

2020 ANNUAL REPORT

**WHEN
TECHNOLOGY
CONNECTS,
SO DOES HUMANITY.**

CORPORATE DATA

REGISTERED & PRINCIPAL EXECUTIVE OFFICE

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INDEPENDENT AUDITORS

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STOCK EXCHANGE

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

FORM 10-K

Copies of the company's Annual Report on Form 10-K for the fiscal year ended September 25, 2020 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-FY2020

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**TE CONNECTIVITY LTD.
ANNUAL REPORT
TABLE OF CONTENTS**

	Page
<u>Business</u>	<u>1</u>
<u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>6</u>
<u>Selected Financial Data</u>	<u>9</u>
<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>10</u>
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>29</u>
<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>30</u>
<u>Controls and Procedures</u>	<u>30</u>
<u>Consolidated Financial Statements</u>	<u>31</u>
<u>Swiss Statutory Financial Statements</u>	<u>87</u>
<u>Swiss Statutory Compensation Report</u>	<u>103</u>

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," and "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 25, 2020 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.

“TE Connectivity” and “TE Connectivity (logo)” are trademarks. This report further contains other trademarks of ours and additional trade names and trademarks of other companies that are not owned by TE Connectivity. We do not intend our use or display of other companies’ trade names or trademarks to imply an endorsement or sponsorship of us by such companies, or any relationship with any of these companies.

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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 2020, 2019, and 2018 were each 52 weeks in length and ended on September 25, 2020, September 27, 2019, and September 28, 2018, 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.

COVID-19 Pandemic

A novel strain of coronavirus (“COVID-19”) was first identified in China in December 2019 and subsequently declared a pandemic by the World Health Organization. To date, COVID-19 has surfaced in nearly all regions around the world and resulted in travel restrictions and business slowdowns or shutdowns in affected areas. The COVID-19 pandemic negatively affected our sales and operating results during fiscal 2020, and we expect that it will continue to have an impact on our financial condition and results of operations in the near term and may have a material impact on our financial condition, liquidity, and results of operations in future periods. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations” for discussion regarding the impact of the COVID-19 pandemic on our financial results. Also, see “Part I. Item 1A. Risk Factors” of our Annual Report on Form 10-K for the fiscal year ended September 25, 2020 filed with the SEC for discussion of the risks and uncertainties associated with the COVID-19 pandemic.

Segments

We operate through three reportable segments: Transportation Solutions, Industrial Solutions, and Communications Solutions. Although the COVID-19 pandemic has negatively affected our markets, we expect a gradual recovery with our three segments once again serving a combined market of approximately \$190 billion.

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

	Fiscal		
	2020	2019	2018
Transportation Solutions	56 %	58 %	59 %
Industrial Solutions	31	30	28
Communications Solutions	13	12	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, relays, antennas, 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 (72% 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 (13% 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, interventional medical components, relays, and wire and cable. The Industrial Solutions segment's products are used in the following end markets:

- *Aerospace, defense, oil, and gas (32% 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 commercial 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.
- *Industrial equipment (30% 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 and offer solutions in 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.
- *Medical (19% of segment's net sales)*—Our products are used in imaging, diagnostic, surgical, and minimally invasive interventional applications. We specialize in the design and manufacture of advanced surgical, imaging, and interventional device solutions. Key markets served include cardiovascular, peripheral vascular, structural heart, endoscopy, electrophysiology, and neurovascular therapies.
- *Energy (19% of segment's net sales)*—Our products are used by OEMs and utility companies in the electrical power industry and include a wide range of solutions for the electrical power generation, transmission, distribution, and industrial markets.

The Industrial Solutions segment competes primarily against Amphenol, Hubbell, Carlisle Companies, ABB, Integer Holdings, Esterline, Molex, and Omron.

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 (60% 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 (40% 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 2020, 2019, or 2018.

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		
	2020	2019	2018
Asia-Pacific	35 %	33 %	34 %
Europe/Middle East/Africa ("EMEA")	35	36	38
Americas	30	31	28
Total	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>

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

We sell our products into approximately 140 countries primarily through direct selling efforts to manufacturers. In fiscal 2020, 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

Typically, we experience a slight seasonal pattern to our business. Overall, the third and fourth fiscal quarters are usually 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 and demand may fluctuate as a result of economic and market conditions. We have experienced, and expect to continue to experience, fluctuations as a result of the impacts of the COVID-19 pandemic. Backlog by reportable segment was as follows:

	<u>Fiscal Year End</u>	
	<u>2020</u>	<u>2019</u>
	(in millions)	
Transportation Solutions	\$ 1,819	\$ 1,639
Industrial Solutions	1,260	1,315
Communications Solutions	439	361
Total	<u>\$ 3,518</u>	<u>\$ 3,315</u>

We expect that the majority of our backlog at fiscal year end 2020 will be filled during fiscal 2021. Backlog is not necessarily indicative of future net sales as unfilled orders may be cancelled prior to shipment of goods.

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. We have experienced, and expect to continue to experience, 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.

Human Capital Management

We have employees located throughout the world. As of fiscal year end 2020, we employed approximately 82,000 people worldwide, including contract employees. Approximately 22,000 were in the Asia-Pacific region, 31,000 were in the EMEA region, and 29,000 were in the Americas region. Of our total employees, approximately 52,000 were employed in manufacturing. Our strong employee base, along with their commitment to uncompromising values, provides the foundation of our company's success.

Our employees are responsible for upholding our purpose—to create a safer, sustainable, productive, and connected future; our values—integrity, accountability, teamwork, and innovation; and our strategy, execution, and talent (“SET”) leadership expectations. We track and report internally on key talent metrics including workforce demographics, critical role pipeline data, diversity data, and engagement and inclusion indices.

We embrace diversity and inclusion. A truly innovative workforce needs to be diverse and leverage the skills and perspectives of a wealth of backgrounds and experiences. To attract a global workforce, we strive to embed a culture where employees can bring their whole selves to work. Our employee resource groups (“ERGs”) are company-sponsored groups of employees that support and promote certain mutual objectives of both the employees and the company, including inclusion and diversity and the professional development of employees. The ERGs provide a space where employees can foster connections and develop in a supportive environment. As of fiscal year end 2020, we had six ERGs—ALIGN (LGBTQ), Women in Networking, TE Young Professionals, African Heritage, TE Veterans, and Asian Heritage. We are focused on recruitment of diverse candidates and on internal talent development of our diverse leaders so that they can advance their careers and move into leadership positions within the company. Also, during fiscal 2020, we conducted a fully digital, enterprise-wide engagement survey, our Every Connection Counts survey, which was available in 13 languages and focused on measuring engagement and inclusion.

We continue to emphasize employee development and training. To empower employees to unleash their potential, we provide a range of development programs and opportunities, skills, and resources they need to be successful. Our LEARN@TE platform supplements our talent development strategies. It is an online portal that enables employees to access instructor-led classroom or virtual courses and self-directed web-based courses. In fiscal 2019, we launched SET leadership expectations to all employees which focus on how we drive strategy, effectively execute, and build talent. We believe these behavioral expectations are integrated into the way we assess and select talent, manage performance, and develop our people. We are committed to identifying and developing the talents of our next generation leaders. We have a robust talent and succession planning process and have established specialized programs to support the development of our talent pipeline for critical roles in general management, engineering, and operations. On an annual basis, we conduct an Organization and Leadership Review process with our chief executive officer and all segment, business unit, and function leaders focusing on our high performing and high potential talent, diverse talent, and the succession for our most critical roles.

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 approximately 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. For discussion of the risks relating to the attraction and retention of management and executive management employees, see “Part 1. Item 1A. Risk Factors” of our Annual Report on Form 10-K for the fiscal year ended September 25, 2020 filed with the SEC.

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 2020, we concluded that we would incur investigation and remediation costs at these sites in the reasonably possible range of \$16 million to \$45 million, and we accrued \$20 million as the probable loss, which was the best estimate within this range. We do not anticipate any material capital expenditures during fiscal 2021 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.

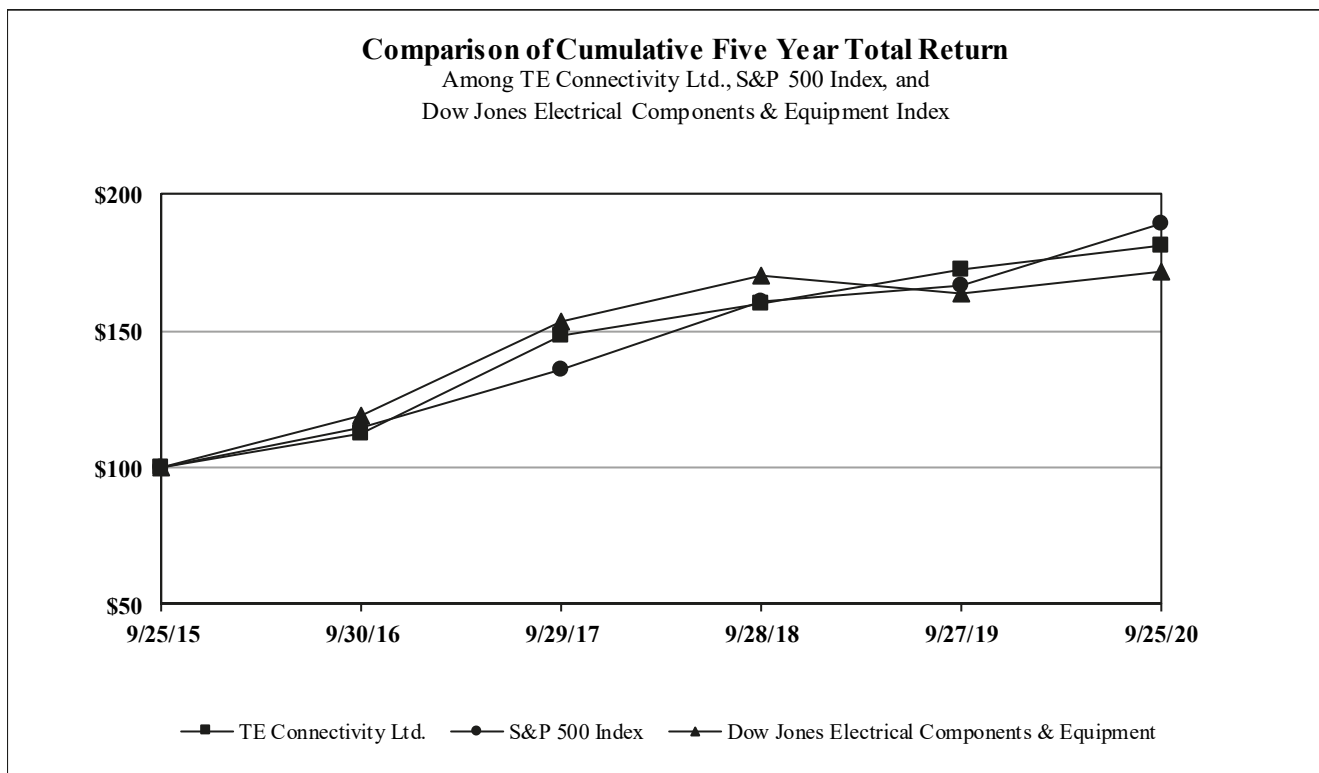
MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information and Holders

Our common shares are listed and traded on the NYSE under the symbol “TEL.” As of November 4, 2020, there were 18,230 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 2015 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					
	2015	2016	2017	2018	2019	2020
TE Connectivity Ltd.	\$ 100.00	\$ 112.75	\$ 148.52	\$ 160.01	\$ 172.38	\$ 181.13
S&P 500 Index	100.00	114.80	136.17	160.55	166.53	189.01
Dow Jones Electrical Components and Equipment Index	100.00	118.71	153.08	170.22	163.89	171.79

(1) \$100 invested on September 25, 2015 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 25, 2020:

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 27–July 24, 2020	295	\$ 81.09	—	\$ 995,115,788
July 25–August 28, 2020	6,752	88.11	—	995,115,788
August 29–September 25, 2020	8,106	99.26	—	995,115,788
Total	15,153	\$ 93.94	—	

(1) These columns represent the acquisition of common shares from individuals to satisfy tax withholding requirements in connection with the vesting of restricted share awards issued under equity compensation plans.

(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				
	2020	2019	2018	2017	2016 ⁽¹⁾
	(in millions, except per share data)				
Statement of Operations Data					
Net sales	\$ 12,172	\$ 13,448	\$ 13,988	\$ 12,185	\$ 11,352
Acquisition and integration costs	36	27	14	6	22
Restructuring and other charges (credits), net ⁽²⁾	257	255	126	147	(2)
Impairment of goodwill ⁽³⁾	900	—	—	—	—
Other income (expense), net ⁽⁴⁾	20	2	1	(42)	(677)
Income tax (expense) benefit ⁽⁵⁾	(783)	15	344	(180)	826
Income (loss) from continuing operations	(259)	1,946	2,584	1,540	1,847
Income (loss) from discontinued operations, net of income taxes ⁽⁶⁾	18	(102)	(19)	143	162
Net income (loss)	(241)	1,844	2,565	1,683	2,009
Per Share Data					
Basic earnings (loss) per share:					
Income (loss) from continuing operations	\$ (0.78)	\$ 5.76	\$ 7.38	\$ 4.34	\$ 5.05
Net income (loss)	(0.73)	5.46	7.33	4.74	5.49
Diluted earnings (loss) per share:					
Income (loss) from continuing operations	\$ (0.78)	\$ 5.72	\$ 7.32	\$ 4.30	\$ 5.01
Net income (loss)	(0.73)	5.42	7.27	4.70	5.44
Dividends paid per common share	\$ 1.88	\$ 1.80	\$ 1.68	\$ 1.54	\$ 1.40
Balance Sheet Data					
Total assets	\$ 19,242	\$ 19,694	\$ 20,386	\$ 19,403	\$ 17,608
Long-term liabilities	6,057	5,584	5,145	5,805	6,057
Total shareholders’ equity	9,383	10,570	10,831	9,751	8,485

(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 2020 included a goodwill impairment charge related to the Sensors reporting unit in our Transportation Solutions segment. See Note 8 to the Consolidated Financial Statements for additional information regarding the impairment of goodwill.

(4) Fiscal 2016 net other income (expense) was recorded primarily pursuant to the Tax Sharing Agreement with Tyco International plc and Covidien plc and 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.

(5) For fiscal 2020, 2019, and 2018, see Note 16 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.

(6) Fiscal 2019 included a pre-tax loss of \$86 million on the sale of our Subsea Communications 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 25, 2020 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 2020 compared to fiscal 2019 is presented below. Discussion of our financial condition and results of operations for fiscal 2019 compared to fiscal 2018 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 27, 2019 filed with the SEC.

The following discussion includes organic net sales growth (decline) 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.

Summary of Fiscal 2020 Performance

- Our fiscal 2020 net sales decreased 9.5% from fiscal 2019 levels due to sales declines in the Transportation Solutions segment and, to a lesser degree, the Industrial Solutions and Communications Solutions segments. On an organic basis, our net sales decreased 9.9% in fiscal 2020 as compared to fiscal 2019. Our net sales declines included significant unfavorable impacts from the COVID-19 pandemic.
- Our net sales by segment were as follows:
 - *Transportation Solutions*—Our net sales decreased 12.5% due to sales declines in the automotive end market and, to a lesser degree, the commercial transportation and sensors end markets.
 - *Industrial Solutions*—Our net sales decreased 6.1% primarily as a result of sales declines in the industrial equipment and the aerospace, defense, oil, and gas end markets.
 - *Communications Solutions*—Our net sales decreased 3.5% due to sales declines in both the appliances and the data and devices end markets.
- During fiscal 2020, our shareholders approved a dividend payment to shareholders of \$1.92 per share, payable in four equal quarterly installments of \$0.48 beginning in the third quarter of fiscal 2020 and ending in the second quarter of fiscal 2021.
- Net cash provided by continuing operating activities was \$1,991 million in fiscal 2020.
- We acquired approximately 72% of the outstanding shares of First Sensor AG ("First Sensor"), a provider of sensing solutions based in Germany, during fiscal 2020.

COVID-19 Pandemic and Economic Conditions

A novel strain of coronavirus (“COVID-19”) was first identified in China in December 2019 and subsequently declared a pandemic by the World Health Organization. To date, COVID-19 has surfaced in nearly all regions around the world and resulted in travel restrictions and business slowdowns or shutdowns in affected areas. The COVID-19 pandemic negatively affected our sales and operating results during fiscal 2020, and we expect that it will continue to have an impact on our financial condition and results of operations in the near term and may have a material impact on our financial condition, liquidity, and results of operations in future periods.

The COVID-19 pandemic is currently impacting, and we expect that it will continue to impact, our business operations globally, causing potential disruption in our suppliers’ and customers’ supply chains, some of our business locations to reduce or suspend operations, and a reduction in demand for certain products from direct customers or end markets. While a number of our businesses are operating as essential businesses, some have had and continue to have adjusted, reduced, or suspended operating activities at certain locations. In addition, the COVID-19 pandemic may have far-reaching impacts on many additional aspects of our operations, directly and indirectly, including with respect to its impacts on customer behaviors, business and manufacturing operations, inventory, our employees, and the market generally, and the scope and nature of these impacts continue to evolve each day. We expect to continue to assess the evolving impact of the COVID-19 pandemic and intend to adjust our operations accordingly. For example, throughout our operations, we have enacted additional health and safety measures for the protection of our employees, including providing personal protective equipment, enhanced cleaning and sanitizing of our facilities, and remote working arrangements.

We expect that the COVID-19 pandemic will continue to impact several of the markets we serve, in particular the automotive and commercial aerospace markets. We expect these markets to decline in the near term relative to fiscal 2020 and they may decline in future periods. However, despite these market declines, we expect a slight increase in our total net sales in the first quarter of fiscal 2021 as compared to the first quarter of fiscal 2020. See “Outlook” below for additional information.

In response to the current economic environment and our sales declines relative to fiscal 2019, we have taken and continue to focus on actions to manage costs. These include restructuring and other cost reduction initiatives, such as reducing discretionary spending, cutting capital expenditures, reducing travel, and furloughing certain employees. We will continue to actively monitor the situation and may take further actions that alter our business operations as may be required by federal, state, or local authorities or that we determine are in the best interests of our employees, customers, suppliers, shareholders, and the communities in which we operate.

For further discussion of the risks and uncertainties associated with the COVID-19 pandemic, see “Part I. Item 1A. Risk Factors” of our Annual Report on Form 10-K for the fiscal year ended September 25, 2020 filed with the SEC.

Outlook

In the first quarter of fiscal 2021, we expect our net sales to be approximately \$3.2 billion as compared to \$3.17 billion in the first quarter of fiscal 2020. This represents a slight increase resulting from sales growth in the Transportation Solutions and Communications Solutions segments, partially offset by sales declines in the Industrial Solutions segment. Additional information regarding expectations for our reportable segments is as follows:

- *Transportation Solutions*—In the automotive end market, we expect our net sales increase resulting from content growth to be offset by sales decreases resulting from declines in global automotive production in the first quarter of fiscal 2021 as compared to the same period of fiscal 2020. We expect global automotive production in the first quarter of fiscal 2021 to decline compared to the first quarter of fiscal 2020, but to increase from the fourth quarter of fiscal 2020. We expect our net sales to increase in the sensors and commercial transportation end markets in the first quarter of fiscal 2021 over the first quarter of fiscal 2020. Our sales in the sensors end market are expected to benefit from the acquisition of First Sensor.
- *Industrial Solutions*—We expect our net sales to decline in the aerospace, defense, oil, and gas end market in the first quarter of fiscal 2021 as compared to the same period of fiscal 2020 primarily as a result of weakness in the commercial aerospace market. We expect the commercial aerospace market to decline over 20% in fiscal 2021 as compared to fiscal 2020.

