millions)	
Accrued and other current liabilities	\$ 245	\$ 141
Other liabilities	19	26
Restructuring reserves	\$ 264	\$ 167

TE CONNECTIVITY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Discontinued Operations

In fiscal 2019, we sold our Subsea Communications (“SubCom”) business for net cash proceeds of \$297 million and incurred a pre-tax loss on sale of \$86 million, related primarily to the recognition of cumulative translation adjustment losses of \$67 million and the guarantee liabilities discussed below. The definitive agreement provided that, if the purchaser sells the business within two years of the closing date, we will be entitled to 20% of the net proceeds of that future sale, as defined in the agreement, in excess of \$325 million. The sale of the SubCom business, which was previously included in our Communications Solutions segment, represents our exit from the telecommunications market and was significant to our sales and profitability, both to the Communications Solutions segment and to the consolidated company. We concluded that the divestiture was a strategic shift that had a major effect on our operations and financial results. As a result, the SubCom business met the held for sale and discontinued operations criteria and has been reported as such in all periods presented on our Consolidated Financial Statements.

Upon entering into the definitive agreement, which we consider a level 2 observable input in the fair value hierarchy, we assessed the carrying value of the SubCom business and determined that it was in excess of its fair value. In fiscal 2018, we recorded a pre-tax impairment charge of \$19 million, which was included in income (loss) from discontinued operations on the Consolidated Statement of Operations, to write the carrying value of the business down to its estimated fair value less costs to sell.

In connection with the sale, we contractually agreed to continue to honor performance guarantees and letters of credit related to the SubCom business’ projects that existed as of the date of sale. These guarantees had a combined value of approximately \$1.55 billion as of fiscal year end 2019 and are expected to expire at various dates through fiscal 2025; however, the majority are expected to expire by fiscal year end 2020. At the time of sale, we determined that the fair value of these guarantees was \$12 million, which we recognized by a charge to pre-tax loss on sale. Also, under the terms of the definitive agreement, we are required to issue up to \$300 million of new performance guarantees, subject to certain limitations, for projects entered into by the SubCom business following the sale for a period of up to three years. At fiscal year end 2019, there were no such new performance guarantees outstanding. We have contractual recourse against the SubCom business if we are required to perform on any SubCom guarantees; however, based on historical experience, we do not anticipate having to perform.

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

	Fiscal		
	2019	2018	2017
	(in millions)		
Net sales	\$ 41	\$ 702	\$ 928
Cost of sales	50	602	653
Gross margin	(9)	100	275
Selling, general, and administrative expenses	11	48	50
Research, development, and engineering expenses	3	39	40
Restructuring and other charges (credits), net	3	30 ⁽¹⁾	(3)
Operating income (loss)	(26)	(17)	188
Non-operating income, net	—	—	22 ⁽²⁾
Pre-tax income (loss) from discontinued operations	(26)	(17)	210
Pre-tax gain (loss) on sale of discontinued operations	(86)	(2)	3
Income tax (expense) benefit	10	—	(70)
Income (loss) from discontinued operations, net of income taxes	<u>\$ (102)</u>	<u>\$ (19)</u>	<u>\$ 143</u>

(1) Included a \$19 million impairment charge recorded in connection with the sale of our SubCom business.

(2) Included a \$19 million credit related to the SubCom business’ curtailment of a postretirement benefit plan.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The following table presents balance sheet information for assets and liabilities held for sale at fiscal year end 2018; there were no such balances at fiscal year end 2019:

	Fiscal Year End 2018
	(in millions)
Accounts receivable, net	\$ 72
Inventories	130
Other current assets	32
Property, plant, and equipment, net ⁽¹⁾	221
Other assets	17
Total assets held for sale	\$ 472
Accounts payable	\$ 63
Accrued and other current liabilities	26
Deferred revenue	60
Other liabilities	39
Total liabilities held for sale	\$ 188

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

5. Acquisitions

During fiscal 2019, we acquired three businesses for a combined cash purchase price of \$296 million, net of cash acquired. The acquisitions were reported as part of our Transportation Solutions segment from the date of acquisition.

We acquired two businesses during fiscal 2018 for a combined cash purchase price of \$153 million, net of cash acquired. In fiscal 2019, we received \$13 million as a result of a customary net working capital settlement for one of the acquisitions. The acquisitions were reported as part of our Industrial Solutions segment from the date of acquisition.

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.

Pending Acquisition

During fiscal 2019, we entered into a business combination agreement and commenced a voluntary public tender offer for all outstanding shares of First Sensor AG (“First Sensor”), a provider of sensing solutions based in Germany. The offer was accepted for approximately 72% of First Sensor’s shares. The transaction, including the assumption of First Sensor’s outstanding net debt and minority interest, is valued at approximately €307 million. Completion of the offer will be subject to customary closing conditions, including regulatory approvals. We expect to complete the transaction in fiscal 2020.

6. Inventories

Inventories consisted of the following:

	Fiscal Year End	
	2019	2018
	(in millions)	
Raw materials	\$ 260	\$ 276
Work in progress	739	656
Finished goods	837	925
Inventories	\$ 1,836	\$ 1,857

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. Property, Plant, and Equipment, Net

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

	Fiscal Year End	
	2019	2018
	(in millions)	
Property, plant, and equipment, gross:		
Land and improvements	\$ 152	\$ 171
Buildings and improvements	1,393	1,379
Machinery and equipment	7,298	7,124
Construction in process	637	724
	<u>9,480</u>	<u>9,398</u>
Accumulated depreciation	(5,906)	(5,901)
Property, plant, and equipment, net	<u>\$ 3,574</u>	<u>\$ 3,497</u>

Depreciation expense was \$510 million, \$487 million, and \$442 million in fiscal 2019, 2018, and 2017, respectively.

8. Goodwill

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

	Transportation Solutions	Industrial Solutions	Communications Solutions	Total
	(in millions)			
Balance at fiscal year end 2017 ⁽¹⁾	\$ 2,011	\$ 3,047	\$ 593	\$ 5,651
Acquisitions	—	80	—	80
Purchase price adjustments	—	(2)	—	(2)
Currency translation	(18)	(21)	(6)	(45)
Balance at fiscal year end 2018 ⁽¹⁾	1,993	3,104	587	5,684
Acquisitions	167	—	—	167
Purchase price adjustments	—	(12)	—	(12)
Currency translation	(36)	(53)	(10)	(99)
Balance at fiscal year end 2019 ⁽¹⁾	<u>\$ 2,124</u>	<u>\$ 3,039</u>	<u>\$ 577</u>	<u>\$ 5,740</u>

(1) At fiscal year end 2019, 2018, and 2017, accumulated impairment losses for the Transportation Solutions, Industrial Solutions, and Communications Solutions segments were \$2,191 million, \$669 million, and \$489 million, respectively.

We recognized goodwill in fiscal 2019 and 2018 in connection with recent acquisitions. See Note 5 for additional information regarding acquisitions.

We completed our annual goodwill impairment test in the fourth quarter of fiscal 2019 and determined that no impairment existed.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. Intangible Assets, Net

Intangible assets consisted of the following:

	Fiscal Year End					
	2019			2018		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	(in millions)					
Customer relationships	\$ 1,513	\$ (459)	\$ 1,054	\$ 1,468	\$ (389)	\$ 1,079
Intellectual property	1,260	(734)	526	1,261	(653)	608
Other	33	(17)	16	33	(16)	17
Total	<u>\$ 2,806</u>	<u>\$ (1,210)</u>	<u>\$ 1,596</u>	<u>\$ 2,762</u>	<u>\$ (1,058)</u>	<u>\$ 1,704</u>

Intangible asset amortization expense was \$180 million, \$180 million, and \$169 million for fiscal 2019, 2018, and 2017, respectively. At fiscal year end 2019, the aggregate amortization expense on intangible assets is expected to be as follows:

	(in millions)
Fiscal 2020	\$ 179
Fiscal 2021	176
Fiscal 2022	176
Fiscal 2023	175
Fiscal 2024	145
Thereafter	745
Total	<u>\$ 1,596</u>

10. Accrued and Other Current Liabilities

Accrued and other current liabilities consisted of the following:

	Fiscal Year End	
	2019	2018
	(in millions)	
Accrued payroll and employee benefits	\$ 455	\$ 565
Dividends payable to shareholders	308	303
Restructuring reserves	245	141
Income taxes payable	94	109
Deferred revenue	36	27
Interest payable	31	34
Share repurchase program payable	18	94
Other	426	438
Accrued and other current liabilities	<u>\$ 1,613</u>	<u>\$ 1,711</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. Debt

Debt was as follows:

	Fiscal Year End	
	2019	2018
	(in millions)	
Principal debt:		
Commercial paper, at a weighted-average interest rate of 2.20% and 2.35%, respectively	\$ 219	\$ 270
2.375% senior notes due 2018	—	325
2.35% senior notes due 2019	—	250
Floating rate senior notes due 2020 ⁽¹⁾	350	—
4.875% senior notes due 2021	250	250
Euro-denominated fixed-to-floating rate senior notes due 2021 ⁽²⁾	383	—
3.50% senior notes due 2022	500	500
1.10% euro-denominated senior notes due 2023	602	639
3.45% senior notes due 2024	350	350
3.70% senior notes due 2026	350	350
3.125% senior notes due 2027	400	400
7.125% senior notes due 2037	477	477
Other	94	210
	<u>3,975</u>	<u>4,021</u>
Unamortized discounts, premiums, and debt issuance costs, net	(10)	(21)
Total debt	<u>\$ 3,965</u>	<u>\$ 4,000</u>

(1) The floating rate senior notes due 2020 bear interest at a rate of three-month London Interbank Offered Rate (“LIBOR”) plus 0.45% per year.

(2) The euro-denominated fixed-to-floating rate senior notes due 2021 bear interest at a rate of 0% until June 2020 and then at a rate of three-month Euro Interbank Offered Rate (“EURIBOR”) plus 0.30% per year until maturity.

During fiscal 2019, Tyco Electronics Group S.A. (“TEGSA”), our 100%-owned subsidiary, issued €350 million aggregate principal amount of fixed-to-floating rate senior notes due June 2021. In June 2020, we may, at our option, redeem the fixed-to-floating rate senior notes, as a whole, at 100% of the principal amount. Also, during fiscal 2019, TEGSA issued \$350 million aggregate principal amount of floating rate senior notes due June 2020. The fixed-to-floating rate senior notes and floating rate senior 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 total commitments of \$1.5 billion. The Credit Facility was amended in November 2018 primarily to extend the maturity date from December 2020 to November 2023. The amended Credit Facility contains provisions that allow for incremental commitments of up to \$500 million, an option to temporarily increase the financial ratio covenant following a qualified acquisition, and borrowings in designated currencies. TEGSA had no borrowings under the Credit Facility at fiscal year end 2019 or 2018.

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 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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.

At fiscal year end 2019, principal payments required for debt are as follows:

	<u>(in millions)</u>
Fiscal 2020	\$ 571
Fiscal 2021	633
Fiscal 2022	500
Fiscal 2023	602
Fiscal 2024	350
Thereafter	1,319
Total	<u>\$ 3,975</u>

The fair value of our debt, based on indicative valuations, was approximately \$4,278 million and \$4,149 million at fiscal year end 2019 and 2018, respectively.

12. Commitments and Contingencies

Legal Proceedings

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

Environmental Matters

We are involved in various stages of investigation and cleanup related to environmental remediation matters at a number of sites. The ultimate cost of site cleanup is difficult to predict given the uncertainties regarding the extent of the required cleanup, the interpretation of applicable laws and regulations, and alternative cleanup methods. As of fiscal year end 2019, we concluded that we would incur investigation and remediation costs at these sites in the reasonably possible range of \$15 million to \$43 million, and we accrued \$18 million as the probable loss, which was the best estimate within this range. We believe that any potential payment of such estimated amounts will not have a material adverse effect on our results of operations, financial position, or cash flows.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Leases

We have facility, land, vehicle, and equipment leases that expire at various dates. Rental expense under these operating leases was \$162 million, \$141 million, and \$147 million for fiscal 2019, 2018, and 2017, respectively. At fiscal year end 2019, future minimum lease payments under non-cancelable operating lease obligations were as follows:

	<u>(in millions)</u>
Fiscal 2020	\$ 117
Fiscal 2021	102
Fiscal 2022	81
Fiscal 2023	67
Fiscal 2024	55
Thereafter	118
Total	<u>\$ 540</u>

See “Recently Issued Accounting Pronouncements” in Note 2 for information regarding our adoption of ASC 842, *Leases*, in fiscal 2020.

Guarantees

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

At fiscal year end 2019, we had outstanding letters of credit, letters of guarantee, and surety bonds of \$309 million.

We sold our SubCom business during fiscal 2019. In connection with the sale, we contractually agreed to honor certain performance guarantees and letters of credit related to the SubCom business. See Note 4 for additional information regarding these guarantees and the divestiture of the SubCom business.

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 2019, 2018, and 2017.

Foreign Currency Exchange Rate Risk

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

During fiscal 2015, we entered into cross-currency swap contracts with an aggregate notional value of €1,000 million to reduce our exposure to foreign currency exchange rate risk associated with certain intercompany loans. Under the terms of these contracts, which have been designated as cash flow hedges, we make 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 maturity of these

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

contracts in fiscal 2022, we will pay the notional value of the contracts in euros and receive U.S. dollars from our counterparties. In connection with the cross-currency swap contracts, both counterparties to each contract are required to provide cash collateral.

At fiscal year end 2019, these cross-currency swap contracts were in an asset position of \$19 million and were recorded in other assets on the Consolidated Balance Sheet. The cross-currency swap contracts were in a liability position of \$100 million and were recorded in other liabilities on the Consolidated Balance Sheet at fiscal year end 2018. At fiscal year end 2019 and 2018, collateral received from or paid to our counterparties approximated the derivative positions and was recorded in accrued and other current liabilities (when the contracts are in an asset position) or prepaid expenses and other current assets (when the contracts are in a liability position) on the Consolidated Balance Sheets. The impacts of these cross-currency swap contracts were as follows:

	Fiscal		
	2019	2018	2017
	(in millions)		
Gains (losses) recorded in other comprehensive income (loss)	\$ 53	\$ (25)	\$ (20)
Gains (losses) excluded from the hedging relationship ⁽¹⁾	66	21	(58)

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

Hedge of Net Investment

We hedge our net investment in certain foreign operations using intercompany loans and external borrowings denominated in the same currencies. The aggregate notional value of these hedges was \$3,374 million and \$4,064 million at fiscal year end 2019 and 2018, respectively.

