TE Connectivity Ltd.
Form 10-Q
April 26, 2017

Use these links to rapidly review the document
Table of Contents

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended March 31, 2017

Or

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

001-33260
(Commission File Number)

TE CONNECTIVITY LTD.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

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

The number of common shares outstanding as of April 21, 2017 was 355,027,307.

Table of Contents

TE CONNECTIVITY LTD.
INDEX TO FORM 10-Q

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

TE CONNECTIVITY LTD.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	For the Quarters Ended March 31, 2017	For the Quarters Ended March 25, 2016	For the Six Months Ended March 31, 2017	For the Six Months Ended March 25, 2016
	(in millions, except per share data)			
Net sales	$ 3,227	$ 2,952	$ 6,290	$ 5,785
Cost of sales	2,119	1,990	4,117	3,878
Gross margin	1,108	962	2,173	1,907
Selling, general, and administrative expenses	412	367	784	707
Research, development, and engineering expenses	162	156	320	318
Acquisition and integration costs	2	3	4	8
Restructuring and other charges (credits), net	59	(99)	106	(59)
Operating income	473	535	959	933
Interest income	6	4	11	10
Interest expense	(32)	(32)	(63)	(62)
Other income (expense), net	(2)	12	(2)	20
Income from continuing operations before income taxes	445	519	905	901
Income tax expense	(39)	(130)	(93)	(188)
Income from continuing operations	406	389	812	713
Income (loss) from discontinued operations, net of income taxes	(1)	(9)	2	20
Net income	$ 405	$ 380	$ 814	$ 733
Basic earnings per share:				
Income from continuing operations	$ 1.14	$ 1.07	$ 2.28	$ 1.90
Income (loss) from discontinued operations		(0.02)	0.01	0.05
Net income	1.14	1.04	2.29	1.95
Diluted earnings per share:				
Income from continuing operations	$ 1.13	$ 1.06	$ 2.26	$ 1.88
Income (loss) from discontinued operations		(0.02)	0.01	0.05
Net income	1.13	1.03	2.27	1.93
Dividends paid per common share	$ 0.37	$ 0.33	$ 0.74	$ 0.66
Weighted-average number of shares outstanding:				
Basic	356	364	356	375

Diluted	359	368	359	379

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

TE CONNECTIVITY LTD.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

	For the Quarters Ended		For the Six Months Ended	
	March 31, 2017	March 25, 2016	March 31, 2017	March 25, 2016
		(in millions)		
Net income.	$ 405	$ 380	$ 814	$ 733
Other comprehensive income (loss):				
Currency translation	83	(7)	(102)	(92)
Adjustments to unrecognized pension and postretirement benefit costs, net of income taxes	12	12	25	14
Gains on cash flow hedges, net of income taxes	19	9	35	2
Other comprehensive income (loss)	114	14	(42)	(76)
Comprehensive income.	$ 519	$ 394	$ 772	$ 657

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

TE CONNECTIVITY LTD.

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

	March 31, 2017	September 30, 2016
	(in millions, except share data)	
Assets		
Current assets:		
Cash and cash equivalents	$ 773	$ 647
Accounts receivable, net of allowance for doubtful accounts of $18 and $17, respectively	2,244	2,046
Inventories	1,660	1,596
Prepaid expenses and other current assets	469	486
Total current assets	5,146	4,775
Property, plant, and equipment, net	3,046	3,052
Goodwill	5,382	5,492
Intangible assets, net	1,768	1,879
Deferred income taxes	2,280	2,111
Other assets	434	299
Total Assets	$ 18,056	$ 17,608
Liabilities and Shareholders' Equity		
Current liabilities:		
Short-term debt	$ 879	$ 331
Accounts payable	1,226	1,090
Accrued and other current liabilities	1,701	1,437
Deferred revenue	129	208
Total current liabilities	3,935	3,066
Long-term debt	3,073	3,739
Long-term pension and postretirement liabilities	1,474	1,502
Deferred income taxes	197	207
Income taxes	276	247
Other liabilities	348	362
Total Liabilities	9,303	9,123
Commitments and contingencies (Note 7)		
Shareholders' equity:		
Common shares, CHF 0.57 par value, 382,835,381 shares authorized and issued	168	168
Contributed surplus	1,147	1,801
Accumulated earnings	9,661	8,682
Treasury shares, at cost, 27,525,920 and 27,554,005 shares, respectively	(1,639)	(1,624)
Accumulated other comprehensive loss	(584)	(542)
Total Shareholders' Equity	8,753	8,485
Total Liabilities and Shareholders' Equity	$ 18,056	$ 17,608

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

TE CONNECTIVITY LTD.