- *Communications Solutions*—We expect our net sales to increase in both the data and devices and the appliances end markets in the first quarter of fiscal 2021 as compared to the same period of fiscal 2020. We expect to continue to benefit from cloud infrastructure spending and a recovery in the appliances market in fiscal 2021 as compared to fiscal 2020.

We expect diluted earnings per share from continuing operations to be approximately \$0.83 per share in the first quarter of fiscal 2021. This outlook reflects the positive impact of foreign currency exchange rates on net sales and earnings per share of approximately \$55 million and \$0.04 per share, respectively, in the first quarter of fiscal 2021 as compared to the same period of fiscal 2020.

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, including developments related to the COVID-19 pandemic. We have taken actions to manage costs and will continue to closely manage our costs in line with economic conditions. Additionally, we are managing our capital resources and monitoring capital availability to ensure that we have sufficient resources to fund future capital needs. See further discussion in “Liquidity and Capital Resources.”

Acquisitions

During fiscal 2020, we acquired approximately 72% of the outstanding shares of First Sensor for €181 million in cash (equivalent to \$201 million using an exchange rate of \$1.11 per €1.00), net of cash acquired. This business has been reported as part of our Transportation Solutions segment from the date of acquisition.

We acquired four additional businesses for a combined cash purchase price of \$135 million, net of cash acquired, during fiscal 2020. The acquisitions were reported as part of our Transportation Solutions and Industrial Solutions segments from the date of acquisition.

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.

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

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			
	2020		2019	
	(\$ in millions)			
Transportation Solutions	\$ 6,845	56 %	\$ 7,821	58 %
Industrial Solutions	3,713	31	3,954	30
Communications Solutions	1,614	13	1,673	12
Total	<u>\$ 12,172</u>	<u>100 %</u>	<u>\$ 13,448</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 2020 versus Fiscal 2019					
	Net Sales		Organic Net Sales		Translation	Acquisitions
	Growth (Decline)		Growth (Decline)			
	(\$ in millions)					
Transportation Solutions	\$ (976)	(12.5)%	\$ (1,066)	(13.5)%	\$ (65)	\$ 155
Industrial Solutions	(241)	(6.1)	(212)	(5.4)	(29)	—
Communications Solutions	(59)	(3.5)	(54)	(3.2)	(5)	—
Total	<u>\$ (1,276)</u>	<u>(9.5)%</u>	<u>\$ (1,332)</u>	<u>(9.9)%</u>	<u>\$ (99)</u>	<u>\$ 155</u>

Net sales decreased \$1,276 million, or 9.5%, in fiscal 2020 as compared to fiscal 2019. The decrease in net sales resulted from organic net sales declines of 9.9% and the negative impact of foreign currency translation of 0.8% due to the weakening of certain foreign currencies, partially offset by sales contributions from acquisitions of 1.2%. Price erosion adversely affected organic net sales by \$173 million in fiscal 2020. In fiscal 2020, our net sales declines included significant unfavorable impacts from the COVID-19 pandemic.

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

Net Sales by Geographic Region. Our business operates in three geographic regions—Asia-Pacific, EMEA, and the Americas—and our results of operations are influenced by changes in foreign currency exchange rates. Increases or decreases in the value of the U.S. dollar, compared to other currencies, will directly affect our reported results as we translate those currencies into U.S. dollars at the end of each fiscal period. We sell our products into approximately 140 countries, and approximately 60% of our net sales were invoiced in currencies other than the U.S. dollar in fiscal 2020. The percentage of net sales in fiscal 2020 by major currencies invoiced was as follows:

Currencies	Percentage
U.S. dollar	43 %
Euro	29
Chinese renminbi	15
Japanese yen	6
All others	7
Total	<u>100 %</u>

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

	Fiscal			
	2020		2019	
	(\$ in millions)			
Asia-Pacific	\$ 4,246	35 %	\$ 4,401	33 %
EMEA	4,220	35	4,823	36
Americas	3,706	30	4,224	31
Total	\$ 12,172	100 %	\$ 13,448	100 %

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

	Change in Net Sales for Fiscal 2020 versus Fiscal 2019					
	Net Sales		Organic Net Sales		Translation	Acquisitions
	Growth (Decline)		Growth (Decline)			
	(\$ in millions)					
Asia-Pacific	\$ (155)	(3.5)%	\$ (123)	(2.8)%	\$ (32)	\$ —
EMEA	(603)	(12.5)	(676)	(14.0)	(28)	101
Americas	(518)	(12.3)	(533)	(12.6)	(39)	54
Total	\$ (1,276)	(9.5)%	\$ (1,332)	(9.9)%	\$ (99)	\$ 155

Cost of Sales and Gross Margin

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

	Fiscal		Change
	2020	2019	
	(\$ in millions)		
Cost of sales	\$ 8,437	\$ 9,054	\$ (617)
As a percentage of net sales	69.3 %	67.3 %	
Gross margin	\$ 3,735	\$ 4,394	\$ (659)
As a percentage of net sales	30.7 %	32.7 %	

In fiscal 2020, gross margin decreased \$659 million as compared to fiscal 2019 primarily as a result of lower volume and, to a lesser degree, price erosion and lower manufacturing productivity, partially offset by lower material costs.

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 2020, we purchased approximately 160 million pounds of copper, 107,000 troy ounces of gold, and 2.2 million troy ounces of silver. The following table presents the average prices incurred related to copper, gold, and silver:

	Measure	Fiscal	
		2020	2019
Copper	Lb.	\$ 2.78	\$ 2.93
Gold	Troy oz.	1,395	1,309
Silver	Troy oz.	16.21	16.42

In fiscal 2021, we expect to purchase approximately 155 million pounds of copper, 105,000 troy ounces of gold, and 2.2 million troy ounces of silver.

Operating Expenses

The following table presents operating expense information:

	Fiscal		Change
	2020	2019	
Selling, general, and administrative expenses	\$ 1,392	\$ 1,490	\$ (98)
As a percentage of net sales	11.4 %	11.1 %	
Restructuring and other charges, net	\$ 257	\$ 255	\$ 2
Impairment of goodwill	900	—	900

Selling, General, and Administrative Expenses. In fiscal 2020, selling, general, and administrative expenses decreased \$98 million as compared to fiscal 2019 due primarily to reduced selling expenses, cost control measures, and savings attributable to restructuring actions.

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 2020 and 2019, we initiated restructuring programs associated with footprint consolidation and structural improvements impacting all segments. The fiscal 2020 actions were due in part to the COVID-19 pandemic. We incurred net restructuring charges of \$257 million and \$255 million in fiscal 2020 and 2019, respectively. Annualized cost savings related to actions initiated in fiscal 2020 are expected to be approximately \$200 million and are expected to be realized by the end of fiscal 2022. Cost savings will be reflected primarily in cost of sales and selling, general, and administrative expenses. For fiscal 2021, we currently expect total restructuring charges to be approximately \$200 million and total spending, which will be funded with cash from operations, to be approximately \$250 million.

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

Impairment of Goodwill. As a result of current and projected declines in sales and profitability, due in part to the impact of the COVID-19 pandemic and projected reductions in global automotive production as of March 2020, of the Sensors reporting unit of the Transportation Solutions segment during the second quarter of fiscal 2020, we determined that an indicator of impairment had occurred and goodwill impairment testing of this reporting unit was required.

As discussed in Note 2 to the Consolidated Financial Statements, during the second quarter of fiscal 2020, we adopted Accounting Standards Update (“ASU”) No. 2017-04, *Simplifying the Test for Goodwill Impairment*, which simplifies the subsequent measurement of goodwill by eliminating step 2 of the goodwill impairment test. Under the new standard, goodwill impairment is measured as the amount by which a reporting unit’s carrying value exceeds its fair value, not to exceed the carrying value of goodwill. We determined the fair value of the Sensors reporting unit to be \$1.0 billion as of March 27, 2020. This valuation was based on a discounted cash flows analysis incorporating our estimate of future operating performance, which we consider to be a level 3 unobservable input in the fair value hierarchy, and was corroborated using a market approach valuation. The goodwill impairment test indicated that the carrying value of the reporting unit exceeded its fair value by \$900 million. As a result, we recorded a partial impairment charge of \$900 million in the second quarter of fiscal 2020. As of fiscal year end 2020, the Sensors reporting unit had a remaining goodwill allocation of \$511 million. See Note 8 to the Consolidated Financial Statements for additional information regarding the impairment of goodwill and our annual goodwill impairment test.

Operating Income

The following table presents operating income and operating margin information:

	<u>Fiscal</u>		<u>Change</u>
	<u>2020</u>	<u>2019</u>	
	(\$ in millions)		
Operating income	\$ 537	\$ 1,978	\$ (1,441)
Operating margin	4.4 %	14.7 %	

Operating income included the following:

	<u>Fiscal</u>	
	<u>2020</u>	<u>2019</u>
	(in millions)	
Acquisition-related charges:		
Acquisition and integration costs	\$ 36	\$ 27
Charges associated with the amortization of acquisition-related fair value adjustments	4	3
	<u>40</u>	<u>30</u>
Restructuring and other charges, net	257	255
Impairment of goodwill	900	—
Other items ⁽¹⁾	—	17
Total	<u>\$ 1,197</u>	<u>\$ 302</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:

	<u>Fiscal</u>		<u>Change</u>
	<u>2020</u>	<u>2019</u>	
	(\$ in millions)		
Interest expense	\$ 48	\$ 68	\$ (20)
Income tax expense (benefit)	783	(15)	798
Effective tax rate	149.4 %	(0.8)%	
Income (loss) from discontinued operations, net of income taxes	\$ 18	\$ (102)	\$ 120

Interest Expense. Interest expense decreased \$20 million during fiscal 2020 due primarily to a lower cost of debt and our cross-currency swap program that hedges our net investment in certain foreign operations. The aggregate notional value of the contracts under this program was \$1,664 million at fiscal year end 2020. Under the terms of these contracts, we receive interest in U.S. dollars at a weighted-average rate of 2.4% per annum and pay no interest. See Note 14 to the Consolidated Financial Statements for additional information regarding our cross-currency swap program.

Income Taxes. See Note 16 to the Consolidated Financial Statements for discussion of items impacting income tax expense (benefit) and the effective tax rate for fiscal 2020 and 2019, including the Switzerland Federal Act on Tax Reform and AHV Financing (“Swiss Tax Reform”), increases to the valuation allowance for certain deferred tax assets, and the termination of the Tax Sharing Agreement.

The valuation allowance for deferred tax assets was \$4,429 million and \$4,970 million at fiscal year end 2020 and 2019, respectively. See Note 16 to the Consolidated Financial Statements for further information regarding the valuation allowance for deferred tax assets.

As of fiscal year end 2020, certain subsidiaries had approximately \$29 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 16 to the Consolidated Financial Statements for additional information regarding undistributed earnings.

Income (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 in fiscal 2019. The results for fiscal 2019 represent one month of activity. 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			
	2020		2019	
	(\$ in millions)			
Automotive	\$ 4,903	72 %	\$ 5,686	73 %
Commercial transportation	1,051	15	1,221	15
Sensors	891	13	914	12
Total	<u>\$ 6,845</u>	<u>100 %</u>	<u>\$ 7,821</u>	<u>100 %</u>

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

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

	Change in Net Sales for Fiscal 2020 versus Fiscal 2019					
	Net Sales		Organic Net Sales		Translation	Acquisitions
	Growth (Decline)	Growth (Decline)	Growth (Decline)	Growth (Decline)		
	(\$ in millions)					
Automotive	\$ (783)	(13.8)%	\$ (742)	(12.9)%	\$ (41)	\$ —
Commercial transportation	(170)	(13.9)	(176)	(14.4)	(21)	27
Sensors	(23)	(2.5)	(148)	(16.3)	(3)	128
Total	<u>\$ (976)</u>	<u>(12.5)%</u>	<u>\$ (1,066)</u>	<u>(13.5)%</u>	<u>\$ (65)</u>	<u>\$ 155</u>

Net sales in the Transportation Solutions segment decreased \$976 million, or 12.5%, in fiscal 2020 from fiscal 2019 as a result of organic net sales declines of 13.5% and the negative impact of foreign currency translation of 0.9%, partially offset by sales contributions from acquisitions of 1.9%. Net sales declines in fiscal 2020 included significant unfavorable impacts of the COVID-19 pandemic. Our organic net sales by industry end market were as follows:

- *Automotive*—Our organic net sales decreased 12.9% in fiscal 2020 with declines of 18.0% in the Americas region, 16.7% in the EMEA region, and 6.4% in the Asia-Pacific region. Our overall organic net sales decreased as a result of declines in global automotive production; however, our sales decreased at a lesser rate than global automotive production due to content gains.
- *Commercial transportation*—Our organic net sales decreased 14.4% in fiscal 2020 due to market weakness in the Americas and EMEA regions, partially offset by growth in the Asia-Pacific region.
- *Sensors*—Our organic net sales decreased 16.3% in fiscal 2020 as a result of weakness across all markets.

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

	<u>Fiscal</u>		<u>Change</u>
	<u>2020</u>	<u>2019</u>	
	(\$ in millions)		
Operating income (loss)	\$ (93)	\$ 1,226	\$ (1,319)
Operating margin	(1.4)%	15.7 %	

Operating income (loss) in the Transportation Solutions segment decreased \$1,319 million in fiscal 2020 as compared to fiscal 2019. The Transportation Solutions segment's operating income (loss) included the following:

	<u>Fiscal</u>	
	<u>2020</u>	<u>2019</u>
	(in millions)	
Acquisition-related charges:		
Acquisition and integration costs	\$ 28	\$ 17
Charges associated with the amortization of acquisition-related fair value adjustments	4	—
	32	17
Restructuring and other charges, net	113	144
Impairment of goodwill	900	—
Other items	—	14
Total	<u>\$ 1,045</u>	<u>\$ 175</u>

Excluding these items, operating income decreased in fiscal 2020 primarily as a result of lower volume and, to a lesser degree, price erosion and lower manufacturing productivity, 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⁾:

	<u>Fiscal</u>			
	<u>2020</u>	<u>2019</u>		
	(\$ in millions)			
Aerospace, defense, oil, and gas	\$ 1,201	32 %	\$ 1,306	33 %
Industrial equipment	1,098	30	1,242	31
Medical	697	19	707	18
Energy	717	19	699	18
Total	<u>\$ 3,713</u>	<u>100 %</u>	<u>\$ 3,954</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:

	<u>Change in Net Sales for Fiscal 2020 versus Fiscal 2019</u>				
	<u>Net Sales</u>		<u>Organic Net Sales</u>		<u>Translation</u>
	<u>Growth (Decline)</u>		<u>Growth (Decline)</u>		
	(\$ in millions)				
Aerospace, defense, oil, and gas	\$ (105)	(8.0)%	\$ (100)	(7.8)%	\$ (5)
Industrial equipment	(144)	(11.6)	(133)	(10.7)	(11)
Medical	(10)	(1.4)	(9)	(1.3)	(1)
Energy	18	2.6	30	4.3	(12)
Total	<u>\$ (241)</u>	<u>(6.1)%</u>	<u>\$ (212)</u>	<u>(5.4)%</u>	<u>\$ (29)</u>

In the Industrial Solutions segment, net sales decreased \$241 million, or 6.1%, in fiscal 2020 from fiscal 2019 due primarily to organic net sales declines of 5.4%. Significant unfavorable impacts of the COVID-19 pandemic were included in our net sales declines in fiscal 2020. Our organic net sales by industry end market were as follows:

- *Aerospace, defense, oil, and gas*—Our organic net sales decreased 7.8% in fiscal 2020 due primarily to weakness in the commercial aerospace market, partially offset by strength in the defense market.
- *Industrial equipment*—Our organic net sales decreased 10.7% in fiscal 2020 as a result of market weakness in industrial applications across all regions.
- *Medical*—Our organic net sales decreased 1.3% in fiscal 2020 due primarily to delays in elective procedures.
- *Energy*—Our organic net sales increased 4.3% in fiscal 2020 primarily as a result of growth in the EMEA and Americas regions.

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

	Fiscal		Change
	2020	2019	
	(\$ in millions)		
Operating income	\$ 412	\$ 543	\$ (131)
Operating margin	11.1 %	13.7 %	

Operating income in the Industrial Solutions segment decreased \$131 million in fiscal 2020 from fiscal 2019. The Industrial Solutions segment’s operating income included the following:

	Fiscal	
	2020	2019
	(in millions)	
Acquisition-related charges:		
Acquisition and integration costs	\$ 8	\$ 10
Charges associated with the amortization of acquisition-related fair value adjustments	—	3
	8	13
Restructuring and other charges, net	102	63
Other items	—	2
Total	<u>\$ 110</u>	<u>\$ 78</u>

Excluding these items, operating income decreased in fiscal 2020 primarily as a result of lower volume, partially offset by lower material costs.

Communications Solutions

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

	Fiscal			
	2020		2019	
	(\$ in millions)			
Data and devices	\$ 973	60 %	\$ 993	59 %
Appliances	641	40	680	41
Total	<u>\$ 1,614</u>	<u>100 %</u>	<u>\$ 1,673</u>	<u>100 %</u>

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

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

	Change in Net Sales for Fiscal 2020 versus Fiscal 2019				
	Net Sales		Organic Net Sales		Translation
	Growth (Decline)		Growth (Decline)		
	(\$ in millions)				
Data and devices	\$ (20)	(2.0)%	\$ (23)	(2.5)%	\$ 3
Appliances	(39)	(5.7)	(31)	(4.4)	(8)
Total	<u>\$ (59)</u>	<u>(3.5)%</u>	<u>\$ (54)</u>	<u>(3.2)%</u>	<u>\$ (5)</u>

Net sales in the Communications Solutions segment decreased \$59 million, or 3.5%, in fiscal 2020 as compared to fiscal 2019 due primarily to organic net sales declines of 3.2%. In fiscal 2020, our net sales declines included unfavorable impacts of the COVID-19 pandemic. Our organic net sales by industry end market were as follows:

- *Data and devices*—Our organic net sales decreased 2.5% in fiscal 2020 primarily as a result of market weakness in the Americas and EMEA regions, partially offset by increased sales to cloud infrastructure customers.
- *Appliances*—Our organic net sales decreased 4.4% in fiscal 2020 due primarily to market weakness in the EMEA and Americas regions.

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

	Fiscal		Change
	2020	2019	
	(\$ in millions)		
Operating income	\$ 218	\$ 209	\$ 9
Operating margin	13.5 %	12.5 %	

In the Communications Solutions segment, operating income increased \$9 million in fiscal 2020 as compared to fiscal 2019. The Communications Solutions segment's operating income included the following:

	Fiscal	
	2020	2019
	(in millions)	
Restructuring and other charges, net	\$ 42	\$ 48
Other items	—	1
Total	<u>\$ 42</u>	<u>\$ 49</u>

Excluding these items, fiscal 2020 operating income was consistent with fiscal 2019 levels.

