



2016 ANNUAL REPORT

ADVANCING CONNECTIVITY FOR

75

YEARS

Our commitment to innovation enables advancements in transportation, industrial applications, medical technology, energy, data communications, and the home. TE's unmatched breadth of connectivity and sensor solutions, proven in the harshest of environments, helps build a safer, greener, smarter, and more connected world.



Terrence Curtin, President and Tom Lynch, Chairman and CEO

MESSAGE TO OUR STAKEHOLDERS

Connectivity is all around us—channeling essential power and data for everything from cloud computing and transportation, to precision medicine and the Internet of Things in homes and on factory floors. In 2016, TE Connectivity celebrated 75 years as a leader in enabling that connectivity, and as we move into 2017 and beyond, we’re redefining what’s possible using TE’s connector and sensor technologies to meet the safety, efficiency and connected trends that are so important for our customers’ success in the markets they serve.

2016: SOLID PERFORMANCE AND CONTINUED EXECUTION OF OUR HARSH ENVIRONMENT STRATEGY

Our business performed well in a challenging economic environment. Sales for the year were \$12.2 billion and adjusted earnings per share (EPS) were \$4.08—up 13 percent versus the prior year. Our adjusted operating margin was nearly 16 percent, and the company generated \$2 billion of cash flow from continuing operating activities.

Our results were driven by strong performance in our Transportation Solutions segment and our SubCom business within our Communications Solutions segment. This more than offset a relatively flat year in our Industrial Solutions segment due to weak overall industrial markets. Transportation Solutions delivered 5 percent organic sales growth driven by strong growth in Europe and Asia, a result of our leadership in those markets. Our SubCom business, which installs and maintains the subsea cables that make up the backbone of the global cloud network, grew 25 percent, and with \$1 billion in backlog, we expect continued growth from that business in 2017.

With our solid cash flow generation and the proceeds from the sale of our Broadband Network Solutions business at the end of 2015, we continued our disciplined capital allocation strategy in 2016, returning \$3.1 billion to shareholders. We remain committed to our capital strategy of a balanced return of free cash flow to shareholders through dividends and share repurchases while continuing to strengthen our harsh environment product portfolio via acquisitions.

Strengthening our Harsh Environment Portfolio

Our customers turn to TE, a leader in harsh environment connectivity and sensing applications, for solutions that must be reliable under the most extreme conditions. Today, approximately 90 percent of our revenue is focused on connectivity and sensing, and 80 percent of our revenue is derived from harsh environment applications. These applications are highly engineered and designed into the architecture of the customer's solution, positioning TE as uniquely qualified to meet many customers' demands. Over the last five years, we have generated mid-single digit growth and above company average margins with our harsh business.

During 2016, we strengthened our harsh environment portfolio with several key acquisitions and the divestiture of our Circuit Protection business. These acquisitions included: Creganna, which established us as a leader in the market for minimally invasive medical solutions; Jaquet, which expanded our sensors position in the transportation market; and Intercontec, which added to the range of connectivity products in our Industrial Solutions product portfolio that serve the trend of increasingly connected factories.

Extraordinary Customer Experience

Our mission to deliver an Extraordinary Customer Experience (ECE) is expanding our competitive advantage. In 2016, we improved our Net Promoter Score (NPS) by 11 points over 2015, as customers began to recognize our improvements in the dimensions that matter most to them: innovation, quality, delivery, and service and support. By

continuing to drive improvements in the customer experience, TE is ensuring that we can more effectively serve both the technology and service needs of our customers in the future.

TEOA Progress

We continue to implement our TE Operating Advantage (TEOA) lean business system, a key aspect of our margin improvement over the past five years, across the enterprise. In 2016, we were very proud to report two more sites have reached "Star Level 5," the highest TEOA rating. These sites—Steinach in Switzerland and Norwood in Massachusetts, United States—are prime examples of the creativity and commitment to a continuous improvement culture we strive for at TE.

Unleashing Our People

Our customers demand both innovation and execution from our company, and excellence in those areas is only possible through people with diverse experiences and perspectives collaborating to meet and exceed customers' needs. Recruiting, developing and unleashing this talent within a diverse and inclusive workplace is a key part of our overall business strategy, and in 2016 we brought this to life, in part, by:

- Engaging more than 20,000 employees in our annual Inclusion & Diversity Month
- Significantly increasing our recruiting and outreach at global technology events, including both the Society of Women Engineers (SWE) 2016 International Conference and the National Society of Black Engineers Annual Conference
- Expanding our employee resource groups globally, including ALIGN (LGBT), African Heritage, Young Professionals and Women in Networking

CEO Succession

In March 2016, Terrence was nominated to our board of directors and in October we announced that he would succeed Tom as chief executive officer, effective

March 9, 2017. Upon completion of the transition in March 2017, Tom will remain on the board and continue in the role of executive chairman.

STRONG POSITION IN GROWING MARKETS

For over 75 years, we've helped our customers create exciting new innovations using our connectivity solutions. Today, we are a world leader in connectivity and sensor solutions, with capabilities that are unmatched in our industry. Our global presence, more than 7,000 engineers and broad portfolio of connectivity and sensor solutions are integral to our customers' product roadmaps.

The markets TE serves are driven by the positive macro-trends toward building a safer, greener and more connected world. Using our automotive business as an example, more sensors and connectors are needed in vehicles to support increased safety features, autonomous driving systems, higher emission standards, improved fuel efficiency and infotainment. Additional trends point to further potential for our business: the growing demand for electric vehicles in

China, rapid advances in interventional and minimally invasive medicine, and the need for increased capacity and greater security in global data networks.

These macro-trends combined with our leadership position give us confidence in our strategy, business model and growth prospects even as markets fluctuate.

Entering 2017, we look back with pride at all we've accomplished, thanks to our phenomenal employees and shareholders, and ahead with optimism for all we'll continue to do together. We are excited about how we have strategically positioned TE and how our teams and engineers co-create with customers wherever they exist in the world to advance solutions that move the world forward.



Tom Lynch
Chairman and
Chief Executive Officer



Terrence Curtin
President

See non-GAAP measures for descriptions and reconciliations of Organic Sales Growth, Adjusted Operating Margin, Adjusted Earnings Per Share, and Free Cash Flow.

INNOVATION LEADERSHIP

14,000

PATENTS
granted or pending

\$644M

INVESTED
in R&D and Engineering
FY 16

7,000+

ENGINEERS
globally

CNBC IQ100 INDEX

TE CONNECTIVITY RECOGNIZED AS 2016 INNOVATION LEADER



35%

Year-over-year increase in TE revenue from EV solutions within Asia-Pacific

2x

TE content per electric vehicle versus standard vehicle, globally

ELECTRIC VEHICLES

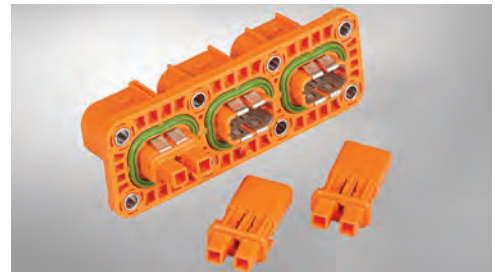
HELPING CHINA BECOME A SUSTAINABILITY LEADER

Today's electric vehicles (EVs) deliver what once-seemed impossible: A safe, green, high-performance driving experience. This evolution is possible because of recent advancements in high-voltage physics, materials science, and advanced circuitry. In China, the government is relying on EV as a way to accelerate sustainability strategies. To spark demand for EVs, the government offers consumer incentives, with the target of three million EV sales per year by 2025.*

At TE, our engineers are working side-by-side with automakers in China – and across the globe – to develop the next generation of EV technology. For these customers, we offer more than a connector, or a cable assembly. We help them define and develop their EVs technological architecture. This enables us to integrate TE technology into EV primary systems – transmission, powertrain, antilock brakes – as well as the subsystems, such as integrated sensor assemblies and transmission wiring harnesses. With our integrated solutions and expert knowledge, automakers can make EVs responsive and reliable, with the capacity for high acceleration over increasingly longer distances.

BATTERY TECHNOLOGIES

TE's AMP+ HVA 280 High Voltage Connector System improves EV power-to-weight-ratio, time-to-recharge, and total range capabilities.



CHARGING STATION

TE's AMP+ Charging Cable Assembly is engineered to safely and reliably distribute electricity from the charging station into an EV battery.



IN-VEHICLE TECHNOLOGIES

TE's sealed and shielded products transmit high-voltage electricity throughout the vehicle. Our touch-safe wire-to-device connections include TE's AMP+ Auxiliary Power Terminal.



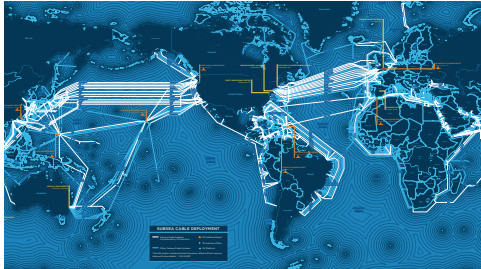
* Bloomberg News, "China Proposing California-Like Mandates for Electric Cars"

SUBSEA COMMUNICATIONS

BRINGING THE CLOUD TO THE WORLD

Information delivered at the speed of light, deep beneath the oceans of the world: People everywhere want – and expect – the capability to send high-megabyte data quickly without interference. As the number of applications used and devices connected to the internet continues to multiply, hyper-scale cloud companies increasingly need flexible subsea cable systems that they can quickly scale to meet market demand, in a way that also aligns with long-term strategies to diversify and expand their networks.

For more than five decades, TE subsea-communications engineers have developed the technology enabling our customers to operate high-bandwidth, high-capacity networks between and within continents and countries. With nearly 400 engineers, two manufacturing facilities, and a fleet of eight ships, we design, manufacture, install, and maintain the flexible end-to-end subsea solutions that form the backbone of the international communications network.



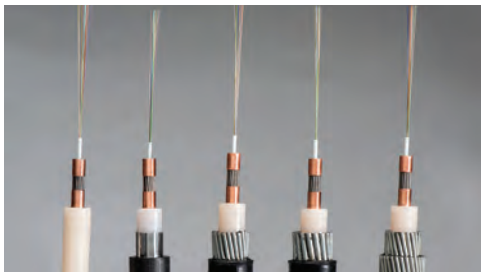
SUBSEA COMMUNICATIONS NETWORKS

TE designs the subsea system, engineers the route, manufactures the infrastructure, and installs and tests the network – in marine, terrestrial, and station environments.




REPEATERS

Engineered with optical amplifiers, TE's hermetically sealed copper-beryllium capsules enable high-clarity transmissions across long-haul, low-latency, and extremely high-capacity networks.



FIBER OPTIC SUBSEA CABLE

Engineered to withstand extreme temperatures and pressures, TE subsea cable is manufactured to reliably transmit large-bandwidth, high-clarity communications across undersea routes running up to 13,000 kilometers – at 8,000 meters below the surface.



Forecasted growth in spending worldwide on public cloud infrastructure*

\$38B → \$173B

2016

2026

MORE THAN **15x**

TE has deployed enough subsea cable to circle more than 15 times around the Equator

71M

Number of simultaneous HD videos which can be streamed on a TE cable system

*Statista, "Public cloud Infrastructure as a Service (IaaS) hardware and software spending from 2015 to 2026, by segment (in billion U.S. dollars)"



7%

Expected annual growth of
interventional market

90%

Amount of TE content available for
a typical interventional catheter

120+

Patients per minute benefit from a
minimally invasive device containing
a TE technology

MEDICAL DEVICES

TRANSFORMING HEALTHCARE

Transformative technology in minimally invasive devices is advancing traditional surgery, resulting in less time in the operating room, faster recovery for patients, and more cost effective healthcare delivery. Because of strong underlying trends - including an aging global population and expanded use of minimally invasive procedures - medical device manufacturers need a partner which offers component and finished device design, volume manufacturing, and significant scale in major end markets and medical device hubs.

By partnering with medical device manufacturers, TE plays a vital role in delivering integrated solutions for addressing cardiovascular, peripheral vascular, and neurovascular diseases. Our technology is enabling our customers to create devices for new types of minimally invasive procedures: These include structural heart repairs such as aortic valve replacements, as well as endoscopic and laparoscopic surgeries, including robotic surgery. With TE solutions, our customers are enabling physicians to help patients enjoy a healthier tomorrow.

STRUCTURAL HEART REPAIR

Engineered for flexibility, kink resistance, torque, and tracking, TE's composite braided shafts are designed for intricate steering in Transcatheter Aortic Valve Replacement (TAVR) catheters of 0.18" diameter. These enable precision navigation and access in complex anatomical structures, allowing heart valves to be repaired without opening the body.



CARDIAC IMAGING AND ABLATION CATHETERS

We use metal and polymer materials, conductive fine-wire (50% thinner than a human hair), and connectors for the critical components used to treat irregular heart rhythms. Our assembly services integrate mechanical, electrical, and radio-frequency technologies to address pulmonary and cardiac diseases.



MINIMALLY INVASIVE AND ROBOTIC SURGERY

Our reusable cables for endoscopic surgery support 4K video performance and can withstand hundreds of sterilization cycles. Our connector assemblies, cables, sensors, precision-stamped metal components, and medical-grade heat-shrink tubing are used in energy-based laparoscopic devices, electro-surgical tissue staplers, and robotic surgery.

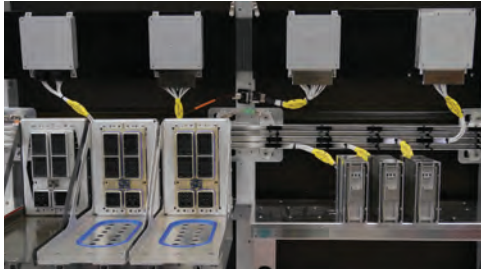


COMMERCIAL AIRCRAFT

STAYING CONNECTED IN THE AIR

Smarter, integrated connections, for safer, greener aircraft: Technology is transforming air travel. In the cabin, travelers expect reliable high-speed internet access and in-flight entertainment systems – without sacrificing comfort. In the cockpit, pilots need avionics and flight systems that can efficiently analyze data and integrate navigation, landing, and communications functions. With integrated connectivity, airlines can improve on-time performance, increase turn times, and reduce fuel use and downtimes.

At TE, our engineers design small, lightweight connection systems and high-density sensor technology that enable aircraft manufacturers to integrate more connectivity throughout commercial airplanes. We work closely with our customers to manufacture solutions for turn-key assemblies that meet their technology challenge – higher speeds, greater bandwidths, higher currents, and higher voltages. With TE products in the critical systems, aircraft manufacturers gain the assurance of using solutions engineered to withstand the extreme exposure, temperatures, and vibrations that come with travelling 600 miles per hour at 40,000 feet above the earth.



AVIONICS

TE's Advanced Avionics Package puts high-bandwidth, high-speed connectivity into communications and navigation systems, in a composite package that is 40% smaller than typical metal enclosures.



FLIGHT CONTROL AND LANDING GEAR

TE's ruggedized fiber optic cables, connectors, and cable assemblies handle next-generation high-speed data and signal delivery without distance limitations.



IN-FLIGHT ENTERTAINMENT

Sealed for high-speed telemetry, TE's Mil Aero connectors are manufactured with composites engineered to reduce weight and withstand extreme temperature and vibration.

\$2.3B*

Estimated 2016 connector market in commercial aircraft

140 | 5K | 8K

miles of wiring/
aircraft

sensors/
aircraft

connectors/
aircraft

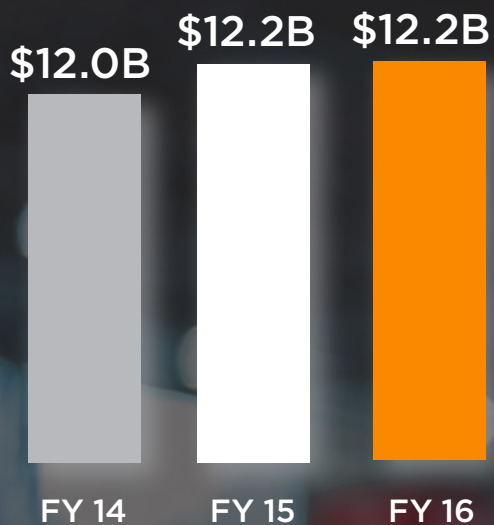


سترة النجاة تحت المقعد
LIFE VEST UNDER YOUR SEAT

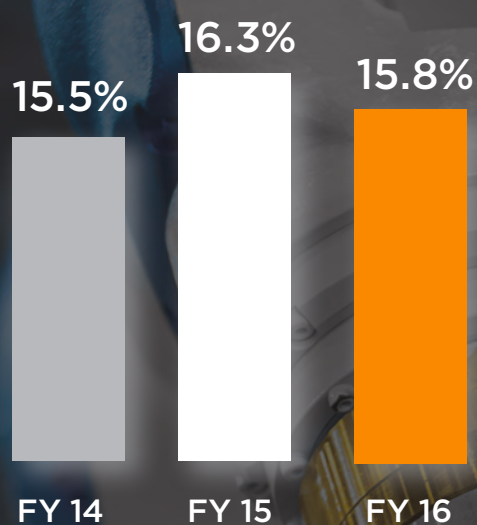
*Source: TE Connectivity

STRONG FINANCIAL PERFORMANCE

NET SALES IN US\$ BILLIONS



ADJUSTED OPERATING MARGIN*



*See Non-GAAP Measures

TE SALES BY SEGMENT

FY 16 SALES

TRANSPORTATION SOLUTIONS

\$6.5B



INDUSTRIAL SOLUTIONS

\$3.2B



COMMUNICATIONS SOLUTIONS

\$2.5B

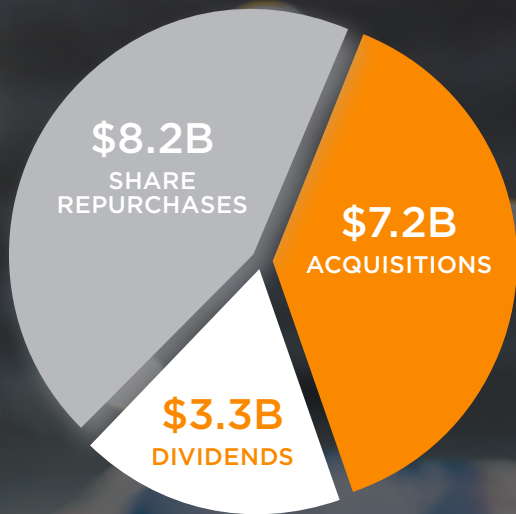


TE CONNECTIVITY SHARE PERFORMANCE OVER 5 YEARS (NYSE: TEL)