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(UNAUDITED)

	Common Shares		Treasury Shares				Accumulated Other	Total
	Shares	Amount	Shares	Amount	Contributed Surplus	Accumulated Earnings	Comprehensive Loss	Shareholders' Equity
					(in millions)			
Balance at September 30, 2016	383	$ 168	(28)	$ (1,624)	$ 1,801	$ 8,682	$ (542)	$ 8,485
Adoption of ASU No. 2016-09						165		165
Net income						814		814
Other comprehensive loss							(42)	(42)
Share-based compensation expense					47			47
Dividends approved					(569)			(569)
Exercise of share options			2	64				64
Restricted share award vestings and other activity			1	126	(132)			(6)
Repurchase of common shares			(3)	(205)				(205)
Balance at March 31, 2017	383	$ 168	(28)	$ (1,639)	$ 1,147	$ 9,661	$ (584)	$ 8,753
Balance at September 25, 2015	414	$ 182	(20)	$ (1,256)	$ 4,359	$ 6,673	$ (373)	$ 9,585
Net income						733		733
Other comprehensive loss							(76)	(76)
Share-based compensation expense					44			44
Dividends approved					(514)			(514)
Exercise of share options			2	61				61
Restricted share award vestings and other activity			1	112	(124)			(12)
Repurchase of common shares			(40)	(2,415)				(2,415)
Balance at March 25, 2016	414	$ 182	(57)	$ (3,498)	$ 3,765	$ 7,406	$ (449)	$ 7,406

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

TE CONNECTIVITY LTD.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	For the Six Months Ended March 31, 2017	For the Six Months Ended March 25, 2016
	(in millions)	
Cash Flows From Operating Activities:		
Net income	$ 814	$ 733
Income from discontinued operations, net of income taxes	(2)	(20)
Income from continuing operations	812	713
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	312	290
Deferred income taxes	(118)	(52)
Provision for losses on accounts receivable and inventories	9	23
Share-based compensation expense	47	43
Gain on divestiture		(146)
Other	12	43
Changes in assets and liabilities, net of the effects of acquisitions and divestitures:		
Accounts receivable, net	(215)	9
Inventories	(69)	(61)
Prepaid expenses and other current assets	32	302
Accounts payable	148	(16)
Accrued and other current liabilities	13	(138)
Deferred revenue	(83)	(70)
Income taxes	33	(396)
Other	(8)	3
Net cash provided by continuing operating activities	925	547
Net cash used in discontinued operating activities		(2)
Net cash provided by operating activities	925	545
Cash Flows From Investing Activities:		
Capital expenditures	(289)	(270)
Proceeds from sale of property, plant, and equipment	8	1
Acquisition of business, net of cash acquired		(6)
Proceeds from divestiture of business, net of cash retained by business sold		261
Other	(16)	29
Net cash provided by (used in) investing activities	(297)	15
Cash Flows From Financing Activities:		
Net increase (decrease) in commercial paper	(162)	150
Proceeds from issuance of debt	89	350
Repayment of debt		(500)
Proceeds from exercise of share options	64	61
Repurchase of common shares	(198)	(2,523)
Payment of common share dividends to shareholders	(263)	(245)
Other	(22)	(32)

Net cash used in continuing financing activities	(492)	(2,739)
Net cash provided by discontinued financing activities		2
Net cash used in financing activities	(492)	(2,737)
Effect of currency translation on cash	(10)	(2)
Net increase (decrease) in cash and cash equivalents	126	(2,179)
Cash and cash equivalents at beginning of period	647	3,329
Cash and cash equivalents at end of period	$ 773	$ 1,150

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Basis of Presentation and Accounting Pronouncements

Basis of Presentation

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

The year-end balance sheet data was derived from audited financial statements, but does not include all of the information and disclosures required by GAAP. These financial statements should be read in conjunction with our audited Consolidated Financial Statements contained in our Annual Report on Form 10-K for the fiscal year ended September 30, 2016.

Unless otherwise indicated, references in the Condensed Consolidated Financial Statements to fiscal 2017 and fiscal 2016 are to our fiscal years ending September 29, 2017 and September 30, 2016, respectively.

Recently Issued Accounting Pronouncement

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09 which created new Accounting Standards Codification ("ASC") topic 606, *Revenue from Contracts with Customers*. This guidance supersedes ASC 605, *Revenue Recognition*, and introduces a single, comprehensive, five-step revenue recognition model. ASC 606 also enhances disclosures related to revenue recognition. ASC 606, as amended, is effective for us in the first quarter of fiscal 2019 and allows for either a full retrospective or a modified retrospective approach at adoption. We have not yet selected a transition approach and are continuing to assess the impact of adopting ASC 606. Based on the initial evaluation of our current contracts and revenue streams, we do not expect adoption will have a material impact on our results of operations or financial position. We believe we are following an appropriate timeline to allow for the proper recognition, reporting, and disclosure of revenue upon adoption of ASC 606 at the beginning of fiscal 2019.