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 payments of \$250 million of 4.875% senior notes due in January 2021 and €350 million of fixed-to-floating rate senior notes due in June 2021, and compensation payments to First Sensor minority shareholders. 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, including future developments related to the COVID-19 pandemic. There is uncertainty surrounding the duration and scope of the COVID-19 pandemic and it may have a material impact on our liquidity and financial conditions. We believe that we have sufficient financial resources and liquidity which, along with managing expenses and capital structure flexibility, will enable us to meet our ongoing working capital and other cash flow needs during the COVID-19 pandemic and resulting period of economic uncertainty which included reduced sales and net

income levels for us in fiscal 2020 relative to fiscal 2019 and may include reduced sales and income levels in future periods. For further information on the risks and uncertainties associated with the COVID-19 pandemic, see “Part I. Item 1A. Risk Factors” of our Annual Report on Form 10-K for the fiscal year ended September 25, 2020 filed with the SEC.

As of fiscal year end 2020, 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 2020, we had approximately \$5.3 billion of cash, cash equivalents, and intercompany deposits, principally in our subsidiaries, that we have the ability to distribute to TEGSA and TE Connectivity Ltd. but we consider to be permanently reinvested. We estimate that up to \$0.8 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 decreased \$463 million to \$1,991 million in fiscal 2020 as compared to \$2,454 million in fiscal 2019. The decrease resulted primarily from lower pre-tax income levels.

The amount of income taxes paid, net of refunds, during fiscal 2020 and 2019 was \$257 million and \$338 million, respectively. We do not expect a significant change in our income tax payments as a result of Swiss Tax Reform. See Note 16 to the Consolidated Financial Statements for additional information regarding Swiss Tax Reform.

Pension contributions were \$47 million and \$45 million in fiscal 2020 and 2019, respectively. We expect pension contributions to be \$69 million in fiscal 2021, before consideration of any voluntary contributions. For additional information regarding pensions, see Note 15 to the Consolidated Financial Statements.

Cash Flows from Investing Activities

Capital expenditures were \$560 million and \$749 million in fiscal 2020 and 2019, respectively. We expect fiscal 2021 capital spending levels to be approximately 5% of net sales. We believe our capital funding levels are adequate to support new programs, and we continue to invest in our manufacturing infrastructure to further enhance productivity and manufacturing capabilities.

During fiscal 2020, we acquired five businesses, including First Sensor, for a combined cash purchase price of \$336 million, net of cash acquired. During fiscal 2019, we acquired three businesses for a combined cash purchase price of \$296 million, net of cash acquired. 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 2020 and 2019 was \$4,146 million and \$3,965 million, respectively. See Note 11 to the Consolidated Financial Statements for additional information regarding debt.

During fiscal 2020, TEGSA, our wholly-owned subsidiary, issued €550 million aggregate principal amount of 0.00% senior notes due in February 2025. The notes are TEGSA’s unsecured senior obligations and rank equally in right of payment with all existing and any future senior indebtedness of TEGSA and senior to any subordinated indebtedness that TEGSA may incur.

TEGSA has a five-year unsecured senior revolving credit facility (“Credit Facility”) with a maturity date of November 2023 and total commitments of \$1.5 billion. The 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 2020 or 2019.

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 2020, 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 on an unsecured basis by its parent, TE Connectivity Ltd.

Payments of common share dividends to shareholders were \$625 million and \$608 million in fiscal 2020 and 2019, respectively. See Note 18 to the Consolidated Financial Statements for additional information regarding dividends on our common shares.

In March 2020, our shareholders approved a dividend payment to shareholders of \$1.92 per share, payable in four equal quarterly installments of \$0.48 per share beginning in the third quarter of fiscal 2020 and ending in the second quarter of fiscal 2021.

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 fiscal 2019, our board of directors authorized an increase of \$1.5 billion in our share repurchase program. We repurchased approximately 6 million of our common shares for \$505 million and approximately 12 million of our common shares for \$1,014 million under the share repurchase program during fiscal 2020 and 2019, respectively. At fiscal year end 2020, we had \$1.0 billion of availability remaining under our share repurchase authorization.

Summarized Guarantor Financial Information

In March 2020, the SEC adopted amendments to the financial disclosure requirements of Regulation S-X for subsidiary issuers and guarantors of registered debt securities and for affiliates whose securities are pledged as collateral for registered securities. The amended disclosure requirements permit alternative disclosures of summarized financial information for subsidiary issuers and guarantors and allow for these disclosures to be made outside the Consolidated Financial Statements and accompanying notes. We elected to early adopt these amendments in fiscal 2020.

As discussed above, our senior notes, commercial paper, and Credit Facility are issued by TEGSA and are fully and unconditionally guaranteed on an unsecured basis by TEGSA's parent, TE Connectivity Ltd. In addition to being the issuer of our debt securities, TEGSA owns, directly or indirectly, all of our operating subsidiaries. The following tables present

summarized financial information, excluding investments in and equity in earnings of our non-guarantor subsidiaries, for TE Connectivity Ltd. and TEGSA on a combined basis.

	Fiscal Year End	
	2020	2019
(in millions)		
Balance Sheet Data:		
Total current assets	\$ 134	\$ 89
Total noncurrent assets ⁽¹⁾	3,282	2,634
Total current liabilities	1,237	1,014
Total noncurrent liabilities ⁽²⁾	23,549	19,475

(1) Includes \$3,275 million and \$2,562 million as of fiscal year end 2020 and 2019, respectively, of intercompany loans receivable from non-guarantor subsidiaries.

(2) Includes \$20,016 million and \$16,033 million as of fiscal year end 2020 and 2019, respectively, of intercompany loans payable to non-guarantor subsidiaries.

	Fiscal	
	2020	2019
(in millions)		
Statement of Operations Data:		
Loss from continuing operations	\$ (206)	\$ (341)
Net loss	(202)	(391)

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 2020:

	Total	Payments Due by Fiscal Year					Thereafter
		2021	2022	2023	2024	2025	
(in millions)							
Debt ⁽¹⁾	\$ 4,161	\$ 693	\$ 506	\$ 641	\$ 352	\$ 641	\$ 1,328
Interest payments on debt ⁽²⁾	865	103	88	79	72	60	463
Operating leases ⁽³⁾	485	116	98	75	60	49	87
Purchase obligations ⁽⁴⁾	611	593	8	6	1	—	3
Total contractual cash obligations ⁽⁵⁾⁽⁶⁾⁽⁷⁾	<u>\$ 6,122</u>	<u>\$ 1,505</u>	<u>\$ 700</u>	<u>\$ 801</u>	<u>\$ 485</u>	<u>\$ 750</u>	<u>\$ 1,881</u>

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

(2) Interest payments exclude the impact of our interest rate swap and cross-currency swap contracts. Interest payments on debt are projected for future periods using rates in effect as of fiscal year end 2020 and are subject to change in future periods.

(3) Operating leases represents the undiscounted lease payments. See Note 12 to the Consolidated Financial Statements for additional information regarding leases.

(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 \$414 million and related accrued interest and penalties of \$42 million, the timing of which is uncertain. See Note 16 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 \$69 million to pension plans in fiscal 2021, before consideration of any voluntary contributions. See Note 15 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 \$874 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 2021 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 2020, we had outstanding letters of credit, letters of guarantee, and surety bonds of \$249 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 \$600 million as of fiscal year end 2020 and are expected to expire at various dates through fiscal 2025. 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 2020, 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 Accounting Standards Codification ("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 2020.

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.

Goodwill and Other Intangible Assets

We account for goodwill and other intangible assets in accordance with ASC 350, *Intangibles—Goodwill and Other*, as updated by ASU No. 2017-04, *Simplifying the Test for Goodwill Impairment*.

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 2020, 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 marketplace 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 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, a goodwill impairment charge will be recorded for the amount of the excess, limited to the total amount of goodwill allocated to the reporting unit.

Fair value estimates used in the 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 is 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.

See Note 8 to the Consolidated Financial Statements for information regarding our early adoption of ASU 2017-04, our interim goodwill impairment test, and partial impairment charge of \$900 million recorded in the second quarter of fiscal

2020. We completed our annual goodwill impairment test in the fourth quarter of fiscal 2020 and determined that no impairment existed.

Income Taxes

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

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

We currently have recorded significant valuation allowances that we intend to maintain until it is more likely than not the deferred tax assets will be realized. Our income tax expense recorded in the future will be reduced to the extent of decreases in our valuation allowances. The realization of our remaining deferred tax assets is dependent primarily on future taxable income in the appropriate jurisdictions. Any reduction in future taxable income including any future restructuring activities may require that we record an additional valuation allowance against our deferred tax assets. An increase in the valuation allowance would result in additional income tax expense in such period and could have a significant impact on our future earnings.

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

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 Plans

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 2020, a 25-basis-point decrease in the discount rate would have increased the present value of our pension obligations by \$143 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 2020 pension expense by \$12 million.

At fiscal year end 2020, 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 2020, 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 adopted accounting pronouncements.

Non-GAAP Financial Measure

Organic Net Sales Growth (Decline)

We present organic net sales growth (decline) 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 (decline) represents net sales growth (decline) (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 (decline) 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 (decline) provides useful information about our results and the trends of our business. Management uses this measure to monitor and evaluate performance. Also, management uses this measure 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 (decline) to net sales growth (decline) calculated in accordance with GAAP.

Organic net sales growth (decline) 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 (decline) in combination with net sales growth (decline) 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," and "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 25, 2020 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;
- risk of future goodwill impairment;
- 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 due to natural disasters or other disasters such as the COVID-19 pandemic, which have and could continue to negatively impact our results of operations as well as customer behaviors, business, and manufacturing operations as well as our facilities and the facilities of our suppliers, and other aspects of our business;
- 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 2020 market rates would have changed the unrealized value of our contracts by \$265 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 2019 market rates would have changed the unrealized value of our contracts by \$282 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. Based on our floating rate debt balances at fiscal year end 2020 and 2019, 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 2020 and 2019.

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. At fiscal year end 2020 and 2019, we had forward starting interest rate swap contracts which had an aggregate notional value of \$450 million and \$350 million, respectively, and were designated as cash flow hedges.

We utilize investment swap contracts to manage earnings exposure on certain nonqualified deferred compensation liabilities.

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 2020, our commodity hedges, which related primarily to expected purchases of gold, silver, and copper, were in a net gain position of \$41 million and had a notional value of \$312 million. 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. A 10% appreciation or depreciation of commodity prices from the fiscal year end 2020 prices would have changed the unrealized value of our forward contracts by \$35 million. A 10% appreciation or depreciation of commodity prices from the fiscal year end 2019 prices would have changed the unrealized value of our forward contracts by \$32 million.

See Note 14 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 25, 2020. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 25, 2020.

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 25, 2020.

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 25, 2020, which is included in this Annual Report.

Changes in Internal Control Over Financial Reporting

During the quarter ended September 25, 2020, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

TE CONNECTIVITY LTD.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	<u>Page</u>
<u>Reports of Independent Registered Public Accounting Firm</u>	<u>32</u>
<u>Consolidated Statements of Operations for the Fiscal Years Ended September 25, 2020, September 27, 2019, and September 28, 2018</u>	<u>36</u>
<u>Consolidated Statements of Comprehensive Income (Loss) for the Fiscal Years Ended September 25, 2020, September 27, 2019, and September 28, 2018</u>	<u>37</u>
<u>Consolidated Balance Sheets as of September 25, 2020 and September 27, 2019</u>	<u>38</u>
<u>Consolidated Statements of Shareholders' Equity for the Fiscal Years Ended September 25, 2020, September 27, 2019, and September 28, 2018</u>	<u>39</u>
<u>Consolidated Statements of Cash Flows for the Fiscal Years Ended September 25, 2020, September 27, 2019, and September 28, 2018</u>	<u>40</u>
<u>Notes to Consolidated Financial Statements</u>	<u>41</u>
<u>Schedule II—Valuation and Qualifying Accounts</u>	<u>81</u>
<u>Report of the Statutory Auditor on the Consolidated Financial Statements of TE Connectivity Ltd.</u>	<u>82</u>

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 25, 2020 and September 27, 2019, the related consolidated statements of operations, comprehensive income (loss), shareholders' equity, and cash flows, for each of the three years in the period ended September 25, 2020, 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 25, 2020 and September 27, 2019, and the results of its operations and its cash flows for each of the three years in the period ended September 25, 2020, 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 25, 2020, 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 10, 2020, expressed an unqualified opinion on the Company's internal control over financial reporting.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, effective September 28, 2019, the Company adopted FASB Accounting Standards Update 2016-02 which codified Accounting Standards Codification 842, *Leases*, using the modified retrospective approach.

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 —Sensors Reporting Unit within the 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 \$5.2 billion as of September 25, 2020, of which \$0.5 billion was allocated to the Sensors reporting unit within the Transportation Solutions reportable segment. As a result of current and projected declines in sales and profitability, due in part to the impact of the COVID-19 pandemic and projected reductions in global automotive production, the Company recorded a partial impairment charge of \$900 million during the quarter ended March 27, 2020 for the Sensors reporting unit. The fair value of this reporting unit exceeded its carrying amount as of the annual measurement date and, therefore, no additional impairment was recognized.

We identified goodwill for the Sensors reporting unit as a critical audit matter because of the significant judgments made by management to estimate its fair value, especially considering the reduction of future revenue growth rates and resulting cash flows. 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 for the \$900 million impairment charge and the annual quantitative assessment related to the forecasts of future revenue and operating margin (the "forecasts"), and the selection of a discount rate for the Sensors reporting unit 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.
 - The effects of the COVID-19 pandemic on projections.
- 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 16 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 \$4.4 billion has been recorded to offset the Company's gross deferred tax assets as of September 25, 2020 of \$6.7 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 the reasonableness of management's assessment of the significance and weighting of negative evidence and positive evidence that is objectively verifiable.
- 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 to 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, including the effects of the COVID-19 pandemic on projections.
- 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 10, 2020

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 25, 2020, 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 25, 2020, 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 25, 2020, of the Company and our report dated November 10, 2020 expressed an unqualified opinion on those financial statements and included an explanatory paragraph regarding the Company’s adoption of FASB Accounting Standards Update 2016-02 which codified Accounting Standards Codification 842, *Leases*.

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 10, 2020

TE CONNECTIVITY LTD.

CONSOLIDATED STATEMENTS OF OPERATIONS

Fiscal Years Ended September 25, 2020, September 27, 2019, and September 28, 2018

	Fiscal		
	2020	2019	2018
	(in millions, except per share data)		
Net sales	\$ 12,172	\$ 13,448	\$ 13,988
Cost of sales	8,437	9,054	9,243
Gross margin	3,735	4,394	4,745
Selling, general, and administrative expenses	1,392	1,490	1,594
Research, development, and engineering expenses	613	644	680
Acquisition and integration costs	36	27	14
Restructuring and other charges, net	257	255	126
Impairment of goodwill	900	—	—
Operating income	537	1,978	2,331
Interest income	15	19	15
Interest expense	(48)	(68)	(107)
Other income, net	20	2	1
Income from continuing operations before income taxes	524	1,931	2,240
Income tax (expense) benefit	(783)	15	344
Income (loss) from continuing operations	(259)	1,946	2,584
Income (loss) from discontinued operations, net of income taxes	18	(102)	(19)
Net income (loss)	<u>\$ (241)</u>	<u>\$ 1,844</u>	<u>\$ 2,565</u>
Basic earnings (loss) per share:			
Income (loss) from continuing operations	\$ (0.78)	\$ 5.76	\$ 7.38
Income (loss) from discontinued operations	0.05	(0.30)	(0.05)
Net income (loss)	(0.73)	5.46	7.33
Diluted earnings (loss) per share:			
Income (loss) from continuing operations	\$ (0.78)	\$ 5.72	\$ 7.32
Income (loss) from discontinued operations	0.05	(0.30)	(0.05)
Net income (loss)	(0.73)	5.42	7.27
Weighted-average number of shares outstanding:			
Basic	332	338	350
Diluted	332	340	353

See Notes to Consolidated Financial Statements.

TE CONNECTIVITY LTD.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Fiscal Years Ended September 25, 2020, September 27, 2019, and September 28, 2018

	Fiscal		
	2020	2019 (in millions)	2018
Net income (loss)	\$ (241)	\$ 1,844	\$ 2,565
Other comprehensive income (loss):			
Currency translation	(11)	(48)	(117)
Adjustments to unrecognized pension and postretirement benefit costs, net of income taxes	34	(195)	83
Gains (losses) on cash flow hedges, net of income taxes	40	46	(74)
Other comprehensive income (loss)	63	(197)	(108)
Comprehensive income (loss)	(178)	1,647	2,457
Less: comprehensive income attributable to noncontrolling interests	(5)	—	—
Comprehensive income (loss) attributable to TE Connectivity Ltd.	<u>\$ (183)</u>	<u>\$ 1,647</u>	<u>\$ 2,457</u>

See Notes to Consolidated Financial Statements.

TE CONNECTIVITY LTD.

CONSOLIDATED BALANCE SHEETS

As of September 25, 2020 and September 27, 2019

	Fiscal Year End	
	2020	2019
	(in millions, except share data)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 945	\$ 927
Accounts receivable, net of allowance for doubtful accounts of \$29 and \$25, respectively	2,377	2,320
Inventories	1,950	1,836
Prepaid expenses and other current assets	512	471
Total current assets	5,784	5,554
Property, plant, and equipment, net	3,650	3,574
Goodwill	5,224	5,740
Intangible assets, net	1,593	1,596
Deferred income taxes	2,178	2,776
Other assets	813	454
Total assets	\$ 19,242	\$ 19,694
Liabilities, redeemable noncontrolling interests, and shareholders' equity		
Current liabilities:		
Short-term debt	\$ 694	\$ 570
Accounts payable	1,276	1,357
Accrued and other current liabilities	1,720	1,613
Total current liabilities	3,690	3,540
Long-term debt	3,452	3,395
Long-term pension and postretirement liabilities	1,336	1,367
Deferred income taxes	143	156
Income taxes	252	239
Other liabilities	874	427
Total liabilities	9,747	9,124
Commitments and contingencies (Note 13)		
Redeemable noncontrolling interests	112	—
Shareholders' equity:		
Common shares, CHF 0.57 par value, 338,953,381 shares authorized and issued, and 350,951,381 shares authorized and issued, respectively	149	154
Accumulated earnings	10,348	12,256
Treasury shares, at cost, 8,295,878 and 15,862,337 shares, respectively	(669)	(1,337)
Accumulated other comprehensive loss	(445)	(503)
Total shareholders' equity	9,383	10,570
Total liabilities, redeemable noncontrolling interests, and shareholders' equity	\$ 19,242	\$ 19,694

See Notes to Consolidated Financial Statements.