APPROX.
↑ 150%

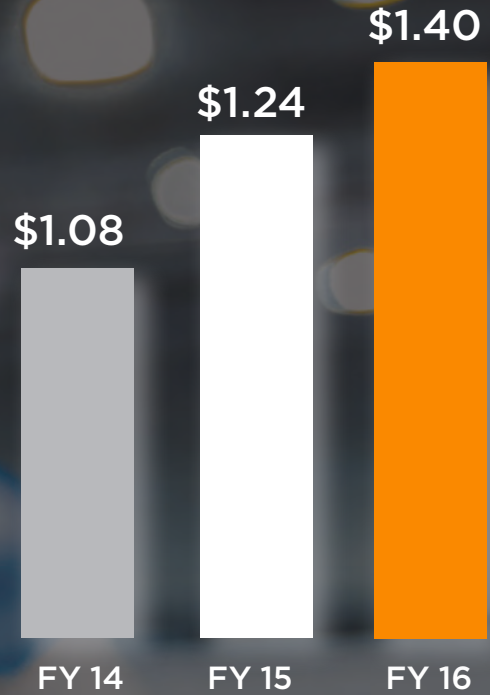
As of September 30, 2016 and adjusted for dividends

DEPLOYMENT OF CASH** FY 08 THROUGH FY 16

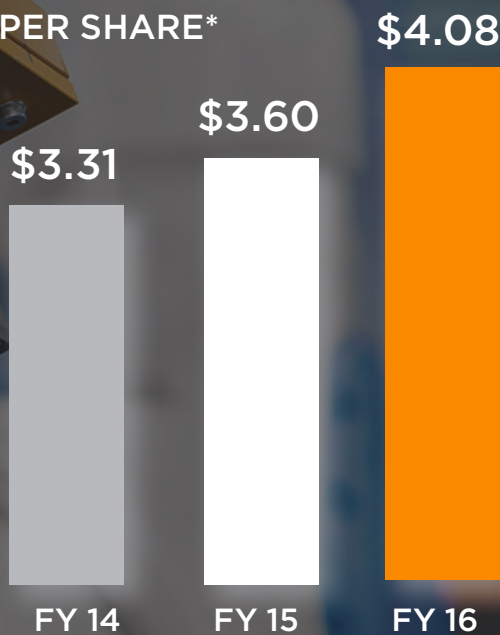


***Select uses of cash. Represents capital returned to shareholders and acquisition activity.*

DIVIDENDS PAID PER SHARE

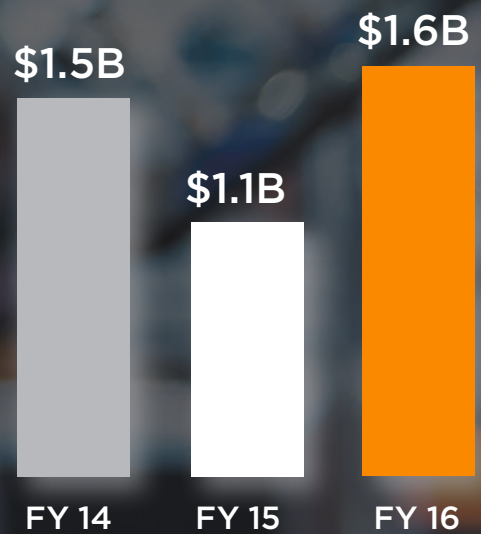


ADJUSTED EARNINGS PER SHARE*



**See Non-GAAP Measures*

FREE CASH FLOW*



**See Non-GAAP Measures*

COMMUNITY

BUILDING INCLUSIVE AND SUSTAINABLE COMMUNITIES

TE believes in the potential of all people, everywhere in the world. We support and respect human rights by conducting our business in responsible ways that provide opportunities to our employees, customers, and shareholders. We contribute to – and volunteer in – the communities where we work. We unleash our people’s potential through development opportunities, safety and wellness programs, and inclusion and diversity initiatives. These efforts are integral to the success of our business and core to our values. These also enable us to attract and retain a talented and diversified workforce capable of accelerating innovation and achieving long-term growth.



Scored 100 on the Human Rights Campaign Equality Index, recognizing our commitment to inclusion and diversity.

EMPLOYEE RESOURCE GROUPS

WIN
WOMEN IN NETWORKING

TEYP
YOUNG PROFESSIONALS

ALIGN
LESBIAN, GAY, BISEXUAL,
AND TRANSGENDER

AHEN
AFRICAN HERITAGE
EMPLOYEE NETWORK

FOR THE THIRD YEAR, TE CELEBRATED INCLUSION AND DIVERSITY MONTH.





TE operates with the highest standards of ethics in managing environmental performance and supply chain relationships. We demonstrate this commitment through our company-wide sustainability efforts to reduce our energy and water usage, waste, and greenhouse gas emissions, and by publicly reporting on our progress.

We source materials close to our facilities and look to ensure compliance by partnering with suppliers who adopt our Guide to Supplier Social Responsibility.

MEMBER OF

**Dow Jones
Sustainability Indices**

In Collaboration with RobecoSAM 

FOR THE FIFTH
CONSECUTIVE YEAR

2016 | **WORLD'S MOST ETHICAL COMPANIES™**
WWW.ETHISPHERE.COM

WATER USAGE*
2016 VS 2010



**GREENHOUSE
GAS EMISSIONS***
2016 VS 2010



**FY2010-2016 represents absolute reductions, and does not include sites related to our divested Broadband Network Solutions business or sites related to our recent acquisition of Creganna Medical.*

UNMATCHED RESOURCES CLOSE TO OUR CUSTOMERS

TE designs, manufactures, and delivers connectivity and sensor solutions to customers in nearly 150 countries. Our global reach enables us to work closely with our customers, identify and meet their local needs, and advance our mission to deliver extraordinary customer experiences.

AMERICAS

44 MANUFACTURING SITES

23,000 EMPLOYEES

CHINA

15 MANUFACTURING SITES

20,000 EMPLOYEES

ASIA* (EXCLUDING CHINA)

10 MANUFACTURING SITES

9,000 EMPLOYEES

EUROPE, MIDDLE EAST, AFRICA (EMEA)

35 MANUFACTURING SITES

23,000 EMPLOYEES

**Including India*

AMERICAS

\$4.2B

\$12.2B

FY 16 SALES WORLDWIDE

CHINA

\$2.2B

ASIA*
(EXCLUDING CHINA)

\$1.8B

\$4.0B

EMEA



NON-GAAP MEASURES

“Organic Net Sales Growth,” “Adjusted Operating Income,” “Adjusted Operating Margin,” “Adjusted Earnings Per Share,” and “Free Cash Flow” are non-GAAP measures and should not be considered replacements for results in accordance with accounting principles generally accepted in the U.S. (“GAAP”). These non-GAAP measures may not be comparable to similarly-titled measures reported by other companies. The primary limitation of these measures is that they exclude the financial impact of items that would otherwise either increase or decrease our reported results. This limitation is best addressed by using these non-GAAP measures in combination with the most directly comparable GAAP measures in order to better understand the amounts, character, and impact of any increase or decrease in reported amounts. The following provides additional information regarding these non-GAAP measures:

- Organic Net Sales Growth – is a useful measure of our underlying results and trends in the business. It is also a significant component in our incentive compensation plans. The difference between reported net sales growth (the most comparable GAAP measure) and Organic Net Sales Growth consists of the impact from foreign currency exchange rates and acquisitions and divestitures, if any. Organic Net Sales Growth is a useful measure of our performance because it excludes items that: i) are not completely under management’s control, such as the impact of changes in foreign currency exchange rates; or ii) do not reflect the underlying growth of the company, such as acquisition and divestiture activity.
- Adjusted Operating Income – represents operating income (the most comparable GAAP measure) before special items including charges or income related to restructuring and other charges, acquisition related charges, impairment charges, and other income or charges, if any. We utilize Adjusted Operating Income to assess segment level core operating performance and to provide insight to management in evaluating segment operating plan execution and underlying market conditions. It also is a significant component in our incentive compensation plans. Adjusted Operating Income is useful to investors because it provides insight into our underlying operating results, trends, and the comparability of these results between periods.
- Adjusted Operating Margin – represents operating margin (the most comparable GAAP measure) before special items including charges or income related to restructuring and other charges, acquisition related charges, impairment charges, and other income or charges, if any. We present Adjusted Operating Margin before special items to give investors a perspective on the underlying business results. This measure should be considered in conjunction with operating margin calculated using our GAAP results in order to understand the amounts, character, and impact of adjustments to operating margin.
- Adjusted Earnings Per Share – represents diluted earnings per share from continuing operations (the most comparable GAAP measure) before special items, including charges or income related to restructuring and other charges, acquisition related charges, impairment charges, tax sharing income related to certain proposed adjustments to prior period tax returns and other tax items, certain significant special tax items, other income or charges, if any, and, if applicable, the related tax effects. We present Adjusted Earnings Per Share because we believe that it is appropriate for investors to consider results excluding these items in addition to results in accordance with GAAP. We believe such a measure provides insight into our underlying operating results, trends, and the comparability of these results between periods, since it excludes the impact of special items, which may recur, but tend to be irregular as to timing. It also is a significant component in our incentive compensation plans.
- Free Cash Flow (FCF) – is a useful measure of our ability to generate cash. The difference between net cash provided by continuing operating activities (the most comparable GAAP measure) and Free Cash Flow consists mainly of significant cash outflows and inflows that we believe are useful to identify. We believe Free Cash Flow provides useful information to investors as it provides insight into the primary cash flow metric used by management to monitor and evaluate cash flows generated from our operations.

Free Cash Flow is defined as net cash provided by continuing operating activities excluding voluntary pension contributions and the cash impact of special items, if any, minus net capital expenditures. Voluntary pension contributions are excluded from the GAAP measure because this activity is driven by economic financing decisions rather than operating activity. Certain special items, including net payments related to pre-separation tax matters, are also excluded by management in evaluating Free Cash Flow. Net capital expenditures consist of capital expenditures less proceeds from the sale of property, plant, and equipment. These items are subtracted because they represent long-term commitments.

In the calculation of Free Cash Flow, we subtract certain cash items that are ultimately within management’s and the Board of Directors’ discretion to direct and may imply that there is less or more cash available for our programs than the most comparable GAAP measure indicates. It should not be inferred that the entire Free Cash Flow amount is available for future discretionary expenditures, as our definition of Free Cash Flow does not consider certain non-discretionary expenditures, such as debt payments. In addition, we may have other discretionary expenditures – such as discretionary dividends, share repurchases, and business acquisitions – that are not considered in the calculation of Free Cash Flow.

RECONCILIATION OF NON-GAAP FINANCIAL MEASURES TO GAAP FINANCIAL MEASURES

IN US\$ MILLIONS, EXCEPT PER SHARE DATA

| FISCAL YEAR 2016 | | ADJUSTMENTS | | | |
|---|-----------|--|---|--------------------------|------------------------------------|
| | U.S. GAAP | Acquisition Related Charges ^{(1) (2)} | Restructuring and Other Charges, Net ⁽²⁾ | Tax Items ⁽³⁾ | Adjusted (Non-GAAP) ⁽⁴⁾ |
| Operating Income | \$ 1,902 | \$ 32 | \$ 2 | \$ - | \$ 1,936 |
| Operating Margin | 15.5% | | | | 15.8% |
| Diluted Earnings per Share from Continuing Operations | \$ 5.26 | \$ 0.07 | \$ - | \$ (1.25) | \$ 4.08 |

(1) Includes \$22 million of acquisition and integration costs and \$10 million of non-cash amortization associated with fair value adjustments related to acquired inventories and customer order backlog recorded in cost of sales.

(2) The tax effect of each non-GAAP adjustment is calculated based on the jurisdictions in which the expense (income) is incurred and the tax laws in effect for each such jurisdiction.

(3) Includes \$1,135 million of income tax benefits associated with the settlement of tax matters for the years 1997 through 2000 which resolved

all aspects of the disputed debt matter with the IRS through the year 2007, as well as the related impact of \$604 million to other expense pursuant to the tax sharing agreement with Tyco International and Covidien. Also includes income tax charges related to a \$91 million increase in the valuation allowance for certain U.S. deferred tax assets; and an \$83 million net income tax benefit related to tax settlements in certain other tax jurisdictions, as well as the related impact of \$46 million to other expense pursuant to the tax sharing agreement with Tyco International and Covidien.

(4) See description of non-GAAP measures contained in this report.

| FISCAL YEAR 2015 | | ADJUSTMENTS | | | |
|---|-----------|--|---|--------------------------|------------------------------------|
| | U.S. GAAP | Acquisition Related Charges ^{(1) (2)} | Restructuring and Other Charges, Net ⁽²⁾ | Tax Items ⁽³⁾ | Adjusted (Non-GAAP) ⁽⁴⁾ |
| Operating Income | \$ 1,749 | \$ 94 | \$ 149 | \$ - | \$ 1,992 |
| Operating Margin | 14.3% | | | | 16.3% |
| Diluted Earnings per Share from Continuing Operations | \$ 3.01 | \$ 0.18 | \$ 0.29 | \$ 0.12 | \$ 3.60 |

(1) Includes \$55 million of acquisition and integration costs, \$36 million of non-cash amortization associated with fair value adjustments related to acquired inventories and customer order backlog recorded in cost of sales, and \$3 million of restructuring costs.

(2) The tax effect of each non-GAAP adjustment is calculated based on the jurisdictions in which the expense (income) is incurred and the tax laws in effect for each such jurisdiction.

(3) Includes \$264 million of income tax benefits associated with the

settlement of audits of prior year income tax returns as well as the related impact of \$84 million to other expense pursuant to the tax sharing agreement with Tyco International and Covidien. Also includes \$216 million of income tax charges associated with the tax impacts of certain intercompany legal entity restructurings made in connection with our integration of Measurement Specialties, Inc. and \$29 million of income tax charges for the tax impacts of certain intercompany dividends related to the restructuring and sale of the Broadband Network Solutions business.

(4) See description of non-GAAP measures contained in this report.

| FISCAL YEAR 2014 | | ADJUSTMENTS | | | |
|---|-----------|--|---|--------------------------|------------------------------------|
| | U.S. GAAP | Acquisition Related Charges ^{(1) (2)} | Restructuring and Other Charges, Net ⁽²⁾ | Tax Items ⁽³⁾ | Adjusted (Non-GAAP) ⁽⁴⁾ |
| Operating Income | \$ 1,805 | \$ 35 | \$ 19 | \$ - | \$ 1,859 |
| Operating Margin | 15.1% | | | | 15.5% |
| Diluted Earnings per Share from Continuing Operations | \$ 3.87 | \$ 0.07 | \$ 0.04 | \$ (0.67) | \$ 3.31 |

(1) Includes \$31 million of acquisition and integration charges and \$4 million of non-cash amortization associated with fair value adjustments primarily related to acquired inventories and customer order backlog recorded in cost of sales.

(2) The tax effect of each non-GAAP adjustment is calculated based on the jurisdictions in which the expense (income) is incurred and the tax laws in effect for each such jurisdiction.

(3) Includes income tax benefits of \$282 million recognized in connection with a reduction in the valuation allowance associated with certain tax loss carryforwards and income tax expense related to adjustments to prior year income tax returns. In addition, includes other income related to reimbursements by Tyco International and Covidien in connection with pre-separation tax matters, including \$18 million related to our share of a settlement agreement entered into by Tyco International with a former subsidiary.

(4) See description of non-GAAP measures contained in this report.

RECONCILIATION OF FREE CASH FLOW

IN US\$ MILLIONS

| FISCAL YEAR | 2016 | 2015 | 2014 |
|---|-------------------|-----------------|-----------------|
| Net cash provided by continuing operating activities | | | |
| Net cash provided by continuing operating activities | \$ 2,019 | \$ 1,619 | \$ 1,804 |
| Net cash provided by (used in) discontinued operating activities | (97) | 294 | 279 |
| | 1,922 | 1,913 | 2,083 |
| Net cash provided by (used in) investing activities | (1,581) | 636 | (1,075) |
| Net cash provided by (used in) financing activities | (3,030) | (1,606) | 65 |
| Effect of currency translation on cash | 7 | (71) | (19) |
| Net increase (decrease) in cash and cash equivalents | \$ (2,682) | \$ 872 | \$ 1,054 |
| Net cash provided by continuing operating activities | \$ 2,019 | \$ 1,619 | \$ 1,804 |
| Excluding: | | | |
| Payments related to pre-separation U.S. tax matters, net | 150 | 40 | 179 |
| Payments related to income taxes on the sale of the Broadband Network Solutions business | 36 | - | - |
| Capital expenditures | (628) | (600) | (635) |
| Proceeds from sale of property, plant, and equipment | 8 | 17 | 129 |
| Free cash flow ⁽¹⁾ | \$ 1,585 | \$ 1,076 | \$ 1,477 |

(1) See description of non-GAAP measures contained in this report.

RECONCILIATION OF NET SALES GROWTH

IN US\$ MILLIONS

| CHANGES TO NET SALES FOR FISCAL YEAR 2016 VERSUS NET SALES FOR FISCAL YEAR 2015 | | | | | | |
|---|--------|-------|----------------------------|-------------------------------------|------------------------|-------|
| | Total | | Translation ⁽¹⁾ | Acquisitions (Divestitures), Net | Organic ⁽²⁾ | |
| Transportation Solutions | \$ 152 | 2.4 % | \$ (174) | \$ 16 | \$ 310 | 4.9 % |
| Industrial Solutions | 36 | 1.1 | (63) | 188 | (89) | (2.8) |
| Communications Solutions | (183) | (6.8) | (17) | (123) | (43) | (1.6) |
| Net Sales | \$ 5 | - % | \$ (254) | \$ 81 | \$ 178 | 1.5 % |

(1) Represents the change in net sales resulting from changes in foreign currency exchange rates.

(2) Represents the change in net sales resulting from volume and price

changes, before consideration of acquisitions, divestitures, and the impact of changes in foreign currency exchange rates. Organic net sales growth is a non-GAAP measure. See description of non-GAAP measures in this report.

CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

This report contains certain “forward-looking statements” within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. These statements are based on management’s current expectations and are subject to risks, uncertainty, and changes in circumstances, which may cause actual results, performance, financial condition, or achievements to differ materially from anticipated results, performance, financial condition, or achievements. All statements contained herein that are not clearly historical in nature are forward-looking and the words “anticipate,” “believe,” “expect,” “estimate,” “plan,” and similar expressions are generally intended to identify forward-looking statements. We have no intention and are under no obligation to update or alter (and expressly disclaim any such intention or obligation to do so) our forward-looking statements whether as a result of new information, future events, or otherwise, except to the extent required by law. The forward-looking statements in this presentation include statements addressing our future financial condition and operating results.