Recently Adopted Accounting Pronouncement

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

Table of Contents

TE CONNECTIVITY LTD.

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

2. Restructuring and Other Charges (Credits), Net

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

	For the Quarters Ended		For the Six Months Ended	
	March 31, 2017	March 25, 2016	March 31, 2017	March 25, 2016
	(in millions)			
Restructuring charges, net	$ 59	$ 26	$ 105	$ 61
Gain on divestiture		(146)		(146)
Other charges		21	1	26
	$ 59	$ (99)	$ 106	$ (59)

Restructuring Charges, Net

Net restructuring charges by segment were as follows:

	For the Quarters Ended		For the Six Months Ended	
	March 31, 2017	March 25, 2016	March 31, 2017	March 25, 2016
	(in millions)			
Transportation Solutions	$ 33	$ 4	$ 57	$ 19
Industrial Solutions	19	14	39	23
Communications Solutions	7	8	9	19
Restructuring charges, net	$ 59	$ 26	$ 105	$ 61

Table of Contents

TE CONNECTIVITY LTD.

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

2. Restructuring and Other Charges (Credits), Net (Continued)

Activity in our restructuring reserves during the six months ended March 31, 2017 is summarized as follows:

	Balance at September 30, 2016	Charges	Changes in Estimates	Cash Payments	Non-Cash Items	Currency Translation	Balance at March 31, 2017
				(in millions)			
Fiscal 2017 Actions:							
Employee severance	$	$ 94	$	$ (11)	$	$	$ 83
Property, plant, and equipment		6			(6)		
Total		100		(11)	(6)		83
Fiscal 2016 Actions:							
Employee severance	54	8		(21)		(1)	40
Facility and other exit costs		1		(1)			
Total	54	9		(22)		(1)	40
Pre-Fiscal 2016 Actions:							
Employee severance	25		(4)	(5)		(1)	15
Facility and other exit costs	12			(2)			10
Total	37		(4)	(7)		(1)	25
Total Activity	$ 91	$ 109	$ (4)	$ (40)	$ (6)	$ (2)	$ 148

Fiscal 2017 Actions

During fiscal 2017, we initiated a restructuring program associated with headcount reductions impacting all segments and product line closures primarily impacting the Transportation Solutions and Industrial Solutions segments. In connection with this program, during the six months ended March 31, 2017, we recorded restructuring charges of $100 million. We expect to complete all restructuring actions commenced during the six months ended March 31, 2017 by the end of fiscal 2018 and to incur total charges of approximately $120 million with remaining charges primarily related to employee severance.

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

	Total Expected Charges	Cumulative Charges Incurred	Remaining Expected Charges
		(in millions)	
Transportation Solutions	$ 60	$ 55	$ 5
Industrial Solutions	52	38	14
Communications Solutions	8	7	1

Total	$ 120	$ 100	$ 20

TE CONNECTIVITY LTD.

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

2. Restructuring and Other Charges (Credits), Net (Continued)

Fiscal 2016 Actions

During fiscal 2016, we initiated a restructuring program associated with headcount reductions impacting all segments and product line closures in the Communications Solutions segment. In connection with this program, during the six months ended March 31, 2017 and March 25, 2016, we recorded restructuring charges of $9 million and $60 million, respectively. We expect to complete all restructuring actions commenced during fiscal 2016 by the end of fiscal 2019 and to incur total charges of approximately $168 million with remaining charges related primarily to employee severance.

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

	Total Expected Charges	Cumulative Charges Incurred	Remaining Expected Charges
		(in millions)	
Transportation Solutions	$ 44	$ 41	$ 3
Industrial Solutions	30	29	1
Communications Solutions	94	69	25
Total	$ 168	$ 139	$ 29

Pre-Fiscal 2016 Actions

Prior to fiscal 2016, we initiated a restructuring program associated with headcount reductions and product line closures, primarily impacting the Communications Solutions and Industrial Solutions segments. During the six months ended March 31, 2017 and March 25, 2016, we recorded restructuring credits of $4 million and charges of $1 million, respectively, related to pre-fiscal 2016 actions. We do not expect to incur any additional charges related to pre-fiscal 2016 actions.

Total Restructuring Reserves

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

	March 31, 2017	September 30, 2016
	(in millions)	
Accrued and other current liabilities	$ 123	$ 64
Other liabilities	25	27
Restructuring reserves	$ 148	$ 91

Gain on Divestiture

During the quarter ended March 25, 2016, we sold our Circuit Protection Devices ("CPD") business for $350 million, subject to working capital adjustments, of which we received $261 million during the quarter ended March 25, 2016. We recognized a pre-tax gain of $146 million on the transaction. The CPD business was reported in our Communications Solutions segment.