TE CONNECTIVITY LTD.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Fiscal Years Ended September 25, 2020, September 27, 2019, and September 28, 2018

	Common Shares		Treasury Shares		Contributed Surplus (in millions)	Accumulated Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	Shares	Amount	Shares	Amount				
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
Net loss	—	—	—	—	—	(241)	—	(241)
Other comprehensive income	—	—	—	—	—	—	58	58
Share-based compensation expense	—	—	—	—	74	—	—	74
Dividends	—	—	—	—	—	(634)	—	(634)
Exercise of share options	—	—	1	55	—	—	—	55
Restricted share award vestings and other activity	—	—	1	143	(74)	(63)	—	6
Repurchase of common shares	—	—	(6)	(505)	—	—	—	(505)
Cancellation of treasury shares	(12)	(5)	12	975	—	(970)	—	—
Balance at fiscal year end								
2020	339	\$ 149	(8)	\$ (669)	\$ —	\$ 10,348	\$ (445)	\$ 9,383

See Notes to Consolidated Financial Statements.

TE CONNECTIVITY LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Fiscal Years Ended September 25, 2020, September 27, 2019, and September 28, 2018

	Fiscal		
	2020	2019	2018
	(in millions)		
Cash flows from operating activities:			
Net income (loss)	\$ (241)	\$ 1,844	\$ 2,565
(Income) loss from discontinued operations, net of income taxes	(18)	102	19
Income (loss) from continuing operations	(259)	1,946	2,584
Adjustments to reconcile income (loss) from continuing operations to net cash provided by operating activities:			
Impairment of goodwill	900	—	—
Depreciation and amortization	711	690	667
Deferred income taxes	535	(218)	(791)
Non-cash lease cost	108	—	—
Provision for losses on accounts receivable and inventories	14	43	30
Share-based compensation expense	74	75	95
Other	54	51	5
Changes in assets and liabilities, net of the effects of acquisitions and divestitures:			
Accounts receivable, net	(63)	31	(269)
Inventories	(89)	64	(247)
Prepaid expenses and other current assets	51	144	(63)
Accounts payable	(80)	(178)	201
Accrued and other current liabilities	(99)	(15)	5
Income taxes	(9)	(135)	54
Other	143	(44)	30
Net cash provided by continuing operating activities	1,991	2,454	2,301
Net cash provided by (used in) discontinued operating activities	1	(32)	150
Net cash provided by operating activities	1,992	2,422	2,451
Cash flows from investing activities:			
Capital expenditures	(560)	(749)	(935)
Proceeds from sale of property, plant, and equipment	17	43	23
Acquisition of businesses, net of cash acquired	(339)	(283)	(153)
Proceeds from divestiture of discontinued operation, net of cash retained by sold operation	—	297	—
Other	17	2	(8)
Net cash used in continuing investing activities	(865)	(690)	(1,073)
Net cash used in discontinued investing activities	—	(2)	(21)
Net cash used in investing activities	(865)	(692)	(1,094)
Cash flows from financing activities:			
Net increase (decrease) in commercial paper	(219)	(51)	270
Proceeds from issuance of debt	593	746	119
Repayment of debt	(352)	(691)	(708)
Proceeds from exercise of share options	55	85	100
Repurchase of common shares	(523)	(1,091)	(879)
Payment of common share dividends to shareholders	(625)	(608)	(588)
Transfers (to) from discontinued operations	1	(34)	129
Other	(34)	(33)	(36)
Net cash used in continuing financing activities	(1,104)	(1,677)	(1,593)
Net cash provided by (used in) discontinued financing activities	(1)	34	(129)
Net cash used in financing activities	(1,105)	(1,643)	(1,722)
Effect of currency translation on cash	(4)	(8)	(5)
Net increase (decrease) in cash, cash equivalents, and restricted cash	18	79	(370)
Cash, cash equivalents, and restricted cash at beginning of fiscal year	927	848	1,218
Cash, cash equivalents, and restricted cash at end of fiscal year	\$ 945	\$ 927	\$ 848
Supplemental cash flow information:			
Interest paid on debt, net	\$ 50	\$ 75	\$ 127
Income taxes paid, net of refunds	257	338	393

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 aerospace, defense, oil, and gas; industrial equipment; medical; 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 2020, 2019, and 2018 were each 52 weeks in length and ended on September 25, 2020, September 27, 2019, and September 28, 2018, 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 is 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

TE CONNECTIVITY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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 2020. See Note 21 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

We account for goodwill and other intangible assets in accordance with ASC 350, *Intangibles—Goodwill and Other*, as updated by Accounting Standards Update (“ASU”) No. 2017-04, *Simplifying the Test for Goodwill Impairment*.

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

TE CONNECTIVITY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

amortized on a straight-line basis. Evaluations of the remaining useful lives of determinable-lived intangible assets are performed on a periodic basis and when events and circumstances warrant.

At fiscal year end 2020, 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 marketplace 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 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, a goodwill impairment charge will be recorded for the amount of the excess, limited to the total amount of goodwill allocated to the reporting unit.

Fair value estimates used in the 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 is 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 2020, 2019, and 2018 were \$539 million, \$572 million, and \$606 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 2020, 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.

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-

TE CONNECTIVITY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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 Plans

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)

Leases

We have facility, land, vehicle, and equipment leases that expire at various dates. We determine if a contract qualifies as a lease at inception. A contract is or contains a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The right to control the use of an asset includes the right to obtain substantially all of the economic benefits of the identified asset and the right to direct the use of the identified asset.

Lease right-of-use (“ROU”) assets and lease liabilities are recognized at the commencement date of the lease based on the present value of remaining lease payments over the lease term. Lease ROU assets represent our right to use the underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. We do not recognize ROU assets or lease liabilities that arise from short-term leases. Since our lease contracts do not contain a readily determinable implicit rate, we determine a fully-collateralized incremental borrowing rate that reflects a similar term to the lease and the economic environment of the applicable country or region in which the asset is leased.

We have elected to account for fixed lease and non-lease components in our real estate leases as a single lease component; other leases generally do not contain non-lease components. The non-lease components in our real estate leases include logistics services, warehousing, and other operational costs. Many of these costs are variable, fluctuating based on services provided, such as pallets shipped in and out of a location or square footage of space occupied. These costs, and any other variable rental costs, are excluded from our ROU assets and lease liabilities, and instead are expensed as incurred. Some of our leases may include options to either renew or early terminate the lease. The exercise of these options is generally at our sole discretion and would only occur if there is an economic, financial, or business reason to do so. Such options are included in the lease term if we determine it is reasonably certain they will be exercised.

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 accelerated rent expense for ROU assets, expected lease termination costs, 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

TE CONNECTIVITY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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 Adopted Accounting Pronouncements

In January 2017, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2017-04, an update to ASC 350. The update simplifies the subsequent measurement of goodwill by eliminating step 2 of the goodwill impairment test. Under the amendments in the update, goodwill impairment should be tested by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit’s fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. The amendments are to be applied on a prospective basis. We elected to early adopt this update and applied it during the quarter ended March 27, 2020. See Note 8 for additional information regarding our interim and annual goodwill impairment tests.

In February 2016, the FASB issued ASU No. 2016-02 which codified ASC 842, *Leases*. This guidance, as subsequently amended, requires lessees to recognize a lease liability and a ROU asset for most leases. We adopted ASC 842, as amended, in fiscal 2020 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 elected to use the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allows the carry forward of historical lease classification of existing and expired leases. In addition, we elected to use the hindsight practical expedient in determining the lease term for existing leases. As a result of adoption, we recorded ROU assets and related lease liabilities of approximately \$520 million on the Consolidated Balance Sheet. Adoption did not have a material impact on our results of operations or cash flows. See Note 12 for additional information regarding leases.

3. Restructuring and Other Charges, Net

Net restructuring and other charges consisted of the following:

	Fiscal		
	2020	2019	2018
	(in millions)		
Restructuring charges, net	\$ 257	\$ 255	\$ 140
Gain on divestiture	—	—	(2)
Other credits, net	—	—	(12)
Restructuring and other charges, net	\$ 257	\$ 255	\$ 126

Net restructuring charges by segment were as follows:

	Fiscal		
	2020	2019	2018
	(in millions)		
Transportation Solutions	\$ 113	\$ 144	\$ 42
Industrial Solutions	102	63	83
Communications Solutions	42	48	15
Restructuring charges, net	\$ 257	\$ 255	\$ 140

TE CONNECTIVITY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Activity in our restructuring reserves was as follows:

	<u>Balance at Beginning of Fiscal Year</u>	<u>Charges</u>	<u>Changes in Estimate</u>	<u>Cash Payments (in millions)</u>	<u>Non-Cash Items</u>	<u>Currency Translation and Other</u>	<u>Balance at End of Fiscal Year</u>
Fiscal 2020 Activity:							
Fiscal 2020 Actions:							
Employee severance	\$ —	\$ 214	\$ —	\$ (35)	\$ —	\$ 1	\$ 180
Facility and other exit costs	—	8	—	—	—	—	8
Property, plant, and equipment	—	28	—	—	(28)	—	—
Total	—	250	—	(35)	(28)	1	188
Fiscal 2019 Actions:							
Employee severance	188	7	(20)	(107)	—	4	72
Facility and other exit costs	1	11	—	(11)	—	1	2
Property, plant, and equipment	—	7	—	—	(7)	—	—
Total	189	25	(20)	(118)	(7)	5	74
Fiscal 2018 Actions:							
Employee severance	52	—	—	(32)	—	—	20
Facility and other exit costs	1	2	—	(3)	—	1	1
Property, plant, and equipment	—	2	—	—	(2)	—	—
Total	53	4	—	(35)	(2)	1	21
Pre-Fiscal 2018 Actions:							
Employee severance	21	—	(6)	(14)	—	—	1
Facility and other exit costs	1	4	—	(4)	—	—	1
Total	22	4	(6)	(18)	—	—	2
Total fiscal 2020 activity	<u>\$ 264</u>	<u>\$ 283</u>	<u>\$ (26)</u>	<u>\$ (206)</u>	<u>\$ (37)</u>	<u>\$ 7</u>	<u>\$ 285</u>
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
Pre-Fiscal 2018 Actions:							
Employee severance	49	6	(7)	(25)	—	(2)	21
Facility and other exit costs	—	4	—	(3)	—	—	1
Property, plant, and equipment	—	1	(3)	—	2	—	—
Total	49	11	(10)	(28)	2	(2)	22
Total fiscal 2019 activity	<u>\$ 167</u>	<u>\$ 277</u>	<u>\$ (22)</u>	<u>\$ (146)</u>	<u>\$ (4)</u>	<u>\$ (8)</u>	<u>\$ 264</u>
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
Pre-Fiscal 2018 Actions:							
Employee severance	137	12	(19)	(79)	—	(2)	49
Facility and other exit costs	1	8	—	(8)	—	(1)	—
Property, plant, and equipment	—	2	(5)	5	(2)	—	—
Total	138	22	(24)	(82)	(2)	(3)	49
Total fiscal 2018 activity	<u>\$ 138</u>	<u>\$ 164</u>	<u>\$ (24)</u>	<u>\$ (100)</u>	<u>\$ (8)</u>	<u>\$ (3)</u>	<u>\$ 167</u>

TE CONNECTIVITY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Fiscal 2020 Actions

During fiscal 2020, we initiated a restructuring program associated with footprint consolidation and structural improvements, due in part to the COVID-19 pandemic, across all segments. In connection with this program, during fiscal 2020, we recorded restructuring charges of \$250 million. We expect to complete all restructuring actions commenced during fiscal 2020 by the end of fiscal 2022 and to incur additional charges of approximately \$45 million related to all three classes of costs.

The following table summarizes expected, incurred, and remaining charges for the fiscal 2020 program by segment:

	<u>Total Expected Charges</u>	<u>Cumulative Charges Incurred</u>	<u>Remaining Expected Charges</u>
	(in millions)		
Transportation Solutions	\$ 140	\$ 115	\$ 25
Industrial Solutions	114	99	15
Communications Solutions	41	36	5
Total	<u>\$ 295</u>	<u>\$ 250</u>	<u>\$ 45</u>

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 2020 and 2019, we recorded net restructuring charges of \$5 million and \$254 million, respectively. We expect to complete all restructuring actions commenced during fiscal 2019 by the end of fiscal 2021. We anticipate that any additional charges will be insignificant for restructuring actions commenced during fiscal 2019.

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 2020 and 2018, we recorded net restructuring charges of \$4 million and \$142 million, respectively. We anticipate that any additional charges will be insignificant for restructuring actions commenced during fiscal 2018.

Pre-Fiscal 2018 Actions

During fiscal 2020, 2019, and 2018, we recorded net restructuring credits of \$2 million, charges of \$1 million, and credits of \$2 million, respectively, related to pre-fiscal 2018 actions. We anticipate that any additional charges will be insignificant for restructuring actions commenced prior to fiscal 2018.

Total Restructuring Reserves

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

	<u>Fiscal Year End</u>	
	<u>2020</u>	<u>2019</u>
	(in millions)	
Accrued and other current liabilities	\$ 229	\$ 245
Other liabilities	56	19
Restructuring reserves	<u>\$ 285</u>	<u>\$ 264</u>

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 sale of the SubCom business, which was previously included in our Communications Solutions segment, represented 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 \$600 million as of fiscal year end 2020 and are expected to expire at various dates through fiscal 2025. 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 2020, 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		
	2020	2019	2018
		(in millions)	
Net sales	\$ —	\$ 41	\$ 702
Cost of sales	—	50	602
Gross margin	—	(9)	100
Selling, general, and administrative expenses	1	11	48
Research, development, and engineering expenses	—	3	39
Restructuring and other charges, net	—	3	30 ⁽¹⁾
Operating loss	(1)	(26)	(17)
Non-operating expense, net	(1)	—	—
Pre-tax loss from discontinued operations	(2)	(26)	(17)
Pre-tax gain (loss) on sale of discontinued operations	4	(86)	(2)
Income tax benefit	16	10	—
Income (loss) from discontinued operations, net of income taxes	<u>\$ 18</u>	<u>\$ (102)</u>	<u>\$ (19)</u>

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

TE CONNECTIVITY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. Acquisitions

First Sensor AG

During fiscal 2020, we acquired approximately 72% of the outstanding shares of First Sensor AG (“First Sensor”), a provider of sensing solutions based in Germany, for €181 million in cash (equivalent to \$201 million using an exchange rate of \$1.11 per €1.00), net of cash acquired. As a result of the transaction, we recognized a noncontrolling interest with a fair value of €96 million (equivalent to \$107 million) as of the acquisition date. The fair value of the noncontrolling interest for First Sensor common shares that were not acquired was determined using the stated price in the Domination and Profit and Loss Transfer Agreement (“DPLTA”) which is considered to be a level 2 observable input under the fair value hierarchy. The First Sensor business has been reported as part of our Transportation Solutions segment from the date of acquisition.

We and First Sensor entered into a DPLTA which was approved by First Sensor shareholders and became effective in July 2020 following registration in the commercial register in Germany. Under the terms of the DPLTA, upon its effectiveness, First Sensor minority shareholders can elect either (1) to remain First Sensor minority shareholders and receive recurring annual compensation of €0.56 per First Sensor share or (2) to put their First Sensor shares in exchange for compensation of €33.27 per First Sensor share. The ultimate amount and timing of any future cash payments related to the DPLTA is uncertain. Following the registration of the DPLTA, the First Sensor noncontrolling interest balance of €96 million (equivalent to \$108 million using an exchange rate of \$1.13 per €1.00) was reclassified and is now presented as redeemable noncontrolling interest outside of equity on the Consolidated Balance Sheet as the exercise of the put right by First Sensor minority shareholders is not within our control.

Other Acquisitions

During fiscal 2020, we acquired four additional businesses for a combined cash purchase price of \$135 million, net of cash acquired. The acquisitions were reported as part of our Transportation Solutions and Industrial Solutions segments from the date of acquisition.

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.

6. Inventories

Inventories consisted of the following:

	Fiscal Year End	
	2020	2019
	(in millions)	
Raw materials	\$ 251	\$ 260
Work in progress	851	739
Finished goods	848	837
Inventories	<u>\$ 1,950</u>	<u>\$ 1,836</u>

TE CONNECTIVITY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. Property, Plant, and Equipment, Net

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

	Fiscal Year End	
	2020	2019
	(in millions)	
Property, plant, and equipment, gross:		
Land and improvements	\$ 147	\$ 152
Buildings and improvements	1,442	1,393
Machinery and equipment	7,849	7,298
Construction in process	516	637
	9,954	9,480
Accumulated depreciation	(6,304)	(5,906)
Property, plant, and equipment, net	\$ 3,650	\$ 3,574

Depreciation expense was \$529 million, \$510 million, and \$487 million in fiscal 2020, 2019, and 2018, 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 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⁾	2,124	3,039	577	5,740
Impairment of goodwill	(900)	—	—	(900)
Acquisitions	276	18	—	294
Purchase price adjustments	(1)	—	—	(1)
Currency translation	28	53	10	91
Balance at fiscal year end 2020 ⁽²⁾	\$ 1,527	\$ 3,110	\$ 587	\$ 5,224

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

(2) At fiscal year end 2020, accumulated impairment losses for the Transportation Solutions, Industrial Solutions, and Communications Solutions segments were \$3,091 million, \$669 million, and \$489 million, respectively.

During fiscal 2020, we completed the acquisition of First Sensor and recognized goodwill of \$215 million in the Transportation Solutions segment. Further adjustments to the purchase price allocation may be needed in fiscal 2021. In addition, during fiscal 2020 and 2019, we recognized goodwill in connection with other recent acquisitions. See Note 5 for additional information regarding acquisitions.

We test goodwill allocated to reporting units for impairment annually during the fourth fiscal quarter, or more frequently if events occur or circumstances exist that indicate that a reporting unit's carrying value may exceed its fair value. As a result of current and projected declines in sales and profitability, due in part to the impact of the COVID-19 pandemic and projected reductions in global automotive production as of March 2020, of the Sensors reporting unit of the Transportation Solutions segment during the quarter ended March 27, 2020, we determined that an indicator of impairment had occurred and goodwill impairment testing of this reporting unit was required.

TE CONNECTIVITY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

As discussed in Note 2, during the quarter ended March 27, 2020, we adopted ASU No. 2017-04 which simplifies the subsequent measurement of goodwill by eliminating step 2 of the goodwill impairment test. Under the new standard, goodwill impairment is measured as the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying value of goodwill. We determined the fair value of the Sensors reporting unit to be \$1.0 billion as of March 27, 2020. This valuation was based on a discounted cash flows analysis incorporating our estimate of future operating performance, which we consider to be a level 3 unobservable input in the fair value hierarchy, and was corroborated using a market approach valuation. The goodwill impairment test indicated that the carrying value of the reporting unit exceeded its fair value by \$900 million. As a result, we recorded a partial impairment charge of \$900 million in the quarter ended March 27, 2020. As of fiscal year end 2020, the Sensors reporting unit had a remaining goodwill allocation of \$511 million.

We completed our annual goodwill impairment test in the fourth quarter of fiscal 2020 and determined that no impairment existed.