Examples of factors that could cause actual results to differ materially from those described in the forward-looking statements include, among others, business, economic, competitive, and regulatory risks, such as conditions affecting demand for products, particularly in the automotive and data and devices industries; competition and pricing pressure; fluctuations in foreign currency exchange rates and commodity prices; natural disasters and political, economic and military instability in countries in which we operate; developments in the credit markets; future good will impairment; compliance with current and future environmental and other laws and regulations; and the possible effects on us of changes in tax laws, tax treaties, and other legislation. More detailed information about these and other factors is set forth in TE Connectivity Ltd.’s Annual Report on Form 10-K for the fiscal year ended Sept. 30, 2016 as well as in our Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and other reports filed by us with the U.S. Securities and Exchange Commission.

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

We have made forward-looking statements in this Annual Report, including in the sections entitled “Business,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and “Quantitative and Qualitative Disclosures about Market Risk,” that are based on our management’s beliefs and assumptions and on information currently available to our management. Forward-looking statements include, among others, the information concerning our possible or assumed future results of operations, business strategies, financing plans, competitive position, potential growth opportunities, potential operating performance improvements, acquisitions, divestitures, the effects of competition, and the effects of future legislation or regulations. Forward-looking statements include all statements that are not historical facts and can be identified by the use of forward-looking terminology such as the words “believe,” “expect,” “plan,” “intend,” “anticipate,” “estimate,” “predict,” “potential,” “continue,” “may,” “should,” or the negative of these terms or similar expressions.

Forward-looking statements involve risks, uncertainties, and assumptions. Actual results may differ materially from those expressed in these forward-looking statements. You should not put 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 identified in this Annual Report and those discussed in our Annual Report on Form 10-K for the fiscal year ended September 30, 2016 filed with the United States 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.

BUSINESS

General

TE Connectivity Ltd. (“TE Connectivity” or the “Company,” which may be referred to as “we,” “us,” or “our”) is a global technology leader. We design and manufacture connectivity and sensor solutions that are essential in today’s increasingly connected world. We help our customers solve the need for intelligent, efficient, and high-performing products and solutions.

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 2016 was a 53 week year and ended on September 30, 2016. Fiscal 2015 and 2014 were 52 weeks in length and ended on September 25, 2015 and September 26, 2014, respectively.

Segments

We operate through the following reportable segments: Transportation Solutions, Industrial Solutions, and Communications Solutions. We believe our three segments serve a combined market of approximately \$170 billion.

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

| | Fiscal | | |
|------------------------------------|-------------|-------------|-------------|
| | 2016 | 2015 | 2014 |
| Transportation Solutions | 53% | 52% | 51% |
| Industrial Solutions | 26 | 26 | 28 |
| Communications Solutions | 21 | 22 | 21 |
| 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. See Notes 1 and 21 to the Consolidated Financial Statements for additional information regarding our segments.

Transportation Solutions

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

- *Automotive (75% 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 (13% 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 construction, agriculture, buses, and other vehicles.

- *Sensors (12% of segment's net sales)*. We offer a portfolio of intelligent, efficient, and high-performing sensor solutions that are used by customers across multiple industries, including automotive, industrial equipment, commercial transportation, medical solutions, aerospace and defense, and consumer applications.

The Transportation Solutions segment's major competitors include Yazaki, Delphi, Sumitomo, Sensata, Honeywell, Molex, and Amphenol.

Industrial Solutions

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

- *Industrial equipment (44% 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. The medical industry uses our products in imaging, diagnostic, therapeutic, surgical, tubing, and minimally invasive interventional applications. Our intelligent building products are used to connect lighting, HVAC, elevators/escalators, and security. Our rail products are used in high-speed trains, metros, light rail vehicles, locomotives, and signaling switching equipment. Also, our products are used by the solar and lighting industry.
- *Aerospace, defense, oil, and gas (34% of segment's net sales)*. We provide components and solutions for the commercial aerospace industry from the initial stages of aircraft design to aftermarket support. Our defense products include ruggedized electronic interconnects serving military aviation, marine, and ground vehicles including electronic warfare and space systems. Our oil and gas products include cables and electronics used for harsh subsea environments in the offshore oil and gas and civil marine industries and in shipboard, subsea, and sonar applications.
- *Energy (22% 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, Esterline, Molex, Belden, Phoenix Contact, Hubbell, Carlisle Companies, and Integer Holdings.

Communications Solutions

The Communications Solutions segment is a leading supplier of electronic components for the data and devices and appliances markets. We are also a leader in developing, manufacturing, installing, and maintaining some of the world's most advanced subsea fiber optic communications systems. The primary products sold by the Communications Solutions segment include terminals and connector systems and components; undersea telecommunication systems; relays; heat shrink tubing; and antennas. The Communications Solutions segment's products are used in the following markets:

- *Data and devices (40% 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, smart phones, tablet computers, notebooks, and virtual reality applications to help our customers meet their current challenges and future innovations.

- *Subsea communications (35% of segment's net sales)*. Our products are used in undersea fiber optic telecommunication systems. With vertically integrated undersea communications systems and services, we support the telecommunications and oil and gas industries and other customers seeking marine services.
- *Appliances (25% of segment's net sales)*. We provide solutions to meet the daily demands of home appliances. Our products are used in many household appliances, including washers, dryers, refrigerators, air conditioners, dishwashers, cooking appliances, water heaters, and microwaves. Our expansive range of standard products is supplemented by an array of custom-designed solutions.

The Communications Solutions segment's major competitors include Amphenol, Molex, FCI Electronics, JST, and Korea Electric Terminal (KET). Also, the subsea communications business competes against Nokia (Alcatel-Lucent Submarine Networks) and NEC.

Customers

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

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

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

There is no single customer that accounted for a significant amount of our net sales in fiscal 2016, 2015, or 2014.

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 | | |
|--|-------------|-------------|-------------|
| | 2016 | 2015 | 2014 |
| Americas ⁽²⁾ | 34% | 34% | 30% |
| Europe/Middle East/Africa ("EMEA") | 34 | 33 | 35 |
| Asia-Pacific | 32 | 33 | 35 |
| 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.

(2) The Americas region includes our subsea communications business.

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

We sell our products into approximately 150 countries primarily through direct selling efforts to manufacturers. We also sell some of our products indirectly via third-party distributors. In fiscal 2016, our direct sales represented 80% of total net sales.

We maintain distribution centers around the world. Our global coverage positions us near our customers' locations and allows us to assist them in consolidating their supply base and lowering their production costs. We believe our balanced sales distribution lowers our exposure to any particular geography and improves our financial profile.

Products are generally delivered to distribution centers by our manufacturing facilities and then subsequently delivered to the customer. In some instances, however, product is delivered directly from our manufacturing facility to the customer. We contract with a wide range of transport providers to deliver our products via road, rail, sea, and air.

Seasonality and Backlog

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

Certain of our end markets experience some seasonality. Our sales into the automotive market are dependent upon global automotive production, and seasonal declines in European production may negatively impact net sales in the fourth fiscal quarter. Also, our sales into the energy market typically increase in the third and fourth fiscal quarters as customer activity increases.

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

| | Fiscal Year End | |
|---|------------------------|----------------|
| | 2016 | 2015 |
| | (in millions) | |
| Transportation Solutions | \$1,343 | \$1,208 |
| Industrial Solutions | 875 | 814 |
| Communications Solutions ⁽¹⁾ | 1,387 | 1,310 |
| Total | <u>\$3,605</u> | <u>\$3,332</u> |

(1) Includes our subsea communications business' backlog of \$1,047 million and \$995 million at fiscal year end 2016 and 2015, respectively.

We expect that the majority of our backlog at fiscal year end 2016 will be filled during fiscal 2017.

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 on the basis of breadth of product offering, product innovation, price, quality, delivery, and service. Our markets have generally been growing but with downward pressure on prices.

Raw Materials

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

Research and Development

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

Our research and development expense was as follows:

| | Fiscal | | |
|------------------------------------|---------------|--------------|--------------|
| | 2016 | 2015 | 2014 |
| | (in millions) | | |
| Transportation Solutions | \$312 | \$262 | \$196 |
| Industrial Solutions | 136 | 128 | 128 |
| Communications Solutions | 118 | 150 | 160 |
| Total | <u>\$566</u> | <u>\$540</u> | <u>\$484</u> |

Our capital spending and investment in product and process engineering and development enable us to consistently provide innovative, high-quality products with efficient manufacturing methods. In fiscal 2016, we derived approximately 20% of our net sales from new products, including product extensions, introduced within the previous three fiscal years.

Intellectual Property

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

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

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

TE Connectivity and TE Connectivity (logo) are trademarks. © 2016 TE Connectivity Ltd. All Rights Reserved.

Management Team and Employees

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

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

We have employees located throughout the world. As of fiscal year end 2016, we employed approximately 75,000 people worldwide, of whom 23,000 were in the Americas region, 28,000 were in the EMEA region, and 24,000 were in the Asia-Pacific region. Of our total employees, approximately 46,000 were employed in manufacturing.

Government Regulation and Supervision

The import and export of products are subject to regulation by the United States ("U.S.") and other countries. 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 are likely to increase our costs for energy and certain materials and products. We also have projects underway at a number of current and former manufacturing facilities to investigate and remediate environmental contamination resulting from past operations. Based upon our experience, current information, and applicable laws, we believe that it is probable that we will incur remedial costs in the range of \$17 million to \$42 million, and that the best estimate within this range is \$20 million. We do not anticipate any material capital expenditures during fiscal 2017 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

Our common shares are listed and traded on the NYSE under the symbol "TEL." The following table sets forth the high and low closing sales prices of our common shares as reported by the NYSE for the quarterly periods of fiscal 2016 and 2015:

| | Market Price Range | | | |
|--------------------------|--------------------|---------|---------|---------|
| | Fiscal | | | |
| | 2016 | | 2015 | |
| | High | Low | High | Low |
| First Quarter | \$67.61 | \$56.85 | \$65.00 | \$51.47 |
| Second Quarter | 65.75 | 52.27 | 73.42 | 61.19 |
| Third Quarter | 63.69 | 57.32 | 71.73 | 66.12 |
| Fourth Quarter | 64.54 | 54.83 | 64.36 | 55.53 |

The number of registered holders of our common shares at November 9, 2016 was 25,611.

Dividends and Cash Distributions to Shareholders

The following table sets forth the dividends paid on our common shares during the quarterly periods of fiscal 2016 and 2015:

| | Fiscal | |
|--------------------------|-----------------------------------|-----------------------------------|
| | 2016 | 2015 |
| First Quarter | \$ 0.33 (CHF 0.32) ⁽¹⁾ | \$ 0.29 (CHF 0.26) ⁽²⁾ |
| Second Quarter | \$ 0.33 (CHF 0.32) ⁽¹⁾ | \$ 0.29 (CHF 0.26) ⁽²⁾ |
| Third Quarter | \$ 0.37 (CHF 0.37) ⁽¹⁾ | \$ 0.33 (CHF 0.32) ⁽¹⁾ |
| Fourth Quarter | \$ 0.37 (CHF 0.37) ⁽¹⁾ | \$ 0.33 (CHF 0.32) ⁽¹⁾ |

(1) Payments were declared in U.S. dollars. The Swiss francs ("CHF") equivalent is based on a U.S. dollar/CHF exchange rate on the date of shareholder approval.

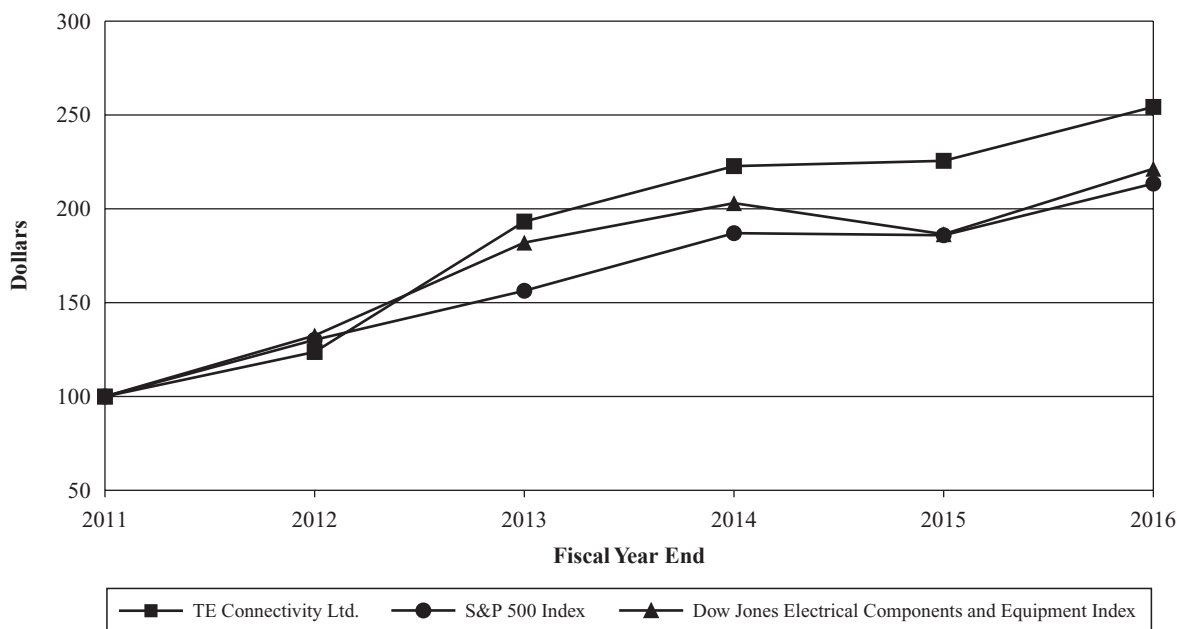
(2) Payments were declared in CHF and paid in U.S. dollars based on a U.S. dollar/CHF exchange rate shortly before shareholder approval.

Future dividends on our common shares or reductions of registered share capital for distribution to shareholders, if any, must be approved by our shareholders. In exercising their discretion to recommend to the shareholders that such dividends or distributions be approved, our board of directors will consider our results of operations, cash requirements and surplus, financial condition, statutory requirements of applicable law, contractual restrictions, and other factors that they may deem relevant. We may from time to time enter into financing agreements that contain financial covenants and restrictions, some of which may limit our ability to pay dividends or to distribute capital reductions.

Performance Graph

Set forth below is a graph comparing 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 2011 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 below are based upon historical data and are not indicative of, nor intended to forecast, future performance of our common shares.

COMPARISON OF CUMULATIVE TOTAL RETURN AMONG TE CONNECTIVITY LTD., S&P 500 INDEX, AND DOW JONES ELECTRICAL COMPONENTS AND EQUIPMENT INDEX



| | Fiscal Year End | | | | | |
|--|---------------------|----------|----------|----------|----------|----------|
| | 2011 ⁽¹⁾ | 2012 | 2013 | 2014 | 2015 | 2016 |
| TE Connectivity Ltd. | \$100.00 | \$123.71 | \$193.20 | \$222.75 | \$225.57 | \$254.30 |
| S&P 500 Index | 100.00 | 130.20 | 156.32 | 187.02 | 185.92 | 213.44 |
| Dow Jones Electrical Components and Equipment Index | 100.00 | 132.48 | 181.99 | 203.03 | 186.47 | 221.36 |

(1) \$100 invested on September 30, 2011 in TE Connectivity'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 30, 2016:

| 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 25–July 22, 2016 | 1,237,100 | \$58.07 | 1,237,100 | \$1,125,417,356 |
| July 23–August 26, 2016 | 395,461 | 60.44 | 391,693 | 1,101,746,129 |
| August 27–September 30, 2016 | 1,030 | 63.07 | — | 1,101,746,129 |
| Total | 1,633,591 | \$58.64 | 1,628,793 | |

(1) These columns include the following transactions which occurred during the quarter ended September 30, 2016:

- (i) the acquisition of 4,798 common shares from individuals in order to satisfy tax withholding requirements in connection with the vesting of restricted share awards issued under equity compensation plans; and
- (ii) open market purchases totaling 1,628,793 common shares, summarized on a trade-date basis, in conjunction with the share repurchase program announced in September 2007.

(2) In March 2016, our board of directors authorized a \$1.0 billion increase in the share repurchase program. 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 below 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 | | | | |
|--|--------------------------------------|---------------------|---------------------|---------------------|---------------------|
| | 2016 ⁽¹⁾ | 2015 ⁽²⁾ | 2014 ⁽³⁾ | 2013 ⁽⁴⁾ | 2012 ⁽⁵⁾ |
| | (in millions, except per share data) | | | | |
| Statement of Operations Data | | | | | |
| Net sales | \$12,238 | \$12,233 | \$11,973 | \$11,390 | \$11,325 |
| Acquisition and integration costs | 22 | 55 | 31 | 14 | 27 |
| Restructuring and other charges, net | 2 | 152 | 19 | 222 | 104 |
| Amounts attributable to TE Connectivity Ltd.: | | | | | |
| Income from continuing operations | 1,941 | 1,238 | 1,614 | 1,154 | 1,003 |
| Income from discontinued operations, net of income taxes | 68 | 1,182 | 167 | 122 | 109 |
| Net income | \$ 2,009 | \$ 2,420 | \$ 1,781 | \$ 1,276 | \$ 1,112 |
| Per Share Data | | | | | |
| Basic earnings per share attributable to TE Connectivity Ltd.: | | | | | |
| Income from continuing operations | \$ 5.30 | \$ 3.06 | \$ 3.94 | \$ 2.76 | \$ 2.35 |
| Net income | 5.49 | 5.98 | 4.34 | 3.05 | 2.61 |
| Diluted earnings per share attributable to TE Connectivity Ltd.: | | | | | |
| Income from continuing operations | \$ 5.26 | \$ 3.01 | \$ 3.87 | \$ 2.73 | \$ 2.33 |
| Net income | 5.44 | 5.89 | 4.27 | 3.02 | 2.59 |
| Dividends and cash distributions paid per common share | \$ 1.40 | \$ 1.24 | \$ 1.08 | \$ 0.92 | \$ 0.78 |
| Balance Sheet Data | | | | | |
| Total assets | \$17,608 | \$20,589 | \$20,132 | \$18,446 | \$19,290 |
| Long-term liabilities | 6,057 | 7,429 | 7,128 | 6,000 | 7,166 |
| Total equity | \$ 8,485 | \$ 9,585 | \$ 9,013 | \$ 8,386 | \$ 7,977 |

- (1) Fiscal 2016 results included a pre-tax gain of \$144 million on the sale of our Circuit Protection Devices (“CPD”) business; a \$1,135 million income tax benefit associated with the effective settlement of tax matters for the years 1997 through 2000 which resolved all aspects of the disputed debt matter with the Internal Revenue Service through the year 2007 and the related impact of \$604 million to other expense pursuant to the Tax Sharing Agreement with Tyco International plc (“Tyco International”) and Covidien plc (“Covidien”); a \$91 million income tax charge related to an increase to the valuation allowance for certain U.S. deferred tax assets; and an \$83 million net income tax benefit related to tax settlements in certain other tax jurisdictions. (See Notes 3, 12, 15, and 16 to the Consolidated Financial Statements.) Fiscal 2016 was a 53 week year.
- (2) Fiscal 2015 results included a \$216 million income tax charge associated with the tax impacts of certain intercompany legal entity restructurings made in connection with our integration of Measurement Specialties, Inc. (“Measurement Specialties”); a \$201 million income tax benefit associated with the effective settlement of all undisputed tax matters for the years 2001 through 2007 and the related impact of \$84 million to other expense pursuant to the Tax Sharing Agreement with Tyco International and Covidien; and a \$63 million income tax benefit associated with the effective settlement of all undisputed tax matters for the years 2008 through 2010. In addition, in fiscal 2015, income from discontinued operations, net of income taxes

included the gain on the sale of our Broadband Network Solutions (“BNS”) business. (See Notes 4, 12, 15, and 16 to the Consolidated Financial Statements.)