Table of Contents

TE CONNECTIVITY LTD.

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

2. Restructuring and Other Charges (Credits), Net (Continued)

Other Charges, Net

During the six months ended March 25, 2016, we incurred charges of $15 million related to the write-off of certain investments and costs of $11 million associated with the divestiture of certain businesses.

3. Inventories

Inventories consisted of the following:

	March 31, 2017	September 30, 2016
	(in millions)	
Raw materials	$ 265	$ 241
Work in progress	524	504
Finished goods	738	669
Inventoried costs on long-term contracts	133	182
Inventories	$ 1,660	$ 1,596

4. Goodwill

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

	Transportation Solutions	Industrial Solutions	Communications Solutions	Total
		(in millions)		
September 30, 2016[1]	$ 1,903	$ 3,005	$ 584	$ 5,492
Currency translation and other[2]	(22)	(82)	(6)	(110)
March 31, 2017[1]	$ 1,881	$ 2,923	$ 578	$ 5,382

(1) At March 31, 2017 and September 30, 2016, accumulated impairment losses for the Transportation Solutions, Industrial Solutions, and Communications Solutions segments were $2,191 million, $669 million, and $1,514 million, respectively.

(2) Includes a reduction of goodwill of $36 million associated with adjustments made to the purchase price allocation of certain fiscal 2016 acquisitions primarily within the Industrial Solutions segment.

Table of Contents

TE CONNECTIVITY LTD.

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

5. Intangible Assets, Net

Intangible assets consisted of the following:

	March 31, 2017			September 30, 2016		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	(in millions)					
Customer relationships	$ 1,309	$ (251)	$ 1,058	$ 1,332	$ (212)	$ 1,120
Intellectual property	1,281	(592)	689	1,300	(563)	737
Other	36	(15)	21	36	(14)	22
Total	$ 2,626	$ (858)	$ 1,768	$ 2,668	$ (789)	$ 1,879

Intangible asset amortization expense was $41 million and $34 million for the quarters ended March 31, 2017 and March 25, 2016, respectively, and $83 million and $68 million for the six months ended March 31, 2017 and March 25, 2016, respectively.

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

	(in millions)
Remainder of fiscal 2017	$ 86
Fiscal 2018	171
Fiscal 2019	169
Fiscal 2020	161
Fiscal 2021	158
Fiscal 2022	157
Thereafter	866
Total	$ 1,768

6. Debt

During the six months ended March 31, 2017, we reclassified $708 million of 6.55% senior notes due 2017 from long-term debt to short-term debt on the Condensed Consolidated Balance Sheet.

As of March 31, 2017, Tyco Electronics Group S.A. ("TEGSA"), our 100%-owned subsidiary, had $168 million of commercial paper outstanding at a weighted-average interest rate of 1.18%. TEGSA had $330 million of commercial paper outstanding at a weighted-average interest rate of 0.69% at September 30, 2016.

The fair value of our debt, based on indicative valuations, was approximately $4,187 million and $4,424 million at March 31, 2017 and September 30, 2016, respectively.

TE CONNECTIVITY LTD.

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

7. Commitments and Contingencies

Legal Proceedings

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

Environmental Matters

We are involved in various stages of investigation and cleanup related to environmental remediation matters at a number of sites. The ultimate cost of site cleanup is difficult to predict given the uncertainties regarding the extent of the required cleanup, the interpretation of applicable laws and regulations, and alternative cleanup methods. As of March 31, 2017, we concluded that it was probable that we would incur remedial costs in the range of $16 million to $42 million, and that the best estimate within this range was $19 million. We believe that any potential payment of such estimated amounts will not have a material adverse effect on our results of operations, financial position, or cash flows.

Guarantees

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

At March 31, 2017, we had outstanding letters of credit, letters of guarantee, and surety bonds of $269 million.

In the normal course of business, we are liable for contract completion and product performance. In the opinion of management, such obligations will not materially affect our results of operations, financial position, or cash flows.

We generally record estimated product warranty costs when contract revenues are recognized under the percentage-of-completion method for construction related contracts; other warranty reserves are not significant. The estimation is based primarily on historical experience and actual warranty claims. Amounts accrued for warranty claims were $47 million and $48 million at March 31, 2017 and September 30, 2016, respectively.

Tax Sharing Agreement

In fiscal 2007, we became an independent, publicly traded company owning the former electronics businesses of Tyco International plc ("Tyco International"). On June 29, 2007, Tyco International

Table of Contents

7. Commitments and Contingencies (Continued)

distributed all of our shares, as well as its shares of its former healthcare businesses ("Covidien"), to its common shareholders (the "separation"). As a result of subsequent transactions, Tyco International and Covidien now operate as part of Johnson Controls International plc and Medtronic plc, respectively.