9. Intangible Assets, Net

Intangible assets consisted of the following:

	Fiscal Year End					
	2020			2019		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	(in millions)					
Customer relationships	\$ 1,648	\$ (554)	\$ 1,094	\$ 1,513	\$ (459)	\$ 1,054
Intellectual property	1,225	(739)	486	1,260	(734)	526
Other	19	(6)	13	33	(17)	16
Total	<u>\$ 2,892</u>	<u>\$ (1,299)</u>	<u>\$ 1,593</u>	<u>\$ 2,806</u>	<u>\$ (1,210)</u>	<u>\$ 1,596</u>

Intangible asset amortization expense was \$182 million, \$180 million, and \$180 million for fiscal 2020, 2019, and 2018, respectively. At fiscal year end 2020, the aggregate amortization expense on intangible assets is expected to be as follows:

	(in millions)
Fiscal 2021	\$ 190
Fiscal 2022	190
Fiscal 2023	189
Fiscal 2024	158
Fiscal 2025	141
Thereafter	725
Total	<u>\$ 1,593</u>

TE CONNECTIVITY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. Accrued and Other Current Liabilities

Accrued and other current liabilities consisted of the following:

	Fiscal Year End	
	2020	2019
	(in millions)	
Accrued payroll and employee benefits	\$ 460	\$ 455
Dividends payable to shareholders	317	308
Restructuring reserves	229	245
Lease liability	116	—
Income taxes payable	113	94
Deferred revenue	47	36
Interest payable	30	31
Other	408	444
Accrued and other current liabilities	<u>\$ 1,720</u>	<u>\$ 1,613</u>

11. Debt

Debt was as follows:

	Fiscal Year End	
	2020	2019
	(in millions)	
Principal debt:		
Commercial paper, at a weighted-average interest rate of 2.20% at fiscal year end 2019	\$ —	\$ 219
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⁾	407	383
3.50% senior notes due 2022	500	500
1.10% euro-denominated senior notes due 2023	639	602
3.45% senior notes due 2024	350	350
0.00% euro-denominated senior notes due 2025	639	—
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	149	94
	<u>4,161</u>	<u>3,975</u>
Unamortized discounts, premiums, and debt issuance costs, net	(23)	(19)
Effects of fair value hedge-designated interest rate swap contracts	8	9
Total debt	<u>\$ 4,146</u>	<u>\$ 3,965</u>

(1) The floating rate senior notes due 2020 bore 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 bore interest at a rate of 0% until June 2020 and then bear interest at a rate of three-month Euro Interbank Offered Rate (“EURIBOR”) plus 0.30%, with the minimum interest rate of 0%, per year until maturity.

During fiscal 2020, Tyco Electronics Group S.A. (“TEGSA”), our wholly-owned subsidiary, issued €550 million aggregate principal amount of 0.00% senior notes due in February 2025. The notes are TEGSA’s unsecured senior obligations and rank equally in right of payment with all existing and any future senior indebtedness of TEGSA and senior to any subordinated indebtedness that TEGSA may incur.

TE CONNECTIVITY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

TEGSA has a five-year unsecured senior revolving credit facility (“Credit Facility”) with a maturity date of November 2023 and total commitments of \$1.5 billion. The 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 2020 or 2019.

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.

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 on an unsecured basis by its parent, TE Connectivity Ltd.

At fiscal year end 2020, principal payments required for debt are as follows:

	(in millions)
Fiscal 2021	\$ 693
Fiscal 2022	506
Fiscal 2023	641
Fiscal 2024	352
Fiscal 2025	641
Thereafter	1,328
Total	\$ 4,161

The fair value of our debt, based on indicative valuations, was approximately \$4,550 million and \$4,278 million at fiscal year end 2020 and 2019, respectively.

12. Leases

The components of lease cost were as follows:

	Fiscal 2020 (in millions)
Operating lease cost	\$ 108
Variable lease cost	49
Total lease cost	\$ 157

TE CONNECTIVITY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Amounts recognized on the Consolidated Balance Sheet were as follows:

	<u>Fiscal Year End 2020</u> (\$ in millions)
Operating lease ROU assets:	
Other assets	\$ 453
Operating lease liabilities:	
Accrued and other current liabilities	\$ 116
Other liabilities	347
Total operating lease liabilities	<u>\$ 463</u>
Weighted-average remaining lease term (in years)	5.8
Weighted-average discount rate	1.6 %

Cash flow information, including significant non-cash transactions, related to leases was as follows:

	<u>Fiscal 2020</u> (in millions)
Cash paid for amounts included in the measurement of lease liabilities:	
Payments for operating leases ⁽¹⁾	\$ 108
ROU assets obtained in exchange for new operating lease liabilities	28

(1) These payments are included in cash flows from continuing operating activities, primarily in changes in other liabilities.

At fiscal year end 2020, the maturities of operating lease liabilities were as follows:

	<u>(in millions)</u>
Fiscal 2021	\$ 116
Fiscal 2022	98
Fiscal 2023	75
Fiscal 2024	60
Fiscal 2025	49
Thereafter	<u>87</u>
Total lease payments	485
Less: interest	<u>(22)</u>
Present value of lease liabilities	<u>\$ 463</u>

ASC 840 Comparative Disclosures

Prior to fiscal 2020, we accounted for our leases in accordance with ASC 840, *Leases*. Under ASC 840, rental expense for operating leases was \$162 million and \$141 million for fiscal 2019 and 2018, respectively.

TE CONNECTIVITY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The following table presents the future minimum lease payments under non-cancelable operating lease obligations as of September 27, 2019 under ASC 840:

	<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>

13. 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 2020, we concluded that we would incur investigation and remediation costs at these sites in the reasonably possible range of \$16 million to \$45 million, and we accrued \$20 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.

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 2020, we had outstanding letters of credit, letters of guarantee, and surety bonds of \$249 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.

TE CONNECTIVITY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. 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.

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 to reduce our exposure to foreign currency exchange rate risk associated with certain intercompany loans. The aggregate notional value of these contracts was €700 million and €1,000 million at fiscal year end 2020 and 2019, respectively. Certain contracts were terminated during fiscal 2020; the remaining contracts mature in fiscal 2022. 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 5.34% per annum. Upon maturity, 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.

These cross-currency swap contracts were recorded on the Consolidated Balance Sheets as follows:

	Fiscal Year End	
	2020	2019
	(in millions)	
Other assets	\$ 1	\$ 19
Other liabilities	9	—

At fiscal year end 2020 and 2019, collateral received from or paid to our counterparties approximated the net derivative position. Collateral is recorded in accrued and other current liabilities when the contracts are in a net asset position, or prepaid expenses and other current assets when the contracts are in a net liability position on the Consolidated Balance Sheets. The impacts of these cross-currency swap contracts were as follows:

	Fiscal		
	2020	2019	2018
	(in millions)		
Gains (losses) recorded in other comprehensive income (loss)	\$ 28	\$ 53	\$ (25)
Gains (losses) excluded from the hedging relationship ⁽¹⁾	(48)	66	21

(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 \$3,511 million and \$3,374 million at fiscal year end 2020 and 2019, respectively.

We also use a cross-currency swap program to hedge our net investment in certain foreign operations. The aggregate notional value of the contracts under this program was \$1,664 million and \$1,844 million at fiscal year end 2020 and 2019, respectively. Under the terms of these contracts, we receive interest in U.S. dollars at a weighted-average rate of 2.4% per annum and pay no interest. Upon the maturity of these contracts at various dates through fiscal 2024, we will pay the notional

TE CONNECTIVITY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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.

These cross-currency swap contracts were recorded on the Consolidated Balance Sheets as follows:

	Fiscal Year End	
	2020	2019
	(in millions)	
Prepaid expenses and other current assets	\$ 1	\$ 27
Other assets	3	46
Accrued and other current liabilities	6	2
Other liabilities	16	1

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

	Fiscal		
	2020	2019	2018
	(in millions)		
Foreign currency exchange gains (losses) on intercompany loans and external borrowings ⁽¹⁾	\$ (172)	\$ 162	\$ 36
Gains (losses) on cross-currency swap contracts designated as hedges of net investment ⁽¹⁾	(69)	74	—

(1) Recorded as currency translation, a component of accumulated other comprehensive income (loss).

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. During fiscal 2020 and 2019, we entered into forward starting interest rate swap contracts which had an aggregate notional value of \$450 million and \$350 million at fiscal year end 2020 and 2019, respectively, and were designated as cash flow hedges. These forward starting interest rate swap contracts were recorded on the Consolidated Balance Sheets as follows:

	Fiscal Year End	
	2020	2019
	(in millions)	
Other liabilities	\$ 64	\$ 34

The impacts of these forward starting interest rate swap contracts were as follows:

	Fiscal		
	2020	2019	2018
	(in millions)		
Losses recorded in other comprehensive income (loss)	\$ (30)	\$ (34)	\$ —

We also utilize investment swap contracts to manage earnings exposure on certain nonqualified deferred compensation liabilities.

Commodity Hedges

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

TE CONNECTIVITY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

At fiscal year end 2020 and 2019, our commodity hedges had notional values of \$312 million and \$316 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 marketable securities and derivative instruments not discussed above, were immaterial at fiscal year end 2020 and 2019.

15. 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 (credit) for all non-U.S. and U.S. defined benefit pension plans was as follows:

	Non-U.S. Plans			U.S. Plans		
	Fiscal			Fiscal		
	2020	2019	2018	2020	2019	2018
	(\$ in millions)					
Operating expense:						
Service cost	\$ 52	\$ 47	\$ 46	\$ 10	\$ 13	\$ 14
Other (income) expense:						
Interest cost	25	42	42	36	46	43
Expected return on plan assets	(61)	(64)	(69)	(59)	(58)	(59)
Amortization of net actuarial loss	41	24	24	9	17	22
Amortization of prior service credit and other	(6)	(8)	(6)	—	—	—
Net periodic pension benefit cost (credit)	\$ 51	\$ 41	\$ 37	\$ (4)	\$ 18	\$ 20
<i>Weighted-average assumptions used to determine net pension benefit cost (credit) during the fiscal year:</i>						
Discount rate	1.01 %	1.94 %	1.87 %	3.14 %	4.35 %	3.77 %
Expected return on plan assets	4.07 %	4.65 %	4.92 %	6.50 %	6.57 %	6.45 %
Rate of compensation increase	2.53 %	2.57 %	2.53 %	— %	— %	— %

TE CONNECTIVITY LTD.

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:

	<u>Non-U.S. Plans</u>		<u>U.S. Plans</u>	
	<u>Fiscal</u>		<u>Fiscal</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
	(\$ in millions)			
<i>Change in benefit obligation:</i>				
Benefit obligation at beginning of fiscal year	\$ 2,483	\$ 2,220	\$ 1,195	\$ 1,093
Service cost	52	47	10	13
Interest cost	25	42	36	46
Actuarial (gains) losses	(44)	347	65	125
Benefits and administrative expenses paid	(88)	(82)	(87)	(82)
Currency translation	111	(92)	—	—
Other	(20)	1	—	—
Benefit obligation at end of fiscal year	<u>2,519</u>	<u>2,483</u>	<u>1,219</u>	<u>1,195</u>
<i>Change in plan assets:</i>				
Fair value of plan assets at beginning of fiscal year	1,489	1,390	937	917
Actual return on plan assets	39	186	114	100
Employer contributions	43	43	4	2
Benefits and administrative expenses paid	(88)	(82)	(87)	(82)
Currency translation	52	(42)	—	—
Other	2	(6)	—	—
Fair value of plan assets at end of fiscal year	<u>1,537</u>	<u>1,489</u>	<u>968</u>	<u>937</u>
Funded status	<u>\$ (982)</u>	<u>\$ (994)</u>	<u>\$ (251)</u>	<u>\$ (258)</u>
<i>Amounts recognized on the Consolidated Balance Sheets:</i>				
Other assets	\$ 120	\$ 128	\$ —	\$ —
Accrued and other current liabilities	(28)	(25)	(5)	(5)
Long-term pension and postretirement liabilities	(1,074)	(1,097)	(246)	(253)
Net amount recognized	<u>\$ (982)</u>	<u>\$ (994)</u>	<u>\$ (251)</u>	<u>\$ (258)</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	\$ (597)	\$ (656)	\$ (291)	\$ (290)
Prior service (cost) credit	37	43	(2)	(2)
Total	<u>\$ (560)</u>	<u>\$ (613)</u>	<u>\$ (293)</u>	<u>\$ (292)</u>
<i>Weighted-average assumptions used to determine pension benefit obligation at fiscal year end:</i>				
Discount rate	1.13 %	1.01 %	2.57 %	3.14 %
Rate of compensation increase	2.50 %	2.53 %	— %	— %

TE CONNECTIVITY LTD.

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>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
	(in millions)			
Current year net actuarial gain (loss) recorded in accumulated other comprehensive income (loss)	\$ 18	\$ (204)	\$ (10)	\$ (83)
Amortization of net actuarial loss	41	24	9	17
Current year prior service cost recorded in accumulated other comprehensive income (loss)	—	(8)	—	—
Amortization of prior service credit	(6)	(7)	—	—
	<u>\$ 53</u>	<u>\$ (195)</u>	<u>\$ (1)</u>	<u>\$ (66)</u>

In fiscal 2020, unrecognized actuarial gains recorded in accumulated other comprehensive income (loss) were primarily the result of favorable asset performance for our U.S. defined benefit pension plans, partially offset by lower U.S. discount rates and unfavorable asset performance for our non-U.S. defined benefit pension plans as compared to fiscal 2019. 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.

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 2021 is expected to be \$31 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 2021 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 2020, 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 2020, our target asset allocation is 67% return-seeking and 33% liability-hedging.

TE CONNECTIVITY LTD.

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:

Asset category:	Non-U.S. Plans			U.S. Plans		
		Fiscal	Fiscal		Fiscal	Fiscal
	Target	Year End 2020	Year End 2019	Target	Year End 2020	Year End 2019
Equity securities	27 %	25 %	26 %	67 %	45 %	41 %
Fixed income	54	55	53	33	55	59
Other	19	20	21	—	—	—
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 \$45 million and \$24 million to our non-U.S. and U.S. pension plans, respectively, in fiscal 2021. We may also make voluntary contributions at our discretion.

At fiscal year end 2020, 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 2021	\$ 117	\$ 78
Fiscal 2022	85	74
Fiscal 2023	90	74
Fiscal 2024	86	74
Fiscal 2025	91	74
Fiscal 2026-2030	516	354

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	
	2020	2019	2020	2019
(in millions)				
Accumulated benefit obligation	\$ 2,394	\$ 2,340	\$ 1,219	\$ 1,195
Pension plans with accumulated benefit obligations in excess of plan assets:				
Accumulated benefit obligation	1,324	1,304	1,219	1,195
Fair value of plan assets	338	316	968	937
Pension plans with projected benefit obligations in excess of plan assets:				
Projected benefit obligation	1,458	1,453	1,219	1,195
Fair value of plan assets	356	331	968	937

TE CONNECTIVITY LTD.

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 2020							
	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⁾	\$ —	\$ 357	\$ —	\$ 357	\$ —	\$ 447	\$ —	\$ 447
Fixed income:								
Government bonds ⁽²⁾	—	347	—	347	—	—	—	—
Corporate bonds ⁽³⁾	—	146	—	146	—	—	—	—
Commingled bond funds ⁽⁴⁾	—	366	—	366	—	494	—	494
Other ⁽⁵⁾	—	167	141	308	—	26	—	26
Subtotal	<u>\$ —</u>	<u>\$ 1,383</u>	<u>\$ 141</u>	1,524	<u>\$ —</u>	<u>\$ 967</u>	<u>\$ —</u>	967
Items to reconcile to fair value of plan assets ⁽⁶⁾				13				1
Fair value of plan assets				<u>\$ 1,537</u>				<u>\$ 968</u>

	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>	1,469	<u>\$ —</u>	<u>\$ 936</u>	<u>\$ —</u>	936
Items to reconcile to fair value of plan assets ⁽⁶⁾				20				1
Fair value of plan assets				<u>\$ 1,489</u>				<u>\$ 937</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).

TE CONNECTIVITY LTD.

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.

Changes in Level 3 assets in non-U.S. plans were primarily the result of net investment losses in fiscal 2020 and purchases in 2019.

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 \$60 million, \$63 million, and \$62 million for fiscal 2020, 2019, and 2018, 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 2020 and 2019, total deferred compensation liabilities were \$218 million and \$203 million, respectively, and were recorded in other liabilities on the Consolidated Balance Sheets. See Note 14 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 or lifetime, as applicable. The accumulated postretirement benefit obligation was \$17 million and \$18 million at fiscal year end 2020 and 2019, respectively, and the underfunded status of the postretirement benefit plans was included primarily in long-term pension and postretirement liabilities on the Consolidated Balance Sheets. Activity during fiscal 2020, 2019, and 2018 was not significant.

16. Income Taxes

Income Tax Expense (Benefit)

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

	<u>2020</u>	<u>Fiscal</u> <u>2019</u>	<u>2018</u>
	(in millions)		
Current income tax expense (benefit):			
U.S. Federal	\$ 9	\$ (28)	\$ 20
U.S. State	(23)	2	21
Non-U.S.	262	229	406
	<u>248</u>	<u>203</u>	<u>447</u>
Deferred income tax expense (benefit):			
U.S. Federal	(16)	(25)	499
U.S. State	(10)	(8)	(30)
Non-U.S.	561	(185)	(1,260)
	<u>535</u>	<u>(218)</u>	<u>(791)</u>
Income tax expense (benefit)	<u>\$ 783</u>	<u>\$ (15)</u>	<u>\$ (344)</u>

TE CONNECTIVITY LTD.

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		
	2020	2019	2018
	(in millions)		
U.S.	\$ (1,053)	\$ (216)	\$ (245)
Non-U.S.	1,577	2,147	2,485
Income from continuing operations before income taxes	<u>\$ 524</u>	<u>\$ 1,931</u>	<u>\$ 2,240</u>

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

	Fiscal		
	2020	2019	2018
	(in millions)		
Notional U.S. federal income tax expense at the statutory rate ⁽¹⁾	\$ 110	\$ 406	\$ 551
Adjustments to reconcile to the income tax expense (benefit):			
U.S. state income tax benefit, net	(26)	(5)	(7)
Tax law changes	349	15	638
Tax credits	(13)	(22)	(8)
Non-U.S. net earnings ⁽²⁾	(88)	(166)	(213)
Change in accrued income tax liabilities	30	(61)	13
Valuation allowance	231	(163)	33
Divestitures and goodwill impairments	185	—	—
Legal entity restructuring and intercompany transactions	—	3	(1,329)
Excess tax benefits from share-based payments	(6)	(8)	(24)
Other	11	(14)	2
Income tax expense (benefit)	<u>\$ 783</u>	<u>\$ (15)</u>	<u>\$ (344)</u>

(1) The U.S. federal statutory rate was 21% for fiscal 2020 and 2019 and 24.58% for fiscal 2018.

(2) Excludes items which are separately presented.

The income tax expense for fiscal 2020 included \$355 million of income tax expense related to the tax impacts of certain measures of the Switzerland Federal Act on Tax Reform and AHV Financing (“Swiss Tax Reform”) and an income tax benefit of \$31 million related to pre-separation tax matters and the termination of the Tax Sharing Agreement. See “Swiss Tax Reform” and “Tax Sharing Agreement” below for additional information. In addition, the income tax expense for fiscal 2020 included \$226 million of income tax expense related to increases to the valuation allowance for certain deferred tax assets, related primarily to the COVID-19 pandemic. As a result of the pandemic and its negative impact on our current and expected future operating profit and taxable income, we believed it was more likely than not that a portion of our deferred tax assets will not be realized. Depending on the duration and severity of COVID-19 disruptions to our business, additional adjustments to our valuation allowance may be required in future periods. The pre-tax goodwill impairment charge of \$900 million recorded during fiscal 2020 resulted in a tax benefit of \$4 million as the associated goodwill was primarily not deductible for income tax purposes. See Note 8 for additional information regarding the impairment of goodwill.