- (3) Fiscal 2014 results included a \$282 million income tax benefit recognized in connection with a reduction in the valuation allowance associated with certain tax loss carryforwards relating to ADC Telecommunications, Inc. (“ADC”). (See Note 15 to the Consolidated Financial Statements.)
- (4) Fiscal 2013 results included a \$331 million income tax benefit associated with the effective settlement of all undisputed tax matters for the years 1997 through 2000 and the related impact of \$231 million to other expense pursuant to the Tax Sharing Agreement with Tyco International and Covidien.
- (5) Fiscal 2012 results included \$75 million of charges from the amortization of acquisition-related fair value adjustments related primarily to acquired inventories and customer order backlog associated with Deutsch Group SAS and a \$107 million income tax benefit recognized in connection with a reduction in the valuation allowance associated with tax loss carryforwards in certain non-U.S. locations.

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 30, 2016 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”).

The following discussion includes organic net sales growth and free cash flow which are non-GAAP financial measures. We believe these non-GAAP financial measures, together with GAAP financial measures, provide useful information to investors because they reflect the financial measures that management uses in evaluating the underlying results of our operations. See “Non-GAAP Financial Measures” for more information about these non-GAAP financial measures, including our reasons for including the measures and material limitations with respect to the usefulness of the measures.

Overview

We are a global technology leader. We design and manufacture connectivity and sensor solutions that are essential in today’s increasingly connected world. We help our customers solve the need for intelligent, efficient, and high-performing products and solutions.

Fiscal 2016 highlights included the following:

- Overall, our net sales were flat in fiscal 2016 as compared to fiscal 2015, as increased net sales in the Transportation Solutions and Industrial Solutions segments were offset by declines in the Communications Solutions segment. Foreign currency exchange rates negatively impacted net sales by \$254 million in fiscal 2016 as compared to fiscal 2015. On an organic basis, our net sales increased 1.5% during fiscal 2016 as compared to fiscal 2015.
- Our net sales by segment were as follows:
 - *Transportation Solutions*—Our net sales increased 2.4% due to increased sales in the automotive end market and, to a lesser degree, the sensors and commercial transportation end markets.
 - *Industrial Solutions*—Our net sales increased 1.1% due to increased sales in the industrial equipment end market which benefitted from sales contributions from acquisitions, partially offset by decreased sales in the aerospace, defense, oil, and gas and the energy end markets.
 - *Communications Solutions*—Our net sales decreased 6.8% due primarily to sales declines in the data and devices end market, partially offset by sales increases in the subsea communications end market.
- Fiscal 2016 included an additional week which contributed \$238 million in net sales and \$0.13 per share to diluted earnings per share.
- During fiscal 2016, our shareholders approved a dividend payment to shareholders of \$1.48 per issued share payable in four quarterly installments of \$0.37 beginning with the third fiscal quarter of 2016 and ending in the second fiscal quarter of 2017.

- Net cash provided by continuing operating activities was \$2,019 million and free cash flow was \$1,585 million in fiscal 2016.
- During fiscal 2016, we acquired the Creganna Medical group (“Creganna”), a global leader in the design and manufacture of minimally invasive delivery and access medical devices. Also during fiscal 2016, we completed the divestiture our CPD business.

Outlook

In the first quarter of fiscal 2017, we expect net sales to be between \$2.95 billion and \$3.05 billion. This reflects sales growth in the Industrial Solutions and Transportation Solutions segments, partially offset by sales declines in the Communications Solutions segment relative to the first quarter of fiscal 2016. Additional information regarding expectations for our reportable segments for the first quarter of fiscal 2017 as compared to the same period of fiscal 2016 is as follows:

- *Transportation Solutions*—We expect our net sales growth in the automotive end market to exceed anticipated growth in global automotive production of approximately 2% due primarily to growth in China and the EMEA region. We also expect our net sales to increase in the commercial transportation and sensors end markets.
- *Industrial Solutions*—We expect our net sales to increase in the industrial equipment end market due primarily to recent acquisitions. We expect our net sales growth in the aerospace and defense market to be partially offset by market weakness and sales declines in the oil and gas market.
- *Communications Solutions*—We expect our net sales to decline in the data and devices end market primarily as a result of the divestiture of our CPD business. This decline is expected to be partially offset by sales growth in the appliances and subsea communications end markets.

We expect diluted earnings per share from continuing operations to be in the range of \$0.84 to \$0.88 per share in the first quarter of fiscal 2017.

For fiscal 2017, we expect net sales to be between \$12.3 billion and \$12.9 billion, an increase from \$12.2 billion in fiscal 2016 which included an additional week. This increase is attributable to sales growth in the Industrial Solutions and Transportation Solutions segments, partially offset by sales declines in the Communications Solutions segment. Additional information regarding expectations for our reportable segments for fiscal 2017 compared to fiscal 2016 is as follows:

- *Transportation Solutions*—We expect our net sales increase in the automotive end market to outpace expected growth in global automotive production of approximately 1% as a result of increased content per vehicle and market share gains. We also expect our net sales to increase in the commercial transportation and sensors end markets.
- *Industrial Solutions*—We expect our net sales to increase in the industrial equipment end market due primarily to recent acquisitions. Also, we expect net sales growth in the aerospace and defense market.
- *Communications Solutions*—We expect our net sales growth in the subsea communications and appliances end markets to be more than offset by sales declines in the data and devices end market, due primarily to the divestiture of our CPD business.

We expect diluted earnings per share from continuing operations to be in the range of \$3.84 to \$4.14 per share in fiscal 2017.

The above outlook is based on foreign exchange rates and commodity prices that are consistent with current levels.

We are monitoring the current macroeconomic environment, including the proposed exit of the United Kingdom from the EU, and its potential effects on our customers and the end markets we serve. We continue to closely manage our costs in line with economic conditions. Additionally, we are managing our capital resources and monitoring capital availability to ensure that we have sufficient resources to fund future capital needs. See further discussion in “Liquidity and Capital Resources.”

Acquisitions

During fiscal 2016, we acquired four businesses, including Creganna, for a combined cash purchase price of \$1.3 billion, net of cash acquired.

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

During fiscal 2014, we acquired five businesses, including the SEACON Group (“SEACON”), a leading provider of underwater connector technology and systems, for \$522 million in cash, net of cash acquired.

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

Divestiture

During fiscal 2016, we sold our CPD business for net cash proceeds of \$333 million. We recognized a pre-tax gain of \$144 million on the transaction. The CPD business was reported as part of the Data and Devices business within our Communications Solutions segment.

Results of Operations

Net Sales

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

| | Fiscal | | | | | |
|------------------------------------|------------------|-------------|-----------------|-------------|-----------------|-------------|
| | 2016 | | 2015 | | 2014 | |
| | (\$ in millions) | | | | | |
| Transportation Solutions | \$ 6,503 | 53% | \$ 6,351 | 52% | \$ 6,090 | 51% |
| Industrial Solutions | 3,215 | 26 | 3,179 | 26 | 3,302 | 28 |
| Communications Solutions | 2,520 | 21 | 2,703 | 22 | 2,581 | 21 |
| Total | <u>\$12,238</u> | <u>100%</u> | <u>\$12,233</u> | <u>100%</u> | <u>\$11,973</u> | <u>100%</u> |

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

| | Fiscal | | | | | | | | | | | |
|---------------------|--|-------------|-------------------------------|--------------|--------------|-------------|--|-------------|----------------|--------------|--------------|-------------|
| | 2016 | | | | | | 2015 | | | | | |
| | Change in Net Sales versus Prior Fiscal Year | | | | | | Change in Net Sales versus Prior Fiscal Year | | | | | |
| | Total | Translation | Acquisitions (Divestiture) | Organic | Total | Translation | Acquisitions | Organic | Total | Translation | Acquisitions | Organic |
| (\$ in millions) | | | | | | | | | | | | |
| Transportation | | | | | | | | | | | | |
| Solutions | \$ 152 | 2.4% | \$(174) | \$ 16 | \$310 | 4.9% | \$ 261 | 4.3% | \$(556) | \$567 | \$250 | 4.1% |
| Industrial | | | | | | | | | | | | |
| Solutions | 36 | 1.1 | (63) | 188 | (89) | (2.8) | (123) | (3.7) | (258) | 142 | (7) | (0.2) |
| Communications | | | | | | | | | | | | |
| Solutions | (183) | (6.8) | (17) | (123) | (43) | (1.6) | 122 | 4.7 | (95) | — | 217 | 8.4 |
| Total | <u>\$ 5</u> | <u>—%</u> | <u>\$(254)</u> | <u>\$ 81</u> | <u>\$178</u> | <u>1.5%</u> | <u>\$ 260</u> | <u>2.2%</u> | <u>\$(909)</u> | <u>\$709</u> | <u>\$460</u> | <u>3.8%</u> |

Net sales were flat in fiscal 2016 as compared to fiscal 2015. Organic net sales growth of 1.5% and net sales contributions from acquisitions and a divestiture of 0.6% were offset by the negative impact of foreign currency translation of 2.1% due to the weakening of certain foreign currencies. Organic net sales were adversely affected by price erosion of \$188 million in fiscal 2016. Fiscal 2016 included an additional week which contributed \$238 million in net sales. The impact of the additional week was estimated using an average weekly sales figure for the last month of the fiscal year.

Net sales increased \$260 million, or 2.2%, in fiscal 2015 as compared to fiscal 2014. The increase in net sales resulted from sales contributions from acquisitions of 5.9% and organic net sales growth of 3.8%, partially offset by the negative impact of foreign currency translation of 7.5% due to the weakening of certain foreign currencies. During fiscal 2015, Measurement Specialties contributed net sales of \$548 million. Organic net sales were adversely affected by price erosion of \$208 million in fiscal 2015.

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

Net Sales by Geographic Region. Our business operates in three geographic regions—the Americas, EMEA, and Asia-Pacific—and our results of operations are influenced by changes in foreign currency exchange rates. Increases or decreases in the value of the U.S. dollar, compared to other currencies, will directly affect our reported results as we translate those currencies into U.S. dollars at the end of each fiscal period. We sell our products into approximately 150 countries, and approximately 54% of our net sales were invoiced in currencies other than the U.S. dollar in fiscal 2016. The percentage of net sales in fiscal 2016 by major currencies invoiced was as follows:

| <u>Currencies</u> | <u>Percentage</u> |
|----------------------------|-------------------|
| U.S. dollar | 46% |
| Euro | 28 |
| Chinese renminbi | 11 |
| Japanese yen | 6 |
| All others | 9 |
| Total | <u>100%</u> |

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

| | Fiscal | | | | | |
|------------------------|------------------|-------------|-----------------|-------------|-----------------|-------------|
| | 2016 | | 2015 | | 2014 | |
| | (\$ in millions) | | | | | |
| Americas | \$ 4,199 | 34% | \$ 4,138 | 34% | \$ 3,515 | 30% |
| EMEA | 4,116 | 34 | 3,992 | 33 | 4,224 | 35 |
| Asia-Pacific | 3,923 | 32 | 4,103 | 33 | 4,234 | 35 |
| Total | <u>\$12,238</u> | <u>100%</u> | <u>\$12,233</u> | <u>100%</u> | <u>\$11,973</u> | <u>100%</u> |

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

| | Fiscal | | | | | | | | | | | |
|------------------------|--|-------------|----------------------------|--------------|--------------|-------------|--|-------------|----------------|--------------|--------------|-------------|
| | 2016 | | | | | | 2015 | | | | | |
| | Change in Net Sales versus Prior Fiscal Year | | | | | | Change in Net Sales versus Prior Fiscal Year | | | | | |
| | Total | Translation | Acquisitions (Divestiture) | Organic | Total | Translation | Acquisitions | Organic | Total | Translation | Acquisitions | Organic |
| | (\$ in millions) | | | | | | | | | | | |
| Americas | \$ 61 | 1.5% | \$ (58) | \$104 | \$ 15 | 0.4% | \$ 623 | 17.7% | \$ (72) | \$334 | \$361 | 10.3% |
| EMEA | 124 | 3.1 | (141) | 71 | 194 | 4.9 | (232) | (5.5) | (649) | 287 | 130 | 3.1 |
| Asia-Pacific | (180) | (4.4) | (55) | (94) | (31) | (0.7) | (131) | (3.1) | (188) | 88 | (31) | (0.7) |
| Total | <u>\$ 5</u> | <u>—%</u> | <u>\$(254)</u> | <u>\$ 81</u> | <u>\$178</u> | <u>1.5%</u> | <u>\$ 260</u> | <u>2.2%</u> | <u>\$(909)</u> | <u>\$709</u> | <u>\$460</u> | <u>3.8%</u> |

Cost of Sales and Gross Margin

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

| | Fiscal | | | Fiscal 2016 versus 2015 | Fiscal 2015 versus 2014 |
|--|------------------|---------|---------|-------------------------|-------------------------|
| | 2016 | 2015 | 2014 | | |
| | (\$ in millions) | | | | |
| Cost of sales | \$8,205 | \$8,146 | \$8,001 | \$ 59 | \$145 |
| As a percentage of net sales | 67.0% | 66.6% | 66.8% | 0.4% | (0.2)% |
| Gross margin | \$4,033 | \$4,087 | \$3,972 | \$(54) | \$115 |
| As a percentage of net sales | 33.0% | 33.4% | 33.2% | (0.4)% | 0.2% |

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

Gross margin increased \$115 million in fiscal 2015 as compared to fiscal 2014. In fiscal 2015, gross margin included charges of \$36 million associated with the acquisition of Measurement Specialties. Excluding these charges, gross margin increased in fiscal 2015 primarily as a result of higher volume and improved manufacturing productivity, partially offset by the negative impact of changes in foreign currency exchange rates and price erosion.

Cost of sales and gross margin are subject to variability in raw material prices, and the price of many of our raw materials continues to fluctuate. In fiscal 2016, we purchased approximately

170 million pounds of copper, 115,000 troy ounces of gold, and 2.4 million troy ounces of silver. The following table sets forth the average prices incurred related to copper, gold, and silver.

| | Measure | Fiscal | | |
|------------------|----------|---------|---------|---------|
| | | 2016 | 2015 | 2014 |
| Copper | Lb. | \$ 2.49 | \$ 3.06 | \$ 3.33 |
| Gold | Troy oz. | 1,212 | 1,267 | 1,405 |
| Silver | Troy oz. | 16.08 | 18.51 | 23.43 |

In fiscal 2017, we expect to purchase approximately 177 million pounds of copper, 129,000 troy ounces of gold, and 2.5 million troy ounces of silver.

Operating Expenses

The following table presents operating expense information:

| | Fiscal | | | Fiscal 2016 versus 2015 | Fiscal 2015 versus 2014 |
|---|------------------|---------|---------|----------------------------------|----------------------------------|
| | 2016 | 2015 | 2014 | | |
| | (\$ in millions) | | | | |
| Selling, general, and administrative expenses | \$1,463 | \$1,504 | \$1,534 | \$ (41) | \$ (30) |
| As a percentage of net sales | 12.0% | 12.3% | 12.8% | (0.3)% | (0.5)% |
| Research, development, and engineering expenses . . . | \$ 644 | \$ 627 | \$ 583 | \$ 17 | \$ 44 |
| Acquisition and integration costs | \$ 22 | \$ 55 | \$ 31 | \$ (33) | \$ 24 |
| Restructuring and other charges, net | \$ 2 | \$ 152 | \$ 19 | \$ (150) | \$ 133 |

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

Selling, general, and administrative expenses decreased \$30 million in fiscal 2015 as compared to fiscal 2014. The decrease resulted primarily from cost control measures and savings attributable to restructuring actions, partially offset by additional expenses associated with Measurement Specialties.

Research, Development, and Engineering Expenses. Research, development, and engineering expenses increased \$17 million in fiscal 2016 as compared to fiscal 2015 and \$44 million in fiscal 2015 as compared to fiscal 2014. The increases resulted from additional expenses related to acquisitions and growth initiatives, primarily in the Transportation Solutions segment.

Acquisition and Integration Costs. In fiscal 2016, we incurred acquisition and integration costs of \$22 million related primarily to the acquisitions of Creganna and Measurement Specialties. In fiscal 2015, we incurred acquisition and integration costs of \$55 million, related primarily to the acquisitions of Measurement Specialties and SEACON. In fiscal 2014, we incurred acquisition and integration costs of \$31 million, primarily in connection with the acquisition of SEACON.

Restructuring and Other Charges, Net. We are committed to continuous productivity improvements and consistently 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 2016, we initiated a restructuring program associated with headcount reductions impacting all segments and product line closures in the Communications Solutions segment. During fiscal 2015, we initiated a restructuring program associated with headcount reductions and product line

closures, primarily impacting the Communications Solutions and Industrial Solutions segments. During fiscal 2014, we initiated a restructuring program associated primarily with headcount reductions and manufacturing site and product line closures in the Communications Solutions segment.