Upon separation, we entered into a Tax Sharing Agreement, under which we share responsibility for certain of our, Tyco International's, and Covidien's income tax liabilities based on a sharing formula for periods prior to and including June 29, 2007. We, Tyco International, and Covidien share 31%, 27%, and 42%, respectively, of income tax liabilities that arise from adjustments made by tax authorities to our, Tyco International's, and Covidien's income tax returns. Pursuant to the Tax Sharing Agreement, we entered into certain guarantee commitments and indemnifications with Tyco International and Covidien. We have substantially settled all pre-separation U.S. federal income tax matters with the Internal Revenue Service ("IRS"). Certain shared U.S. state and non-U.S. income tax matters remain open. We do not expect these matters will have a material effect on our results of operations, financial position, or cash flows.

8. Financial Instruments

We hedge our net investment in certain foreign operations using intercompany non-derivative financial instruments denominated in the same currencies. The aggregate notional value of these hedges was $3,258 million and $3,480 million at March 31, 2017 and September 30, 2016, respectively. The impacts of our hedging program were as follows:

	For the Quarters Ended		For the Six Months Ended	
	March 31, 2017	March 25, 2016	March 31, 2017	March 25, 2016
	(in millions)			
Foreign exchange gains (losses)[1]	$ (78)	$ (54)	$ 144	$ 1

(1) These foreign exchange gains and losses were recorded as currency translation, a component of accumulated other comprehensive loss, offsetting foreign exchange losses and gains attributable to the translation of the net investment.

Table of Contents

TE CONNECTIVITY LTD.

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

9. Retirement Plans

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

	U.S. Plans For the Quarters Ended		Non-U.S. Plans For the Quarters Ended	
	March 31, 2017	March 25, 2016	March 31, 2017	March 25, 2016
	(in millions)			
Service cost	$ 3	$ 2	$ 13	$ 12
Interest cost	11	12	9	14
Expected return on plan assets	(14)	(14)	(17)	(17)
Amortization of net actuarial loss	10	10	10	9
Amortization of prior service credit			(1)	(2)
Net periodic pension benefit cost	$ 10	$ 10	$ 14	$ 16

	U.S. Plans For the Six Months Ended		Non-U.S. Plans For the Six Months Ended	
	March 31, 2017	March 25, 2016	March 31, 2017	March 25, 2016
	(in millions)			
Service cost	$ 6	$ 4	$ 26	$ 24
Interest cost	22	25	18	27
Expected return on plan assets	(27)	(29)	(35)	(35)
Amortization of net actuarial loss	20	20	21	18
Amortization of prior service credit			(3)	(3)
Net periodic pension benefit cost	$ 21	$ 20	$ 27	$ 31

During the six months ended March 31, 2017, we contributed $16 million to our non-U.S. pension plans.

10. Income Taxes

We recorded income tax expense of $39 million and $130 million for the quarters ended March 31, 2017 and March 25, 2016, respectively. The income tax expense for the quarter ended March 31, 2017 included a $24 million income tax benefit resulting from lapses of statutes of limitations in the U.S. and certain non-U.S. jurisdictions, and a $22 million income tax benefit associated with the tax impacts of certain intercompany transactions. The income tax expense for the quarter ended March 25, 2016 included a $42 million income tax charge associated with the gain on the sale of our CPD business.

We recorded income tax expense of $93 million and $188 million for the six months ended March 31, 2017 and March 25, 2016, respectively. The tax expense for the six months ended March 31, 2017 included a $52 million income tax benefit associated with the tax impacts of certain intercompany transactions and the corresponding reduction in the valuation allowance for U.S. tax loss carryforwards, as well as a $24 million income tax benefit resulting from lapses of statutes of limitations in the U.S.

TE CONNECTIVITY LTD.

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

10. Income Taxes (Continued)

and certain non-U.S. jurisdictions. The tax expense for the six months ended March 25, 2016 included a $42 million income tax charge associated with the gain on the sale of our CPD business, partially offset by a $25 million income tax benefit related primarily to deferred tax assets recognized in connection with the sale.

We record accrued interest as well as penalties related to uncertain tax positions as part of income tax expense. As of March 31, 2017 and September 30, 2016, we had $57 million and $54 million, respectively, of accrued interest and penalties related to uncertain tax positions on the Condensed Consolidated Balance Sheets, recorded primarily in income taxes. During the six months ended March 31, 2017, we recognized income tax benefits of $2 million related to interest and penalties on the Condensed Consolidated Statement of Operations.