During fiscal 2019, we expanded our cross-currency swap program to hedge our net investment in certain foreign operations. The aggregate notional value of the fiscal 2019 contracts was \$1,844 million at fiscal year end 2019. Under the terms of these contracts, we receive interest in U.S. dollars at a weighted-average rate of 2.9% per annum and pay no interest. Upon the maturity of these contracts at various dates through fiscal 2023, we will pay the notional value of the contracts in the designated foreign currency and receive U.S. dollars from our counterparties. We are not required to provide collateral for these contracts.

The impacts of our hedge of net investment programs were as follows:

	Fiscal		
	2019	2018	2017
	(in millions)		
Foreign currency exchange gains (losses) on intercompany loans and external borrowings ⁽¹⁾	\$ 162	\$ 36	\$ (74)
Gain on cross-currency swap contracts designated as hedges of net investment ⁽²⁾	74	—	—

- (1) Foreign currency exchange gains and losses on intercompany loans and external borrowings are recorded as currency translation, a component of accumulated other comprehensive income (loss), and are offset by changes attributable to the translation of the net investment.
- (2) Gains and losses on cross-currency swap contracts designated as hedges of net investment are recorded as currency translation.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Interest Rate and Investment Risk Management

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

Commodity Hedges

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

At fiscal year end 2019 and 2018, our commodity hedges had notional values of \$316 million and \$401 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 2019 and 2018.

14. Retirement Plans

Defined Benefit Pension Plans

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

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

	<u>Non-U.S. Plans</u>			<u>U.S. Plans</u>		
	<u>Fiscal</u>			<u>Fiscal</u>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
	(\$ in millions)					
Operating expense:						
Service cost	\$ 47	\$ 46	\$ 50	\$ 13	\$ 14	\$ 12
Other (income) expense:						
Interest cost	42	42	35	46	43	43
Expected return on plan assets	(64)	(69)	(68)	(58)	(59)	(53)
Amortization of net actuarial loss	24	24	41	17	22	40
Amortization of prior service credit and other	(8)	(6)	(4)	—	—	—
Net periodic pension benefit cost	<u>\$ 41</u>	<u>\$ 37</u>	<u>\$ 54</u>	<u>\$ 18</u>	<u>\$ 20</u>	<u>\$ 42</u>
<i>Weighted-average assumptions used to determine net pension benefit cost during the fiscal year:</i>						
Discount rate	1.94 %	1.87 %	1.44 %	4.35 %	3.77 %	3.58 %
Expected return on plan assets	4.65 %	4.92 %	5.21 %	6.57 %	6.45 %	5.93 %
Rate of compensation increase	2.57 %	2.53 %	2.52 %	— %	— %	— %

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

	Non-U.S. Plans		U.S. Plans	
	Fiscal		Fiscal	
	2019	2018	2019	2018
(\$ in millions)				
<i>Change in benefit obligation:</i>				
Benefit obligation at beginning of fiscal year	\$ 2,220	\$ 2,292	\$ 1,093	\$ 1,191
Service cost	47	46	13	14
Interest cost	42	42	46	43
Actuarial (gains) losses	347	(22)	125	(69)
Benefits and administrative expenses paid	(82)	(77)	(82)	(86)
Currency translation	(92)	(43)	—	—
Other	1	(18)	—	—
Benefit obligation at end of fiscal year	<u>2,483</u>	<u>2,220</u>	<u>1,195</u>	<u>1,093</u>
<i>Change in plan assets:</i>				
Fair value of plan assets at beginning of fiscal year	1,390	1,402	917	963
Actual return on plan assets	186	51	100	37
Employer contributions	43	51	2	3
Benefits and administrative expenses paid	(82)	(77)	(82)	(86)
Currency translation	(42)	(30)	—	—
Other	(6)	(7)	—	—
Fair value of plan assets at end of fiscal year	<u>1,489</u>	<u>1,390</u>	<u>937</u>	<u>917</u>
Funded status	<u>\$ (994)</u>	<u>\$ (830)</u>	<u>\$ (258)</u>	<u>\$ (176)</u>
<i>Amounts recognized on the Consolidated Balance Sheets:</i>				
Other assets	\$ 128	\$ 107	\$ —	\$ —
Accrued and other current liabilities	(25)	(23)	(5)	(5)
Long-term pension and postretirement liabilities	(1,097)	(914)	(253)	(171)
Net amount recognized	<u>\$ (994)</u>	<u>\$ (830)</u>	<u>\$ (258)</u>	<u>\$ (176)</u>
<i>Pre-tax amounts included in accumulated other comprehensive income (loss) which have not yet been recognized in net periodic pension benefit cost:</i>				
Net actuarial loss	\$ (656)	\$ (476)	\$ (290)	\$ (224)
Prior service (cost) credit	43	58	(2)	(2)
Total	<u>\$ (613)</u>	<u>\$ (418)</u>	<u>\$ (292)</u>	<u>\$ (226)</u>
<i>Weighted-average assumptions used to determine pension benefit obligation at fiscal year end:</i>				
Discount rate	1.01 %	1.94 %	3.14 %	4.35 %
Rate of compensation increase	2.53 %	2.57 %	— %	— %

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

	<u>Non-U.S. Plans</u>		<u>U.S. Plans</u>	
	<u>Fiscal</u>		<u>Fiscal</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
	(in millions)			
Current year net actuarial (gain) loss recorded in accumulated other comprehensive income (loss)	\$ (204)	\$ 13	\$ (83)	\$ 46
Amortization of net actuarial loss	24	24	17	22
Current year prior service cost (credit) recorded in accumulated other comprehensive income (loss)	(8)	5	—	—
Amortization of prior service cost (credit)	(7)	(6)	—	—
	<u>\$ (195)</u>	<u>\$ 36</u>	<u>\$ (66)</u>	<u>\$ 68</u>

In fiscal 2019, 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 non-U.S. and U.S. defined benefit pension plans as compared to fiscal 2018. In fiscal 2018, unrecognized actuarial gains recorded in accumulated other comprehensive income (loss) were primarily the result of higher discount rates and favorable asset performance for both non-U.S. and U.S. defined benefit pension plans as compared to fiscal 2017.

The estimated amortization of actuarial losses from accumulated other comprehensive income (loss) into net periodic pension benefit cost for non-U.S. and U.S. defined benefit pension plans in fiscal 2020 is expected to be \$40 million and \$9 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 2020 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 non-U.S. and U.S. pension plans are governed locally. Our investment strategy for our pension plans is to manage the plans on a going concern basis. Current investment policy is to achieve a reasonable return on assets, subject to a prudent level of portfolio risk, for the purpose of enhancing the security of benefits for participants. Projected returns are based primarily on pro forma asset allocation, expected long-term returns, and forward-looking estimates of active portfolio and investment management.

At fiscal year end 2019, the long-term target asset allocation in our U.S. plans' master trust is 5% return-seeking assets and 95% liability-hedging assets. Return-seeking assets, including non-U.S. and U.S. equity securities, are assets intended to generate returns in excess of pension liability growth. Liability-hedging assets, including government and corporate bonds, are assets intended to have characteristics similar to pension liabilities and are used to better match asset cash flows with expected obligation cash flows. Asset re-allocation to meet that target is occurring over a multi-year period based on the funded status. We expect to reach our target allocation when the funded status of the plans exceeds 115%. Based on the funded status of the plans as of fiscal year end 2019, our target asset allocation is 67% return-seeking and 33% liability-hedging.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

	Non-U.S. Plans			U.S. Plans		
	Target	Fiscal Year End 2019	Fiscal Year End 2018	Target	Fiscal Year End 2019	Fiscal Year End 2018
Asset category:						
Equity securities	25 %	26 %	29 %	67 %	41 %	53 %
Fixed income	55	53	49	33	59	47
Insurance contracts and other investments	17	18	20	—	—	—
Real estate investments	3	3	2	—	—	—
Total	100 %	100 %	100 %	100 %	100 %	100 %

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

Our funding policy is to make contributions in accordance with the laws and customs of the various countries in which we operate as well as to make discretionary voluntary contributions from time to time. We expect to make the minimum required contributions of \$42 million and \$26 million to our non-U.S. and U.S. pension plans, respectively, in fiscal 2020. We may also make voluntary contributions at our discretion.

At fiscal year end 2019, benefit payments, which reflect future expected service, as appropriate, are expected to be paid as follows:

	Non-U.S. Plans	U.S. Plans
	(in millions)	
Fiscal 2020	\$ 82	\$ 77
Fiscal 2021	77	74
Fiscal 2022	81	74
Fiscal 2023	85	74
Fiscal 2024	86	74
Fiscal 2025-2029	490	361

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

	Non-U.S. Plans		U.S. Plans	
	Fiscal Year End		Fiscal Year End	
	2019	2018	2019	2018
	(in millions)			
Accumulated benefit obligation	\$ 2,340	\$ 2,099	\$ 1,195	\$ 1,093
Pension plans with accumulated benefit obligations in excess of plan assets:				
Accumulated benefit obligation	1,304	1,400	1,195	1,093
Fair value of plan assets	316	580	937	917
Pension plans with projected benefit obligations in excess of plan assets:				
Projected benefit obligation	1,453	1,560	1,195	1,093
Fair value of plan assets	331	623	937	917

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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 2019							
	Non-U.S. Plans				U.S. Plans			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	(in millions)							
Equity:								
Commingled equity funds ⁽¹⁾	\$ —	\$ 339	\$ —	\$ 339	\$ —	\$ 385	\$ —	\$ 385
Fixed income:								
Government bonds ⁽²⁾	—	315	—	315	—	—	—	—
Corporate bonds ⁽³⁾	—	137	—	137	—	—	—	—
Commingled bond funds ⁽⁴⁾	—	359	—	359	—	540	—	540
Other ⁽⁵⁾	—	162	157	319	—	11	—	11
Subtotal	<u>\$ —</u>	<u>\$ 1,312</u>	<u>\$ 157</u>	<u>1,469</u>	<u>\$ —</u>	<u>\$ 936</u>	<u>\$ —</u>	<u>936</u>
Items to reconcile to fair value of plan assets ⁽⁶⁾				20				1
Fair value of plan assets				<u>\$ 1,489</u>				<u>\$ 937</u>

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

- (1) 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.
- (2) 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.
- (3) 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.
- (4) 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.
- (5) 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).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

- (6) 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.
- (7) Non-U.S. and U.S. equity securities are valued at the closing price reported on the stock exchange on which the individual securities are traded.

Changes in Level 3 assets in non-U.S. plans were primarily the result of purchases in fiscal 2019 and 2018.

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 \$63 million, \$62 million, and \$60 million for fiscal 2019, 2018, and 2017, 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 several funds in our 401(k) plans and the account balance fluctuates with the investment returns on those funds. At fiscal year end 2019 and 2018, total deferred compensation liabilities were \$203 million and \$189 million, respectively, and were recorded primarily in other liabilities on the Consolidated Balance Sheets. See Note 13 for additional information regarding our risk management strategy related to deferred compensation liabilities.

Postretirement Benefit Plans

In addition to providing pension and 401(k) benefits, we also provide certain health care coverage continuation for qualifying retirees from the date of retirement to age 65. The accumulated postretirement benefit obligation was \$18 million at fiscal year end 2019 and 2018, and the underfunded status of the postretirement benefit plans was included primarily in long-term pension and postretirement liabilities on the Consolidated Balance Sheets. Activity during fiscal 2019, 2018, and 2017 was not significant.

15. Income Taxes

Income Tax Expense (Benefit)

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

	<u>2019</u>	<u>Fiscal 2018</u>	<u>2017</u>
	(in millions)		
Current income tax expense (benefit):			
U.S.:			
Federal	\$ (28)	\$ 20	\$ (9)
State	2	21	9
Non-U.S.	229	406	322
	<u>203</u>	<u>447</u>	<u>322</u>
Deferred income tax expense (benefit):			
U.S.:			
Federal	(25)	499	(119)
State	(8)	(30)	(15)
Non-U.S.	(185)	(1,260)	(8)
	<u>(218)</u>	<u>(791)</u>	<u>(142)</u>
Income tax expense (benefit)	<u>\$ (15)</u>	<u>\$ (344)</u>	<u>\$ 180</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

	Fiscal		
	2019	2018	2017
	(in millions)		
U.S.	\$ (216)	\$ (245)	\$ (273)
Non-U.S.	2,147	2,485	1,993
Income from continuing operations before income taxes	<u>\$ 1,931</u>	<u>\$ 2,240</u>	<u>\$ 1,720</u>

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

	Fiscal		
	2019	2018	2017
	(in millions)		
Notional U.S. federal income tax expense at the statutory rate ⁽¹⁾	\$ 406	\$ 551	\$ 602
Adjustments to reconcile to the income tax expense (benefit):			
U.S. state income tax benefit, net	(5)	(7)	(4)
Tax law changes	15	638	7
Tax credits	(22)	(8)	(8)
Non-U.S. net earnings ⁽²⁾	(166)	(213)	(355)
Change in accrued income tax liabilities	(61)	13	24
Valuation allowance	(163)	33	(1)
Legal entity restructuring and intercompany transactions	3	(1,329)	(40)
Excess tax benefits from share-based payments	(8)	(24)	(40)
Other	(14)	2	(5)
Income tax expense (benefit)	<u>\$ (15)</u>	<u>\$ (344)</u>	<u>\$ 180</u>

(1) The U.S. federal statutory rate was 21% for fiscal 2019, 24.58% for fiscal 2018, and 35% for fiscal 2017.

(2) Excludes items which are separately presented.

The income tax benefit for fiscal 2019 included a \$216 million income tax benefit related to the tax impacts of certain measures of the Switzerland Federal Act on Tax Reform and AHV Financing (“Swiss Tax Reform”), a \$90 million income tax benefit related to the effective settlement of a tax audit in a non-U.S. jurisdiction, and \$15 million of income tax expense associated with the tax impacts of certain legal entity restructurings and intercompany transactions. See “Swiss Tax Reform” below for additional information regarding Swiss Tax Reform.