In connection with these initiatives, we recorded net restructuring charges of \$125 million, \$93 million, and \$23 million in fiscal 2016, 2015, and 2014, respectively. Annualized cost savings related to actions initiated in fiscal 2016 are expected to be approximately \$150 million and are expected to be realized by the end of fiscal 2017. Cost savings will be reflected primarily in cost of sales and selling, general, and administrative expenses. During fiscal 2017, we expect net restructuring charges to be similar to fiscal 2016 levels. We expect total spending, which will be funded with cash from operations, to be approximately \$110 million in fiscal 2017.

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

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

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

Operating Income

The following table presents operating income and operating margin information:

| | Fiscal | | | Fiscal 2016 versus 2015 | Fiscal 2015 versus 2014 |
|----------------------------|------------------|---------|---------|----------------------------------|----------------------------------|
| | 2016 | 2015 | 2014 | 2015 | 2014 |
| | (\$ in millions) | | | | |
| Operating income | \$1,902 | \$1,749 | \$1,805 | \$153 | \$ (56) |
| Operating margin | 15.5% | 14.3% | 15.1% | 1.2% | (0.8)% |

Operating income included the following:

| | Fiscal | | |
|--|---------------|-------|------|
| | 2016 | 2015 | 2014 |
| | (in millions) | | |
| Acquisition related charges: | | | |
| Acquisition and integration costs | \$22 | \$ 55 | \$31 |
| Charges associated with the amortization of acquisition-related fair value adjustments | 10 | 36 | 4 |
| Restructuring charges related to acquisitions | — | 3 | — |
| | 32 | 94 | 35 |
| Restructuring and other charges, net | 2 | 149 | 19 |
| Total | \$34 | \$243 | \$54 |

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

Non-Operating Items

The following table presents select non-operating information:

| | Fiscal | | | Fiscal | Fiscal |
|--|---------------|--------|-------|------------------------|------------------------|
| | 2016 | 2015 | 2014 | 2016 versus 2015 | 2015 versus 2014 |
| | (in millions) | | | | |
| Interest expense | \$ 127 | \$ 136 | \$127 | \$ (9) | \$ 9 |
| Other income (expense), net | (632) | (55) | 63 | (577) | (118) |
| Income tax expense (benefit) | (779) | 337 | 146 | (1,116) | 191 |
| Income from discontinued operations, net of income taxes . . | 68 | 1,182 | 167 | (1,114) | 1,015 |

Other Income (Expense), Net. In fiscal 2016, 2015, and 2014, we recorded net other income (expense) primarily pursuant to the Tax Sharing Agreement with Tyco International and Covidien. See Note 16 to the Consolidated Financial Statements for further information regarding net other income (expense) and Note 12 to the Consolidated Financial Statements for information regarding the separation and related Tax Sharing Agreement.

Income Taxes. See Note 15 to the Consolidated Financial Statements for information regarding items impacting income tax expense (benefit) for fiscal 2016, 2015, and 2014.

The valuation allowance for deferred tax assets was \$3,096 million and \$3,237 million at fiscal year end 2016 and 2015, respectively. See Note 15 to the Consolidated Financial Statements for further information regarding the valuation allowance for deferred tax assets.

As of fiscal year end 2016, certain subsidiaries had approximately \$21 billion of cumulative undistributed earnings that have been retained indefinitely and reinvested in our global manufacturing operations, including working capital; property, plant, and equipment; intangible assets; and research and development activities. See Note 15 to the Consolidated Financial Statements for additional information regarding undistributed earnings.

Income from Discontinued Operations, Net of Income Taxes. During fiscal 2015, we sold our BNS business for \$3.0 billion in cash and recognized a pre-tax gain of \$1.1 billion on the transaction. During fiscal 2016, we recognized an additional pre-tax gain of \$29 million on the divestiture, related primarily to pension and net working capital adjustments.

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

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

Segment Results

Transportation Solutions

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

| | Fiscal | | | | | |
|-------------------------------------|------------------|-------------|----------------|-------------|----------------|-------------|
| | 2016 | | 2015 | | 2014 | |
| | (\$ in millions) | | | | | |
| Automotive | \$4,912 | 75% | \$4,780 | 75% | \$4,995 | 82% |
| Commercial Transportation | 825 | 13 | 820 | 13 | 893 | 15 |
| Sensors | 766 | 12 | 751 | 12 | 202 | 3 |
| Total | \$6,503 | 100% | \$6,351 | 100% | \$6,090 | 100% |

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

The following table provides an analysis of the change in the Transportation Solutions segment's net sales compared to the prior fiscal year by primary industry end market:

| | Fiscal | | | | | | | | | | | | | | |
|-------------------------------------|--|-------------|----------------|-------------|--------------|-------------|--|-------------|----------------|--------------|--------------|-------------|--------------|--|---------|
| | 2016 | | | | | | 2015 | | | | | | | | |
| | Change in Net Sales versus Prior Fiscal Year | | | | | | Change in Net Sales versus Prior Fiscal Year | | | | | | | | |
| | Total | | Translation | | Acquisition | | Organic | | Total | | Translation | | Acquisitions | | Organic |
| (\$ in millions) | | | | | | | | | | | | | | | |
| Automotive | \$132 | 2.8% | \$(134) | \$— | \$266 | 5.6% | \$(215) | (4.3)% | \$(469) | \$ — | \$254 | 5.1% | | | |
| Commercial Transportation | 5 | 0.6 | (16) | — | 21 | 2.6 | (73) | (8.2) | (66) | — | (7) | (0.8) | | | |
| Sensors | 15 | 2.0 | (24) | 16 | 23 | 3.1 | 549 | 271.8 | (21) | 567 | 3 | 1.9 | | | |
| Total | \$152 | 2.4% | \$(174) | \$16 | \$310 | 4.9% | \$ 261 | 4.3% | \$(556) | \$567 | \$250 | 4.1% | | | |

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

- *Automotive*—Our organic net sales increased 5.6% in fiscal 2016. The increase was due primarily to growth of 8.4% in the Asia-Pacific region and 5.9% in the EMEA region, partially offset by a decrease of 0.9% in the Americas region. In the Asia-Pacific region, our growth was driven by increased electrification and market share gains in China. In the EMEA region, our organic net sales increased due to electrification and new model launches. The Americas region was adversely impacted by market weakness in North America and macroeconomic conditions in South America.
- *Commercial transportation*—Our organic net sales increased 2.6% in fiscal 2016 due primarily to growth in the heavy truck market in the EMEA region and China.
- *Sensors*—Our organic net sales increased 3.1% in fiscal 2016 due primarily to increased sales in the automotive, aerospace and defense, and industrial equipment markets.

Net sales in the Transportation Solutions segment increased \$261 million, or 4.3%, in fiscal 2015 as compared to fiscal 2014 as a result of sales contributions from acquisitions of 9.3% and organic net sales growth of 4.1%, partially offset by the negative impact of foreign currency translation of 9.1%.

Measurement Specialties contributed net sales of \$548 million during fiscal 2015. Our organic net sales by primary industry end market were as follows:

- *Automotive*—Our organic net sales increased 5.1% in fiscal 2015 with growth of 8.2% in the Asia-Pacific region, 4.4% in the EMEA region, and 0.8% in the Americas region. Growth in the Asia-Pacific and EMEA regions and North America was driven primarily by increased content per vehicle. This growth was partially offset by weakness in South America driven by lower production volumes in Brazil.
- *Commercial transportation*—Our organic net sales decreased 0.8% in fiscal 2015 due to lower demand in the agriculture market across all regions, partially offset by growth in the heavy truck market in developed countries.
- *Sensors*—Our organic net sales increased 1.9% in fiscal 2015 due primarily to increased sales in the automotive market resulting from new product launches in China and increased volume in Japan, partially offset by market weakness in Korea and Eastern Europe.

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

| | Fiscal | | | Fiscal 2016 versus 2015 | Fiscal 2015 versus 2014 |
|----------------------------|------------------|---------|---------|----------------------------------|----------------------------------|
| | 2016 | 2015 | 2014 | | |
| | (\$ in millions) | | | | |
| Operating income | \$1,191 | \$1,193 | \$1,245 | \$ (2) | \$ (52) |
| Operating margin | 18.3% | 18.8% | 20.4% | (0.5)% | (1.6)% |

The Transportation Solutions segment's operating income included the following:

| | Fiscal | | |
|--|---------------|--------------|-------------|
| | 2016 | 2015 | 2014 |
| | (in millions) | | |
| Acquisition related charges: | | | |
| Acquisition and integration costs | \$ 9 | \$ 28 | \$ 4 |
| Charges associated with the amortization of acquisition-related fair value adjustments | — | 30 | — |
| Restructuring charges related to acquisitions | — | 3 | — |
| | 9 | 61 | 4 |
| Restructuring and other charges, net | 46 | 39 | 4 |
| Total | <u>\$55</u> | <u>\$100</u> | <u>\$ 8</u> |

Operating income in the Transportation Solutions segment was flat in fiscal 2016 as compared to fiscal 2015. Excluding the items presented in the table above, operating income decreased in fiscal 2016 primarily as a result of price erosion and the negative impact of changes in foreign currency exchange rates, partially offset by lower material costs.

In fiscal 2015, operating income in the Transportation Solutions segment decreased \$52 million as compared to fiscal 2014. Excluding the items presented in the table above, operating income increased in fiscal 2015 due primarily to higher volume and improved manufacturing productivity, partially offset by the negative impact of changes in foreign currency exchange rates and price erosion.

Industrial Solutions

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

| | Fiscal | | | | | |
|--|------------------|-------------|----------------|-------------|----------------|-------------|
| | 2016 | | 2015 | | 2014 | |
| | (\$ in millions) | | | | | |
| Industrial Equipment | \$1,419 | 44% | \$1,323 | 42% | \$1,364 | 41% |
| Aerospace, Defense, Oil, and Gas | 1,100 | 34 | 1,151 | 36 | 1,140 | 35 |
| Energy | 696 | 22 | 705 | 22 | 798 | 24 |
| Total | <u>\$3,215</u> | <u>100%</u> | <u>\$3,179</u> | <u>100%</u> | <u>\$3,302</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 compared to the prior fiscal year by primary industry end market:

| | Fiscal | | | | | | | | | | | |
|--|--|-------------|---------------|--------------|---------------|--|----------------|---------------|----------------|--------------|---------------|---------------|
| | 2016 | | | | | 2015 | | | | | | |
| | Change in Net Sales versus Prior Fiscal Year | | | | | Change in Net Sales versus Prior Fiscal Year | | | | | | |
| | Total | Translation | Acquisitions | Organic | | Total | Translation | Acquisitions | Organic | | | |
| | (\$ in millions) | | | | | | | | | | | |
| Industrial Equipment | \$ 96 | 7.3% | \$(14) | \$179 | \$(69) | (5.2)% | \$ (41) | (3.0)% | \$ (96) | \$ 43 | \$ 12 | 0.9% |
| Aerospace, Defense, Oil, and Gas | (51) | (4.4) | (15) | 9 | (45) | (3.8) | 11 | 1.0 | (71) | 99 | (17) | (1.5) |
| Energy | (9) | (1.3) | (34) | — | 25 | 3.6 | (93) | (11.7) | (91) | — | (2) | (0.3) |
| Total | <u>\$ 36</u> | <u>1.1%</u> | <u>\$(63)</u> | <u>\$188</u> | <u>\$(89)</u> | <u>(2.8)%</u> | <u>\$(123)</u> | <u>(3.7)%</u> | <u>\$(258)</u> | <u>\$142</u> | <u>\$ (7)</u> | <u>(0.2)%</u> |

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

- *Industrial equipment*—Our organic net sales decreased 5.2% in fiscal 2016 as a result of market weakness in the Americas and Asia-Pacific regions.
- *Aerospace, defense, oil, and gas*—Our organic net sales decreased 3.8% in fiscal 2016. The decrease was attributable to declines in the oil and gas market, partially offset by growth in the aerospace and defense market. In the oil and gas market, our organic net sales decrease was due to continued market weakness resulting from declines in oil prices. In the aerospace and defense market, our organic net sales increased due primarily to strength in our commercial aerospace business resulting from customer growth and market share gains.
- *Energy*—Our organic net sales increased 3.6% in fiscal 2016 primarily as a result of growth in the Americas and EMEA regions.

In the Industrial Solutions segment, net sales decreased \$123 million, or 3.7%, in fiscal 2015 from fiscal 2014 due primarily to the negative impact of foreign currency translation of 7.8%, partially offset by sales contributions from acquisitions of 4.3%. Our organic net sales by primary industry end market were as follows:

- *Industrial equipment*—Our organic net sales increased 0.9% in fiscal 2015 as growth in the Asia-Pacific and EMEA regions was partially offset by lower demand in the Americas region.

- *Aerospace, defense, oil, and gas*—Our organic net sales decreased 1.5% in fiscal 2015 due primarily to weakness in the oil and gas market resulting from oil price declines and market uncertainty, partially offset by continued strength in our commercial aerospace business.
- *Energy*—Our organic net sales were flat in fiscal 2015 as growth in the Americas region was offset by declines in the Asia-Pacific region.

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

| | Fiscal | | | Fiscal | Fiscal |
|----------------------------|------------------|--------|--------|------------------------|------------------------|
| | 2016 | 2015 | 2014 | 2016 versus 2015 | 2015 versus 2014 |
| | (\$ in millions) | | | | |
| Operating income | \$ 343 | \$ 352 | \$ 431 | \$ (9) | \$ (79) |
| Operating margin | 10.7% | 11.1% | 13.1% | (0.4)% | (2.0)% |

The Industrial Solutions segment's operating income included the following:

| | Fiscal | | |
|---|---------------|-------------|-------------|
| | 2016 | 2015 | 2014 |
| | (in millions) | | |
| Acquisition related charges: | | | |
| Acquisition and integration costs | \$13 | \$27 | \$27 |
| Charges associated with the amortization of acquisition-related fair value adjustments | 10 | 6 | 4 |
| | 23 | 33 | 31 |
| Restructuring and other charges, net | 31 | 44 | 7 |
| Total | <u>\$54</u> | <u>\$77</u> | <u>\$38</u> |

Operating income in the Industrial Solutions segment decreased \$9 million in fiscal 2016 as compared to fiscal 2015. Excluding the items presented in the table above, operating income decreased in fiscal 2016 due primarily to unfavorable product mix and price erosion, partially offset by lower material costs.

In fiscal 2015, operating income in the Industrial Solutions segment decreased \$79 million as compared to fiscal 2014. Excluding the items presented in the table above, operating income decreased in fiscal 2015 primarily as a result of the negative impact of changes in foreign currency exchange rates and price erosion.

Communications Solutions

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

| | 2016 | | Fiscal 2015 | | 2014 | |
|---------------------------------|----------------|-------------|------------------|-------------|----------------|-------------|
| | | | (\$ in millions) | | | |
| Data and Devices | \$1,020 | 40% | \$1,357 | 50% | \$1,641 | 64% |
| Subsea Communications | 885 | 35 | 709 | 26 | 283 | 11 |
| Appliances | 615 | 25 | 637 | 24 | 657 | 25 |
| Total | <u>\$2,520</u> | <u>100%</u> | <u>\$2,703</u> | <u>100%</u> | <u>\$2,581</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 compared to the prior fiscal year by primary industry end market:

| | 2016 | | Fiscal 2015 | | 2015 | | Fiscal 2014 | | | | |
|---------------------------------|--|---------------|---------------|----------------|--|---------------|---------------|-----------------|---------------|---------------|-------------|
| | Change in Net Sales versus Prior Fiscal Year | | | | Change in Net Sales versus Prior Fiscal Year | | | | | | |
| | Total | Translation | Divestiture | Organic | Total | Translation | Organic | | | | |
| | (\$ in millions) | | | | | | | | | | |
| Data and Devices | \$(337) | (24.8)% | \$ (6) | \$(123) | \$(208) | (17.8)% | \$(60) | \$(224) (13.6)% | | | |
| Subsea Communications | 176 | 24.8 | — | 176 | 24.8 | 426 | 150.5 | 426 150.5 | | | |
| Appliances | (22) | (3.5) | (11) | (11) | (1.8) | (20) | (3.0) | (35) 15 2.3 | | | |
| Total | <u>\$(183)</u> | <u>(6.8)%</u> | <u>\$(17)</u> | <u>\$(123)</u> | <u>\$(43)</u> | <u>(1.6)%</u> | <u>\$ 122</u> | <u>4.7%</u> | <u>\$(95)</u> | <u>\$ 217</u> | <u>8.4%</u> |

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

- *Data and devices*—Our organic net sales decreased 17.8% in fiscal 2016 as a result of strategic exit of certain low margin product lines and market weakness in all regions.
- *Subsea communications*—Our organic net sales increased 24.8% in fiscal 2016 due to increased levels of project activity.
- *Appliances*—Our organic net sales decreased 1.8% in fiscal 2016 due primarily to high inventory levels at distributors in the first half of the year and lower demand in the Asia-Pacific and Americas regions, partially offset by growth in the EMEA region.

Net sales in the Communications Solutions segment increased \$122 million, or 4.7%, in fiscal 2015 as compared to fiscal 2014 as a result of organic net sales growth of 8.4%, partially offset by the negative impact of foreign currency translation of 3.7%. Our organic net sales by primary industry end market were as follows:

- *Data and devices*—Our organic net sales decreased 13.6% in fiscal 2015 due to continued declines in our sales in the feature phone and tablet computer markets, weak demand in the smartphone business, and the exit of certain low margin product lines.
- *Subsea communications*—Our organic net sales increased 150.5% in fiscal 2015 as a result of increased levels of project activity.

- *Appliances*—Our organic net sales increased 2.3% in fiscal 2015 with increased demand in the EMEA region and a rebound in the U.S. market, partially offset by lower demand in the Asia-Pacific region.

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

| | Fiscal | | | Fiscal | Fiscal |
|----------------------------|------------------|-------|-------|------------------------|------------------------|
| | 2016 | 2015 | 2014 | 2016 versus 2015 | 2015 versus 2014 |
| | (\$ in millions) | | | | |
| Operating income | \$ 368 | \$204 | \$129 | \$164 | \$ 75 |
| Operating margin | 14.6% | 7.5% | 5.0% | 7.1% | 2.5% |

The Communications Solutions segment's operating income included the following:

| | Fiscal | | |
|--|-----------------------|------|------|
| | 2016 | 2015 | 2014 |
| | (in millions) | | |
| Restructuring and other charges (credits), net | \$(75) ⁽¹⁾ | \$66 | \$8 |

(1) Includes pre-tax gain of \$144 million on the sale of our CPD business during fiscal 2016.