The income tax benefit for fiscal 2019 included a \$216 million income tax benefit related to the tax impacts of certain measures of 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,

TE CONNECTIVITY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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.

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:

	<u>Fiscal Year End</u>	
	<u>2020</u>	<u>2019</u>
	(in millions)	
Deferred tax assets:		
Accrued liabilities and reserves	\$ 248	\$ 245
Tax loss and credit carryforwards	5,338	6,041
Inventories	45	43
Intangible assets	572	964
Pension and postretirement benefits	223	248
Deferred revenue	4	4
Interest	180	134
Unrecognized income tax benefits	3	7
Lease liabilities	106	—
Other	11	8
Gross deferred tax assets	<u>6,730</u>	<u>7,694</u>
Valuation allowance	<u>(4,429)</u>	<u>(4,970)</u>
Deferred tax assets, net of valuation allowance	<u>2,301</u>	<u>2,724</u>
Deferred tax liabilities:		
Property, plant, and equipment	(108)	(57)
Lease ROU assets	(93)	—
Other	(65)	(47)
Total deferred tax liabilities	<u>(266)</u>	<u>(104)</u>
Net deferred tax assets	<u>\$ 2,035</u>	<u>\$ 2,620</u>

TE CONNECTIVITY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Our tax loss and credit carryforwards (tax effected) at fiscal year end 2020 were as follows:

	<u>Expiration Period</u>			<u>Total</u>
	<u>Through Fiscal 2025</u>	<u>Fiscal 2026 Through Fiscal 2040</u>	<u>No Expiration</u>	
	(in millions)			
U.S. Federal:				
Net operating loss carryforwards	\$ 155	\$ 386	\$ 42	\$ 583
Tax credit carryforwards	53	122	—	175
Capital loss carryforwards	1	—	—	1
U.S. State:				
Net operating loss carryforwards	65	35	—	100
Tax credit carryforwards	9	8	7	24
Non-U.S.:				
Net operating loss carryforwards	177	2,575	1,668	4,420
Tax credit carryforwards	—	1	1	2
Capital loss carryforwards	—	3	30	33
Total tax loss and credit carryforwards	<u>\$ 460</u>	<u>\$ 3,130</u>	<u>\$ 1,748</u>	<u>\$ 5,338</u>

The valuation allowance for deferred tax assets of \$4,429 million and \$4,970 million at fiscal year end 2020 and 2019, 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 2020, tax loss and credit carryforwards decreased primarily as a result of a \$818 million (tax effected) recovery of prior years' net write-downs of investments in subsidiaries in certain jurisdictions, offset by a corresponding decrease to the valuation allowance. We believe that we will generate sufficient future taxable income to realize the income tax benefits related to the remaining net deferred tax assets on the Consolidated Balance Sheet.

We have provided income taxes for earnings that are currently distributed as well as the taxes associated with several subsidiaries' earnings that are expected to be distributed in the future. No additional provision has been made for Swiss or non-Swiss income taxes on the undistributed earnings of subsidiaries or for unrecognized deferred tax liabilities for temporary differences related to basis differences in investments in subsidiaries, as such earnings are expected to be permanently reinvested, the investments are essentially permanent in duration, or we have concluded that no additional tax liability will arise as a result of the distribution of such earnings. As of fiscal year end 2020, certain subsidiaries had approximately \$29 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 2020, we had approximately \$5.3 billion of cash, cash equivalents, and intercompany deposits, principally in our subsidiaries, that we have the ability to distribute to TEGSA, our Luxembourg subsidiary, which is the obligor of substantially all of our debt, and to TE Connectivity Ltd., our Swiss parent company, but we consider to be permanently reinvested. We estimate that up to \$0.8 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 2020, we had total unrecognized income tax benefits of \$414 million. If recognized in future years, \$393 million of these currently unrecognized income tax benefits would reduce income tax expense and the effective tax rate. As of fiscal year end 2019, we had total unrecognized income tax benefits of \$542 million. If recognized in future

TE CONNECTIVITY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

years, \$397 million of these currently unrecognized income tax benefits would reduce income tax expense and the effective tax rate. The following table summarizes the activity related to unrecognized income tax benefits:

	Fiscal		
	2020	2019	2018
	(in millions)		
Balance at beginning of fiscal year	\$ 542	\$ 566	\$ 501
Additions related to prior years tax positions	29	13	14
Reductions related to prior years tax positions	(87)	(101)	(11)
Additions related to current year tax positions	39	98	105
Settlements	(12)	(2)	(7)
Reductions due to lapse of applicable statute of limitations	(97)	(32)	(36)
Balance at end of fiscal year	<u>\$ 414</u>	<u>\$ 542</u>	<u>\$ 566</u>

We record accrued interest and penalties related to uncertain tax positions as part of income tax expense (benefit). As of fiscal year end 2020 and 2019, we had \$42 million of accrued interest and penalties related to uncertain tax positions on the Consolidated Balance Sheets, recorded primarily in income taxes. During fiscal 2020, 2019, and 2018, we recognized income tax benefits of \$1 million, benefits of \$14 million, and expense 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.

As of fiscal year end 2020, under applicable statutes, the following tax years remained subject to examination in the major tax jurisdictions indicated:

Jurisdiction	Open Years
Brazil	2015 through 2020
China	2010 through 2020
Czech Republic	2017 through 2020
France	2017 through 2020
Germany	2013 through 2020
Hong Kong	2014 through 2020
Ireland	2015 through 2020
Italy	2015 through 2020
Japan	2014 through 2020
Luxembourg	2015 through 2020
Mexico	2015 through 2020
Singapore	2015 through 2020
South Korea	2015 through 2020
Spain	2016 through 2020
Switzerland	2015 through 2020
Thailand	2018 through 2020
United Kingdom	2018 through 2020
U.S.—federal	2017 through 2020

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.

TE CONNECTIVITY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Although it is difficult to predict the timing or results of our worldwide examinations, we estimate that approximately \$50 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 2020.

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.

On May 24, 2019, the federal tax authority issued guidance abolishing certain interest deductions effective January 1, 2020. 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. Based on our forecast of taxable income and the abolishment of certain interest deductions, we believed it was more likely than not that additional deferred tax assets for tax loss carryforwards in Switzerland would be realized in the future. The federal provisions of Swiss Tax Reform were enacted into law in the quarter ended September 27, 2019.

In October 2019, the canton of Schaffhausen enacted Swiss Tax Reform into law, including reductions in tax rates. During fiscal 2020, we recognized \$355 million of income tax expense related primarily to cantonal implementation and the resulting write-down of certain deferred tax assets to the lower tax rates.

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

Upon our separation from Tyco International plc in fiscal 2007, we entered into a Tax Sharing Agreement with Tyco International plc (now part of Johnson Controls International plc) and Covidien plc (now part of Medtronic plc) under which we shared certain income tax liabilities for periods prior to and including June 29, 2007. Pursuant to the Tax Sharing Agreement, we entered into certain guarantee commitments and indemnifications.

In fiscal 2020, we, Johnson Controls International plc, and Medtronic plc entered into an agreement to terminate the Tax Sharing Agreement. We believe that substantially all income tax matters that may be subject to the Tax Sharing Agreement have been settled with tax authorities and we do not expect any remaining tax matters to have a material effect on our results of operations, financial position, or cash flows. Accordingly, during fiscal 2020, we recognized an income tax benefit of \$31 million and net other income of \$8 million representing settlement of the remaining shared pre-separation income tax matters and indemnification balances.

TE CONNECTIVITY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. Earnings (Loss) Per Share

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

	Fiscal		
	2020	2019	2018
	(in millions)		
Basic	332	338	350
Dilutive impact of share-based compensation arrangements	—	2	3
Diluted	332	340	353

For fiscal 2020, there were two million nonvested share awards and options outstanding with underlying exercise prices less than the average market prices of our common shares; however, these were excluded from the calculation of diluted loss per share as inclusion would be antidilutive as a result of our loss during the period.

The following share options were not included in the computation of diluted earnings (loss) 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		
	2020	2019	2018
	(in millions)		
Antidilutive share options	3	1	1

18. Shareholders' Equity

Common Shares

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

Subject to certain conditions specified in our articles of association, we are authorized to increase our conditional share capital by issuing new shares in aggregate not exceeding 50% of our authorized shares. In March 2020, our shareholders reapproved and extended through March 11, 2022, 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 2020, approximately 8 million common shares were held in treasury, of which 5 million were owned by one of our subsidiaries. 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. Shares held both directly by us and by our subsidiary are presented as treasury shares on the Consolidated Balance Sheets.

In fiscal 2020 and 2019, our shareholders approved the cancellation of 12 million and 6 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.

TE CONNECTIVITY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Contributed Surplus

As a result of cumulative equity transactions, including dividend activity and treasury share cancellations, our contributed surplus balance was reduced 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 2020 and 2019, Swiss Contributed Surplus was CHF 5,513 million and CHF 6,107 million, respectively (equivalent to \$4,561 million and \$5,195 million, respectively).

Dividends

We paid cash dividends to shareholders of \$1.88, \$1.80, and \$1.68 per share in fiscal 2020, 2019, and 2018, 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.

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
March 2020	\$1.92, payable in four quarterly installments of \$0.48	Third quarter of fiscal 2020 Fourth quarter of fiscal 2020 First quarter of fiscal 2021 Second quarter of fiscal 2021

Upon shareholders' approval of a dividend payment, we record a liability with a corresponding charge to shareholders' equity. At fiscal year end 2020 and 2019, the unpaid portion of the dividends recorded in accrued and other current liabilities on the Consolidated Balance Sheets totaled \$317 million and \$308 million, respectively.

TE CONNECTIVITY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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:

	Fiscal		
	2020	2019	2018
	(in millions)		
Number of common shares repurchased	6	12	10
Repurchase value	\$ 505	\$ 1,014	\$ 966

At fiscal year end 2020, we had \$1.0 billion of availability remaining under our share repurchase authorization.

19. 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 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	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)
Other comprehensive income (loss), net of tax:				
Other comprehensive income (loss) before reclassifications	(11)	8	58	55
Amounts reclassified from accumulated other comprehensive income (loss)	—	44	(13)	31
Income tax expense	—	(18)	(5)	(23)
Other comprehensive income (loss), net of tax	(11)	34	40	63
Less: other comprehensive income attributable to noncontrolling interests	(5)	—	—	(5)
Balance at fiscal year end 2020	\$ 172	\$ (613)	\$ (4)	\$ (445)

(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.

TE CONNECTIVITY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

20. Share Plans

Our equity compensation plans, of which the TE Connectivity Ltd. 2007 Stock and Incentive Plan, amended and restated as of September 17, 2020 (the “2007 Plan”), is the primary plan, provide for the award of annual performance bonuses and long-term performance awards, including share options; restricted, performance, and deferred share units; and other share-based awards (collectively, “Awards”) and allow for the use of unissued shares or treasury shares to be used to satisfy such Awards. As of fiscal year end 2020, 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 15 million shares remained available for issuance under the 2007 Plan as of fiscal year end 2020.

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		
	2020	2019	2018
	(in millions)		
Share-based compensation expense	\$ 74	\$ 75	\$ 95

We recognized a related tax benefit associated with our share-based compensation arrangements of \$15 million, \$16 million, and \$20 million in fiscal 2020, 2019, and 2018, 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, all or 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 2019	1,402,419	\$ 78.36
Granted	716,886	92.94
Vested	(574,628)	75.98
Forfeited	(125,250)	83.40
Nonvested at fiscal year end 2020	1,419,427	\$ 86.15

The weighted-average grant-date fair value of restricted share awards granted during fiscal 2020, 2019, and 2018 was \$92.94, \$77.77, and \$93.45, respectively.

The total fair value of restricted share awards that vested during fiscal 2020, 2019, and 2018 was \$44 million, \$48 million, and \$50 million, respectively.

As of fiscal year end 2020, there was \$72 million of unrecognized compensation expense related to nonvested restricted share awards, which is expected to be recognized over a weighted-average period of 1.8 years.

TE CONNECTIVITY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Performance Share Awards

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

Performance share award activity was as follows:

	Shares	Weighted-Average Grant-Date Fair Value
Outstanding at fiscal year end 2019	585,123	\$ 77.44
Granted	277,126	83.30
Vested	(343,750)	67.44
Forfeited	(4,254)	84.18
Outstanding at fiscal year end 2020	<u>514,245</u>	\$ 87.30

The weighted-average grant-date fair value of performance share awards granted during fiscal 2020, 2019, and 2018 was \$83.30, \$71.38, and \$92.96, respectively.

The total fair value of performance share awards that vested during fiscal 2020, 2019, and 2018 was \$20 million, \$30 million, and \$19 million, respectively.

As of fiscal year end 2020, there was \$15 million of unrecognized compensation expense related to nonvested performance share awards, which is expected to be recognized over a weighted-average period of 1.1 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, all or 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 2019	6,344,943	\$ 70.72		
Granted	1,543,450	93.39		
Exercised	(973,754)	55.42		
Expired	(34,982)	82.91		
Forfeited	(221,941)	83.25		
Outstanding at fiscal year end 2020	<u>6,657,716</u>	\$ 77.73	6.9	\$ 117
Vested and expected to vest at fiscal year end 2020	6,316,850	\$ 70.66	6.9	\$ 114
Exercisable at fiscal year end 2020	3,243,765	\$ 69.46	5.5	\$ 84

TE CONNECTIVITY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The weighted-average exercise price of share option awards granted during fiscal 2020, 2019, and 2018 was \$93.39, \$76.91, and \$93.44, respectively.

The total intrinsic value of options exercised during fiscal 2020, 2019, and 2018 was \$39 million, \$58 million, and \$106 million, respectively. We received cash related to the exercise of options of \$55 million, \$85 million, and \$100 million in fiscal 2020, 2019, and 2018, respectively.

As of fiscal year end 2020, there was \$31 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.

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		
	2020	2019	2018
Weighted-average grant-date fair value	\$ 15.49	\$ 13.40	\$ 16.49
Assumptions:			
Expected share price volatility	21 %	20 %	20 %
Risk-free interest rate	1.7 %	3.0 %	2.2 %
Expected annual dividend per share	\$ 1.84	\$ 1.76	\$ 1.60
Expected life of options (in years)	5.1	5.2	5.3

21. Segment and Geographic Data

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

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

TE CONNECTIVITY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

	Fiscal		
	2020	2019	2018
	(in millions)		
Transportation Solutions:			
Automotive	\$ 4,903	\$ 5,686	\$ 6,092
Commercial transportation	1,051	1,221	1,280
Sensors	891	914	918
Total Transportation Solutions	6,845	7,821	8,290
Industrial Solutions:			
Aerospace, defense, oil, and gas	1,201	1,306	1,157
Industrial equipment	1,098	1,242	1,322
Medical ⁽²⁾	697	707	665
Energy	717	699	712
Total Industrial Solutions	3,713	3,954	3,856
Communications Solutions:			
Data and devices	973	993	1,068
Appliances	641	680	774
Total Communications Solutions	1,614	1,673	1,842
Total	\$ 12,172	\$ 13,448	\$ 13,988

- (1) Industry end market information is presented consistently with our internal management reporting and may be revised periodically as management deems necessary.
- (2) Effective for fiscal 2020, we are separately presenting net sales in the medical end market. Such amounts were previously included in net sales in the industrial equipment end market.

Net sales by geographic region and segment were as follows:

	Fiscal		
	2020	2019	2018
	(in millions)		
Asia-Pacific:			
Transportation Solutions	\$ 2,662	\$ 2,812	\$ 3,025
Industrial Solutions	604	625	668
Communications Solutions	980	964	1,069
Total Asia-Pacific	4,246	4,401	4,762
Europe/Middle East/Africa (“EMEA”):			
Transportation Solutions	2,625	3,099	3,417
Industrial Solutions	1,359	1,466	1,534
Communications Solutions	236	258	304
Total EMEA	4,220	4,823	5,255
Americas:			
Transportation Solutions	1,558	1,910	1,848
Industrial Solutions	1,750	1,863	1,654
Communications Solutions	398	451	469
Total Americas	3,706	4,224	3,971
Total	\$ 12,172	\$ 13,448	\$ 13,988

TE CONNECTIVITY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Operating income by segment was as follows:

	Fiscal		
	2020	2019	2018
	(in millions)		
Transportation Solutions	\$ (93)	\$ 1,226	\$ 1,578
Industrial Solutions	412	543	465
Communications Solutions	218	209	288
Total	<u>\$ 537</u>	<u>\$ 1,978</u>	<u>\$ 2,331</u>

No single customer accounted for a significant amount of our net sales in fiscal 2020, 2019, or 2018.

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		
	2020	2019	2018	2020	2019	2018
	(in millions)					
Transportation Solutions	\$ 463	\$ 442	\$ 416	\$ 365	\$ 530	\$ 711
Industrial Solutions	184	181	178	139	145	145
Communications Solutions	64	67	73	56	74	79
Total	<u>\$ 711</u>	<u>\$ 690</u>	<u>\$ 667</u>	<u>\$ 560</u>	<u>\$ 749</u>	<u>\$ 935</u>

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

	Segment Assets		
	Fiscal Year End		
	2020	2019	2018
	(in millions)		
Transportation Solutions	\$ 4,973	\$ 4,781	\$ 4,707
Industrial Solutions	2,117	2,100	2,049
Communications Solutions	887	849	959
Total segment assets ⁽¹⁾	7,977	7,730	7,715
Other current assets	1,457	1,398	1,981
Other non-current assets	9,808	10,566	10,690
Total assets	<u>\$ 19,242</u>	<u>\$ 19,694</u>	<u>\$ 20,386</u>

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

TE CONNECTIVITY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

	Net Sales ⁽¹⁾			Property, Plant, and Equipment, Net		
	Fiscal			Fiscal Year End		
	2020	2019	2018	2020	2019	2018
	(in millions)					
Asia-Pacific:						
China	\$ 2,459	\$ 2,443	\$ 2,739	\$ 659	\$ 642	\$ 627
Other Asia-Pacific	1,787	1,958	2,023	418	449	436
Total Asia-Pacific	4,246	4,401	4,762	1,077	1,091	1,063
EMEA:						
Switzerland	2,878	3,251	3,478	79	92	94
Germany	343	404	443	559	443	448
Other EMEA	999	1,168	1,334	871	851	829
Total EMEA	4,220	4,823	5,255	1,509	1,386	1,371
Americas:						
U.S.	3,348	3,794	3,583	963	991	964
Other Americas	358	430	388	101	106	99
Total Americas	3,706	4,224	3,971	1,064	1,097	1,063
Total	\$ 12,172	\$ 13,448	\$ 13,988	\$ 3,650	\$ 3,574	\$ 3,497

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

22. Quarterly Financial Data (unaudited)

Summarized quarterly financial data was as follows:

	Fiscal							
	2020				2019			
	First Quarter ⁽¹⁾	Second Quarter ⁽²⁾	Third Quarter ⁽³⁾	Fourth Quarter	First Quarter ⁽⁴⁾	Second Quarter	Third Quarter ⁽⁵⁾	Fourth Quarter
	(in millions, except per share data)							
Net sales	\$ 3,168	\$ 3,195	\$ 2,548	\$ 3,261	\$ 3,347	\$ 3,412	\$ 3,389	\$ 3,300
Gross margin	1,030	1,029	707	969	1,114	1,118	1,110	1,052
Acquisition and integration costs	7	12	8	9	5	7	9	6
Restructuring and other charges, net	24	22	98	113	75	42	67	71
Impairment of goodwill	—	900	—	—	—	—	—	—
Income (loss) from continuing operations	23	(452)	(58)	228	383	429	758	376
Income (loss) from discontinued operations, net of income taxes	3	(4)	17	2	(107)	10	(1)	(4)
Net income (loss)	26	(456)	(41)	230	276	439	757	372
Basic earnings (loss) per share:								
Income (loss) from continuing operations	\$ 0.07	\$ (1.35)	\$ (0.18)	\$ 0.69	\$ 1.12	\$ 1.27	\$ 2.25	\$ 1.12
Net income (loss)	0.08	(1.37)	(0.12)	0.70	0.81	1.30	2.25	1.11
Diluted earnings (loss) per share:								
Income (loss) from continuing operations	\$ 0.07	\$ (1.35)	\$ (0.18)	\$ 0.69	\$ 1.11	\$ 1.26	\$ 2.24	\$ 1.11
Net income (loss)	0.08	(1.37)	(0.12)	0.69	0.80	1.29	2.23	1.10

(1) Results for the quarter ended December 27, 2019 included \$355 million of income tax expense related to the tax impacts of certain measures of Swiss Tax Reform. See Note 16 for additional information regarding income taxes.