During the second quarter of fiscal 2016, we made a pre-payment to the IRS of $443 million for tax deficiencies related to pre-separation U.S. tax matters. Concurrent with remitting this payment, we received net reimbursements of $303 million from Tyco International and Covidien pursuant to indemnifications for pre-separation tax matters. As previously reported, we have substantially settled all pre-separation U.S. federal income tax matters with the IRS. See Note 7 for additional for information regarding the Tax Sharing Agreement associated with pre-separation tax matters.

Although it is difficult to predict the timing or results of our worldwide examinations, we estimate that up to approximately $25 million of unrecognized income tax benefits, excluding the impact relating to accrued interest and penalties, could be resolved within the next twelve months.

We are not aware of any other matters that would result in significant changes to the amount of unrecognized income tax benefits reflected on the Condensed Consolidated Balance Sheet as of March 31, 2017.

11. Earnings Per Share

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

	For the Quarters Ended		For the Six Months Ended	
	March 31, 2017	March 25, 2016	March 31, 2017	March 25, 2016
	(in millions)			
Basic	356	364	356	375
Dilutive impact of share-based compensation arrangements	3	4	3	4
Diluted	359	368	359	379

Table of Contents

TE CONNECTIVITY LTD.

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

11. Earnings Per Share (Continued)

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

	For the Quarters Ended		For the Six Months Ended	
	March 31, 2017	March 25, 2016	March 31, 2017	March 25, 2016
	(in millions)			
Antidilutive share options		3	1	3

12. Equity

Common Shares Held in Treasury

In March 2017, our shareholders approved the cancellation of 26 million shares purchased under our share repurchase program during the period from December 11, 2015 to September 30, 2016. The capital reduction by cancellation of these shares is subject to a notice period and filing with the commercial register in Switzerland and is not yet reflected on the Condensed Consolidated Balance Sheet.

Dividends

In March 2017, our shareholders approved a dividend payment to shareholders of $1.60 (equivalent to CHF 1.62) per share, payable in four equal quarterly installments of $0.40 per share beginning in the third quarter of fiscal 2017 through the second quarter of fiscal 2018.

Upon shareholders' approval of a dividend payment, we record a liability with a corresponding charge to shareholders' equity. At March 31, 2017 and September 30, 2016, the unpaid portion of the dividends recorded in accrued and other current liabilities on the Condensed Consolidated Balance Sheets totaled $569 million and $263 million, respectively.

Share Repurchase Program

Common shares repurchased under the share repurchase program were as follows:

	For the Six Months Ended	
	March 31, 2017	March 25, 2016
	(in millions)	
Number of common shares repurchased	3	40
Amount repurchased	$ 205	$ 2,415

At March 31, 2017, we had $897 million of availability remaining under our share repurchase authorization.

Table of Contents

TE CONNECTIVITY LTD.

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

13. Share Plans

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

	For the Quarters Ended		For the Six Months Ended	
	March 31, 2017	March 25, 2016	March 31, 2017	March 25, 2016
	(in millions)			
Share-based compensation expense	$ 23	$ 21	$ 47	$ 43

As of March 31, 2017, there was $172 million of unrecognized compensation expense related to share-based awards, which is expected to be recognized over a weighted-average period of 2.2 years.

During the quarter ended December 30, 2016, we granted the following share-based awards as part of our annual incentive plan grant:

	Shares	Weighted-Average Grant-Date Fair Value
	(in millions)	
Share options	2.1	$ 12.79
Restricted share awards	0.7	66.74
Performance share awards	0.3	66.74

In March 2017, our shareholders approved an increase of 10 million shares in the number of shares available for awards under the TE Connectivity Ltd. 2007 Stock and Incentive Plan, amended and restated as of March 8, 2017 (the "2017 Plan"). As of March 31, 2017, we had 23 million shares available for issuance under our stock and incentive plans, of which the 2017 Plan was the primary plan.

Share-Based Compensation Assumptions

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

Expected share price volatility	24%
Risk free interest rate	1.9%
Expected annual dividend per share	$ 1.48
Expected life of options (in years)	5.6

TE CONNECTIVITY LTD.

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

14. Segment Data

Net sales by segment were as follows:

	For the Quarters Ended		For the Six Months Ended	
	March 31, 2017	March 25, 2016	March 31, 2017	March 25, 2016
	(in millions)			
Transportation Solutions	$ 1,755	$ 1,608	$ 3,430	$ 3,115
Industrial Solutions	853	738	1,648	1,447
Communications Solutions	619	606	1,212	1,223
Total[1]	$ 3,227	$ 2,952	$ 6,290	$ 5,785

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

Operating income by segment was as follows:

	For the Quarters Ended		For the Six Months Ended	
	March 31, 2017	March 25, 2016	March 31, 2017	March 25, 2016
	(in millions)			
Transportation Solutions	$ 300	$ 289	$ 643	$ 550
Industrial Solutions	86	63	153	129
Communications Solutions	87	183(1)	163	254(1)
Total	$ 473	$ 535	$ 959	$ 933

(1) Includes pre-tax gain of $146 million on the sale of our CPD business during the quarter ended March 25, 2016.