Operating income in the Communications Solutions segment increased \$164 million in fiscal 2016 as compared to fiscal 2015, primarily as a result of the divestiture of the CPD business. Excluding the items presented in the table above, operating income increased in fiscal 2016 as a result of lower material costs and savings attributable to restructuring actions, partially offset by the impact of unfavorable product mix, lower volume, and price erosion.

In fiscal 2015, operating income in the Communications Solutions segment increased \$75 million as compared to fiscal 2014. Excluding the items presented in the table above, operating income increased in fiscal 2015, due primarily to improved manufacturing productivity, partially offset by price erosion.

Liquidity and Capital Resources

The following table summarizes our cash flow from operating, investing, and financing activities, as reflected on the Consolidated Statements of Cash Flows:

| | Fiscal | | |
|--|------------------|---------------|-----------------|
| | 2016 | 2015 | 2014 |
| | (in millions) | | |
| Net cash provided by operating activities | \$ 1,922 | \$ 1,913 | \$ 2,083 |
| Net cash provided by (used in) investing activities | (1,581) | 636 | (1,075) |
| Net cash provided by (used in) financing activities | (3,030) | (1,606) | 65 |
| Effect of currency translation on cash | 7 | (71) | (19) |
| Net increase (decrease) in cash and cash equivalents | <u>\$(2,682)</u> | <u>\$ 872</u> | <u>\$ 1,054</u> |

Our ability to fund our future capital needs will be affected by our ability to continue to generate cash from operations and may be affected by our ability to access the capital markets, money markets, or other sources of funding, as well as the capacity and terms of our financing arrangements. We believe that cash generated from operations and, to the extent necessary, these other sources of potential funding will be sufficient to meet our anticipated capital needs for the foreseeable future. We may use excess cash to purchase a portion of our common shares pursuant to our authorized share repurchase program; to acquire strategic businesses or product lines; to pay distributions or dividends

on our common shares; or to reduce our outstanding debt, including through the possible repurchase of our debt in accordance with applicable law. The cost or availability of future funding may be impacted by financial market conditions. We will continue to monitor financial markets and respond as necessary to changing conditions.

As of fiscal year end 2016, 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 2016, we had approximately \$6.9 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 approximately \$1.5 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 was \$2,019 million in fiscal 2016 as compared to \$1,619 million in fiscal 2015. The increase resulted primarily from favorable effects of changes in accounts receivable and inventory levels, partially offset by an increase in net payments related to pre-separation tax matters.

Net cash provided by continuing operating activities decreased \$185 million to \$1,619 million in fiscal 2015 as compared to \$1,804 million in fiscal 2014. The decrease resulted primarily from the unfavorable effects of changes in working capital levels, partially offset by a decrease in net payments related to pre-separation tax matters.

Pension contributions in fiscal 2016, 2015, and 2014 were \$67 million, \$66 million, and \$87 million, respectively. We expect pension contributions to be \$54 million in fiscal 2017, before consideration of any voluntary contributions. There were no voluntary pension contributions in fiscal 2016, 2015, and 2014.

The amount of income taxes paid, net of refunds, during fiscal 2016, 2015, and 2014 was \$806 million, \$350 million, and \$259 million, respectively. In fiscal 2016 and 2015, these payments included \$471 million and \$47 million, respectively, for tax deficiencies related to pre-separation tax matters. Also during fiscal 2016 and 2015, we received net reimbursements of \$321 million and \$7 million, respectively, from Tyco International and Covidien pursuant to their indemnifications for pre-separation tax matters. During fiscal 2014, we made net payments of \$179 million to Tyco International and Covidien pursuant to our indemnifications for pre-separation tax matters. See Note 12 to the Consolidated Financial Statements for additional information related to pre-separation tax matters.

In addition to net cash provided by operating activities, we use free cash flow, a non-GAAP financial measure, as a useful measure of our ability to generate cash. Free cash flow was \$1,585 million in fiscal 2016 as compared to \$1,076 million in fiscal 2015 and \$1,477 million in fiscal 2014. The increase in free cash flow in fiscal 2016 as compared to fiscal 2015 was driven primarily by favorable effects of changes in accounts receivable and inventory levels. The decrease in free cash flow in fiscal 2015 as compared to fiscal 2014 was driven primarily by the changes in net cash provided by continuing operating activities discussed above and higher proceeds from the sale of property, plant, and equipment in fiscal 2014.

The following table sets forth a reconciliation of net cash provided by continuing operating activities, the most comparable GAAP financial measure, to free cash flow.

| | Fiscal | | |
|---|----------------|----------------|----------------|
| | 2016 | 2015 | 2014 |
| | (in millions) | | |
| Net cash provided by continuing operating activities | \$2,019 | \$1,619 | \$1,804 |
| Excluding: | | | |
| Payments related to pre-separation U.S. tax matters, net | 150 | 40 | 179 |
| Payments related to income taxes on the sale of the BNS business | 36 | — | — |
| Capital expenditures | (628) | (600) | (635) |
| Proceeds from sale of property, plant, and equipment | 8 | 17 | 129 |
| Free cash flow | <u>\$1,585</u> | <u>\$1,076</u> | <u>\$1,477</u> |

Cash Flows from Investing Activities

Capital expenditures were \$628 million, \$600 million, and \$635 million in fiscal 2016, 2015, and 2014, respectively. We expect fiscal 2017 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.

Proceeds from the sale of property, plant, and equipment for fiscal 2014 included approximately \$100 million related to the sale of real estate.

During fiscal 2016, we acquired four businesses, including Creganna, for a combined cash purchase price of \$1.3 billion, net of cash acquired. During fiscal 2015, we acquired Measurement Specialties. The total value paid for the transaction was approximately \$1.7 billion, net of cash acquired, and included \$225 million for the repayment of Measurement Specialties' debt and accrued interest. Also during fiscal 2015, we acquired three additional businesses for \$241 million in cash, net of cash acquired. During fiscal 2014, we acquired five businesses for \$522 million in cash, net of cash acquired. See additional information in Note 5 to the Consolidated Financial Statements.

During fiscal 2016, we received net cash proceeds of \$333 million related to the sale of our CPD business. See additional information in Note 3 to the Consolidated Financial Statements.

During fiscal 2015, we received net cash proceeds of \$3.0 billion related to the sale of our BNS 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 2016 and 2015 was \$4,070 million and \$3,884 million, respectively. See Note 11 to the Consolidated Financial Statements for additional information regarding debt.

During January 2016, TEGSA, our 100%-owned subsidiary, issued \$350 million aggregate principal amount of 3.700% senior notes due February 15, 2026. 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 total commitments of \$1,500 million. The Credit Facility was amended in December 2015 primarily to extend the maturity date from August 2018 to December 2020. TEGSA had no borrowings under the Credit Facility at fiscal year end 2016 and 2015.

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 2016, we were in compliance with all of our debt covenants and believe that we will continue to be in compliance with our existing covenants for the foreseeable future.

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

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

Payments of common share dividends to shareholders were \$509 million, \$502 million, and \$443 million in fiscal 2016, 2015, and 2014, respectively. See Note 18 to the Consolidated Financial Statements for additional information regarding dividends and cash distributions on our common shares.

Future dividends on our common shares or reductions of registered share capital for distribution to shareholders, if any, must be approved by our shareholders. In exercising their discretion to recommend to the shareholders that such dividends or distributions be approved, our board of directors will consider our results of operations, cash requirements and surplus, financial condition, statutory requirements of applicable law, contractual restrictions, and other factors that they may deem relevant.

During fiscal 2016, our board of directors authorized an increase of \$1.0 billion in the share repurchase program. We repurchased approximately 43 million of our common shares for \$2,610 million, 18 million of our common shares for \$1,163 million, and 11 million of our common shares for \$604 million under the share repurchase program during fiscal 2016, 2015, and 2014, respectively. At fiscal year end 2016, we had \$1.1 billion of availability remaining under our share repurchase authorization.

Commitments and Contingencies

The following table provides a summary of our contractual obligations and commitments for debt, minimum lease payment obligations under non-cancelable leases, and other obligations at fiscal year end 2016:

| | Total | Payments Due by Fiscal Year | | | | | |
|---|----------------|-----------------------------|--------------|--------------|--------------|--------------|----------------|
| | | 2017 | 2018 | 2019 | 2020 | 2021 | Thereafter |
| | | (in millions) | | | | | |
| Debt ⁽¹⁾ | \$4,061 | \$331 | \$708 | \$576 | \$ 1 | \$250 | \$2,195 |
| Interest payments on debt ⁽²⁾ | 1,228 | 152 | 129 | 102 | 92 | 86 | 667 |
| Operating leases | 444 | 106 | 86 | 66 | 47 | 41 | 98 |
| Purchase obligations ⁽³⁾ | 324 | 309 | 8 | 2 | 1 | — | 4 |
| Total contractual cash obligations ⁽⁴⁾⁽⁵⁾⁽⁶⁾ | <u>\$6,057</u> | <u>\$898</u> | <u>\$931</u> | <u>\$746</u> | <u>\$141</u> | <u>\$377</u> | <u>\$2,964</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 swaps.
- (3) Purchase obligations consist primarily of commitments for purchases of goods and services.
- (4) The table above does not reflect unrecognized income tax benefits of \$490 million and related accrued interest and penalties of \$54 million, the timing of which is uncertain. See Note 15 to the Consolidated Financial Statements for additional information regarding unrecognized income tax benefits, interest, and penalties.
- (5) The table above 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 \$54 million to pension plans in fiscal 2017, before consideration of voluntary contributions. These plans and our estimates of future contributions and benefit payments are more fully described in Note 14 to the Consolidated Financial Statements.
- (6) Other long-term liabilities of \$362 million are excluded from the table above 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 2017 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 2016, we had outstanding letters of credit, letters of guarantee, and surety bonds of \$324 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 significantly affect our results of operations, financial position, or cash flows.

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. The following accounting policies are considered to be the most critical as they require significant judgments and assumptions that involve inherent risks and uncertainties. Management's estimates are based on the relevant information available at the end of each period.

Revenue Recognition

Our revenue recognition policies are in accordance with Accounting Standards Codification ("ASC") 605, *Revenue Recognition*. Our revenues are generated principally from the sale of our products. Revenue from the sale of products is recognized at the time title and the risks and rewards of ownership pass to the customer. This generally occurs when the products reach the shipping point, the sales price is fixed and determinable, and collection is reasonably assured. A reserve for estimated returns is established at the time of sale based on historical return experience and is recorded as a reduction of sales. Other allowances include customer quantity and price discrepancies. A reserve for other allowances is generally established at the time of sale based on historical experience and also is recorded as a reduction of sales.

Contract revenues for construction related projects, which are generated in the Communications Solutions segment, are recorded primarily using the percentage-of-completion method. Profits recognized on contracts in process are based upon estimated contract revenue and related cost to complete. Percentage-of-completion is measured based on the ratio of actual costs incurred to total estimated costs. Revisions in cost estimates as contracts progress have the effect of increasing or decreasing profits in the current period. Provisions for anticipated losses are made in the period in which they first become determinable. In addition, provisions for credit losses related to construction related projects are recorded as reductions of revenue in the period in which they first become determinable.

Goodwill and Other Intangible Assets

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

We test for goodwill impairment at the reporting unit level. A reporting unit is generally an operating segment or one level below an operating segment that constitutes a business for which discrete financial information is available and regularly reviewed by segment management. At fiscal year end 2016, we had six reporting units, five of which contained goodwill. There were two reporting units in each of our three segments. When changes occur in the composition of one or more reporting units, goodwill is reassigned to the reporting units affected based on their relative fair values. We review our reporting unit structure each year as part of our annual goodwill impairment test, or more frequently based on changes in our structure.

Goodwill impairment is evaluated by comparing the carrying value of each reporting unit to its fair value on the first day of the fourth fiscal quarter of each year or whenever we believe a triggering event requiring a more frequent assessment has occurred. In assessing the existence of a triggering event, management relies on a number of reporting unit-specific factors including operating results,

business plans, economic projections, anticipated future cash flows, transactions, and market place data. There are inherent uncertainties related to these factors and management's judgment in applying these factors to the impairment analysis.

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

Fair value estimates used in the step I goodwill impairment tests are calculated using an income approach based on the present value of future cash flows of each reporting unit. The income approach generally has been supported by guideline analyses (a market approach). These approaches incorporate a number of assumptions including future growth rates, discount rates, income tax rates, and market activity in assessing fair value and are reporting unit specific. Changes in economic and operating conditions impacting these assumptions could result in goodwill impairments in future periods.

We completed our annual goodwill impairment test in the fourth quarter of fiscal 2016 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 future state, federal, and non-U.S. pre-tax operating income, the reversal of temporary differences, and the implementation of feasible and prudent tax planning strategies. These assumptions require significant judgment about the forecasts of taxable income and are consistent with the plans and estimates we are using to manage the underlying businesses.

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

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

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

Pension

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

Net periodic pension benefit cost is based on the utilization of the projected unit credit method of calculation and is charged to earnings on a systematic basis over the expected average remaining service lives of current participants.

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 2016, a 25 basis point decrease in the discount rate would have increased the present value of our pension obligations by \$127 million; a 25 basis point increase would have decreased the present value of our pension obligations by \$113 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 2016 pension expense by \$10 million.

The long-term target asset allocation in our U.S. plans' master trust is 10% equity and 90% fixed income. Asset re-allocation to meet that target is occurring over a multi-year period based on the funded status, as defined by the Pension Protection Act of 2006 (the "Pension Act Funded Status"), of the U.S. plans' master trust and market conditions. We expect to reach our target allocation when the Pension Act Funded Status exceeds 105%. Based on the Pension Act Funded Status as of fiscal year end 2016, our target asset allocation is 45% equity and 55% fixed income.

Accounting Pronouncements

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

Non-GAAP Financial Measures

Organic net sales growth and free cash flow are non-GAAP measures and should not be considered replacements for results in accordance with GAAP. These non-GAAP measures may not be comparable to similarly-titled measures reported by other companies. The primary limitation of these measures is that they exclude the financial impact of items that would otherwise either increase or decrease our reported results. This limitation is best addressed by using these non-GAAP measures in combination with the most directly comparable GAAP measures in order to better understand the amounts, character, and impact of any increase or decrease in reported amounts. The following provides additional information regarding these non-GAAP measures.

Organic Net Sales Growth

Organic net sales growth is a useful measure of our underlying results and trends in the business. It is also a significant component in our incentive compensation plans. The difference between reported net sales growth (the most comparable GAAP measure) and organic net sales growth consists of the impact from foreign currency exchange rates, and acquisitions and divestitures, if any. Organic net sales growth is a useful measure of our performance because it excludes items that are not completely under management's control, such as the impact of changes in foreign currency exchange rates, and items that do not reflect the underlying growth of the company, such as acquisition and divestiture activity. Management uses organic net sales growth to monitor and evaluate performance. Also, management uses organic net sales growth together with GAAP measures such as net sales growth and operating income in its decision making processes related to the operations of our reportable segments and our overall company. 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" above provide reconciliations of organic net sales growth to net sales growth calculated under GAAP.

Free Cash Flow

Free cash flow is a useful measure of our ability to generate cash. The difference between net cash provided by continuing operating activities (the most comparable GAAP measure) and free cash flow consists mainly of significant cash outflows and inflows that we believe are useful to identify. We believe free cash flow provides useful information to investors as it provides insight into the primary cash flow metric used by management to monitor and evaluate cash flows generated from our operations.

Free cash flow is defined as net cash provided by continuing operating activities excluding voluntary pension contributions and the cash impact of special items, if any, minus net capital expenditures. Voluntary pension contributions are excluded because this activity is driven by economic financing decisions rather than operating activity. Certain special items, including net payments related to pre-separation tax matters, are also excluded by management in evaluating free cash flow. Net capital expenditures consist of capital expenditures less proceeds from the sale of property, plant, and equipment. These items are subtracted because they represent long-term commitments.

In the calculation of free cash flow, we subtract certain cash items that are ultimately within management's and the board of directors' discretion to direct and may imply that there is less or more cash available for our programs than the most comparable GAAP measure indicates. It should not be inferred that the entire free cash flow amount is available for future discretionary expenditures, as our

definition of free cash flow does not consider certain non-discretionary expenditures, such as debt payments. In addition, we may have other discretionary expenditures, such as discretionary dividends, share repurchases, and business acquisitions, that are not considered in the calculation of free cash flow.

The tables presented in “Liquidity and Capital Resources” above provide reconciliations of free cash flow to cash flows from continuing operating activities calculated under GAAP.

Forward-Looking Information

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

Forward-looking statements involve risks, uncertainties, and assumptions. Actual results may differ materially from those expressed in these forward-looking statements. You should not put 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 30, 2016 filed with the SEC as well as other risks described in this Annual Report, could cause our results to differ materially from those expressed in forward-looking statements:

- conditions in the global or regional economies and global capital markets, and cyclical industry conditions (including as a result of the impact of the proposed exit of the United Kingdom from the EU);
- conditions affecting demand for products in the industries we serve, particularly the automotive industry;
- competition and pricing pressure;
- market acceptance of our new product introductions and product innovations and product life cycles;
- raw material availability, quality, and cost;
- fluctuations in foreign currency exchange rates;
- financial condition and consolidation of customers and vendors;
- reliance on third-party suppliers;
- risks associated with current and future acquisitions and divestitures;
- global risks of business interruptions such as natural disasters and political, economic, and military instability;
- risks associated with security breaches and other disruptions to our information technology infrastructure;

- risks related to compliance with current and future environmental and other laws and regulations;
- our ability to protect our intellectual property rights;
- risks of litigation;
- our ability to operate within the limitations imposed by our debt instruments;
- the possible effects on us of various U.S. and non-U.S. legislative proposals and other initiatives that, if adopted, could materially increase our worldwide corporate effective tax rate and negatively impact our U.S. government contracts business;
- various risks associated with being a Swiss corporation;
- the impact of fluctuations in the market price of our shares; and
- the impact of certain provisions of our articles of association on unsolicited takeover proposals.

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

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 currency movements on outstanding debt and non-U.S. dollar denominated assets and liabilities and commodity price movements. We utilize established risk management policies and procedures in executing derivative financial instrument transactions to manage a portion of these risks.