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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:

	Fiscal Year End	
	2019	2018
(in millions)		
Deferred tax assets:		
Accrued liabilities and reserves	\$ 245	\$ 255
Tax loss and credit carryforwards	6,041	3,237
Inventories	43	58
Intangible assets	964	—
Pension and postretirement benefits	248	179
Deferred revenue	4	5
Interest	134	30
Unrecognized income tax benefits	7	8
Basis difference in subsidiaries	—	946
Other	8	13
Gross deferred tax assets	7,694	4,731
Valuation allowance	(4,970)	(2,191)
Deferred tax assets, net of valuation allowance	2,724	2,540
Deferred tax liabilities:		
Intangible assets	—	(552)
Property, plant, and equipment	(57)	(13)
Other	(47)	(38)
Total deferred tax liabilities	(104)	(603)
Net deferred tax assets	<u>\$ 2,620</u>	<u>\$ 1,937</u>

Our tax loss and credit carryforwards (tax effected) at fiscal year end 2019 were as follows:

	Expiration Period			Total
	Through Fiscal 2024	Fiscal 2025 Through Fiscal 2039	No Expiration	
(in millions)				
U.S. Federal:				
Net operating loss carryforwards	\$ 128	\$ 359	\$ 41	\$ 528
Tax credit carryforwards	42	123	—	165
Capital loss carryforwards	1	—	—	1
U.S. State:				
Net operating loss carryforwards	50	39	—	89
Tax credit carryforwards	8	13	3	24
Non-U.S.:				
Net operating loss carryforwards	12	3,437	1,756	5,205
Tax credit carryforwards	—	—	1	1
Capital loss carryforwards	—	2	26	28
Total tax loss and credit carryforwards	<u>\$ 241</u>	<u>\$ 3,973</u>	<u>\$ 1,827</u>	<u>\$ 6,041</u>

The valuation allowance for deferred tax assets of \$4,970 million and \$2,191 million at fiscal year end 2019 and 2018, 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 2019, tax loss and carryforwards increased primarily as a result of a \$2,891 million (tax effected) net write-down of investments in subsidiaries in certain jurisdictions,

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

offset by a corresponding increase to the valuation allowance. We believe that we will generate sufficient future taxable income to realize the income tax benefits related to the remaining net deferred tax assets on the Consolidated Balance Sheet.

We have provided income taxes for earnings that are currently distributed as well as the taxes associated with several subsidiaries' earnings that are expected to be distributed in the future. No additional provision has been made for Swiss or non-Swiss income taxes on the undistributed earnings of subsidiaries or for unrecognized deferred tax liabilities for temporary differences related to basis differences in investments in subsidiaries, as such earnings are expected to be permanently reinvested, the investments are essentially permanent in duration, or we have concluded that no additional tax liability will arise as a result of the distribution of such earnings. As of fiscal year end 2019, certain subsidiaries had approximately \$26 billion of cumulative undistributed earnings that have been retained indefinitely and reinvested in our global manufacturing operations, including working capital; property, plant, and equipment; intangible assets; and research and development activities. A liability could arise if our intention to permanently reinvest such earnings were to change and amounts are distributed by such subsidiaries or if such subsidiaries are ultimately disposed. It is not practicable to estimate the additional income taxes related to permanently reinvested earnings or the basis differences related to investments in subsidiaries. As of fiscal year end 2019, we had approximately \$9.1 billion of cash, cash equivalents, and intercompany deposits, principally in our subsidiaries, that we have the ability to distribute to TEGSA, our Luxembourg subsidiary, which is the obligor of substantially all of our debt, and to TE Connectivity Ltd., our Swiss parent company, but we consider to be permanently reinvested. We estimate that up to \$1.0 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 2019, we had total unrecognized income tax benefits of \$542 million. If recognized in future years, \$397 million of these currently unrecognized income tax benefits would impact income tax expense (benefit) and the effective tax rate. As of fiscal year end 2018, we had total unrecognized income tax benefits of \$566 million. If recognized in future years, \$467 million of these currently unrecognized income tax benefits would impact income tax expense (benefit) and the effective tax rate. The following table summarizes the activity related to unrecognized income tax benefits:

	Fiscal		
	2019	2018	2017
	(in millions)		
Balance at beginning of fiscal year	\$ 566	\$ 501	\$ 490
Additions related to prior years tax positions	13	14	40
Reductions related to prior years tax positions	(101)	(11)	(9)
Additions related to current year tax positions	98	105	70
Settlements	(2)	(7)	(4)
Reductions due to lapse of applicable statute of limitations	(32)	(36)	(86)
Balance at end of fiscal year	<u>\$ 542</u>	<u>\$ 566</u>	<u>\$ 501</u>

We record accrued interest and penalties related to uncertain tax positions as part of income tax expense (benefit). As of fiscal year end 2019 and 2018, we had \$42 million and \$60 million, respectively, of accrued interest and penalties related to uncertain tax positions on the Consolidated Balance Sheets, recorded primarily in income taxes. During fiscal 2019, 2018, and 2017, we recognized income tax benefits of \$14 million, expense of \$5 million, and benefits of \$5 million, respectively, related to interest and penalties on the Consolidated Statements of Operations.

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

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

TE CONNECTIVITY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

As of fiscal year end 2019, under applicable statutes, the following tax years remained subject to examination in the major tax jurisdictions indicated:

<u>Jurisdiction</u>	<u>Open Years</u>
Brazil	2014 through 2019
China	2009 through 2019
Czech Republic	2016 through 2019
France	2016 through 2019
Germany	2017 through 2019
Hong Kong	2013 through 2019
Ireland	2014 through 2019
Italy	2014 through 2019
Japan	2013 through 2019
Luxembourg	2014 through 2019
Mexico	2014 through 2019
Singapore	2014 through 2019
South Korea	2014 through 2019
Spain	2015 through 2019
Switzerland	2014 through 2019
Thailand	2017 through 2019
United Kingdom	2017 through 2019
U.S.—federal	2016 through 2019

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 \$100 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 2019.

Other Income Tax Matters

Swiss Tax Reform

Swiss Parliament approved the Federal Act on Tax Reform and AHV Financing in September 2018, and it was approved by public vote on May 19, 2019. Swiss Tax Reform eliminates certain preferential tax items and implements new tax rates at both the federal and cantonal levels.

Subsequent to the public approval of Swiss Tax Reform, on May 24, 2019, the federal tax authority issued guidance abolishing certain interest deductions effective January 1, 2020. The federal provisions of Swiss Tax Reform were enacted into law in the quarter ended September 27, 2019. Based on our forecast of taxable income and the abolishment of certain interest deductions, we believe it is more likely than not that additional deferred tax assets for tax loss carryforwards in Switzerland will be realized in the future. As a result, during fiscal 2019, we recorded a \$216 million income tax benefit related primarily to the reduction to the valuation allowance for deferred tax assets.

In October 2019, the canton of Schaffhausen enacted Swiss Tax Reform into law. We are currently assessing the impacts of the cantonal implementation, including reductions in tax rates.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Tax Cuts and Jobs Act

The Tax Cuts and Jobs Act, which was enacted in December 2017, included numerous significant changes to existing tax law, including a permanent reduction in the U.S. federal corporate income tax rate to 21%, effective January 1, 2018; 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. In the period of enactment, we revalued our U.S. federal deferred tax assets and liabilities at the 21% tax rate and 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.

Tax Sharing Agreement

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

16. 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		
	2019	2018	2017
	(in millions)		
Basic	338	350	355
Dilutive impact of share-based compensation arrangements	2	3	3
Diluted	340	353	358

The following share options were not included in the computation of diluted earnings per share because the instruments’ underlying exercise prices were greater than the average market prices of our common shares and inclusion would be antidilutive:

	Fiscal		
	2019	2018	2017
	(in millions)		
Antidilutive share options	1	1	1

17. 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.

TE CONNECTIVITY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

Common Shares Held in Treasury

At fiscal year end 2019, approximately 16 million common shares were held in treasury, of which 4 million were owned by one of our subsidiaries. At fiscal year end 2018, approximately 12 million common shares were held in treasury, of which 6 million were owned by one of our subsidiaries. Shares held both directly by us and by our subsidiary are presented as treasury shares on the Consolidated Balance Sheets.

In fiscal 2019 and 2017, our shareholders approved the cancellation of 6 million and 26 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 2019 and 2018, Swiss Contributed Surplus was CHF 6,107 million and CHF 6,724 million, respectively (equivalent to \$5,195 million and \$5,809 million, respectively).

Dividends

We paid cash dividends to shareholders of \$1.80, \$1.68, and \$1.54 per share in fiscal 2019, 2018, and 2017, respectively.

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

TE CONNECTIVITY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Our shareholders approved the following dividends on our common shares:

<u>Approval Date</u>	<u>Annual Payment Per Share</u>	<u>Payment Timing</u>
March 2016	\$1.48, payable in four quarterly installments of \$0.37	Third quarter of fiscal 2016 Fourth quarter of fiscal 2016 First quarter of fiscal 2017 Second quarter of fiscal 2017
March 2017	\$1.60, payable in four quarterly installments of \$0.40	Third quarter of fiscal 2017 Fourth quarter of fiscal 2017 First quarter of fiscal 2018 Second quarter of fiscal 2018
March 2018	\$1.76, payable in four quarterly installments of \$0.44	Third quarter of fiscal 2018 Fourth quarter of fiscal 2018 First quarter of fiscal 2019 Second quarter of fiscal 2019
March 2019	\$1.84, payable in four quarterly installments of \$0.46	Third quarter of fiscal 2019 Fourth quarter of fiscal 2019 First quarter of fiscal 2020 Second quarter of fiscal 2020

Upon shareholders' approval of a dividend payment, we record a liability with a corresponding charge to shareholders' equity. At fiscal year end 2019 and 2018, the unpaid portion of the dividends recorded in accrued and other current liabilities on the Consolidated Balance Sheets totaled \$308 million and \$303 million, respectively.

Share Repurchase Program

In both fiscal 2019 and 2018, our board of directors authorized increases of \$1.5 billion in our share repurchase program. Common shares repurchased under the share repurchase program were as follows:

	<u>Fiscal</u>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
	(in millions)		
Number of common shares repurchased	12	10	8
Repurchase value	\$ 1,014	\$ 966	\$ 621

At fiscal year end 2019, we had \$1.5 billion of availability remaining under our share repurchase authorization.

TE CONNECTIVITY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

18. Accumulated Other Comprehensive Income (Loss)

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

	Foreign Currency Translation Adjustments ⁽¹⁾	Unrecognized Pension and Postretirement Benefit Costs	Gains (Losses) on Cash Flow Hedges	Accumulated Other Comprehensive Income (Loss)
	(in millions)			
Balance at fiscal year end 2016	\$ 316	\$ (826)	\$ (32)	\$ (542)
Other comprehensive income, net of tax:				
Other comprehensive income before reclassifications	38	378	32	448
Amounts reclassified from accumulated other comprehensive income (loss)	(1)	74	(14)	59
Income tax expense	—	(122)	(3)	(125)
Other comprehensive income, net of tax	37	330	15	382
Balance at fiscal year end 2017	353	(496)	(17)	(160)
Adoption of ASU No. 2018-02	—	(39)	1	(38)
Other comprehensive income (loss), net of tax:				
Other comprehensive income (loss) before reclassifications	(117)	64	(60)	(113)
Amounts reclassified from accumulated other comprehensive income (loss)	—	40	(23)	17
Income tax (expense) benefit	—	(21)	9	(12)
Other comprehensive income (loss), net of tax	(117)	83	(74)	(108)
Balance at fiscal year end 2018	236	(452)	(90)	(306)
Other comprehensive income (loss), net of tax:				
Other comprehensive income (loss) before reclassifications	(115)	(295)	35	(375)
Amounts reclassified from accumulated other comprehensive income (loss)	67 ⁽²⁾	34	15	116
Income tax (expense) benefit	—	66	(4)	62
Other comprehensive income (loss), net of tax	(48)	(195)	46	(197)
Balance at fiscal year end 2019	\$ 188	\$ (647)	\$ (44)	\$ (503)

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

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

19. 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, is the primary plan, provide for the award of annual performance bonuses and long-term performance awards, including share options; restricted, performance, and deferred share units; and other share-based awards (collectively, “Awards”) and allow for the use of unissued shares or treasury shares to be used to satisfy such Awards. As of fiscal year end 2019, 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 18 million shares remained available for issuance under our plans as of fiscal year end 2019.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Share-Based Compensation Expense

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

	Fiscal		
	2019	2018	2017
	(in millions)		
Share-based compensation expense	\$ 75	\$ 95	\$ 95

We recognized a related tax benefit associated with our share-based compensation arrangements of \$16 million, \$20 million, and \$31 million in fiscal 2019, 2018, and 2017, 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 2018	1,631,470
Granted	692,899	77.77
Vested	(689,040)	70.31
Forfeited	(232,910)	78.80
Nonvested at fiscal year end 2019	1,402,419	\$ 78.36

The weighted-average grant-date fair value of restricted share awards granted during fiscal 2019, 2018, and 2017 was \$77.77, \$93.45, and \$67.72, respectively.

The total fair value of restricted share awards that vested during fiscal 2019, 2018, and 2017 was \$48 million, \$50 million, and \$50 million, respectively.

As of fiscal year end 2019, there was \$64 million of unrecognized compensation expense related to nonvested restricted share awards, which 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.

TE CONNECTIVITY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Performance share award activity was as follows:

	Shares	Weighted-Average Grant-Date Fair Value
Outstanding at fiscal year end 2018	688,903	\$ 73.38
Granted	397,716	71.38
Vested	(448,652)	65.84
Forfeited	(52,844)	74.87
Outstanding at fiscal year end 2019	<u>585,123</u>	\$ 77.44

The weighted-average grant-date fair value of performance share awards granted during fiscal 2019, 2018, and 2017 was \$71.38, \$92.96, and \$62.88, respectively.

The total fair value of performance share awards that vested during fiscal 2019, 2018, and 2017 was \$30 million, \$19 million, and \$15 million, respectively.

As of fiscal year end 2019, there was \$16 million of unrecognized compensation expense related to nonvested performance share awards, which is expected to be recognized over a weighted-average period of 1.0 years.