TE CONNECTIVITY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

- (2) Results for the quarter ended March 27, 2020 included a pre-tax goodwill impairment charge of \$900 million relating to the Sensors reporting unit in our Transportation Solutions segment. See Note 8 for additional information regarding goodwill impairment.
- (3) Results for the quarter ended June 26, 2020 included \$170 million of income tax expense related to an increase to the valuation allowance for certain non-U.S. deferred tax assets. See Note 16 for additional information regarding income taxes.
- (4) 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.
- (5) 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 16 for additional information regarding income taxes.

TE CONNECTIVITY LTD.

SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS

Fiscal Years Ended September 25, 2020, September 27, 2019, and September 28, 2018

<u>Description</u>	<u>Balance at Beginning of Fiscal Year</u>	<u>Additions Charged to Costs and Expenses</u>	<u>Acquisitions, Divestitures, and Other (in millions)</u>	<u>Write-offs and Deductions</u>	<u>Balance at End of Fiscal Year</u>
Fiscal 2020:					
Allowance for doubtful accounts receivable	\$ 25	\$ 10	\$ (1)	\$ (5)	\$ 29
Valuation allowance on deferred tax assets	4,970	493	—	(1,034)	4,429
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

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 25, 2020, 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.

Opinion

In our opinion, the consolidated financial statements for the year ended September 25, 2020 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 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 matter:
<p>Goodwill —Sensors Reporting Unit within the 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 \$5.2 billion as of September 25, 2020, of which \$0.5 billion was allocated to the Sensors reporting unit within the Transportation Solutions reportable segment. As a result of current and projected declines in sales and profitability, due in part to the impact of the COVID-19 pandemic and projected reductions in global automotive production, the Company recorded a partial impairment charge of \$900 million during the quarter ended March 27, 2020 for the Sensors reporting unit. The fair value of this reporting unit exceeded its carrying amount as of the annual measurement date and, therefore, no additional impairment was recognized.</p> <p>We identified goodwill for the Sensors reporting unit as a critical audit matter because of the significant judgments made by management to estimate its fair value, especially considering the reduction of future revenue growth rates and resulting cash flows. 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</p>	<p>Our audit procedures for the \$900 million impairment charge and the annual quantitative assessment related to the forecasts of future revenue and operating margin (the “forecasts”), and the selection of a discount rate for the Sensors reporting unit 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. – The effects of the COVID-19 pandemic on projections. • 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

the selection of a discount rate.	management.
<p>Income Taxes — Realizability of Deferred Tax Assets — Refer to Notes 2 and 16 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. 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 \$4.4 billion has been recorded to offset the Company’s gross deferred tax assets as of September 25, 2020 of \$6.7 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>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 likely than not that the deferred tax assets will be realized prior to expiration. • We evaluated the reasonableness of management’s assessment of the significance and weighting of negative evidence and positive evidence that is objectively verifiable. • 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 to 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, including the effects of the COVID-19 pandemic on projections. • 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.

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 10, 2020

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TE CONNECTIVITY LTD.

INDEX TO SWISS STATUTORY FINANCIAL STATEMENTS

	<u>Page</u>
<u>Statements of Operations for the Fiscal Years Ended September 25, 2020 and September 27, 2019</u>	<u>88</u>
<u>Balance Sheets as of September 25, 2020 and September 27, 2019</u>	<u>89</u>
<u>Notes to Swiss Statutory Financial Statements</u>	<u>90</u>
<u>Proposed Appropriation of Available Earnings</u>	<u>100</u>
<u>Report of the Statutory Auditor</u>	<u>101</u>

TE CONNECTIVITY LTD.
SWISS STATUTORY FINANCIAL STATEMENTS
STATEMENTS OF OPERATIONS

Fiscal Years Ended September 25, 2020 and September 27, 2019

	<u>Fiscal 2020</u>		<u>Fiscal 2019</u>	
	<u>U.S. dollars</u>	<u>Swiss francs</u>	<u>U.S. dollars</u>	<u>Swiss francs</u>
	(in millions)			
Income				
Income from distributions made by subsidiaries (Note 8)	\$ 410	CHF 378	\$ 1,260	CHF 1,254
Insurance premiums charged to subsidiaries	<u>11</u>	<u>11</u>	<u>12</u>	<u>12</u>
Total income	421	389	1,272	1,266
Expenses				
Salary and social costs	7	6	6	6
General and administrative costs	2	2	4	4
Legal and consulting costs	7	7	7	7
Insurance premiums	13	13	13	13
Remeasurement (gain) loss on foreign currency transactions	12	11	(7)	(7)
Expenses for services provided by subsidiaries	45	43	42	42
Pre-separation tax settlement (income) expense (Note 3)	3	3	(1)	(1)
Intercompany interest expense	<u>82</u>	<u>79</u>	<u>120</u>	<u>120</u>
Total expenses, net	171	164	184	184
Other Income				
Gain on sale of subsidiary (Note 8)	<u>23</u>	<u>22</u>	<u>—</u>	<u>—</u>
Net Income	<u>\$ 273</u>	<u>CHF 247</u>	<u>\$ 1,088</u>	<u>CHF 1,082</u>

See Notes to Swiss Statutory Financial Statements.

TE CONNECTIVITY LTD.
SWISS STATUTORY FINANCIAL STATEMENTS
BALANCE SHEETS

As of September 25, 2020 and September 27, 2019

	Fiscal Year End 2020		Fiscal Year End 2019	
	U.S. dollars	Swiss francs	U.S. dollars	Swiss francs
(in millions, except share data)				
Assets				
Current assets:				
Accounts receivable from subsidiaries	\$ 36	CHF 34	\$ 49	CHF 49
Loans to subsidiaries (Note 3)	50	46	—	—
Prepaid expenses and other current assets	3	3	4	4
Total current assets	89	83	53	53
Investments in subsidiaries (Notes 2 and 8)	9,633	10,426	9,635	10,430
Total assets	\$ 9,722	CHF 10,509	\$ 9,688	CHF 10,483
Liabilities and shareholders' equity				
Current liabilities:				
Accounts payable	\$ 2	CHF 2	\$ 1	CHF 1
Accounts payable to subsidiaries	51	47	60	59
Loans from subsidiaries (Note 3)	3,629	3,371	2,959	2,935
Accrued and other current liabilities	7	6	21	21
Approved but unpaid distributions to shareholders (Note 4)	317	310	308	310
Total current liabilities	4,006	3,736	3,349	3,326
Unrealized translation gains (Note 2)	—	842	—	623
Total liabilities	4,006	4,578	3,349	3,949
Commitments, contingencies, and guarantees (Note 3)				
Shareholders' equity (Note 4):				
Share capital, CHF 0.57 par value, 338,953,381 shares authorized and issued and 350,951,381 shares authorized and issued, respectively	149	193	154	200
Statutory reserves:				
General reserve from earnings	38	49	38	49
Free reserves:				
Reserves from capital contributions (Note 4)	4,561	5,513	5,195	6,107
Allocated reserves for the acquisition of treasury shares by a subsidiary (Note 2)	(407)	(395)	(362)	(355)
Unappropriated accumulated earnings	1,230	432	1,927	1,151
Own shares held in treasury	(262)	(256)	(975)	(973)
Reserves for treasury shares (Note 2)	407	395	362	355
Total shareholders' equity	5,716	5,931	6,339	6,534
Total liabilities and shareholders' equity	\$ 9,722	CHF 10,509	\$ 9,688	CHF 10,483

See Notes to Swiss Statutory Financial Statements.

TE CONNECTIVITY LTD.
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 25, 2020 and September 27, 2019. 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 25, 2020.

The accompanying statements of operations reflect the results of operations for the fiscal years ended September 25, 2020 and September 27, 2019 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

We have a 52- or 53-week fiscal year that ends on the last Friday of September. Fiscal 2020 and 2019 were each 52 weeks in length and ended on September 25, 2020 and September 27, 2019, respectively.

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 2020 and 2019, exchange rates were CHF 0.9290:\$1 and CHF 0.9918:\$1, respectively). Revenue and expenses, excluding income from distributions made by a subsidiary, are translated using the average foreign exchange rates in effect for the period presented (exchange rates were CHF 0.9609:\$1 and CHF 0.9948:\$1 for fiscal 2020 and 2019, 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 2020 and 2019, 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.

TE CONNECTIVITY LTD.
NOTES TO SWISS STATUTORY FINANCIAL STATEMENTS

Reclassifications

Certain prior year balances have been reclassified to conform to current year presentation.

3. Commitments, Contingencies, and Guarantees

Affiliated Debt and Loans Receivable

We utilize a cash pooling relationship with a wholly-owned subsidiary (the “Cash Pool”) to fund operations, including the repurchase of common shares. The Cash Pool does not have an expiration date and accrues interest based on LIBOR. During fiscal 2020, we received a revolving loan from a subsidiary and used the proceeds to settle our cash pool liabilities.

In order to minimize currency exposure related to distributions to shareholders approved in Swiss francs and paid in U.S. dollars, we also 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 is partially settled. At fiscal year end 2020 and 2019, the U.S. dollar loan receivable, which approximate the borrowings, were included in the net Cash Pool asset and net Cash Pool liability, respectively, on our balance sheets.

At fiscal year end 2020 and 2019, we had the following loans to subsidiaries on our balance sheets:

	<u>Fiscal Year End 2020</u>		<u>Fiscal Year End 2019</u>	
	<u>U.S. dollars</u>	<u>Swiss francs</u>	<u>U.S. dollars</u>	<u>Swiss francs</u>
	(in millions)			
Cash Pool asset	\$ 50	CHF 46	\$ —	CHF —

As of fiscal year end 2020 and 2019, we had the following loans from subsidiaries on our balance sheets:

	<u>Fiscal Year End 2020</u>		<u>Fiscal Year End 2019</u>	
	<u>U.S. dollars</u>	<u>Swiss francs</u>	<u>U.S. dollars</u>	<u>Swiss francs</u>
	(in millions)			
Cash Pool liability	\$ —	CHF —	\$ 2,635	CHF 2,614
Revolving loan	3,303	3,069	—	—
CHF-denominated borrowings	326	302	324	321
Loans from subsidiaries	<u>\$ 3,629</u>	<u>CHF 3,371</u>	<u>\$ 2,959</u>	<u>CHF 2,935</u>

We have fully and unconditionally guaranteed the debt of a subsidiary, Tyco Electronics Group S.A., totaling CHF 3,816 million (equivalent to \$4,108 million) and CHF 3,946 million (equivalent to \$3,978 million) at fiscal year end 2020 and 2019, respectively. As of fiscal year end 2020, we have not been required to perform on our guarantee.

Tax Sharing Agreement

Upon our separation from Tyco International plc in fiscal 2007, we entered into a Tax Sharing Agreement with Tyco International plc (now part of Johnson Controls International plc) and Covidien plc (now part of Medtronic plc) under which we shared certain income tax liabilities for periods prior to and including June 29, 2007. Pursuant to the Tax Sharing Agreement, we entered into certain guarantee commitments and indemnifications.

In fiscal 2020, we, Johnson Controls International plc, and Medtronic plc entered into an agreement to terminate the Tax Sharing Agreement. We believe that substantially all income tax matters that may be subject to the Tax Sharing Agreement have been settled with tax authorities and we do not expect any remaining tax matters to have a material effect on our results of operations, financial position, or cash flows.

During fiscal 2020 and 2019, we recorded expense of CHF 3 million (equivalent to \$3 million) and net income of CHF 1 million (equivalent to \$1 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) loss, net in our statement of operations.

TE CONNECTIVITY LTD.
NOTES TO SWISS STATUTORY FINANCIAL STATEMENTS

Performance Guarantees

From time to time, we provide performance guarantees and surety bonds in favor of our subsidiaries. At fiscal year end 2020 and 2019, these performance guarantees were as follows:

	<u>Fiscal Year End 2020</u>		<u>Fiscal Year End 2019</u>	
	<u>U.S. dollars</u>	<u>Swiss francs</u>	<u>U.S. dollars</u>	<u>Swiss francs</u>
	(in millions)			
Performance Guarantees	\$ 110	CHF 102	\$ 198	CHF 197

In fiscal 2020, a guarantee totaling CHF 94 million (equivalent to \$95 million) expired unused. 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 2020 and 2019 in Swiss francs.

	<u>Share Capital</u>	<u>General Reserve from Earnings</u>	<u>Reserves from Capital Contributions</u>	<u>Allocated Reserves for the Acquisition of Treasury Shares by a Subsidiary</u>	<u>Unappropriated Accumulated Earnings</u>	<u>Own Shares Held in Treasury</u>	<u>Reserves for Treasury Shares held by a Subsidiary</u>	<u>Total Shareholders' Equity</u>
	(in CHF millions)							
Fiscal year end 2018	CHF 204	CHF 49	CHF 6,724	CHF (546)	CHF 625	CHF (561)	CHF 546	CHF 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	CHF 200	CHF 49	CHF 6,107	CHF (355)	CHF 1,151	CHF (973)	CHF 355	CHF 6,534
Dividends	—	—	(594)	—	—	—	—	(594)
Repurchase of common shares	—	—	—	—	—	(256)	—	(256)
Cancellation of treasury shares	(7)	—	—	—	(966)	973	—	—
Transfer of reserves for treasury shares	—	—	—	(40)	—	—	40	—
Net income	—	—	—	—	247	—	—	247
Fiscal year end 2020	CHF 193	CHF 49	CHF 5,513	CHF (395)	CHF 432	CHF (256)	CHF 395	CHF 5,931

TE CONNECTIVITY LTD.
NOTES TO SWISS STATUTORY FINANCIAL STATEMENTS

The following table presents activity related to our equity accounts during fiscal 2020 and 2019 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 2018	\$ 157	\$ 38	\$ 5,809	\$ (562)	\$ 1,407	\$ (572)	\$ 562	\$ 6,839
Dividends	—	—	(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	\$ 154	\$ 38	\$ 5,195	\$ (362)	\$ 1,927	\$ (975)	\$ 362	\$ 6,339
Dividends	—	—	(634)	—	—	—	—	(634)
Repurchase of common shares	—	—	—	—	—	(262)	—	(262)
Cancellation of treasury shares	(5)	—	—	—	(970)	975	—	—
Transfer of reserves for treasury shares	—	—	—	(45)	—	—	45	—
Net income	—	—	—	—	273	—	—	273
Fiscal year end 2020	\$ 149	\$ 38	\$ 4,561	\$ (407)	\$ 1,230	\$ (262)	\$ 407	\$ 5,716

Authorized Share Capital

In March 2020, our shareholders reapproved and extended through March 11, 2022 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. This authorization can be renewed for additional two-year periods upon shareholder approval. As of fiscal year end 2020, 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 2020, no conditional shares had been issued.

TE CONNECTIVITY LTD.
NOTES TO SWISS STATUTORY FINANCIAL STATEMENTS

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

During fiscal 2020 and 2019, 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 2018	6	\$ 572	CHF 561	6	\$ 562	CHF 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	12	\$ 975	CHF 973	4	\$ 362	CHF 355
Repurchases under share repurchase program	3	262	256	3	244	236
Other additions ⁽¹⁾	—	—	—	—	29	28
Reissuances	—	—	—	(2)	(228)	(224)
Shareholder approved cancellations	(12)	(975)	(973)	—	—	—
Common shares held as of fiscal year end 2020	3	\$ 262	CHF 256	5	\$ 407	CHF 395

(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 2020 and fiscal 2019, our shareholders approved the cancellation of 12 million and 6 million shares purchased under our share repurchase program, respectively. These capital reductions by cancellation of shares were 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 our share repurchase program. At fiscal year end 2020, we had CHF 924 million (equivalent to \$995 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 2020 and 2019, reserves from capital contributions were as follows:

	Fiscal Year End 2020		Fiscal Year End 2019	
	U.S. dollars	Swiss francs	U.S. dollars	Swiss francs
			(in millions)	
Reserves from capital contributions	\$ 4,561	CHF 5,513	\$ 5,195	CHF 6,107

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 \$1.88 and \$1.80 per share in fiscal 2020 and 2019, 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.

TE CONNECTIVITY LTD.
NOTES TO SWISS STATUTORY FINANCIAL STATEMENTS

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 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
March 2020	\$1.92, payable in four quarterly installments of \$0.48	Third quarter of fiscal 2020 Fourth quarter of fiscal 2020 First quarter of fiscal 2021 Second quarter of fiscal 2021

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.

TE CONNECTIVITY LTD.
NOTES TO SWISS STATUTORY FINANCIAL STATEMENTS

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 2020 and 2019 by each member of our board of directors serving on our board at fiscal year end 2020. 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>Years</u>	<u>Shares Held</u>	<u>Options Held</u>	<u>Options Exercise Price⁽¹⁾</u>	<u>Fiscal Years of Expiration</u>	<u>RSUs Held</u>	<u>PSUs Held⁽²⁾</u>
Board of Directors:							
Pierre R. Brondeau	2020	36,694	—	—	—	—	—
	2019	35,203	—	—	—	—	—
Carol A. ("John") Davidson	2020	11,864	—	—	—	—	—
	2019	10,373	—	—	—	—	—
Lynn A. Dugle ⁽³⁾	2020	942	—	—	—	—	—
William A. Jeffrey	2020	17,993	—	—	—	—	—
	2019	16,502	—	—	—	—	—
David M. Kerko ⁽⁴⁾	2020	2,473	—	—	—	—	—
	2019	982	—	—	—	—	—
Thomas J. Lynch ⁽⁵⁾	2020	191,302	479,650	\$65.95-\$93.36	2026-2028	—	8,809
	2019	202,248	479,650	\$65.95-\$93.36	2026-2028	—	40,095
Yong Nam	2020	17,668	—	—	—	—	—
	2019	16,278	—	—	—	—	—
Daniel J. Phelan	2020	32,313	—	—	—	—	—
	2019	30,149	—	—	—	—	—
Abhijit Y. Talwalkar	2020	7,358	—	—	—	—	—
	2019	5,867	—	—	—	—	—
Mark C. Trudeau	2020	8,264	—	—	—	—	—
	2019	6,773	—	—	—	—	—
Dawn C. Willoughby ⁽³⁾	2020	942	—	—	—	—	—
Laura H. Wright	2020	12,216	—	—	—	—	—
	2019	10,725	—	—	—	—	—

- (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) The performance share unit ("PSU") amounts in the table above assume achievement of target level of performance including target dividend equivalent units through September 25, 2020 and September 27, 2019, 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 13, 2017 when he was serving as an executive officer of the Company.
- (3) Ms. Dugle and Ms. Willoughby were each elected to our board of directors on March 11, 2020.
- (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 25, 2020 include 15,000 shares held in a charitable trust and 38,575 shares held in a grantor retained annuity trust. 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.