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

Foreign Currency Exposures

As part of managing the exposure to changes in foreign currency exchange rates, we utilize cross-currency swap contracts, foreign currency forward contracts, and foreign currency swap contracts, a portion of which are designated as cash flow hedges. The objective of these contracts is to minimize impacts to cash flows and profitability due to changes in foreign currency exchange rates on intercompany and other cash transactions. A 10% appreciation or depreciation of the underlying currency in our cross-currency swap contracts, foreign currency forward contracts, or foreign currency swap contracts from the fiscal year end 2016 market rates would have changed the unrealized value of our contracts by \$112 million. A 10% appreciation or depreciation of the underlying currency in our cross-currency swap contracts, foreign currency forward contracts, or foreign currency swap contracts from the fiscal year end 2015 market rates would have changed the unrealized value of our contracts by \$109 million. Such gains or losses on these contracts would generally be offset by the losses or gains on the revaluation or settlement of the underlying transactions.

Interest Rate and Investment Exposures

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

Based on our floating rate debt balances of approximately \$300 million at fiscal year end 2016 and \$800 million at fiscal year end 2015, an increase in the levels of the U.S. dollar interest rates by 0.5%, with all other variables held constant, would have resulted in an increase of annual interest expense of approximately \$2 million and \$4 million in fiscal 2016 and 2015, respectively.

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 in order to hedge a portion of usage requirements over that period. At fiscal year end 2016, our commodity hedges, which related to expected purchases of gold, silver, and copper, were in a net gain position of \$11 million and had a notional value of \$232 million. At fiscal year end 2015, our commodity hedges, which related to expected purchases of gold, silver, and copper, were in a net loss position of \$33 million and had a notional value of \$260 million. A 10% appreciation or depreciation of the price of a troy ounce of gold,

a troy ounce of silver, and a pound of copper, from the fiscal year end 2016 prices would have changed the unrealized value of our forward contracts by \$24 million. A 10% appreciation or depreciation of the price of a troy ounce of gold, a troy ounce of silver, and a pound of copper, from the fiscal year end 2015 prices would have changed the unrealized value of our forward contracts by \$23 million.

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

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of September 30, 2016. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2016.

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 30, 2016.

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 30, 2016, which is included in this Annual Report.

Changes in Internal Control Over Financial Reporting

During the quarter ended September 30, 2016, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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TE CONNECTIVITY LTD.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of TE Connectivity Ltd. and subsidiaries (the “Company”) as of September 30, 2016 and September 25, 2015, and the related consolidated statements of operations, comprehensive income, equity, and cash flows for each of the three fiscal years in the period ended September 30, 2016. Our audits also included the financial statement schedule listed in the Index. These consolidated financial statements and financial statement schedule are the responsibility of the Company’s management. Our responsibility is to express an opinion on the consolidated financial statements and financial statement schedule based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of September 30, 2016 and September 25, 2015, and the results of its operations and its cash flows for each of the three fiscal years in the period ended September 30, 2016, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of September 30, 2016, based on the criteria established in *Internal Control—Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated November 15, 2016 expressed an unqualified opinion on the Company’s internal control over financial reporting.

/s/ Deloitte & Touche LLP

Philadelphia, Pennsylvania
November 15, 2016

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the internal control over financial reporting of TE Connectivity Ltd. and subsidiaries (the “Company”) as of September 30, 2016, based on criteria established in *Internal Control—Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

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

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

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 30, 2016, based on the criteria established in *Internal Control—Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule of the Company as of and for the fiscal year ended September 30, 2016, and our report dated

November 15, 2016 expressed an unqualified opinion on those consolidated financial statements and financial statement schedule.

/s/ Deloitte & Touche LLP

Philadelphia, Pennsylvania
November 15, 2016

TE CONNECTIVITY LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS
Fiscal Years Ended September 30, 2016, September 25, 2015, and September 26, 2014

| | Fiscal | | |
|--|--------------------------------------|-----------------|-----------------|
| | 2016 | 2015 | 2014 |
| | (in millions, except per share data) | | |
| Net sales | \$12,238 | \$12,233 | \$11,973 |
| Cost of sales | 8,205 | 8,146 | 8,001 |
| Gross margin | 4,033 | 4,087 | 3,972 |
| Selling, general, and administrative expenses | 1,463 | 1,504 | 1,534 |
| Research, development, and engineering expenses | 644 | 627 | 583 |
| Acquisition and integration costs | 22 | 55 | 31 |
| Restructuring and other charges, net | 2 | 152 | 19 |
| Operating income | 1,902 | 1,749 | 1,805 |
| Interest income | 19 | 17 | 19 |
| Interest expense | (127) | (136) | (127) |
| Other income (expense), net | (632) | (55) | 63 |
| Income from continuing operations before income taxes | 1,162 | 1,575 | 1,760 |
| Income tax (expense) benefit | 779 | (337) | (146) |
| Income from continuing operations | 1,941 | 1,238 | 1,614 |
| Income from discontinued operations, net of income taxes | 68 | 1,182 | 167 |
| Net income | <u>\$ 2,009</u> | <u>\$ 2,420</u> | <u>\$ 1,781</u> |
| Basic earnings per share: | | | |
| Income from continuing operations | \$ 5.30 | \$ 3.06 | \$ 3.94 |
| Income from discontinued operations | 0.19 | 2.92 | 0.41 |
| Net income | 5.49 | 5.98 | 4.34 |
| Diluted earnings per share: | | | |
| Income from continuing operations | \$ 5.26 | \$ 3.01 | \$ 3.87 |
| Income from discontinued operations | 0.18 | 2.88 | 0.40 |
| Net income | 5.44 | 5.89 | 4.27 |
| Dividends paid per common share | \$ 1.40 | \$ 1.24 | \$ 1.08 |
| Weighted-average number of shares outstanding: | | | |
| Basic | 366 | 405 | 410 |
| Diluted | 369 | 411 | 417 |

See Notes to Consolidated Financial Statements.

TE CONNECTIVITY LTD.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Fiscal Years Ended September 30, 2016, September 25, 2015, and September 26, 2014

| | <u>Fiscal</u> | | |
|--|----------------|----------------|----------------|
| | <u>2016</u> | <u>2015</u> | <u>2014</u> |
| | (in millions) | | |
| Net income | \$2,009 | \$2,420 | \$1,781 |
| Other comprehensive loss: | | | |
| Currency translation | (92) | (312) | (211) |
| Adjustments to unrecognized pension and postretirement benefit costs, net of income taxes | (88) | (46) | (123) |
| Gains on cash flow hedges, net of income taxes | <u>11</u> | <u>2</u> | <u>14</u> |
| Other comprehensive loss | <u>(169)</u> | <u>(356)</u> | <u>(320)</u> |
| Comprehensive income | <u>\$1,840</u> | <u>\$2,064</u> | <u>\$1,461</u> |

See Notes to Consolidated Financial Statements.

TE CONNECTIVITY LTD.
CONSOLIDATED BALANCE SHEETS
As of September 30, 2016 and September 25, 2015

| | Fiscal Year End | |
|---|----------------------------------|----------|
| | 2016 | 2015 |
| | (in millions, except share data) | |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 647 | \$ 3,329 |
| Accounts receivable, net of allowance for doubtful accounts of \$17 and \$18, respectively | 2,046 | 2,120 |
| Inventories | 1,596 | 1,615 |
| Prepaid expenses and other current assets | 486 | 476 |
| Deferred income taxes | — | 345 |
| Total current assets | 4,775 | 7,885 |
| Property, plant, and equipment, net | 3,052 | 2,920 |
| Goodwill | 5,492 | 4,824 |
| Intangible assets, net | 1,879 | 1,555 |
| Deferred income taxes | 2,111 | 2,144 |
| Receivable from Tyco International plc and Covidien plc | 12 | 964 |
| Other assets | 287 | 297 |
| Total Assets | \$17,608 | \$20,589 |
| Liabilities and Shareholders' Equity | | |
| Current liabilities: | | |
| Short-term debt | \$ 331 | \$ 498 |
| Accounts payable | 1,090 | 1,143 |
| Accrued and other current liabilities | 1,437 | 1,749 |
| Deferred revenue | 208 | 185 |
| Total current liabilities | 3,066 | 3,575 |
| Long-term debt | 3,739 | 3,386 |
| Long-term pension and postretirement liabilities | 1,502 | 1,327 |
| Deferred income taxes | 207 | 329 |
| Income taxes | 247 | 1,954 |
| Other liabilities | 362 | 433 |
| Total Liabilities | 9,123 | 11,004 |
| Commitments and contingencies (Note 12) | | |
| Shareholders' Equity: | | |
| Common shares, CHF 0.57 par value, 382,835,381 shares authorized and issued, and 414,064,381 shares authorized and issued, respectively | 168 | 182 |
| Contributed surplus | 1,801 | 4,359 |
| Accumulated earnings | 8,682 | 6,673 |
| Treasury shares, at cost, 27,554,005 and 20,071,089 shares, respectively | (1,624) | (1,256) |
| Accumulated other comprehensive loss | (542) | (373) |
| Total Shareholders' Equity | 8,485 | 9,585 |
| Total Liabilities and Shareholders' Equity | \$17,608 | \$20,589 |

See Notes to Consolidated Financial Statements.

TE CONNECTIVITY LTD.
CONSOLIDATED STATEMENTS OF EQUITY

Fiscal Years Ended September 30, 2016, September 25, 2015, and September 26, 2014

| | Common Shares | | Treasury Shares | | Contributed Surplus | Accumulated Earnings | Accumulated Other Comprehensive Income (Loss) | TE Connectivity Ltd. Shareholders' Equity | Non-controlling Interests | Total Equity |
|--|---------------|--------------|-----------------|------------------|---------------------|----------------------|---|---|---------------------------|-----------------|
| | Shares | Amount | Shares | Amount | | | | | | |
| | (in millions) | | | | | | | | | |
| Balance at September 27, 2013 | 429 | \$189 | (17) | \$ (720) | \$ 6,136 | \$2,472 | \$ 303 | \$ 8,380 | \$ 6 | \$ 8,386 |
| Net income | — | — | — | — | — | 1,781 | — | 1,781 | — | 1,781 |
| Other comprehensive loss | — | — | — | — | — | — | (320) | (320) | — | (320) |
| Share-based compensation expense | — | — | — | — | 84 | — | — | 84 | — | 84 |
| Dividends approved | — | — | — | — | (473) | — | — | (473) | — | (473) |
| Exercise of share options | — | — | 5 | 156 | — | — | — | 156 | — | 156 |
| Restricted share award vestings and other activity | — | — | 2 | 125 | (122) | — | — | 3 | — | 3 |
| Repurchase of common shares | — | — | (11) | (604) | — | — | — | (604) | — | (604) |
| Cancellation of treasury shares | (10) | (5) | 10 | 399 | (394) | — | — | — | — | — |
| Balance at September 26, 2014 | <u>419</u> | <u>\$184</u> | <u>(11)</u> | <u>\$ (644)</u> | <u>\$ 5,231</u> | <u>\$4,253</u> | <u>\$ (17)</u> | <u>\$ 9,007</u> | <u>\$ 6</u> | <u>\$ 9,013</u> |
| Net income | — | — | — | — | — | 2,420 | — | 2,420 | — | 2,420 |
| Other comprehensive loss | — | — | — | — | — | — | (356) | (356) | — | (356) |
| Share-based compensation expense | — | — | — | — | 95 | — | — | 95 | — | 95 |
| Dividends approved | — | — | — | — | (526) | — | — | (526) | — | (526) |
| Exercise of share options | — | — | 3 | 103 | — | — | — | 103 | — | 103 |
| Restricted share award vestings and other activity | — | — | 1 | 143 | (138) | — | — | 5 | (6) | (1) |
| Repurchase of common shares | — | — | (18) | (1,163) | — | — | — | (1,163) | — | (1,163) |
| Cancellation of treasury shares | (5) | (2) | 5 | 305 | (303) | — | — | — | — | — |
| Balance at September 25, 2015 | <u>414</u> | <u>\$182</u> | <u>(20)</u> | <u>\$(1,256)</u> | <u>\$ 4,359</u> | <u>\$6,673</u> | <u>\$(373)</u> | <u>\$ 9,585</u> | <u>\$—</u> | <u>\$ 9,585</u> |
| Net income | — | — | — | — | — | 2,009 | — | 2,009 | — | 2,009 |
| Other comprehensive loss | — | — | — | — | — | — | (169) | (169) | — | (169) |
| Share-based compensation expense | — | — | — | — | 91 | — | — | 91 | — | 91 |
| Dividends approved | — | — | — | — | (512) | — | — | (512) | — | (512) |
| Exercise of share options | — | — | 2 | 90 | — | — | — | 90 | — | 90 |
| Restricted share award vestings and other activity | — | — | 2 | 146 | (145) | — | — | 1 | — | 1 |
| Repurchase of common shares | — | — | (43) | (2,610) | — | — | — | (2,610) | — | (2,610) |
| Cancellation of treasury shares | (31) | (14) | 31 | 2,006 | (1,992) | — | — | — | — | — |
| Balance at September 30, 2016 | <u>383</u> | <u>\$168</u> | <u>(28)</u> | <u>\$(1,624)</u> | <u>\$ 1,801</u> | <u>\$8,682</u> | <u>\$(542)</u> | <u>\$ 8,485</u> | <u>\$—</u> | <u>\$ 8,485</u> |

See Notes to Consolidated Financial Statements.

TE CONNECTIVITY LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS

Fiscal Years Ended September 30, 2016, September 25, 2015, and September 26, 2014

| | Fiscal | | |
|--|----------------|-----------------|-----------------|
| | 2016 | 2015 | 2014 |
| | (in millions) | | |
| Cash Flows From Operating Activities: | | | |
| Net income | \$ 2,009 | \$ 2,420 | \$ 1,781 |
| Income from discontinued operations, net of income taxes | (68) | (1,182) | (167) |
| Income from continuing operations | 1,941 | 1,238 | 1,614 |
| Adjustments to reconcile income from continuing operations to net cash provided by operating activities: | | | |
| Depreciation and amortization | 585 | 616 | 551 |
| Non-cash restructuring charges | 41 | 21 | 16 |
| Deferred income taxes | 178 | 40 | (281) |
| Provision for losses on accounts receivable and inventories | 17 | 36 | 34 |
| Tax sharing (income) expense | 632 | 52 | (65) |
| Share-based compensation expense | 91 | 89 | 77 |
| Gain on divestiture | (144) | — | — |
| Other | 61 | 105 | 50 |
| Changes in assets and liabilities, net of the effects of acquisitions and divestitures: | | | |
| Accounts receivable, net | 116 | (210) | (182) |
| Inventories | 16 | (220) | (98) |
| Prepaid expenses and other current assets | 282 | 36 | (14) |
| Accounts payable | (100) | (22) | 71 |
| Accrued and other current liabilities | (4) | (155) | (280) |
| Deferred revenue | 26 | 12 | 113 |
| Income taxes | (1,764) | (52) | 167 |
| Other | 45 | 33 | 31 |
| Net cash provided by continuing operating activities | 2,019 | 1,619 | 1,804 |
| Net cash provided by (used in) discontinued operating activities | (97) | 294 | 279 |
| Net cash provided by operating activities | 1,922 | 1,913 | 2,083 |
| Cash Flows From Investing Activities: | | | |
| Capital expenditures | (628) | (600) | (635) |
| Proceeds from sale of property, plant, and equipment | 8 | 17 | 129 |
| Acquisition of businesses, net of cash acquired | (1,336) | (1,725) | (522) |
| Proceeds from divestiture of business, net of cash retained by sold business | 333 | — | 3 |
| Proceeds from divestiture of discontinued operations, net of cash retained by sold operations | (19) | 2,957 | — |
| Other | 61 | 12 | (13) |
| Net cash provided by (used in) continuing investing activities | (1,581) | 661 | (1,038) |
| Net cash used in discontinued investing activities | — | (25) | (37) |
| Net cash provided by (used in) investing activities | (1,581) | 636 | (1,075) |
| Cash Flows From Financing Activities: | | | |
| Net increase (decrease) in commercial paper | 330 | (328) | (23) |
| Proceeds from issuance of debt | 352 | 617 | 1,322 |
| Repayment of debt | (501) | (473) | (360) |
| Proceeds from exercise of share options | 90 | 103 | 156 |
| Repurchase of common shares | (2,787) | (1,023) | (578) |
| Payment of common share dividends to shareholders | (509) | (502) | (443) |
| Transfers (to) from discontinued operations | (97) | 269 | 242 |
| Other | (5) | — | (9) |
| Net cash provided by (used in) continuing financing activities | (3,127) | (1,337) | 307 |
| Net cash provided by (used in) discontinued financing activities | 97 | (269) | (242) |
| Net cash provided by (used in) financing activities | (3,030) | (1,606) | 65 |
| Effect of currency translation on cash | 7 | (71) | (19) |
| Net increase (decrease) in cash and cash equivalents | (2,682) | 872 | 1,054 |
| Cash and cash equivalents at beginning of fiscal year | 3,329 | 2,457 | 1,403 |
| Cash and cash equivalents at end of fiscal year | \$ 647 | \$ 3,329 | \$ 2,457 |
| Supplemental Cash Flow Information: | | | |
| Interest paid | \$ 117 | \$ 128 | \$ 118 |
| Income taxes paid, net of refunds | 806 | 350 | 259 |

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 technology leader. We design and manufacture connectivity and sensor solutions that are essential in today’s increasingly connected world. We help our customers solve the need for intelligent, efficient, and high-performing products and solutions.

We operate through three reportable segments:

- *Transportation Solutions.* The Transportation Solutions segment is a leader in connectivity and sensor technologies. Our products, which must withstand harsh conditions, are used in the automotive, commercial transportation, and sensors markets.
- *Industrial Solutions.* The Industrial Solutions segment is a leading supplier of products that connect and distribute power, data, and signals. Our products are used in the industrial equipment; aerospace, defense, oil, and gas; and energy markets.
- *Communications Solutions.* The Communications Solutions segment is a leading supplier of electronic components for the data and devices and appliances markets. We are also a leader in developing, manufacturing, installing, and maintaining some of the world’s most advanced subsea fiber optic communications systems.

Use of Estimates

The preparation of the Consolidated Financial Statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. Significant estimates in these Consolidated Financial Statements include restructuring and other charges, assets acquired and liabilities assumed in acquisitions, allowances for doubtful accounts receivable, estimates of future cash flows and discount rates associated with asset impairments, useful lives for depreciation and amortization, loss contingencies, net realizable value of inventories, estimated contract revenue and related costs, legal contingencies, tax reserves and deferred tax asset valuation allowances, and the determination of discount and other rate assumptions for pension benefit cost. Actual results could differ materially from these estimates.