Share Options

Share options are granted to purchase our common shares at prices which are equal to or greater than the market price of the common shares on the date the option is granted. Conditions of vesting are determined at the time of grant. All restrictions on the award will lapse upon death or disability of the employee. If the employee satisfies retirement requirements, a portion of the award may vest, depending on the terms and conditions of the particular grant. Options generally vest and become 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 2018	6,759,077	\$ 65.85		
Granted	1,608,300	76.91		
Exercised	(1,546,377)	54.09		
Expired	(19,099)	85.80		
Forfeited	<u>(456,958)</u>	75.95		
Outstanding at fiscal year end 2019	<u>6,344,943</u>	\$ 70.72	7.0	\$ 140
Vested and expected to vest at fiscal year end 2019	6,000,393	\$ 70.31	7.0	\$ 135
Exercisable at fiscal year end 2019	2,855,129	\$ 62.01	5.6	\$ 88

The weighted-average exercise price of share option awards granted during fiscal 2019, 2018, and 2017 was \$76.91, \$93.44, and \$66.76, respectively.

The total intrinsic value of options exercised during fiscal 2019, 2018, and 2017 was \$58 million, \$106 million, and \$130 million, respectively. We received cash related to the exercise of options of \$85 million, \$100 million, and \$117 million in fiscal 2019, 2018, and 2017, respectively.

As of fiscal year end 2019, there was \$30 million of unrecognized compensation expense related to nonvested share options granted under our share option plans, which is expected to be recognized over a weighted-average period of 1.7 years.

TE CONNECTIVITY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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.

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		
	2019	2018	2017
Weighted-average grant-date fair value	\$ 13.40	\$ 16.49	\$ 12.80
Assumptions:			
Expected share price volatility	20 %	20 %	24 %
Risk-free interest rate	3.0 %	2.2 %	1.9 %
Expected annual dividend per share	\$ 1.76	\$ 1.60	\$ 1.48
Expected life of options (in years)	5.2	5.3	5.6

20. Segment and Geographic Data

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Net sales by segment and industry end market⁽¹⁾ were as follows:

	Fiscal		
	2019	2018	2017
	(in millions)		
Transportation Solutions:			
Automotive	\$ 5,686	\$ 6,092	\$ 5,228
Commercial transportation	1,221	1,280	997
Sensors	914	918	814
Total Transportation Solutions	7,821	8,290	7,039
Industrial Solutions:			
Industrial equipment	1,949	1,987	1,747
Aerospace, defense, oil, and gas	1,306	1,157	1,075
Energy	699	712	685
Total Industrial Solutions	3,954	3,856	3,507
Communications Solutions:			
Data and devices	993	1,068	963
Appliances	680	774	676
Total Communications Solutions	1,673	1,842	1,639
Total	\$ 13,448	\$ 13,988	\$ 12,185

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

Net sales by geographic region and segment were as follows:

	Fiscal		
	2019	2018	2017
	(in millions)		
Europe/Middle East/Africa (“EMEA”):			
Transportation Solutions	\$ 3,099	\$ 3,417	\$ 2,786
Industrial Solutions	1,466	1,534	1,354
Communications Solutions	258	304	259
Total EMEA	4,823	5,255	4,399
Asia-Pacific:			
Transportation Solutions	2,812	3,025	2,715
Industrial Solutions	625	668	634
Communications Solutions	964	1,069	963
Total Asia-Pacific	4,401	4,762	4,312
Americas:			
Transportation Solutions	1,910	1,848	1,538
Industrial Solutions	1,863	1,654	1,519
Communications Solutions	451	469	417
Total Americas	4,224	3,971	3,474
Total	\$ 13,448	\$ 13,988	\$ 12,185

Operating income by segment was as follows:

	Fiscal		
	2019	2018	2017
	(in millions)		
Transportation Solutions	\$ 1,226	\$ 1,578	\$ 1,294
Industrial Solutions	543	465	364
Communications Solutions	209	288	218
Total	\$ 1,978	\$ 2,331	\$ 1,876

TE CONNECTIVITY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

No single customer accounted for a significant amount of our net sales in fiscal 2019, 2018, or 2017.

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

Depreciation and amortization and capital expenditures were as follows:

	Depreciation and Amortization			Capital Expenditures		
	Fiscal			Fiscal		
	2019	2018	2017	2019	2018	2017
	(in millions)					
Transportation Solutions	\$ 442	\$ 416	\$ 362	\$ 530	\$ 711	\$ 473
Industrial Solutions	181	178	165	145	145	123
Communications Solutions	67	73	84	74	79	83
Total	<u>\$ 690</u>	<u>\$ 667</u>	<u>\$ 611</u>	<u>\$ 749</u>	<u>\$ 935</u>	<u>\$ 679</u>

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

	Segment Assets Fiscal Year End		
	2019	2018	2017
	(in millions)		
Transportation Solutions	\$ 4,781	\$ 4,707	\$ 4,084
Industrial Solutions	2,100	2,049	1,909
Communications Solutions	849	959	951
Total segment assets ⁽¹⁾	7,730	7,715	6,944
Other current assets	1,398	1,981	2,141
Other non-current assets	10,566	10,690	10,318
Total assets	<u>\$ 19,694</u>	<u>\$ 20,386</u>	<u>\$ 19,403</u>

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

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

	Net Sales ⁽¹⁾ Fiscal			Property, Plant, and Equipment, Net Fiscal Year End		
	2019	2018	2017	2019	2018	2017
	(in millions)					
EMEA:						
Switzerland	\$ 3,251	\$ 3,478	\$ 3,016	\$ 92	\$ 94	\$ 80
Germany	404	443	235	443	448	413
Other EMEA	1,168	1,334	1,148	851	829	741
Total EMEA	<u>4,823</u>	<u>5,255</u>	<u>4,399</u>	<u>1,386</u>	<u>1,371</u>	<u>1,234</u>
Asia-Pacific:						
China	2,443	2,739	2,414	642	627	555
Other Asia-Pacific	1,958	2,023	1,898	449	436	390
Total Asia-Pacific	<u>4,401</u>	<u>4,762</u>	<u>4,312</u>	<u>1,091</u>	<u>1,063</u>	<u>945</u>
Americas:						
U.S.	3,794	3,583	3,136	991	964	880
Other Americas	430	388	338	106	99	100
Total Americas	<u>4,224</u>	<u>3,971</u>	<u>3,474</u>	<u>1,097</u>	<u>1,063</u>	<u>980</u>
Total	<u>\$ 13,448</u>	<u>\$ 13,988</u>	<u>\$ 12,185</u>	<u>\$ 3,574</u>	<u>\$ 3,497</u>	<u>\$ 3,159</u>

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

TE CONNECTIVITY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

21. Quarterly Financial Data (unaudited)

Summarized quarterly financial data was as follows:

	Fiscal							
	2019				2018			
	First Quarter ⁽¹⁾	Second Quarter	Third Quarter ⁽²⁾	Fourth Quarter	First Quarter ⁽³⁾	Second Quarter	Third Quarter	Fourth Quarter ⁽⁴⁾
	(in millions, except per share data)							
Net sales	\$ 3,347	\$ 3,412	\$ 3,389	\$ 3,300	\$ 3,336	\$ 3,562	\$ 3,581	\$ 3,509
Gross margin	1,114	1,118	1,110	1,052	1,164	1,212	1,187	1,182
Acquisition and integration costs	5	7	9	6	2	3	4	5
Restructuring and other charges, net	75	42	67	71	34	6	64	22
Income (loss) from continuing operations	383	429	758	376	(33)	490	453	1,674
Income (loss) from discontinued operations, net of income taxes	(107)	10	(1)	(4)	(7)	—	1	(13)
Net income (loss)	276	439	757	372	(40)	490	454	1,661
Basic earnings (loss) per share:								
Income (loss) from continuing operations	\$ 1.12	\$ 1.27	\$ 2.25	\$ 1.12	\$ (0.09)	\$ 1.40	\$ 1.30	\$ 4.82
Net income (loss)	0.81	1.30	2.25	1.11	(0.11)	1.40	1.30	4.79
Diluted earnings (loss) per share:								
Income (loss) from continuing operations	\$ 1.11	\$ 1.26	\$ 2.24	\$ 1.11	\$ (0.09)	\$ 1.38	\$ 1.29	\$ 4.78
Net income (loss)	0.80	1.29	2.23	1.10	(0.11)	1.38	1.29	4.75

- (1) Results for the quarter ended December 28, 2018 included a pre-tax loss of \$86 million on the sale of our SubCom business which was reported as a discontinued operation on our Consolidated Financial Statements. See Note 4 for additional information regarding discontinued operations.
- (2) Results for the quarter ended June 28, 2019 included a \$214 million income tax benefit related to the tax impacts of certain measures of Swiss Tax Reform and a \$93 million income tax benefit related to the effective settlement of a tax audit in a non-U.S. jurisdiction. See Note 15 for additional information regarding income taxes.
- (3) Results for the quarter ended December 29, 2017 included \$567 million of income tax expense related to the tax impacts of the Tax Cuts and Jobs Act. See Note 15 for additional information regarding income taxes.
- (4) Results for the quarter ended September 28, 2018 included a \$1,222 million net income tax benefit associated with the tax impacts of certain legal entity restructurings and intercompany transactions. See Note 15 for additional information regarding income taxes.

22. 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.

TE CONNECTIVITY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

**Condensed Consolidating Statement of Operations
For the Fiscal Year Ended September 27, 2019**

	TE Connectivity Ltd.	TEGSA	Other Subsidiaries (in millions)	Consolidating Adjustments	Total
Net sales	\$ —	\$ —	\$ 13,448	\$ —	\$ 13,448
Cost of sales	—	—	9,054	—	9,054
Gross margin	—	—	4,394	—	4,394
Selling, general, and administrative expenses, net ⁽¹⁾	128	(155)	1,517	—	1,490
Research, development, and engineering expenses	—	—	644	—	644
Acquisition and integration costs	—	—	27	—	27
Restructuring and other charges, net	—	—	255	—	255
Operating income (loss)	(128)	155	1,951	—	1,978
Interest income	—	1	18	—	19
Interest expense	—	(64)	(4)	—	(68)
Other income, net	—	1	1	—	2
Equity in net income of subsidiaries	2,194	2,287	—	(4,481)	—
Equity in net loss of subsidiaries of discontinued operations	(102)	(52)	—	154	—
Intercompany interest income (expense), net	(120)	(186)	306	—	—
Income from continuing operations before income taxes	1,844	2,142	2,272	(4,327)	1,931
Income tax benefit	—	—	15	—	15
Income from continuing operations	1,844	2,142	2,287	(4,327)	1,946
Loss from discontinued operations, net of income taxes	—	(50)	(52)	—	(102)
Net income	1,844	2,092	2,235	(4,327)	1,844
Other comprehensive loss	(197)	(197)	(290)	487	(197)
Comprehensive income	<u>\$ 1,647</u>	<u>\$ 1,895</u>	<u>\$ 1,945</u>	<u>\$ (3,840)</u>	<u>\$ 1,647</u>

- (1) TEGSA selling, general, and administrative expenses include gains of \$194 million related to intercompany transactions. These gains are offset by corresponding losses recorded by other subsidiaries.

TE CONNECTIVITY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

TE CONNECTIVITY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

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

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

TE CONNECTIVITY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

**Condensed Consolidating Balance Sheet
As of September 27, 2019**

	TE Connectivity Ltd.	TEGSA	Other Subsidiaries (in millions)	Consolidating Adjustments	Total
Assets					
Current assets:					
Cash and cash equivalents	\$ —	\$ —	\$ 927	\$ —	\$ 927
Accounts receivable, net	—	—	2,320	—	2,320
Inventories	—	—	1,836	—	1,836
Intercompany receivables	49	2,959	60	(3,068)	—
Prepaid expenses and other current assets	4	36	431	—	471
Total current assets	53	2,995	5,574	(3,068)	5,554
Property, plant, and equipment, net	—	—	3,574	—	3,574
Goodwill	—	—	5,740	—	5,740
Intangible assets, net	—	—	1,596	—	1,596
Deferred income taxes	—	—	2,776	—	2,776
Investment in subsidiaries	13,865	28,336	—	(42,201)	—
Intercompany loans receivable	—	2,562	16,033	(18,595)	—
Other assets	—	72	382	—	454
Total assets	\$ 13,918	\$ 33,965	\$ 35,675	\$ (63,864)	\$ 19,694
Liabilities and shareholders' equity					
Current liabilities:					
Short-term debt	\$ —	\$ 568	\$ 2	\$ —	\$ 570
Accounts payable	1	—	1,356	—	1,357
Accrued and other current liabilities	328	57	1,228	—	1,613
Intercompany payables	3,019	—	49	(3,068)	—
Total current liabilities	3,348	625	2,635	(3,068)	3,540
Long-term debt	—	3,395	—	—	3,395
Intercompany loans payable	—	16,033	2,562	(18,595)	—
Long-term pension and postretirement liabilities	—	—	1,367	—	1,367
Deferred income taxes	—	—	156	—	156
Income taxes	—	—	239	—	239
Other liabilities	—	47	380	—	427
Total liabilities	3,348	20,100	7,339	(21,663)	9,124
Total shareholders' equity	10,570	13,865	28,336	(42,201)	10,570
Total liabilities and shareholders' equity	\$ 13,918	\$ 33,965	\$ 35,675	\$ (63,864)	\$ 19,694

TE CONNECTIVITY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Condensed Consolidating Balance Sheet
As of September 28, 2018

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

TE CONNECTIVITY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

**Condensed Consolidating Statement of Cash Flows
For the Fiscal Year Ended September 27, 2019**

	TE Connectivity Ltd.	TEGSA	Other Subsidiaries (in millions)	Consolidating Adjustments	Total
Cash flows from operating activities:					
Net cash provided by continuing operating activities ⁽¹⁾	\$ 998	\$ 4,107	\$ 2,920	\$ (5,571)	\$ 2,454
Net cash used in discontinued operating activities	—	—	(32)	—	(32)
Net cash provided by operating activities	998	4,107	2,888	(5,571)	2,422
Cash flows from investing activities:					
Capital expenditures	—	—	(749)	—	(749)
Proceeds from sale of property, plant, and equipment	—	—	43	—	43
Acquisition of businesses, net of cash acquired	—	—	(283)	—	(283)
Proceeds from divestiture of discontinued operation, net of cash retained by sold operation	—	312	(15)	—	297
Change in intercompany loans	—	1,483	—	(1,483)	—
Other	—	—	2	—	2
Net cash provided by (used in) continuing investing activities	—	1,795	(1,002)	(1,483)	(690)
Net cash used in discontinued investing activities	—	—	(2)	—	(2)
Net cash provided by (used in) investing activities	—	1,795	(1,004)	(1,483)	(692)
Cash flows from financing activities:					
Changes in parent company equity ⁽²⁾	78	(4,642)	4,564	—	—
Net decrease in commercial paper	—	(51)	—	—	(51)
Proceeds from issuance of debt	—	746	—	—	746
Repayment of debt	—	(691)	—	—	(691)
Proceeds from exercise of share options	—	—	85	—	85
Repurchase of common shares	(1,052)	—	(39)	—	(1,091)
Payment of common share dividends to shareholders	(608)	—	—	—	(608)
Intercompany distributions ⁽¹⁾	—	(1,260)	(4,311)	5,571	—
Loan activity with parent	584	—	(2,067)	1,483	—
Transfers to discontinued operations	—	—	(34)	—	(34)
Other	—	(4)	(29)	—	(33)
Net cash used in continuing financing activities	(998)	(5,902)	(1,831)	7,054	(1,677)
Net cash provided by discontinued financing activities	—	—	34	—	34
Net cash used in financing activities	(998)	(5,902)	(1,797)	7,054	(1,643)
Effect of currency translation on cash	—	—	(8)	—	(8)
Net increase in cash, cash equivalents, and restricted cash	—	—	79	—	79
Cash, cash equivalents, and restricted cash at beginning of fiscal year	—	—	848	—	848
Cash, cash equivalents, and restricted cash at end of fiscal year	\$ —	\$ —	\$ 927	\$ —	\$ 927

- (1) During fiscal 2019, other subsidiaries made distributions to TEGSA in the amount of \$4,311 million and TEGSA made distributions to TE Connectivity Ltd. in the amount of \$1,260 million. Cash flows are presented based upon the nature of the distributions.
- (2) Changes in parent company equity includes cash flows related to certain intercompany equity and funding transactions, and other intercompany activity.