15. Tyco Electronics Group S.A.

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

Table of Contents

TE CONNECTIVITY LTD.

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

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

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

	TE Connectivity Ltd.	TEGSA	Other Subsidiaries	Consolidating Adjustments	Total
			(in millions)		
Net sales	$	$	$ 3,227	$	$ 3,227
Cost of sales			2,119		2,119
Gross margin			1,108		1,108
Selling, general, and administrative expenses	48	18	346		412
Research, development, and engineering expenses			162		162
Acquisition and integration costs			2		2
Restructuring and other charges, net			59		59
Operating income (loss)	(48)	(18)	539		473
Interest income			6		6
Interest expense		(32)			(32)
Other expense, net			(2)		(2)
Equity in net income of subsidiaries	462	483		(945)	
Equity in net income (loss) of subsidiaries of discontinued operations	(1)	10		(9)	
Intercompany interest income (expense), net	(8)	29	(21)		
Income from continuing operations before income taxes	405	472	522	(954)	445
Income tax expense			(39)		(39)
Income from continuing operations	405	472	483	(954)	406
Income (loss) from discontinued operations, net of income taxes[1]		(11)	10		(1)
Net income	405	461	493	(954)	405
Other comprehensive income	114	114	106	(220)	114
Comprehensive income	$ 519	$ 575	$ 599	$ (1,174)	$ 519

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

Table of Contents

TE CONNECTIVITY LTD.

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

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

Condensed Consolidating Statement of Operations (UNAUDITED)
For the Quarter Ended March 25, 2016

	TE Connectivity Ltd.	TEGSA	Other Subsidiaries	Consolidating Adjustments	Total
			(in millions)		
Net sales	$	$	$ 2,952	$	$ 2,952
Cost of sales			1,990		1,990
Gross margin			962		962
Selling, general, and administrative expenses[(1)]	49	65	253		367
Research, development, and engineering expenses			156		156
Acquisition and integration costs			3		3
Restructuring and other credits, net			(99)		(99)
Operating income (loss)	(49)	(65)	649		535
Interest income			4		4
Interest expense		(31)	(1)		(32)
Other income, net			12		12
Equity in net income of subsidiaries	445	526		(971)	
Equity in net income (loss) of subsidiaries of discontinued operations	(9)	60		(51)	
Intercompany interest income (expense), net	(7)	15	(8)		
Income from continuing operations before income taxes	380	505	656	(1,022)	519
Income tax expense			(130)		(130)
Income from continuing operations	380	505	526	(1,022)	389
Income (loss) from discontinued operations, net of income taxes[(2)]		(69)	60		(9)
Net income	380	436	586	(1,022)	380
Other comprehensive income	14	14	29	(43)	14
Comprehensive income	$ 394	$ 450	$ 615	$ (1,065)	$ 394

(1) TEGSA selling, general, and administrative expenses include losses of $37 million related to intercompany transactions. These losses are offset by corresponding gains recorded by other subsidiaries.

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

20

Table of Contents

TE CONNECTIVITY LTD.

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

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

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

	TE Connectivity Ltd.	TEGSA	Other Subsidiaries	Consolidating Adjustments	Total
			(in millions)		
Net sales	$	$	$ 6,290	$	$ 6,290
Cost of sales			4,117		4,117
Gross margin			2,173		2,173
Selling, general, and administrative expenses, net	76	(70)	778		784
Research, development, and engineering expenses			320		320
Acquisition and integration costs			4		4
Restructuring and other charges, net			106		106
Operating income (loss)	(76)	70	965		959
Interest income			11		11
Interest expense		(63)			(63)
Other expense, net			(2)		(2)
Equity in net income of subsidiaries	902	839		(1,741)	
Equity in net income of subsidiaries of discontinued operations	2	14		(16)	
Intercompany interest income (expense), net	(14)	56	(42)		
Income from continuing operations before income taxes	814	916	932	(1,757)	905
Income tax expense			(93)		(93)
Income from continuing operations	814	916	839	(1,757)	812
Income (loss) from discontinued operations, net of income taxes[(1)]		(12)	14		2
Net income	814	904	853	(1,757)	814
Other comprehensive loss	(42)	(42)	(69)	111	(42)
Comprehensive income	$ 772	$ 862	$ 784	$ (1,646)	$ 772

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

Table of Contents

TE CONNECTIVITY LTD.