TE CONNECTIVITY LTD.
NOTES TO SWISS STATUTORY FINANCIAL STATEMENTS

Executive Management

The following table sets forth the shares, options and share units held as of fiscal year end 2020 and 2019 by each member of our executive management serving in such position as of fiscal year end 2020.

	<u>Years</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>
Executive Management:							
Terrence R. Curtin ⁽⁴⁾	2020	94,969	1,273,750	\$51.61-\$93.63	2024-2030	—	132,940
	2019	84,969	991,650	\$51.61-\$93.36	2024-2029	—	139,586
John S. Jenkins, Jr.	2020	29,254	251,800	\$65.95-\$93.63	2026-2030	4,351	25,853
	2019	28,329	201,400	\$65.95-\$93.36	2026-2029	6,454	29,009
Shad W. Kroeger ⁽⁵⁾	2020	9,541	181,750	\$51.61-\$93.63	2024-2030	—	21,943
	2019	6,504	134,750	\$51.61-\$93.36	2024-2029	—	17,745
Steven T. Merkt	2020	34,520	376,150	\$65.95-\$93.63	2026-2030	—	40,662
	2019	32,192	300,600	\$65.95-\$93.36	2026-2029	—	45,347
Heath A. Mitts	2020	23,990	312,250	\$66.74-\$93.63	2027-2030	—	42,600
	2019	13,219	229,950	\$66.74-\$93.36	2027-2029	20,324	44,500
Timothy J. Murphy	2020	18,141	165,700	\$34.05-\$93.63	2023-2030	—	16,090
	2019	12,622	132,950	\$34.05-\$93.36	2023-2029	—	17,231
Kevin N. Rock ⁽⁶⁾	2020	90,156	129,700	\$65.95-\$93.36	2025-2028	13,728	6,463
	2019	68,854	190,500	\$34.05-\$93.36	2023-2028	24,949	15,556

- (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 25, 2020 and September 27, 2019, 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 13, 2017, November 12, 2018 and November 11, 2019.
- (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. Mr. Rock ceased being a member of executive management on October 1, 2020.

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

TE CONNECTIVITY LTD.
NOTES TO SWISS STATUTORY FINANCIAL STATEMENTS

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 2020.

Name and Address of Beneficial Owner	Number of Shares	Percentage of Class
Dodge & Cox ⁽¹⁾ 555 California Street, 40th Floor San Francisco, CA 94104	33,003,938	10.0 %
The Vanguard Group ⁽²⁾ 100 Vanguard Blvd. Malvern, PA 19355	25,642,233	7.6 %
Harris Associates L.P. ⁽³⁾ 111 S. Wacker Drive, Suite 4600 Chicago, IL 60606	19,936,650	6.0 %

- (1) This information is based on a Schedule 13G/A filed with the SEC on July 9, 2020 by Dodge & Cox, which reported sole voting power and sole dispositive power as follows: sole voting power—31,887,277 and sole dispositive power—33,003,938.
- (2) This information is based on a Schedule 13G/A filed with the SEC on February 12, 2020 by The Vanguard Group, which reported sole voting power, sole dispositive power and shared dispositive power as follows: sole voting power—433,273, shared voting power—119,616, sole dispositive power—25,119,735, and shared dispositive power—522,498.
- (3) This information is based on a Schedule 13G/A filed with the SEC on February 14, 2020 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—17,483,821 and sole dispositive power—19,936,650. 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.

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 2020:

Entity Name	Jurisdiction	Direct or Indirect Holding ⁽¹⁾	Nominal Capital (in millions)	Purpose ⁽²⁾
Tyco Electronics Group S.A.	Luxembourg	Direct	\$ 1	F
TE Connectivity Corporation	United States	Indirect	\$ —	M
TE Connectivity Germany GmbH	Germany	Indirect	EUR —	M
TE Connectivity HK Limited.	Hong Kong	Indirect	HKD 6,128	S
TE Connectivity Holding International II S.a r.l.	Luxembourg	Indirect	\$ —	F
TE Connectivity Investments Holding S.a r.l.	Luxembourg	Indirect	\$ 1,101	F
TE Connectivity Solutions GmbH	Switzerland	Indirect	CHF —	S
Tyco Electronics (Shanghai) Co., Ltd.	China	Indirect	CNY —	M
Tyco Electronics AMP Korea Co., Ltd.	South Korea	Indirect	KRW 100,000	M
Tyco Electronics Japan G.K.	Japan	Indirect	JPY —	M
Tyco Electronics Singapore Pte Ltd.	Singapore	Indirect	SGD 237	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.

TE CONNECTIVITY LTD.
NOTES TO SWISS STATUTORY FINANCIAL STATEMENTS

During fiscal 2020, we sold our investment in Tyco Electronics Holdings (Bermuda) No. 7 Limited to another wholly-owned indirect subsidiary, recording a gain of CHF 22 million (equivalent to \$23 million). Also during fiscal 2020, as a result of a series of intercompany transactions, our indirect subsidiary Tyco Electronics Finance Alpha GmbH ceased to be significant. Both entities have been removed from the current year table.

During fiscal 2020 and 2019, subsidiaries distributed CHF 378 million (equivalent to \$410 million) and CHF 1,254 million (equivalent to \$1,260 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 10, 2020, 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 432 million as included in our balance sheet as of September 25, 2020.

**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 25, 2020, 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 25, 2020 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 10, 2020

TE CONNECTIVITY LTD.
INDEX TO SWISS STATUTORY COMPENSATION REPORT

	<u>Page</u>
<u>General</u>	<u>104</u>
<u>Compensation of the Board of Directors</u>	<u>104</u>
<u>Compensation of Executive Management</u>	<u>107</u>
<u>Report of the Statutory Auditor on the Swiss Statutory Compensation Report of TE Connectivity Ltd.</u>	<u>109</u>

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 2020 consisted of Terrence Curtin, Chief Executive Officer; John Jenkins, Jr., Executive Vice President and General Counsel; Shadrak Kroeger, President, Industrial Solutions (formerly President, Communications Solutions during fiscal 2020); 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, former President, Industrial Solutions; and Joan Wainwright, former President, Channel and Customer Experience. Thomas Lynch, former Executive Chairman who during fiscal 2020 and 2019 continued to receive dividend equivalent units on equity awards granted to him as a member of Executive Management is included in this report. Mr. Rock retired as the President, Industrial Solutions on October 1, 2020. Ms. Wainwright retired as President, Channel and Customer Experience on December 20, 2019. Both Mr. Rock and Ms. Wainwright ceased to be members of Executive Management on their respective retirement dates. 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 for fiscal 2019 but is not included for fiscal 2020.

The following sets forth, for the fiscal years ended September 25, 2020 and September 27, 2019, 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 2021 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 2020 and 2019 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 the Company’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 TE Connectivity employees or employees of our subsidiaries do not receive any compensation for their services as directors.

Mr. Curtin, who is a director and our Chief Executive Officer, does not receive any compensation for serving on the Board of 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 2020 and 2019.

Table 1

Name	Fiscal Year	Fees Earned or Paid in Cash (\$) ⁽¹⁾	Stock Awards (\$) ⁽²⁾	Dividend Equivalent Units and Other Compensation (\$) ⁽³⁾	Total (\$) ⁽⁶⁾
Pierre R. Brondeau	2020	\$145,000	\$186,136	\$—	\$331,136
	2019	\$145,000	\$182,527	\$—	\$327,527
Carol A. (John) Davidson	2020	\$108,750	\$186,136	\$—	\$294,886
	2019	\$100,000	\$182,527	\$10,000	\$292,527
Lynn A. Dugle ⁽⁴⁾	2020	\$58,333	\$84,906	\$—	\$143,239
William A. Jeffrey	2020	\$100,000	\$186,136	\$—	\$286,136
	2019	\$100,000	\$182,527	\$—	\$282,527
David M. Kerko	2020	\$100,000	\$186,136	\$—	\$286,136
	2019	\$58,333	\$109,110	\$—	\$167,443
Thomas J. Lynch	2020	\$260,000	\$186,136	\$10,000	\$456,136
	2019	\$260,000	\$182,527	\$10,000	\$452,527
Yong Nam	2020	\$90,000	\$186,136	\$—	\$276,136
	2019	\$90,000	\$182,527	\$—	\$272,527
Daniel J. Phelan	2020	\$110,000	\$186,136	\$8,000	\$304,136
	2019	\$110,000	\$182,527	\$15,416	\$307,943
Paula A. Sneed ⁽⁵⁾	2020	\$37,500	\$93,068	\$7,500	\$138,068
	2019	\$90,000	\$182,527	\$5,000	\$277,527
Abhijit Y. Talwalkar	2020	\$90,000	\$186,136	\$10,000	\$286,136
	2019	\$94,167	\$182,527	\$10,000	\$286,694
Mark C. Trudeau	2020	\$90,000	\$186,136	\$—	\$276,136
	2019	\$94,167	\$182,527	\$—	\$276,694
John Van Scoter ⁽⁷⁾	2019	\$37,500	\$91,225	\$—	\$128,725
Dawn C. Willoughby ⁽⁴⁾	2020	\$52,500	\$84,906	\$10,000	\$147,406
Laura H. Wright	2020	\$106,250	\$186,136	\$10,000	\$302,386
	2019	\$115,000	\$182,527	\$10,000	\$307,527

(1) The amounts shown represent the amount of cash compensation earned in fiscal 2020 and 2019 for Board and committee services. For fiscal 2020 and 2019, Mr. Lynch received additional fees for serving the full year as Non-Executive Chairman. Dr. Brondeau received additional fees for his work as Lead Independent Director for fiscal 2020 and 2019. Dr. Brondeau and Mr. Phelan each received additional fees for their role as chairs of the nominating, governance and compliance committee and the management development and compensation committee, respectively for fiscal 2020 and 2019. Ms. Wright received additional fees for her role as chair of the audit committee for part of fiscal 2020 and as an audit committee member for the remainder of fiscal 2020 and as chair for all of fiscal 2019. Mr. Davidson received an additional cash retainer for serving as chair of the audit committee for part of fiscal 2020 and as an audit committee member for the remainder of fiscal 2020 and all of fiscal 2019. Mr. Kerko received an

additional cash retainer for serving on the audit committee for fiscal 2020 and part of fiscal 2019. Ms. Dugle received additional fees for serving on the audit committee for part of fiscal 2020. For fiscal 2019, Messrs. Talwalkar and Trudeau each received an additional cash retainer for serving on the audit committee for part of the fiscal year. Dr. Jeffrey received an additional fee for his role on the Science Advisory board for fiscal 2020 and 2019.

- (2) On November 11, 2019, Dr. Brondeau, Mr. Davidson, Dr. Jeffrey, Mr. Kerko, Mr. Lynch, Mr. Nam, Mr. Phelan, Mr. Talwalkar, Mr. Trudeau, and Ms. Wright each received a grant of 1,988 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 (\$93.05 per share), the same methodology used to determine employee equity awards. The grant date fair value of these awards, as shown above for fiscal year 2020, was calculated by using the closing price of TE Connectivity Ltd. common shares on the date of grant (\$93.63 per share). 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). As of September 25, 2020, Mr. Lynch held options to purchase 279,800 shares at an exercise price of \$65.95, 156,150 shares at an exercise price of \$66.74, and 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. PSUs granted on November 13, 2017 vested on December 9, 2020 and Mr. Lynch received 5,306 equity shares relating to the PSU award. 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 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 2020 and 2019, Mr. Lynch received dividend equivalent units on PSU awards granted to him while serving as a member of Executive Management; the value of the dividend equivalent units, \$30,799 and \$98,689 for fiscal 2020 and 2019, respectively, is not included in this Table 1 but is included in Table 2 below.
- (4) On March 11, 2020, Ms. Dugle and Willoughby were elected to our Board of Directors and received a grant of 1,256 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 (\$85.97 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 (\$67.60 per share). Cash compensation for Ms. Dugle and Willoughby was pro-rated for their service during fiscal 2020.
- (5) Ms. Sneed retired from the board effective March 11, 2020. On November 11, 2019, Ms. Sneed received 994 common shares. The number of common shares issued to Ms. Sneed was determined in the same manner applied to all grants on November 11, 2019 and reflects a pro-ration of her service during fiscal 2020. Cash compensation for Ms. Sneed was also pro-rated for her service during fiscal 2020.
- (6) The Company has not made any loans or extended credit to any current or former member of the Board of Directors.
- (7) Mr. Van Scoter retired from the board effective March 13, 2019.

C. Compensation of Executive Management

The following table presents information concerning Executive Management's fiscal 2020 and 2019 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 R. Curtin, Chief Executive Officer	2020	\$1,200,000	\$—	\$4,226,458	\$4,378,192	\$343,800	\$—	\$420,775	\$10,569,225
	2019	\$1,186,539	\$—	\$3,576,189	\$3,462,244	\$579,600	\$—	\$487,264	\$9,291,836
All Other Executive Management ^{(1) (2)}	2020	\$3,535,501	\$—	\$4,313,534	\$4,469,760	\$1,129,981	\$85,651	\$698,543	\$14,232,970
	2019	\$3,870,754	\$—	\$5,372,736	\$3,987,960	\$1,711,885	\$69,192	\$1,591,762	\$16,604,289

- (1) For fiscal 2020, 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 is also included as he continues to receive compensation for fiscal 2020.
- (2) 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. Compensation for Mr. Lynch and Mr. O'Toole were also reported as they continued to receive compensation for fiscal 2019.
- (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 2020 and 2019 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) (\$)	Dollar Value of Dividends not factored into Grant Date Fair Value ^(b) (\$)	Company Contributions to DC plans ^(c) (\$)	Employee Stock Purchase Plan ("ESPP") Company Match ^(d) (\$)	Payment for unused vacation/ personal time and Settlement of Equity Award ^(e) (\$)	Total All Other Compensation (\$)
Terrence R. Curtin.	2020	\$42,253	\$271,746	\$106,776	\$—	\$—	\$420,775
	2019	\$26,634	\$259,545	\$201,085	\$—	\$—	\$487,264
All Other Executive Management	2020	\$1,266	\$431,959	\$263,368	\$1,950	\$—	\$698,543
	2019	\$11,344	\$605,658	\$472,810	\$1,950	\$500,000	\$1,591,762

- (a) Perquisites consist of the following:

Amounts for Mr. Curtin in fiscal 2020 and 2019 include 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 for Mr. Curtin in fiscal 2019 also include a payment by the Company of a penalty assessed by the Internal Revenue Service and a 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.

Amounts for All Other Executive Management include various miscellaneous fees and expenses and personal tax preparation assistance pertaining to an expatriate assignment for one executive in fiscal 2020 and 2019. 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: \$1.07—\$1.19: EUR 1 in fiscal 2020 and euros to U.S. dollars: \$1.11—\$1.15: EUR 1 in fiscal 2019.

- (b) 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.
- (c) Contributions made on behalf of Executive Management under TE Connectivity's qualified defined contribution plan and accruals on behalf of Executive Management under the SSRP (a nonqualified defined contribution excess plan).

Name	Year	Company Matching Contribution (Qualified Plan) ^(*)	Company Contribution (Non-Qualified Plan)
Terrence R. Curtin	2020	\$17,100	\$89,676
	2019	\$16,800	\$184,285
All Other Executive Management	2020	\$77,670	\$185,698
	2019	\$100,694	\$372,116

(*) Included in the amount above is an additional matching contribution in fiscal 2020 and 2019 for one executive as a result of a frozen defined benefit plan.

- (d) For fiscal 2020 and 2019, the Company made matching contributions under the TE Connectivity employee stock purchase plan for one executive.
- (e) For fiscal 2019, the amount includes cash settlement of previously issued retention equity awards to a former member of Executive Management.

**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 25, 2020.

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 25, 2020 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 15, 2020

BOARD OF DIRECTORS

Thomas J. Lynch
Non-Executive Chairman,
TE Connectivity Ltd.

Dr. Pierre R. Brondeau*
Executive Chairman,
FMC Corporation

Terrence R. Curtin
Director and
Chief Executive Officer,
TE Connectivity Ltd.

Carol A. "John" Davidson
Retired Senior Vice President,
Controller and Chief Accounting
Officer,
Tyco International Ltd.

Lynn A. Dugle
Former CEO and President,
Engility Holdings, Inc.

Dr. William A. Jeffrey
Chief Executive Officer,
SRI International

David M. Kerko
Former Member and Advisor,
KKR & Co., L.P.

Yong Nam
Former Chief Executive Officer,
LG Electronics Inc.

Daniel J. Phelan
Retired Chief of Staff,
GlaxoSmithKline plc

Abhijit Y. Talwalkar
Former President and
Chief Executive Officer,
LSI Corporation

Mark C. Trudeau
President and
Chief Executive Officer,
Mallinckrodt plc

Dawn C. Willoughby
Former Executive Vice President
and COO,
The Clorox Company

Laura H. Wright
Retired Chief Financial Officer,
Southwest Airlines Co.

**Lead Independent Director of the
TE Connectivity Ltd. Board of Directors*

LEADERSHIP TEAM AND OFFICERS

Terrence R. Curtin
Chief Executive Officer
and Director

Claudia Anderson
Vice President,
Chief Continuous
Improvement Officer

Mario Calastri
Senior Vice President,
Treasurer

Joel Dubs
Senior Vice President,
Operations

Joseph F. Eckroth, Jr.
Senior Vice President,
Chief Information Officer

Phil Gilchrist
Vice President and
Chief Technology Officer,
Communications Solutions

Kari Janavitz
Vice President,
Chief Marketing Officer

John S. Jenkins, Jr.
Executive Vice President,
General Counsel

Arvind Kaushal
Senior Vice President,
Chief Strategy Officer

Shad W. Kroeger
President,
Industrial Solutions

Karen Leggio
Senior Vice President,
GM Channel

Jimmy McDonald
Vice President,
Chief Supply Chain Officer

Steven T. Merkt
President,
Transportation Solutions

Heath A. Mitts
Executive Vice President,
Chief Financial Officer

Timothy J. Murphy
Senior Vice President,
Chief Human Resources Officer

Robert J. Ott
Senior Vice President,
Corporate Controller

Jeanne Quirk
Senior Vice President,
Mergers and Acquisitions

Eric J. Resch
Senior Vice President,
Chief Tax Officer

Aaron K. Stucki
President, Communications
Solutions