TE CONNECTIVITY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

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

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

TE CONNECTIVITY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

**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
Cash flows from operating activities:					
Net cash provided by (used in) continuing operating activities ⁽¹⁾	\$ (180)	\$ 102	\$ 2,581	\$ (230)	\$ 2,273
Net cash provided by discontinued operating activities	—	—	48	—	48
Net cash provided by (used in) operating activities	(180)	102	2,629	(230)	2,321
Cash flows from investing activities:					
Capital expenditures	—	—	(679)	—	(679)
Proceeds from sale of property, plant, and equipment	—	—	19	—	19
Acquisition of businesses, net of cash acquired	—	—	(250)	—	(250)
Intercompany distribution receipts ⁽¹⁾	—	516	—	(516)	—
Change in intercompany loans	—	(1,369)	—	1,369	—
Other	—	(12)	13	—	1
Net cash used in continuing investing activities	—	(865)	(897)	853	(909)
Net cash used in discontinued investing activities	—	—	(23)	—	(23)
Net cash used in investing activities	—	(865)	(920)	853	(932)
Cash flows from financing activities:					
Changes in parent company equity ⁽²⁾	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 ⁽¹⁾	—	(50)	(696)	746	—
Loan activity with parent	633	—	736	(1,369)	—
Transfers from discontinued operations	—	—	25	—	25
Other	—	(5)	(25)	—	(30)
Net cash provided by (used in) continuing financing activities	180	763	(1,109)	(623)	(789)
Net cash used in discontinued financing activities	—	—	(25)	—	(25)
Net cash provided by (used in) financing activities	180	763	(1,134)	(623)	(814)
Effect of currency translation on cash	—	—	(4)	—	(4)
Net increase in cash, cash equivalents, and restricted cash	—	—	571	—	571
Cash, cash equivalents, and restricted cash at beginning of fiscal year	—	—	647	—	647
Cash, cash equivalents, and restricted cash at end of fiscal year	\$ —	\$ —	\$ 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.

TE CONNECTIVITY LTD.

SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS

Fiscal Years Ended September 27, 2019, September 28, 2018, and September 29, 2017

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
Fiscal 2019:					
Allowance for doubtful accounts receivable	\$ 22	\$ 9	\$ —	\$ (6)	\$ 25
Valuation allowance on deferred tax assets	2,191	3,248	—	(469)	4,970
Fiscal 2018:					
Allowance for doubtful accounts receivable	\$ 18	\$ 7	\$ (1)	\$ (2)	\$ 22
Valuation allowance on deferred tax assets	3,627	261	—	(1,697)	2,191
Fiscal 2017:					
Allowance for doubtful accounts receivable	\$ 17	\$ 5	\$ —	\$ (4)	\$ 18
Valuation allowance on deferred tax assets	3,096	1,072	—	(541)	3,627

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

To the General meeting of
TE CONNECTIVITY LTD., SCHAFFHAUSEN

Report of the Statutory Auditor on the consolidated financial statements

As Statutory Auditor, we have audited the accompanying consolidated financial statements of TE Connectivity Ltd. (the “Company”), which comprise the consolidated balance sheet as of September 27, 2019, and the consolidated statement of operations, statement of comprehensive income, statement of shareholders’ equity, statement of cash flows and notes for the year then ended.

Board of Directors’ Responsibility

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

Auditor’s Responsibility

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

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

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

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter (KAM):	How the scope of our audit responded to the key audit matters:
<p>Goodwill —Transportation Solutions Reportable Segment — Refer to Notes 2 and 8 to the financial statements</p> <p>The Company’s evaluation of goodwill for impairment involves comparing the carrying amount of each reporting unit to its fair value on the first day of the fourth fiscal quarter or whenever the Company believes a triggering event requiring a more frequent assessment has occurred. The Company uses the income approach based on the present value of future cash flows to estimate fair value. The income approach is supported by guideline analyses (a market approach). These approaches incorporate several assumptions including future growth rates, discount rates, and market activity in assessing fair value and are reporting unit specific. The goodwill balance was \$5.7 billion as of September 27, 2019, of which \$1.1 billion was allocated to a reporting unit within the Transportation Solutions reportable segment. The fair value of this reporting unit exceeded its carrying amount as of the measurement date and, therefore, no impairment was recognized.</p> <p>We identified goodwill for this reporting unit as a critical audit matter because of the significant judgments made by management to estimate its fair value, especially considering future growth rates were based on an expectation of an increase in net sales in a product portfolio with limited historical operating results and limited available third-party industry reports. This required a high degree of auditor judgment and an increased extent of effort, including the need to involve our fair value specialists, when performing audit procedures to evaluate the reasonableness of management’s estimates and assumptions related to forecasts of future revenue and operating margin and the selection of a discount rate.</p>	<p>Our audit procedures related to the forecasts of future revenue and operating margin (the “forecasts”), and the selection of a discount rate for a reporting unit within the Transportation Solutions reportable segment included the following, among others:</p> <ul style="list-style-type: none"> • We tested the effectiveness of controls over management’s goodwill impairment evaluation, including those over the determination of the fair value, such as controls related to forecasts and management’s selection of the discount rate. • We evaluated management’s ability to accurately forecast future revenue and operating margin by comparing actual results to management’s historical forecasts. • We evaluated the reasonableness of management’s forecasts by comparing the forecasts to: <ul style="list-style-type: none"> – Historical operating results of the reporting unit. – Historical operating results of the Company’s other reporting units. – Internal communications to management and the board of directors. – External communications made by management to analysts and investors. – Third-party industry reports for similar products. • With the assistance of our fair value specialists, we evaluated the reasonableness of the (1) valuation methodology and (2) discount rate by: <ul style="list-style-type: none"> – Testing the source information underlying the determination of the discount rate and the mathematical accuracy of the calculation. – Developing a range of independent estimates and comparing those to the discount rate selected by management.
<p>Income Taxes — Realizability of Deferred Tax Assets — Refer to Notes 2 and 15 to the financial statements</p> <p>The Company recognizes deferred income taxes for temporary differences between the amount of assets and liabilities recognized for financial reporting and tax purposes. 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. Future realization of deferred tax assets depends on the existence of sufficient taxable income of the appropriate character prior to expiration.</p>	<p>Our audit procedures related to the determination that it is more likely than not that sufficient taxable income will be generated in the future to realize deferred tax assets included the following, among others:</p> <ul style="list-style-type: none"> • We tested the effectiveness of controls over management’s estimates of the realization of the deferred tax assets, including those over the estimates of taxable income, the approval of tax planning strategies and the determination of whether it is more

<p>Sources of taxable income include future reversals of deferred tax assets and liabilities, expected future taxable income, taxable income in prior carryback years if permitted under the tax law, and tax planning strategies. Management has determined that it is more likely than not that sufficient taxable income will be generated in the future to realize a portion of its deferred tax assets, and therefore, a valuation allowance of \$5.0 billion has been recorded to offset the Company's gross deferred tax assets as of September 27, 2019 of \$7.7 billion.</p> <p>We identified the realizability of deferred tax assets as a critical audit matter because of the Company's tax structure and the significant judgments and estimates made by management to determine that sufficient taxable income will be generated in the future prior to expiration to realize a portion of its deferred tax assets. This required a high degree of auditor judgment and an increased extent of effort, including the need to involve our income tax specialists, when performing audit procedures to evaluate the appropriateness of qualifying tax planning strategies and the reasonableness of management's estimates of taxable income prior to expiration.</p>	<p>likely than not that the deferred tax assets will be realized prior to expiration.</p> <ul style="list-style-type: none"> • We evaluated management's ability to accurately estimate taxable income by comparing actual results to management's historical estimates and evaluating whether there have been any changes that would impact management's ability to continue accurately estimating taxable income. • We tested the reasonableness of management's estimates of taxable income by comparing the estimates to: <ul style="list-style-type: none"> – Historical taxable income. – Internal communications and the Company's strategic plan approved by management and the board of directors. – Management's history of carrying out its stated plans and its ability to carry out its plans considering contractual commitments, available financing, or debt covenants. • We evaluated whether the estimates of future taxable income were consistent with evidence obtained in other areas of the audit. • We evaluated whether the taxable income in prior carryback years was of the appropriate character and available under the tax law. • With the assistance of our income tax specialists, we evaluated (1) the appropriateness of qualifying tax planning strategies, including that they were prudent, feasible and would more likely than not result in the realization of deferred tax assets and (2) management's assessment that sufficient taxable income will be generated in the future to realize a portion of the deferred tax assets prior to expiration.
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Opinion

In our opinion, the consolidated financial statements for the year ended September 27, 2019 present fairly, in all material respects, the financial position of the Company and the result of its operations and its cash flows in accordance with accounting principles generally accepted in the United States of America, and comply with Swiss law.

Report on Other Legal Requirements

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

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

Deloitte AG

/s/ Matthias Gschwend
Licensed Audit Expert
Auditor in charge

/s/ Dominik Voegtli
Licensed Audit Expert

Zurich, November 12, 2019

TE CONNECTIVITY LTD.
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TE CONNECTIVITY LTD.
SWISS STATUTORY FINANCIAL STATEMENTS
STATEMENTS OF OPERATIONS

Fiscal Years Ended September 27, 2019 and September 28, 2018

	Fiscal 2019		Fiscal 2018	
	U.S. dollars	Swiss francs	U.S. dollars	Swiss francs
	(in millions)			
Income				
Income from distributions made by subsidiaries (Note 8).....	\$1,260	CHF 1,254	\$710	CHF 680
Pre-separation tax settlement income, net (Note 3).....	1	1	14	14
Remeasurement gain on foreign currency transactions	7	7	14	15
Insurance premiums charged to subsidiaries	12	12	10	10
Total income, net	1,280	1,274	748	719
Expenses				
Salary and social costs.....	6	6	4	4
General and administrative costs.....	4	4	4	4
Legal and consulting costs	7	7	8	8
Insurance premiums	13	13	12	12
Expenses for services provided by subsidiaries	42	42	48	47
Intercompany interest expense	120	120	70	68
Total expenses	192	192	146	143
Net income	\$1,088	CHF 1,082	\$602	CHF 576

See Notes to Swiss Statutory Financial Statements.

TE CONNECTIVITY LTD.
SWISS STATUTORY FINANCIAL STATEMENTS
BALANCE SHEETS

As of September 27, 2019 and September 28, 2018

	Fiscal Year End 2019		Fiscal Year End 2018	
	U.S. dollars	Swiss francs	U.S. dollars	Swiss francs
	(in millions, except share data)			
Assets				
Current assets:				
Accounts receivable from subsidiaries	\$ 49	CHF 49	\$ 38	CHF 37
Prepaid expenses and other current assets	4	4	5	5
Total current assets	53	53	43	42
Investments in subsidiaries (Notes 2 and 8)	9,635	10,430	9,635	10,430
Total assets	\$9,688	CHF 10,483	\$9,678	CHF 10,472
Liabilities and shareholders' equity				
Current liabilities:				
Accounts payable	\$ 1	CHF 1	\$ 2	CHF 2
Accounts payable to subsidiaries	60	59	48	46
Loans from subsidiaries (Note 3)	2,959	2,935	2,389	2,334
Accrued and other current liabilities	21	21	97	94
Approved but unpaid distributions to shareholders (Note 4)	308	310	303	286
Total current liabilities	3,349	3,326	2,839	2,762
Unrealized translation gains (Note 2)	—	623	—	669
Total liabilities	3,349	3,949	2,839	3,431
Commitments, contingencies, and guarantees (Note 3)				
Shareholders' equity (Note 4):				
Share capital, CHF 0.57 par value, 350,951,381 shares authorized and issued and 357,069,981 shares authorized and issued, at fiscal year end 2019 and 2018, respectively	154	200	157	204
Statutory reserves:				
General reserve from earnings	38	49	38	49
Free reserves:				
Reserves from capital contributions (Note 4)	5,195	6,107	5,809	6,724
Allocated reserves for the acquisition of treasury shares by a subsidiary (Note 2)	(362)	(355)	(562)	(546)
Unappropriated accumulated earnings	1,927	1,151	1,407	625
Own shares held in treasury	(975)	(973)	(572)	(561)
Reserves for treasury shares (Note 2)	362	355	562	546
Total shareholders' equity	6,339	6,534	6,839	7,041
Total liabilities and shareholders' equity	\$9,688	CHF 10,483	\$9,678	CHF 10,472

See Notes to Swiss Statutory Financial Statements.