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

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

Condensed Consolidating Statement of Operations (UNAUDITED)
For the Six Months Ended March 25, 2016

	TE Connectivity Ltd.	TEGSA	Other Subsidiaries	Consolidating Adjustments	Total
			(in millions)		
Net sales	$	$	$ 5,785	$	$ 5,785
Cost of sales			3,878		3,878
Gross margin			1,907		1,907
Selling, general, and administrative expenses(1)	85	37	585		707
Research, development, and engineering expenses			318		318
Acquisition and integration costs			8		8
Restructuring and other credits, net			(59)		(59)
Operating income (loss)	(85)	(37)	1,055		933
Interest income			10		10
Interest expense		(61)	(1)		(62)
Other income, net			20		20
Equity in net income of subsidiaries	806	877		(1,683)	
Equity in net income of subsidiaries of discontinued operations	20	136		(156)	
Intercompany interest income (expense), net	(8)	27	(19)		
Income from continuing operations before income taxes	733	942	1,065	(1,839)	901
Income tax expense			(188)		(188)
Income from continuing operations	733	942	877	(1,839)	713
Income (loss) from discontinued operations, net of income taxes(2)		(116)	136		20
Net income	733	826	1,013	(1,839)	733
Other comprehensive loss	(76)	(76)	(57)	133	(76)
Comprehensive income	$ 657	$ 750	$ 956	$ (1,706)	$ 657

(1) TEGSA selling, general, and administrative expenses include losses of $37 million related to intercompany transactions. These losses are offset by corresponding gains recorded by other subsidiaries.

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

Table of Contents

TE CONNECTIVITY LTD.

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

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

Condensed Consolidating Balance Sheet (UNAUDITED)
As of March 31, 2017

	TE Connectivity Ltd.	TEGSA	Other Subsidiaries	Consolidating Adjustments	Total
			(in millions)		
Assets					
Current assets:					
Cash and cash equivalents	$	$	$ 773	$	$ 773
Accounts receivable, net			2,244		2,244
Inventories			1,660		1,660
Intercompany receivables	25	1,603	37	(1,665)	
Prepaid expenses and other current assets	3	31	435		469
Total current assets	28	1,634	5,149	(1,665)	5,146
Property, plant, and equipment, net			3,046		3,046
Goodwill			5,382		5,382
Intangible assets, net			1,768		1,768
Deferred income taxes			2,280		2,280
Investment in subsidiaries	10,937	20,119		(31,056)	
Intercompany loans receivable	2	4,157	10,980	(15,139)	
Other assets		33	401		434
Total Assets	$ 10,967	$ 25,943	$ 29,006	$ (47,860)	$ 18,056
Liabilities and Shareholders' Equity					
Current liabilities:					
Short-term debt	$	$ 878	$ 1	$	$ 879
Accounts payable	2		1,224		1,226
Accrued and other current liabilities	573	76	1,052		1,701
Deferred revenue			129		129
Intercompany payables	1,639		26	(1,665)	
Total current liabilities	2,214	954	2,432	(1,665)	3,935
Long-term debt		3,071	2		3,073
Intercompany loans payable		10,981	4,158	(15,139)	
Long-term pension and postretirement liabilities			1,474		1,474
Deferred income taxes			197		197
Income taxes			276		276
Other liabilities			348		348
Total Liabilities	2,214	15,006	8,887	(16,804)	9,303
Total Shareholders' Equity	8,753	10,937	20,119	(31,056)	8,753

Total Liabilities and Shareholders' Equity	$	10,967	$	25,943	$	29,006	$	(47,860)	$	18,056

Table of Contents

TE CONNECTIVITY LTD.

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

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

Condensed Consolidating Balance Sheet (UNAUDITED)
As of September 30, 2016

	TE Connectivity Ltd.	TEGSA	Other Subsidiaries	Consolidating Adjustments	Total
			(in millions)		
Assets					
Current assets:					
Cash and cash equivalents	$	$	$ 647	$	$ 647
Accounts receivable, net			2,046		2,046
Inventories			1,596		1,596
Intercompany receivables	37	1,314	48	(1,399)	
Prepaid expenses and other current assets	3	17	466		486
Total current assets	40	1,331	4,803	(1,399)	4,775
Property, plant, and equipment, net			3,052		3,052
Goodwill			5,492		5,492
Intangible assets, net			1,879		1,879
Deferred income taxes			2,111		2,111
Investment in subsidiaries	10,053	19,425		(29,478)	
Intercompany loans receivable	22	3,739	10,313	(14,074)	
Other assets		14	285		299
Total Assets	$ 10,115	$ 24,509	$ 27,935	$ (44,951)	$ 17,608
Liabilities and Shareholders' Equity					
Current liabilities:					
Short-term debt	$	$ 330	$ 1	$	$ 331
Accounts payable	1		1,089		1,090
Accrued and other current liabilities	266	57	1,114		1,437