1. Basis of Presentation

TE Connectivity Ltd. (“TE Connectivity” or the “Company,” which may be referred to as “we,” “us,” or “our”), incorporated in Schaffhausen, Switzerland, is the ultimate holding company of TE Connectivity Ltd. and its subsidiaries (the “TE Group”) with a listing on the New York Stock Exchange. We employed less than 10 full time positions during the fiscal years ended September 27, 2019 and September 28, 2018. For additional information on the TE Group, see our annual report on Form 10-K filed with the United States (“U.S.”) Securities and Exchange Commission (“SEC”) for the fiscal year ended September 27, 2019.

The accompanying statements of operations reflect the results of operations for the fiscal years ended September 27, 2019 and September 28, 2018 and have been prepared in accordance with the requirements of Swiss law for companies, the Swiss Code of Obligations. The financial statements present the results of the holding company on a stand-alone basis and do not represent the consolidated operations of the TE Group.

Fiscal Year

Unless otherwise indicated, references in the financial statements to fiscal 2019 and fiscal 2018 are to our fiscal years ended September 27, 2019 and September 28, 2018. We have a 52- or 53-week fiscal year that ends on the last Friday of September. Fiscal 2019 and 2018 were both 52-week years.

2. Summary of Significant Accounting Policies

Currency Translation

Our functional currency is the U.S. dollar. We present our financial statements in both U.S. dollars and Swiss francs (“CHF”). Assets and liabilities in U.S. dollars are converted to Swiss francs for presentation purposes using historical foreign exchange rates (for investments in subsidiaries, shares held in treasury, approved but unpaid distributions to shareholders payable, and equity accounts) and current foreign exchange rates (for all other assets and liabilities; at fiscal year end 2019 and 2018, exchange rates were CHF 0.9918:\$1 and CHF 0.9766:\$1, respectively). Revenue and expenses, excluding income from distributions made by a subsidiary, are translated using the average exchange rates in effect for the period presented (exchange rates were CHF 0.9948:\$1 and CHF 0.9760:\$1 for fiscal 2019 and 2018, respectively). Income from distributions made by a subsidiary is translated using the exchange rate in effect on the date that each distribution was made to us. Net unrealized foreign currency translation gains are deferred in the balance sheets, while unrealized translation losses and realized transactional gains and losses are reflected in the statements of operations. We consider all foreign currency transactional gains and losses associated with current assets and liabilities to be realized.

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

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

As management deems appropriate, we can establish reserves for treasury shares by charging either accumulated earnings or allocated reserves for the acquisition of treasury shares by a subsidiary. During fiscal 2019 and 2018, allocated reserves for the acquisition of treasury shares by a subsidiary were charged to establish reserves. As shares acquired by a subsidiary are re-issued for use in share-based compensation arrangements, we credit the same account impacted by initial acquisition.

Investments in Subsidiaries and Income from Distributions Made by a Subsidiary

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

Salaries and Social Costs

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

3. Commitments, Contingencies, and Guarantees

Affiliated Debt and Loans Receivable

We utilize a cash pooling relationship with a wholly-owned subsidiary (the “Cash Pool”). The Cash Pool does not have an expiration date and accrues interest based on LIBOR. At fiscal year end 2019 and 2018, we had the following Cash Pool liabilities:

	Fiscal Year End 2019		Fiscal Year End 2018	
	U.S. dollars	Swiss francs	U.S. dollars	Swiss francs
	(in millions)			
Cash Pool liability ⁽¹⁾	\$2,635	CHF 2,614	\$2,055	CHF 2,008

(1) Included in loans from subsidiaries on our balance sheets

In order to minimize currency exposure related to distributions to shareholders approved in Swiss francs and paid in U.S. dollars, we enter into arrangements with a wholly-owned subsidiary in which we borrow Swiss francs from, and simultaneously loan U.S. dollars to, the subsidiary. As distributions to shareholders are paid, both the borrowing and the loan receivable are partially settled. As of fiscal year end 2019 and 2018, our borrowings were as follows:

	Fiscal Year End 2019		Fiscal Year End 2018	
	U.S. dollars	Swiss francs	U.S. dollars	Swiss francs
	(in millions)			
Borrowings ⁽¹⁾	\$ 324	CHF 321	\$ 334	CHF 326

(1) Included in loans from subsidiaries on our balance sheets

At fiscal year end 2019 and 2018, the related loan receivable, which approximates the borrowing, was included in the net Cash Pool liability reflected in loans from subsidiaries on our balance sheets.

We have fully and unconditionally guaranteed the debt of a subsidiary, Tyco Electronics Group S.A., totaling CHF 3,946 million (equivalent to \$3,978 million) and CHF 3,916 million (equivalent to \$4,010 million) at fiscal year end 2019 and 2018, respectively. As of fiscal year end 2019, we have not been required to perform on our guarantee.

Tax Sharing Agreement

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

During fiscal 2019 and 2018, we recorded net income of CHF 1 million (equivalent to \$1 million) and CHF 14 million (equivalent to \$14 million), respectively, related to the TSA and tax settlements involving Tyco International, Covidien, and us. These amounts are presented in pre-separation tax settlement income, net in our statement of operations.

Performance Guarantees

From time to time, we provide performance guarantees and surety bonds in favor of our subsidiaries. At fiscal year end 2019 and 2018, these performance guarantees were as follows:

	Fiscal Year End 2019		Fiscal Year End 2018	
	U.S. dollars	Swiss francs	U.S. dollars	Swiss francs
	(in millions)			
Performance Guarantees.....	\$ 198	CHF 197	\$ 173	CHF 169

A guarantee totaling CHF 94 million (equivalent to \$95 million) expired unused subsequent to year end fiscal 2019. In addition to these amounts, all of which are quantifiable, we have issued a parent company guarantee in behalf of a U.S.-based aerospace customer that does not have a limit. We do not anticipate having to perform under these guarantees.

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

4. Equity

Changes in Equity Accounts

The following table presents activity related to our equity accounts during fiscal 2019 and 2018 in Swiss francs.

	Share Capital	General Reserve from Earnings	Reserves from Capital Contributions	Allocated Reserves for the Acquisition of Treasury Shares by a Subsidiary	Unappropriated Accumulated Earnings	Own Shares Held in Treasury	Reserves for Treasury Shares held by a Subsidiary	Total Shareholders' Equity
	(in CHF millions)							
Fiscal year end 2017.....	CHF 204	CHF 49	CHF 7,300	CHF (409)	CHF 49	CHF —	CHF 409	CHF 7,602
Dividends.....	—	—	(576)	—	—	—	—	(576)
Repurchase of common shares	—	—	—	—	—	(561)	—	(561)
Transfer of reserves for treasury shares and other	—	—	—	(137)	—	—	137	—
Net income.....	—	—	—	—	576	—	—	576
Fiscal year end 2018.....	204	49	6,724	(546)	625	(561)	546	7,041
Dividends.....	—	—	(617)	—	—	—	—	(617)
Repurchase of common shares	—	—	—	—	—	(973)	—	(973)
Cancellation of treasury shares	(4)	—	—	—	(557)	561	—	—
Transfer of reserves for treasury shares and other	—	—	—	191	1	—	(191)	1
Net income.....	—	—	—	—	1,082	—	—	1,082
Fiscal year end 2019.....	<u>CHF 200</u>	<u>CHF 49</u>	<u>CHF 6,107</u>	<u>CHF (355)</u>	<u>CHF 1,151</u>	<u>CHF (973)</u>	<u>CHF 355</u>	<u>CHF 6,534</u>

The following table presents activity related to our equity accounts during fiscal 2019 and 2018 in U.S. dollars.

	Share Capital	General Reserve from Earnings	Reserves from Capital Contributions	Allocated Reserves for the Acquisition of Treasury Shares by a Subsidiary	Unappropriated Accumulated Earnings	Own Shares Held in Treasury	Reserves for Treasury Shares held by a Subsidiary	Total Shareholders' Equity
	(in USD millions)							
Fiscal year end 2017.....	\$ 157	\$ 38	\$ 6,420	\$ (421)	\$ 805	\$ —	\$ 421	\$ 7,420
Dividends.....	—	—	(611)	—	—	—	—	(611)
Repurchase of common shares.....	—	—	—	—	—	(572)	—	(572)
Transfer of reserves for treasury shares and other.....	—	—	—	(141)	—	—	141	—
Net income	—	—	—	—	602	—	—	602
Fiscal year end 2018.....	157	38	5,809	(562)	1,407	(572)	562	6,839
Dividend	—	—	(614)	—	—	—	—	(614)
Repurchase of common shares.....	—	—	—	—	—	(975)	—	(975)
Cancellation of treasury shares	(3)	—	—	—	(569)	572	—	—
Transfer of reserves for treasury shares and other.....	—	—	—	200	1	—	(200)	1
Net income	—	—	—	—	1,088	—	—	1,088
Fiscal year end 2019.....	<u>\$ 154</u>	<u>\$ 38</u>	<u>\$ 5,195</u>	<u>\$ (362)</u>	<u>\$ 1,927</u>	<u>\$ (975)</u>	<u>\$ 362</u>	<u>\$ 6,339</u>

Authorized Share Capital

In March 2018, our shareholders reapproved and extended through March 14, 2020 our board of directors' authorization to issue additional new shares, subject to certain conditions specified in the articles, in aggregate not exceeding 50% of the amount of our authorized shares. This authorization can be renewed for additional two-year periods upon shareholder approval. As of fiscal year end 2019, no additional shares had been issued under this authorization.

Conditional Share Capital

Subject to certain conditions specified in our articles of association, we are authorized to increase our conditional share capital by issuing new shares in aggregate not exceeding 50% of our authorized shares. As of fiscal year end 2019, no conditional shares had been issued.

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

During fiscal 2019 and 2018, activity related to common shares held in treasury by us and by a subsidiary was as follows:

	Common Shares Held By Us			Common Shares Held By a Subsidiary		
	Number of Shares	Total Cost		Number of Shares	Total Cost	
U.S. Dollars		Swiss Francs	U.S. Dollars		Swiss Francs	
	(in millions)					
Common shares held as of fiscal year end 2017	—	\$ —	CHF —	5	\$ 421	CHF 409
Repurchases under share repurchase program	6	572	561	4	393	383
Other additions ⁽¹⁾	—	—	—	—	36	35
Reissuances	—	—	—	(3)	(288)	(281)
Common shares held as of fiscal year end 2018	6	572	561	6	562	546
Repurchases under share repurchase program	12	975	973	—	39	39
Other additions ⁽¹⁾	—	—	—	—	29	29
Reissuances	—	—	—	(2)	(268)	(259)
Shareholder approved cancellations	(6)	(572)	(561)	—	—	—
Common shares held as of fiscal year end 2019	<u>12</u>	<u>\$ 975</u>	<u>CHF 973</u>	<u>4</u>	<u>\$ 362</u>	<u>CHF 355</u>

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

In fiscal 2019, our shareholders approved the cancellation of 6 million shares purchased under our share repurchase program. This capital reduction by cancellation of shares was subject to a notice period and filing with the commercial register in Switzerland.

During fiscal 2019, our board of directors authorized an increase of \$1.5 billion in the share repurchase program. At fiscal year end 2019, we had CHF 1,488 million (equivalent to \$1,501 million) of availability remaining under our share repurchase authorization. Purchases made both pursuant to the Secondary Line and by a subsidiary are subject to this authorization.

Reserves from Capital Contributions

Reserves from capital contributions, subject to certain conditions, are freely distributable reserves. As of fiscal year end 2019 and 2018, reserves from capital contributions were as follows:

	Fiscal Year End 2019		Fiscal Year End 2018	
	U.S. dollars	Swiss francs	U.S. dollars	Swiss francs
	(in millions)			
Reserves from capital contributions	\$5,195	CHF 6,107	\$5,809	CHF 6,724

General Reserve from Earnings

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

Dividends

We paid cash dividends to shareholders of \$1.80 and \$1.68 per share in fiscal 2019 and 2018, respectively.

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

Our shareholders approved the following dividends on our common shares:

<u>Approval Date</u>	<u>Annual Payment Per Share</u>	<u>Payment Timing</u>
March 2017	\$1.60, payable in four quarterly installments of \$0.40	Third quarter of fiscal 2017 Fourth quarter of fiscal 2017 First quarter of fiscal 2018 Second quarter of fiscal 2018
March 2018	\$1.76, payable in four quarterly installments of \$0.44	Third quarter of fiscal 2018 Fourth quarter of fiscal 2018 First quarter of fiscal 2019 Second quarter of fiscal 2019
March 2019	\$1.84, payable in four quarterly installments of \$0.46	Third quarter of fiscal 2019 Fourth quarter of fiscal 2019 First quarter of fiscal 2020 Second quarter of fiscal 2020

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

5. Non-Employee Director and Executive Compensation

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

6. Security Ownership of Board of Directors and Executive Officers

Board of Directors

The following table sets forth the shares, options and share units held as of fiscal year end 2019 and 2018 by each member of our board of directors serving on our board at fiscal year end 2019. The share ownership of Mr. Curtin, our Chief Executive Officer and a member of the board of directors, is set forth in *Executive Management*.

	<u>Year</u>	<u>Shares Held</u>	<u>Options Held</u>	<u>Options Exercise Price⁽¹⁾</u>	<u>Fiscal Years of Expiration</u>	<u>RSUs Held⁽²⁾</u>	<u>PSUs Held⁽³⁾</u>
Board of Directors:							
Pierre R. Brondeau.....	2019	35,203	—	—	—	—	—
	2018	33,418	—	—	—	—	—
Carol A. (“John”) Davidson....	2019	10,373	—	—	—	—	—
	2018	8,588	—	—	—	—	—
William A. Jeffrey.....	2019	16,502	—	—	—	—	—
	2018	14,717	—	—	—	—	—
David M. Kerko ⁽⁴⁾	2019	982	—	—	—	—	—
Thomas J. Lynch ⁽⁵⁾	2019	202,248	479,650	\$65.95–\$93.36	2026–2028	—	40,095
	2018	140,967	728,450	\$61.50–\$93.36	2025–2028	8,081	101,668
Yong Nam.....	2019	16,278	—	—	—	—	—
	2018	14,613	—	—	—	—	—
Daniel J. Phelan.....	2019	30,149	—	—	—	—	—
	2018	31,571	—	—	—	—	—
Paula A. Sneed.....	2019	36,333	—	—	—	—	—
	2018	34,548	—	—	—	—	—
Abhijit Y. Talwalkar.....	2019	5,867	—	—	—	—	—
	2018	3,486	—	—	—	—	—
Mark C. Trudeau.....	2019	6,773	—	—	—	—	—
	2018	4,988	—	—	—	—	—
Laura H. Wright.....	2019	10,725	—	—	—	—	—
	2018	8,940	—	—	—	—	—

- (1) Each option provides the right to purchase one share at the exercise price. Subject to acceleration upon certain events, the share options are exercisable in equal installments on anniversaries of the grant dates.
- (2) Subject to acceleration upon certain events, the restricted share units (“RSUs”) vest over time, are settled in shares upon vesting on a one-for-one basis, and receive dividend equivalent units.
- (3) The performance share unit (“PSU”) amounts in the table above assume achievement of target level of performance including target dividend equivalent units through September 27, 2019 and September 28, 2018, respectively. Under the terms of the PSUs, shares of stock are earned based on the company’s earnings per share growth relative to the Standard & Poor’s 500 Non-Financial Companies Index over a three-year performance cycle, subject to various conditions, and the PSUs earn dividend equivalent units. Subject to acceleration upon certain events, vesting of reserved PSUs occurs when the management development and compensation committee certifies year three results following the close of the three-year performance cycle. Annual PSU awards for the last three fiscal years were granted to Mr. Lynch on November 14, 2016 and November 13, 2017 when he was serving as an executive officer of the Company.
- (4) Mr. Kerko was elected to our board of directors on March 13, 2019.
- (5) Mr. Lynch served as Chief Executive Officer of the Company until March 8, 2017 and as Executive Chairman of the Company until March 14, 2018. Since March 2018, Mr. Lynch has served as Non-Executive Chairman of the board of directors. Shares held as of September 27, 2019 include 15,000 shares held in a charitable trust and 10,000 shares held in a grantor retained annuity trust.

Executive Management

The following table sets forth the shares, options and share units held as of fiscal year end 2019 and 2018 by each member of our executive management serving in such position as of fiscal year end 2019.

	Year	Shares Held	Options Held	Options Exercise Price ⁽¹⁾	Fiscal Years of Expiration	RSUs Held ⁽²⁾	PSUs Held ⁽³⁾
Executive Management:							
Terrence R. Curtin ⁽⁴⁾	2019	84,969	991,650	\$51.61–\$93.36	2024-2029	—	139,586
	2018	58,122	861,250	\$34.05–\$93.36	2023-2028	2,848	114,961
John S. Jenkins, Jr.	2019	28,329	201,400	\$65.95–\$93.36	2026-2029	6,454	29,009
	2018	15,967	189,400	\$61.50–\$93.36	2025-2028	6,336	31,041
Shad W. Kroeger ⁽⁵⁾	2019	6,504	134,750	\$51.61–\$93.36	2024-2029	—	17,745
	2018	2,592	90,050	\$51.61–\$93.36	2024-2028	427	13,082
Steven T. Merkt.....	2019	32,192	300,600	\$65.95–\$93.36	2026-2029	—	45,347
	2018	2,126	285,800	\$51.61–\$93.36	2024-2028	31,810	44,891
Heath A. Mitts.....	2019	13,219	229,950	\$66.74–\$93.36	2027-2029	20,324	44,500
	2018	12,908	138,800	\$66.74–\$93.36	2027-2028	39,792	27,153
Timothy J. Murphy.....	2019	12,622	132,950	\$34.05–\$93.36	2023-2029	—	17,231
	2018	5,302	100,800	\$34.05–\$93.36	2023-2028	535	16,848
Kevin N. Rock ⁽⁶⁾	2019	68,854	190,500	\$34.05–\$93.36	2023-2028	24,949	15,556
	2018	42,182	234,350	\$34.05–\$93.36	2022-2028	12,136	24,385
Joan E. Wainwright.....	2019	51,916	47,413	\$65.95–\$93.36	2026-2028	9,208	11,317
	2018	45,071	69,788	\$61.50–\$93.36	2025-2028	9,870	17,739

- (1) Each option provides the right to purchase one share at the exercise price. Subject to acceleration upon certain events, the share options are exercisable in equal installments on anniversaries of the grant dates.
- (2) Subject to acceleration upon certain events, the RSUs vest over time, are settled in shares upon vesting on a one-for-one basis, and receive dividend equivalent units.
- (3) The PSU amounts in the table above assume achievement of target level of performance including target dividend equivalent units through September 27, 2019 and September 28, 2018, respectively. Under the terms of the PSUs, shares of stock are earned based on the company's earnings per share growth relative to the Standard & Poor's 500 Non-Financial Companies Index over a three-year performance cycle, subject to various conditions, and the PSUs earn dividend equivalent units. Subject to acceleration upon certain events, vesting of reserved PSUs occurs when the management development and compensation committee certifies year three results following the close of the three-year performance cycle. Annual PSU awards for the last three fiscal years were granted on November 14, 2016, November 13, 2017 and November 12, 2018.
- (4) Mr. Curtin is a member of the board of directors and chief executive officer.
- (5) Mr. Kroeger became a member of executive management in December 2017.
- (6) Includes 28,296 shares held in a family trust over which Mr. Rock has dispositive power.

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

7. Significant Shareholders

The following table sets forth the information indicated for persons or groups known to us to be beneficial owners of more than 5% of our outstanding shares beneficially owned as of fiscal year end 2019.

<u>Name and Address of Beneficial Owner</u>	<u>Number of Shares</u>	<u>Percentage of Class</u>
The Vanguard Group ⁽¹⁾ 100 Vanguard Blvd. Malvern, PA 19355	25,268,602	7.5%
Dodge & Cox ⁽²⁾ 555 California Street, 40th Floor San Francisco, CA 94104	24,400,495	7.3%
Harris Associates L.P. ⁽³⁾ 111 S. Wacker Drive, Suite 4600 Chicago, IL 60606	24,345,438	7.3%
BlackRock, Inc. ⁽⁴⁾ 55 East 52 nd Street New York, NY 10055	16,803,499	5.0%

- (1) This information is based on a Schedule 13G/A filed with the SEC on February 13, 2019 by The Vanguard Group, which reported sole voting power, sole dispositive power and shared dispositive power as follows: sole voting power—334,011, shared voting power—87,565, sole dispositive power—24,852,628, and shared dispositive power—415,974.
- (2) This information is based on a Schedule 13G/A filed with the SEC on February 14, 2019 by Dodge & Cox, which reported sole voting power and sole dispositive power as follows: sole voting power—23,623,934 and sole dispositive power—24,400,495.
- (3) This information is based on a Schedule 13G/A filed with the SEC on February 14, 2019 by Harris Associates L.P. and its general partner, Harris Associates Inc., which reported sole voting power and sole dispositive power as follows: sole voting power—21,850,255 and sole dispositive power—24,345,438. As a result of advisory and other relationships with persons who own the shares, Harris Associates L.P. may be deemed to be the beneficial owner of the shares.
- (4) This information is based on a Schedule 13G/A filed with the SEC on February 11, 2019 by BlackRock, Inc., which reported sole voting power and sole dispositive power as follows: sole voting power—14,759,309, and sole dispositive power—16,803,499.

8. Subsidiaries

We are the ultimate holding company of all subsidiaries of the TE Group. Our direct subsidiaries and significant subsidiaries of the TE Group, as determined based on net sales or total assets, were as follows as of fiscal year end 2019:

<u>Entity Name</u>	<u>Jurisdiction</u>	<u>Direct or Indirect Holding⁽¹⁾</u>	<u>Nominal Capital (in millions)</u>	<u>Purpose⁽²⁾</u>
Tyco Electronics Group S.A.	Luxembourg	Direct	\$1	F
Tyco Electronics Holdings (Bermuda) No. 7 Limited....	Bermuda	Direct	\$—	F
TE Connectivity Corporation	United States	Indirect	\$625	M
TE Connectivity Germany GmbH.....	Germany	Indirect	EUR 78	M
TE Connectivity HK Limited.	Hong Kong	Indirect	\$380	S
TE Connectivity Holding International II S.a r.l.	Luxembourg	Indirect	\$—	F
TE Connectivity Investments Holding S.a r.l. ⁽³⁾	Luxembourg	Indirect	\$1,101	F
TE Connectivity Solutions GmbH.....	Switzerland	Indirect	CHF—	S
Tyco Electronics Finance Alpha GmbH ⁽³⁾	Switzerland	Indirect	\$1	F
Tyco Electronics (Shanghai) Co., Ltd.	China	Indirect	CNY 6	M
Tyco Electronics AMP Korea Co., Ltd.	South Korea	Indirect	KRW 6,812	M
Tyco Electronics Japan G.K.	Japan	Indirect	JPY 21,835	M
Tyco Electronics Singapore Pte Ltd.	Singapore	Indirect	\$183	S

(1) All subsidiaries labeled as “direct” are wholly-owned by us. All subsidiaries labeled as “indirect” are wholly-owned indirectly by us.

(2) “F” denotes the primary purpose as a holding or financing company; “M” denotes the primary purpose as manufacturing and production; “S” denotes the primary purpose as sales and distribution.

(3) This subsidiary is a new to our listing of significant subsidiaries in fiscal 2019.

Tyco Electronics Subsea Communications LLC, a significant U.S.-based indirect manufacturing subsidiary with zero nominal capital at fiscal year end 2018, was sold in November 2018. Tyco Electronics Holding S.a r.l., a Luxembourg-based indirect financing subsidiary with nominal capital of \$593 million at fiscal year end 2018, was merged out of existence in fiscal 2019.

During fiscal 2019 and 2018, subsidiaries distributed CHF 1,254 million (equivalent to \$1,260 million) and CHF 680 million (equivalent to \$710 million), respectively, to us. The distributions are included in income from distributions made by subsidiaries in our statements of operations.

9. Subsequent Events

We have evaluated subsequent events through November 12, 2019, the date the Swiss Statutory Financial Statements were issued, and determined that no significant subsequent events have occurred through this date requiring adjustment to the Swiss Statutory Financial Statements or disclosures.

Proposed Appropriation of Accumulated Earnings

Our board of directors will propose, in conjunction with our annual general meeting, that we carry forward unappropriated accumulated earnings of CHF 1,151 million as included in our balance sheet as of September 27, 2019.

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

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

Report of the Statutory Auditor on the financial statements

As Statutory Auditor, we have audited the accompanying financial statements of TE Connectivity Ltd. (the “Company”), which comprise the balance sheet as of September 27, 2019, and the statement of operations and notes for the year then ended.

Board of Directors’ Responsibility

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

Auditor’s Responsibility

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

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

Opinion

In our opinion, the financial statements for the year ended September 27, 2019 comply with Swiss law and the Company’s articles of association.

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

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

Report on Other Legal Requirements

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

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

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

Deloitte AG

/s/ Matthias Gschwend
Licensed Audit Expert
Auditor in charge

/s/ Dominik Voegtli
Licensed Audit Expert

Zurich, November 12, 2019

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TE Connectivity Ltd.
Swiss Statutory Compensation Report
September 27, 2019

**TE CONNECTIVITY LTD.
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A. General

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

Our executive management (as defined under Swiss law, hereafter referred to as “Executive Management”) for fiscal 2019 consisted of Terrence Curtin, Chief Executive Officer; John Jenkins, Jr., Executive Vice President and General Counsel; Shadrak Kroeger, President, Communication Solutions; Heath Mitts, Executive Vice President and Chief Financial Officer; Steven Merkt, President, Transportation Solutions; Timothy Murphy, Senior Vice President and Chief Human Resource Officer; Kevin Rock, President, Industrial Solutions; and Joan Wainwright, President, Channel and Customer Experience. James O’Toole, former President, Communication Solutions, was a former member of Executive Management who continued to receive pay as an employee during fiscal 2019 and is included in this report. Thomas Lynch, former Executive Chairman who during fiscal 2019 continued to receive dividend equivalent units on equity awards granted to him as a member of Executive Management is included in this report.

Joseph Donahue, former Executive Vice President is included as a member of Executive Management for fiscal 2018 but is not included for fiscal 2019.

The following sets forth, for the fiscal years ended September 27, 2019 and September 28, 2018, the compensation of the members of the Board of Directors and Executive Management for all the functions that they have performed for TE Connectivity Ltd. (“TE Connectivity” or the “Company,” which may be referred to as “we,” “us,” or “our”). This report contains all elements of compensation paid, granted or promised to the Board of Directors and Executive Management.

For more detailed information about compensation for our Board of Directors and Executive Management, please review our Definitive Proxy Statement for our 2020 Annual Meeting of Shareholders. You may access this report on the Investor Relations section of our website at <http://investors.te.com/financial-reports/annual-reports/default.aspx>.

B. Compensation of the Board of Directors

Compensation paid for fiscal 2019 and 2018 to each director who is not our salaried employee, or an employee of our subsidiaries was based on the following fee structures:

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

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

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

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

The following table discloses the cash and equity awards paid to each of our non-employee directors for fiscal 2019 and 2018.

Table 1

Name	Fiscal Year	Fees Earned or Paid in Cash (\$) ⁽¹⁾	Stock Awards (\$) ⁽²⁾	Dividend Equivalent Units and Other Compensation (\$) ⁽³⁾	Total (\$) ⁽⁷⁾
Pierre Brondeau	2019	\$145,000	\$182,527	\$—	\$327,527
	2018	\$145,000	\$191,201	\$5,120	\$341,321
Carol (John) Davidson	2019	\$100,000	\$182,527	\$10,000	\$292,527
	2018	\$100,000	\$191,201	\$5,000	\$296,201
William Jeffrey	2019	\$100,000	\$182,527	\$—	\$282,527
	2018	\$100,000	\$191,201	\$—	\$291,201
David Kerko ⁽⁴⁾	2019	\$58,333	\$109,110	\$—	\$167,443
Thomas Lynch ⁽⁵⁾	2019	\$260,000	\$182,527	\$10,000	\$452,527
	2018	\$151,667	\$—	\$—	\$151,667
Yong Nam	2019	\$90,000	\$182,527	\$—	\$272,527
	2018	\$90,000	\$191,201	\$—	\$281,201
Daniel Phelan	2019	\$110,000	\$182,527	\$15,416	\$307,943
	2018	\$110,000	\$191,201	\$12,620	\$313,821
Paula Sneed	2019	\$90,000	\$182,527	\$5,000	\$277,527
	2018	\$90,000	\$191,201	\$12,258	\$293,459
Abhijit Talwalkar	2019	\$94,167	\$182,527	\$10,000	\$286,694
	2018	\$100,000	\$191,201	\$10,000	\$301,201
Mark Trudeau	2019	\$94,167	\$182,527	\$—	\$276,694
	2018	\$100,000	\$191,201	\$—	\$291,201
John Van Scoter ⁽⁶⁾	2019	\$37,500	\$91,225	\$—	\$128,725
	2018	\$90,000	\$191,201	\$2,750	\$283,951
Laura Wright	2019	\$115,000	\$182,527	\$10,000	\$307,527
	2018	\$115,000	\$191,201	\$10,000	\$316,201

(1) The amounts shown represent the amount of cash compensation earned in fiscal 2019 and 2018 for Board and committee services. For fiscal 2019, Mr. Lynch received additional fees for serving the full year as Non-Executive Chairman; Mr. Lynch's fee for serving as Non-Executive Chairman was pro-rated for his service in fiscal 2018. Dr. Brondeau received additional fees for his work as Lead Independent Director for fiscal 2019 and 2018. Dr. Brondeau, Mr. Phelan, and Ms. Wright each received additional fees for their role as chairs of the nominating, governance and compliance committee; the management development and compensation committee; and the audit committee, respectively for fiscal 2019 and 2018. For fiscal 2019, Mr. Davidson received an additional cash retainer for serving on the audit committee for the full fiscal year and Messrs. Talwalkar, Trudeau, and Kerko each received an additional pro-rata cash retainer for serving on the audit committee for part of the fiscal year. For fiscal 2018, Messrs. Davidson, Talwalkar, and Trudeau each received an additional cash

retainer for serving on the audit committee for the full fiscal year. Dr. Jeffrey received an additional fee for his role on the Science Advisory board for fiscal 2019 and 2018.

- (2) On November 12, 2018, Dr. Brondeau, Mr. Davidson, Dr. Jeffrey, Mr. Lynch, Mr. Nam, Mr. Phelan, Ms. Sneed, Mr. Trudeau, Mr. Talwalkar, and Ms. Wright each received a grant of 2,381 common shares. In determining the number of common shares issued, we used the average daily closing price for the 20-day period prior to the grant date (\$77.71 per share), the same methodology used to determine employee equity awards. The grant date fair value of these awards, as shown above for fiscal 2019, was calculated by using the closing price of TE Connectivity Ltd. common shares on the date of grant (\$76.66 per share). On November 13, 2017, Dr. Brondeau, Mr. Davidson, Dr. Jeffrey, Mr. Nam, Mr. Phelan, Ms. Sneed, Mr. Trudeau, Mr. Talwalkar, Mr. Van Scoter, and Ms. Wright each received a grant of 2,048 common shares. In determining the number of common shares issued, we used the average daily closing price for the 20-day period prior to the grant date (\$90.33 per share), the same methodology used to determine employee equity awards. The grant date fair value of these awards, as shown above for fiscal 2018, was calculated by using the closing price of TE Connectivity Ltd. common shares on the date of grant (\$93.36 per share). The common shares vested immediately. As of September 27, 2019, Mr. Lynch held options to purchase 279,800 shares at an exercise price of \$65.95, options to purchase 156,150 shares at an exercise price of \$66.74, and options to purchase 43,700 shares at an exercise price of \$93.36. On November 13, 2017 and November 14, 2016, Mr. Lynch was awarded performance stock units (“PSUs”) with a target vesting of 8,300 shares and 29,670 shares, respectively. The PSU awarded to Mr. Lynch on November 13, 2017 represents target shares that have not yet been earned under the PSU program. PSUs granted on November 14, 2016 vested on December 11, 2019 and Mr. Lynch received 45,793 equity shares relating to the PSU award. Delivery of vested shares occurs as soon as administratively feasible following the year 3 certification process. The foregoing equity awards were granted to Mr. Lynch when he was serving as a member of Executive Management of the Company.
- (3) Amounts shown represent the value of dividend equivalent units earned on prior deferred share unit (DSU) awards calculated using the market value on the date of the dividend for the first quarter of fiscal 2018, Company matching gift contributions made on behalf of certain directors under TE Connectivity’s matching gift program, and amounts reimbursed to Mr. Phelan in fiscal 2019 for expenses incurred for a continuing education course. For fiscal 2019, Mr. Lynch received dividend equivalent units on PSU awards granted to him when Mr. Lynch was serving as a member of Executive Management. Therefore, the value of the dividend equivalent units in the amount of \$98,689 is not included in this Table 1 but is included in Table 2 below.
- (4) On March 13, 2019 Mr. Kerko was elected to our Board of Directors and, on March 14, 2019, received a grant of 1,310 common shares. In determining the number of common shares to be issued, we used the average daily closing price for the 20-day period prior to the grant date (\$82.42 per share). The grant date fair value of the award was calculated by using the closing price of TE Connectivity Ltd. common shares on the date of grant (\$83.29 per share). Cash compensation for Mr. Kerko was pro-rated for his service during fiscal 2019.
- (5) Mr. Lynch was a member of Executive Management until March 14, 2018, when he was elected to our Board of Directors as Non-Executive Chairman. Cash compensation for Mr. Lynch was pro-rated for service during fiscal 2018.
- (6) On November 12, 2018, Mr. Van Scoter received 1,190 common shares. Mr. Van Scoter retired from the board effective March 13, 2019. The number of common shares issued to Mr. Van Scoter was determined in the same manner applied to all grants on November 12, 2018 and reflects a pro-ration of his service during fiscal 2019. Cash compensation for Mr. Van Scoter was also pro-rated for his service during fiscal 2019.
- (7) The Company has not made any loans or extended credit to any current or former member of the Board of Directors.

C. Compensation of Executive Management

The following table presents information concerning Executive Management’s fiscal 2019 and 2018 compensation.

Table 2

Name and Principal Position	Year	Salary ⁽³⁾	Bonus	Stock Awards ⁽⁴⁾	Option Awards ⁽⁵⁾	Non-Equity Incentive Plan Compensation ⁽⁶⁾	Change in Pension Value and Nonqualified Deferred Compensation Earnings ⁽⁷⁾	All Other Compensation ⁽⁸⁾	Total ⁽⁹⁾
		(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Terrence Curtin, Chief Executive Officer	2019	\$1,186,539	\$—	\$3,576,189	\$3,462,244	\$579,600	\$—	\$487,264	\$9,291,836
	2018	\$1,136,539	\$—	\$3,359,093	\$3,118,595	\$2,164,875	\$—	\$457,909	\$10,237,011
All Other Executive Management ⁽¹⁾⁽²⁾	2019	\$3,870,754	\$—	\$5,372,736	\$3,987,960	\$1,711,885	\$69,192	\$1,591,762	\$16,604,289
	2018	\$5,035,014	\$—	\$7,740,793	\$5,230,049	\$5,844,452	\$—	\$2,156,390	\$26,006,698

- (1) For fiscal 2019, the Executive Management team for Swiss reporting purposes includes Mr. Jenkins, Mr. Kroeger, Mr. Merkt, Mr. Mitts, Mr. Murphy, Mr. Rock, and Ms. Wainwright. Mr. Lynch and Mr. O’Toole are also included as they continued to receive compensation for part of fiscal 2019.
- (2) For fiscal 2018, the Executive Management team for Swiss reporting purposes includes Mr. Jenkins, Mr. Kroeger, Mr. Merkt, Mr. Mitts, Mr. Murphy, Mr. Rock, and Ms. Wainwright. Compensation for Mr. Lynch, Mr. Donahue, and Mr. O’Toole is also reported as they were members of Executive Management for part of fiscal 2018.
- (3) Amounts shown are not reduced to reflect Executive Management’s elections, if any, to defer receipt of salary into the Supplemental Savings and Retirement Plan (“SSRP”), a nonqualified supplemental retirement plan for management and executive level employees.
- (4) This amount represents the grant date fair value of restricted stock units (“RSUs”) and PSUs calculated using the provisions of Accounting Standards Codification (“ASC”) 718, *Compensation—Stock Compensation*. The value of PSUs included in the table assumes target performance. All dividend equivalent units earned on unvested RSUs and PSUs are reported in the All Other Compensation column.
- (5) This amount represents the grant date fair value of stock options calculated using the provisions of ASC 718.
- (6) Represents amounts earned under the TE Connectivity Ltd. annual incentive program. Amounts shown are not reduced to reflect Executive Management’s elections, if any, to defer receipt of awards into the SSRP.
- (7) Represents the aggregate change in actuarial present value of the accumulated benefits for three executives in fiscal 2019 and four executives in fiscal 2018 under the frozen pension plan.
- (8) See the All Other Compensation table below for a breakdown of amounts which include perquisites, matching contributions associated with the Company’s 401(k) plan and nonqualified defined contribution plan, dividend equivalent units and other amounts. The amounts reflected in the table for perquisites are our incremental cost. We also provide group life, health, hospitalization and medical reimbursement plans which do not discriminate in scope, terms or operation in favor of officers and are available to all full-time employees; the values of the benefits are not shown in the table.
- (9) The Company has not made any loans or extended credit to any current or former member of Executive Management.

All Other Compensation

Name	Year	Perquisites ^(a) (\$)	Insurance Premiums ^(b) (\$)	Dollar Value of Dividends not factored into Grant Date Fair Value ^(c) (\$)	Company Contributions to DC plans ^(d) (\$)	Employee Stock Purchase Plan ("ESPP") Company Match ^(e) (\$)	Payment for unused vacation/ personal time and Settlement of Equity Award ^(f) (\$)	Total All Other Compensation (\$)
Terrence Curtin	2019	\$26,634	\$—	\$259,545	\$201,085	\$—	\$—	\$487,264
	2018	\$52,570	\$—	\$202,754	\$202,585	\$—	\$—	\$457,909
All Other Executive Management	2019	\$11,344	\$—	\$605,658	\$472,810	\$1,950	\$500,000	\$1,591,762
	2018	\$482,470	\$811	\$722,211	\$904,609	\$1,950	\$44,339	\$2,156,390

- (a) Perquisites consisting of the following:

Amounts for Mr. Curtin in fiscal 2019 include payment by the Company of a penalty assessed by the Internal Revenue Service and the gross-up amount for an impermissible distribution from Mr. Curtin's deferred compensation account under the SSRP due to an administrative error made by the Company and the incremental pre-tax cost to us of Mr. Curtin's non-business use of our aircraft. Mr. Curtin is permitted to use the aircraft for business and non-business purposes.

Amounts in fiscal 2018 for Mr. Curtin include the incremental pre-tax cost to us of non-business use of our aircraft.

Amounts for All Other Executive Management include various miscellaneous fees and expenses, personal tax preparation assistance, international tax payments and U.S. tax gross-up payments pertaining to expatriate assignments for one executive in fiscal 2019 and two executives in fiscal 2018. Due to the timing of payments, the following range of exchange rates, primarily as determined by TE Connectivity finance, were used to convert amounts reported or paid in euros to U.S. dollars: \$1.11—\$1.15: EUR 1 in fiscal 2019 and EUR to U.S. dollars: \$1.13—\$1.25: EUR 1 in fiscal 2018

Amounts in fiscal 2018 for All Other Executive Management include the incremental pre-tax cost to us for non-business use of our aircraft for two executives and the value and tax gross-up amount of a retirement gift for one executive.

- (b) Additional income reported for participation in a Company paid split dollar life insurance program for one executive in fiscal 2018.
- (c) The value of dividend equivalent units credited in the fiscal year to each individual's unvested RSUs and PSUs using the closing price on the date of the crediting. The dividend equivalent unit value associated with the PSUs reflects target performance and will be adjusted based on certified performance results following the close of the three-year performance period.
- (d) Contributions made on behalf of Executive Management under TE Connectivity's qualified defined contribution plan and accruals on behalf of Executive Management under the SSRP (a nonqualified defined contribution excess plan).

<u>Name</u>	<u>Year</u>	<u>Company Matching Contribution (Qualified Plan)^(*)</u>	<u>Company Contribution (Non-Qualified Plan)</u>
Terrence Curtin	2019	\$16,800	\$184,285
	2018	\$16,500	\$186,085
All Other Executive Management	2019	\$100,694	\$372,116
	2018	\$124,411	\$780,198

(*) Included in the amount above is an additional matching contribution in fiscal 2019 for one executive and fiscal 2018 for two executives as a result of a frozen defined benefit plan.

- (e) For fiscal 2019 and 2018, the Company made matching contributions under the TE Connectivity employee stock purchase plan for one executive.
- (f) For fiscal 2019, the amount includes cash settlement of previously issued retention equity awards to former members of Executive Management. For fiscal 2018, the amount includes the value of unused vacation and personal time paid to one executive pursuant to local state law requirements.

Report of the Statutory Auditor on the Swiss Statutory Compensation Report of TE Connectivity Ltd.

To the General meeting of
TE CONNECTIVITY LTD., SCHAFFHAUSEN

We have audited Tables 1 and 2 within the accompanying compensation report of TE Connectivity Ltd. for the year ended September 27, 2019.

Board of Directors' Responsibility

The Board of Directors is responsible for the preparation and overall fair presentation of the compensation report in accordance with Swiss law and the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (the "Ordinance"). The Board of Directors is also responsible for designing the compensation system and defining individual compensation packages.

Auditor's Responsibility

Our responsibility is to express an opinion on the accompanying compensation report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the compensation report complies with Swiss law and articles 14 – 16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the compensation report with regard to compensation, loans and credits in accordance with articles 14 – 16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the compensation report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of compensation, as well as assessing the overall presentation of the compensation report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the compensation report of TE Connectivity Ltd. for the year ended September 27, 2019 complies with Swiss law and articles 14 – 16 of the Ordinance.

Deloitte AG

/s/ Matthias Gschwend
Licensed audit expert
Auditor in charge

/s/ Dominik Voegtli
Licensed audit expert

Zurich, December 13, 2019

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Industrial Solutions