Fiscal Year

We have a 52 or 53-week fiscal year that ends on the last Friday of September. For fiscal years in which there are 53 weeks, the fourth quarter reporting period includes 14 weeks. Fiscal 2016 was a 53 week year and ended on September 30, 2016. Fiscal 2015 and 2014 were 52 weeks in length and ended on September 25, 2015 and September 26, 2014, respectively.

TE CONNECTIVITY LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of Significant Accounting Policies

Principles of Consolidation

We consolidate entities in which we own or control more than 50% of the voting shares or otherwise have the ability to control through similar rights. All intercompany transactions have been eliminated. The results of companies acquired or disposed of are included on the Consolidated Financial Statements from the effective date of acquisition or up to the date of disposal.

Revenue Recognition

Our revenues are generated principally from the sale of our products. Revenue from the sale of products is recognized at the time title and the risks and rewards of ownership pass to the customer. This generally occurs when the products reach the shipping point, the sales price is fixed and determinable, and collection is reasonably assured.

Contract revenues for construction related projects, which are generated in the Communications Solutions segment, are recorded primarily using the percentage-of-completion method. Profits recognized on contracts in process are based upon estimated contract revenue and related cost to complete. Percentage-of-completion is measured based on the ratio of actual costs incurred to total estimated costs. Revisions in cost estimates as contracts progress have the effect of increasing or decreasing profits in the current period. Provisions for anticipated losses are made in the period in which they first become determinable. In addition, provisions for credit losses related to construction related projects are recorded as reductions of revenue in the period in which they first become determinable.

We generally warrant that our products will conform to our, or mutually agreed to, specifications and that our products will be free from material defects in materials and workmanship for a limited time. We limit our warranty to the replacement or repair of defective parts, or a refund or credit of the price of the defective product. We accept returned goods only when the customer makes a verified claim and we have authorized the return. Generally, a reserve for estimated returns is established at the time of sale based on historical return experience and is recorded as a reduction of sales.

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

We provide certain distributors with an inventory allowance for returns or scrap equal to a percentage of qualified purchases. A reserve for estimated returns and scrap allowances is established at the time of the sale, based on an agreed upon fixed percentage of sales to distributors, and is recorded as a reduction of sales.

Other allowances include customer quantity and price discrepancies. A reserve for other allowances is generally established at the time of sale based on historical experience and is recorded as a reduction of sales. We believe we can reasonably and reliably estimate the amounts of future allowances.

TE CONNECTIVITY LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of Significant Accounting Policies (Continued)

Inventories

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

Property, Plant, and Equipment, Net

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

We periodically evaluate, when events and circumstances warrant, the net realizable value of property, plant, and equipment and other long-lived assets, relying on a number of factors including operating results, business plans, economic projections, and anticipated future cash flows. When indicators of potential impairment are present, the carrying values of the asset group are evaluated in relation to the operating performance and estimated future undiscounted cash flows of the underlying asset group. Impairment of the carrying value is recognized whenever anticipated future undiscounted cash flow estimates are less than the carrying value of the asset. Fair value estimates are based on assumptions concerning the amount and timing of estimated future cash flows and discount rates, reflecting varying degrees of perceived risk.

Goodwill and Other Intangible Assets

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

At fiscal year end 2016, we had six reporting units, five of which contained goodwill. There were two reporting units in each of our three segments. When changes occur in the composition of one or more reporting units, goodwill is reassigned to the reporting units affected based on their relative fair values.

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

When testing for goodwill impairment, we perform a step I goodwill impairment test to identify potential impairment by comparing the fair value of a reporting unit with its carrying amount. If the carrying amount of a reporting unit exceeds its fair value, goodwill may be impaired and a step II

TE CONNECTIVITY LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of Significant Accounting Policies (Continued)

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

Fair value estimates used in the step I goodwill impairment tests are calculated using an income approach based on the present value of future cash flows of each reporting unit. The income approach generally has been supported by guideline analyses (a market approach). These approaches incorporate a number of assumptions including future growth rates, discount rates, income tax rates, and market activity in assessing fair value and are reporting unit specific. Changes in economic and operating conditions impacting these assumptions could result in goodwill impairments in future periods.

Research and Development

Research and development expenditures are expensed when incurred and are included in research, development, and engineering expenses on the Consolidated Statements of Operations. Research and development expenses include salaries, direct costs incurred, and building and overhead expenses. The amounts expensed in fiscal 2016, 2015, and 2014 were \$566 million, \$540 million, and \$484 million, respectively.

Income Taxes

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

The calculation of our tax liabilities includes estimates for uncertainties in the application of complex tax regulations across multiple global jurisdictions where we conduct our operations. Under the uncertain tax position provisions of ASC 740, we recognize liabilities for tax and related interest for issues in the U.S. and other 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)

2. Summary of Significant Accounting Policies (Continued)

Financial Instruments

Our financial instruments consist primarily of cash and cash equivalents, accounts receivable, accounts payable, debt, and derivative financial instruments.

We account for derivative financial instrument contracts on the Consolidated Balance Sheets at fair value. For instruments not designated as hedges under ASC 815, *Derivatives and Hedging*, the changes in the instruments' fair value are recognized currently in earnings. For instruments designated as cash flow hedges, the effective portion of changes in the fair value of a derivative is recorded in other comprehensive income (loss) and reclassified into earnings in the same period or periods during which the underlying hedged item affects earnings. Ineffective portions of a cash flow hedge, including amounts excluded from the hedging relationship, are recognized currently in earnings. Changes in the fair value of instruments designated as fair value hedges affect the carrying value of the asset or liability hedged, with changes in both the derivative instrument and the hedged asset or liability being recognized currently in earnings.

We determine the fair value of our financial instruments by using methods and assumptions that are based on market conditions and risks existing at each balance sheet date. Standard market conventions are used to determine the fair value of financial instruments, including derivatives.

The cash flows related to derivative financial instruments are reported in the operating activities section of the Consolidated Statements of Cash Flows.

Our derivative financial instruments present certain market and counterparty risks. Concentration of counterparty risk is mitigated, however, by our use of financial institutions worldwide, substantially all of which have long-term Standard & Poor's, Moody's, and/or Fitch credit ratings of A/A2 or higher. In addition, we utilize only conventional derivative financial instruments. We are exposed to potential losses if a counterparty fails to perform according to the terms of its agreement. With respect to counterparty net asset positions recognized at fiscal year end 2016, we have assessed the likelihood of counterparty default as remote. We currently provide guarantees from a wholly-owned subsidiary to the counterparties to our commodity swap derivatives and exchange cash collateral with the counterparties to our cross-currency swap contracts. The likelihood of performance on the guarantees has been assessed as remote. For all other derivative financial instruments, we are not required to provide, nor do we require counterparties to provide, collateral or other security.

Fair Value Measurements

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

- *Level 1.* Quoted prices in active markets for identical assets and liabilities.
- *Level 2.* Quoted prices in active markets for similar assets and liabilities, or other inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.

TE CONNECTIVITY LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of Significant Accounting Policies (Continued)

- *Level 3.* Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. This includes certain pricing models, discounted cash flows methodologies, and similar techniques that use significant unobservable inputs.

Financial assets and liabilities measured at fair value on a recurring basis are generally valued using level 2 inputs.

Financial instruments other than derivative instruments include cash and cash equivalents, accounts receivable, accounts payable, and debt. These instruments are recorded on the Consolidated Balance Sheets at book value. For cash and cash equivalents, accounts receivable, and accounts payable, we believe book value approximates fair value due to the short-term nature of these instruments. See Note 11 for disclosure of the fair value of debt. The following is a description of the valuation methodologies used for the respective financial instruments:

- *Cash and cash equivalents.* Cash and cash equivalents are valued at book value, which we consider to be equivalent to unadjusted quoted prices (level 1).
- *Accounts receivable.* Accounts receivable are valued based on the net value expected to be realized. The net realizable value generally represents an observable contractual agreement (level 2).
- *Accounts payable.* Accounts payable are valued based on the net value expected to be paid, generally supported by an observable contractual agreement (level 2).
- *Debt.* The fair value of debt, including both current and non-current maturities, is derived from quoted market prices or other pricing determinations based on the results of market approach valuation models using observable market data such as recently reported trades, bid and offer information, and benchmark securities (level 2).

Pension

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

Net periodic pension benefit cost is based on the utilization of the projected unit credit method of calculation and is charged to earnings on a systematic basis over the expected average remaining service lives of current participants.

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

TE CONNECTIVITY LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of Significant Accounting Policies (Continued)

Share-Based Compensation

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

Earnings Per Share

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

Currency Translation

For our non-U.S. dollar functional currency subsidiaries, assets and liabilities are translated into U.S. dollars using fiscal year end exchange rates. Sales and expenses are translated at average monthly exchange rates. Foreign currency translation gains and losses are included as a component of accumulated other comprehensive income (loss) within equity.

Gains and losses resulting from foreign currency transactions, which are included in earnings, were immaterial in fiscal 2016, 2015, and 2014.

Restructuring Charges

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

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

TE CONNECTIVITY LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of Significant Accounting Policies (Continued)

Acquisitions

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

Contingent Liabilities

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

Recently Issued Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board (“FASB”) issued an update to ASC 718, *Compensation—Stock Compensation*, to simplify various aspects of accounting for share-based payments to employees. This update is effective for us in the first quarter of fiscal 2018; however, we expect to early adopt this update in the first quarter of fiscal 2017. We expect the impact of adoption of the provision addressing accounting for excess tax benefits and deficiencies will increase noncurrent deferred tax assets and retained earnings by approximately \$170 million. Adoption of the remaining provisions of the update will not have a material impact on our Consolidated Financial Statements.

In February 2016, the FASB issued ASC 842, *Leases*, requiring lessees to recognize a lease liability and a right-of-use asset for most leases. This guidance is effective for us in the first quarter of fiscal 2020. We will adopt the new standard using a modified retrospective transition approach which requires application of the new guidance for all periods presented. We are currently assessing the impact that adoption will have on our financial position.

In May 2014, the FASB issued ASC 606, *Revenue from Contracts with Customers*. This guidance supersedes ASC 605, *Revenue Recognition*, and introduces a single, comprehensive, five-step revenue recognition model. ASC 606 also enhances disclosures related to revenue recognition. In August 2015, the FASB deferred the effective date of ASC 606 by one year. ASC 606 is effective for us in the first quarter of fiscal 2019 and allows for either a full retrospective or a modified retrospective approach at adoption. We are continuing to assess the impact of adopting ASC 606, but do not expect adoption to have a material impact on our results of operations or financial position.

TE CONNECTIVITY LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of Significant Accounting Policies (Continued)

Recently Adopted Accounting Pronouncements

In November 2015, the FASB issued an update to ASC 740 requiring that deferred tax assets and liabilities be classified as non-current in a classified statement of financial position. We elected to early adopt this update on a prospective basis during fiscal 2016. Prior period amounts were not retrospectively adjusted.

In April 2015, the FASB issued an update to ASC 835, *Interest*, requiring that debt issuance costs related to a recognized debt liability be presented on the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. We elected to early adopt this update during fiscal 2016. The update was applied on a retrospective basis and did not have a material impact on the Consolidated Financial Statements.

3. Restructuring and Other Charges, Net

Net restructuring and other charges consisted of the following:

| | Fiscal | | |
|--|---------------|-------------|-------------|
| | 2016 | 2015 | 2014 |
| | (in millions) | | |
| Restructuring charges, net | \$ 125 | \$ 93 | \$ 23 |
| Gain on divestiture | (144) | — | — |
| Other charges (credits), net | 21 | 59 | (4) |
| | \$ 2 | \$152 | \$19 |

Restructuring Charges, Net

Net restructuring charges by segment were as follows:

| | Fiscal | | |
|--------------------------------------|---------------|-------------|-------------|
| | 2016 | 2015 | 2014 |
| | (in millions) | | |
| Transportation Solutions | \$ 39 | \$ 6 | \$ 7 |
| Industrial Solutions | 28 | 29 | 7 |
| Communications Solutions | 58 | 58 | 9 |
| Restructuring charges, net | \$125 | \$ 93 | \$23 |

TE CONNECTIVITY LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Restructuring and Other Charges, Net (Continued)

Activity in our restructuring reserves is summarized as follows:

| | Balance at Beginning of Fiscal Year | Charges | Changes in Estimate | Cash Payments | Non-Cash Items | Currency Translation and Other ⁽¹⁾ | Balance at End of Fiscal Year |
|--|--|--------------|------------------------|------------------|-------------------|--|--|
| | (in millions) | | | | | | |
| Fiscal 2016 Activity: | | | | | | | |
| Fiscal 2016 Actions: | | | | | | | |
| Employee severance | \$ — | \$ 86 | \$ — | \$ (32) | \$ — | \$ — | \$ 54 |
| Facility and other exit costs | — | 3 | — | (3) | — | — | — |
| Property, plant, and equipment | — | 41 | — | — | (41) | — | — |
| Total | <u>—</u> | <u>130</u> | <u>—</u> | <u>(35)</u> | <u>(41)</u> | <u>—</u> | <u>54</u> |
| Fiscal 2015 Actions: | | | | | | | |
| Employee severance | 45 | 3 | (4) | (31) | — | — | 13 |
| Facility and other exit costs | 1 | — | — | (1) | — | — | — |
| Total | <u>46</u> | <u>3</u> | <u>(4)</u> | <u>(32)</u> | <u>—</u> | <u>—</u> | <u>13</u> |
| Fiscal 2014 Actions: | | | | | | | |
| Employee severance | 4 | — | — | (2) | — | — | 2 |
| Pre-Fiscal Fiscal 2014 Actions: | | | | | | | |
| Employee severance | 20 | — | (6) | (6) | — | 2 | 10 |
| Facility and other exit costs | 14 | 2 | — | (4) | — | — | 12 |
| Total | <u>34</u> | <u>2</u> | <u>(6)</u> | <u>(10)</u> | <u>—</u> | <u>2</u> | <u>22</u> |
| Total fiscal 2016 activity | <u>\$ 84</u> | <u>\$135</u> | <u>\$ (10)</u> | <u>\$ (79)</u> | <u>\$ (41)</u> | <u>\$ 2</u> | <u>\$ 91</u> |
| Fiscal 2015 Activity: | | | | | | | |
| Fiscal 2015 Actions: | | | | | | | |
| Employee severance | \$ — | \$ 68 | \$ — | \$ (23) | \$ — | \$ — | \$ 45 |
| Facility and other exit costs | — | 3 | — | (2) | — | — | 1 |
| Property, plant, and equipment | — | 21 | — | — | (21) | — | — |
| Total | <u>—</u> | <u>92</u> | <u>—</u> | <u>(25)</u> | <u>(21)</u> | <u>—</u> | <u>46</u> |
| Fiscal 2014 Actions: | | | | | | | |
| Employee severance | 16 | — | — | (7) | — | (5) | 4 |
| Facility and other exit costs | 1 | — | — | (1) | — | — | — |
| Total | <u>17</u> | <u>—</u> | <u>—</u> | <u>(8)</u> | <u>—</u> | <u>(5)</u> | <u>4</u> |
| Pre-Fiscal 2014 Actions: | | | | | | | |
| Employee severance | 75 | 2 | (4) | (47) | — | (6) | 20 |
| Facility and other exit costs | 22 | 3 | — | (12) | — | 1 | 14 |
| Total | <u>97</u> | <u>5</u> | <u>(4)</u> | <u>(59)</u> | <u>—</u> | <u>(5)</u> | <u>34</u> |
| Total fiscal 2015 activity | <u>\$114</u> | <u>\$ 97</u> | <u>\$ (4)</u> | <u>\$ (92)</u> | <u>\$ (21)</u> | <u>\$ (10)</u> | <u>\$ 84</u> |

TE CONNECTIVITY LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Restructuring and Other Charges, Net (Continued)

| | Balance at Beginning of Fiscal Year | Charges | Changes in Estimate | Cash Payments | Non-Cash Items | Currency Translation and Other ⁽¹⁾ | Balance at End of Fiscal Year |
|--|--|--------------|------------------------|------------------|-------------------|--|--|
| | (in millions) | | | | | | |
| Fiscal 2014 Activity: | | | | | | | |
| Fiscal 2014 Actions: | | | | | | | |
| Employee severance | \$ — | \$ 10 | \$ — | \$ (13) | \$ — | \$ 19 | \$ 16 |
| Facility and other exit costs | — | — | — | — | — | 1 | 1 |
| Property, plant, and equipment | — | 9 | — | — | (9) | — | — |
| Total | — | 19 | — | (13) | (9) | 20 | 17 |
| Pre-Fiscal 2014 Actions: | | | | | | | |
| Employee severance | 210 | 10 | (20) | (134) | — | 9 | 75 |
| Facility and other exit costs | 27 | 6 | 1 | (13) | — | 1 | 22 |
| Property, plant, and equipment | — | 7 | — | — | (7) | — | — |
| Total | 237 | 23 | (19) | (147) | (7) | 10 | 97 |
| Total fiscal 2014 activity | <u>\$237</u> | <u>\$ 42</u> | <u>\$(19)</u> | <u>\$(160)</u> | <u>\$(16)</u> | <u>\$ 30</u> | <u>\$114</u> |

(1) Includes net charges associated with discontinued operations of \$36 million in fiscal 2014.

Fiscal 2016 Actions

During fiscal 2016, we initiated a restructuring program associated with headcount reductions impacting all segments and product line closures in the Communications Solutions segment. In connection with this program, during fiscal 2016, we recorded restructuring charges of \$130 million. We expect to complete all restructuring actions commenced during fiscal 2016 by the end of fiscal 2019 and to incur total charges of approximately \$171 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 | Charges Incurred in Fiscal 2016 | Remaining Expected Charges |
|------------------------------------|------------------------------|---------------------------------------|----------------------------------|
| | (in millions) | | |
| Transportation Solutions | \$ 45 | \$ 38 | \$ 7 |
| Industrial Solutions | 30 | 28 | 2 |
| Communications Solutions | 96 | 64 | 32 |
| Total | <u>\$171</u> | <u>\$130</u> | <u>\$41</u> |

Fiscal 2015 Actions

During fiscal 2015, we initiated a restructuring program associated with headcount reductions and product line closures, primarily impacting the Communications Solutions and Industrial Solutions segments. In connection with this program, during fiscal 2016 and 2015, we recorded net restructuring

TE CONNECTIVITY LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Restructuring and Other Charges, Net (Continued)

credits of \$1 million and charges of \$92 million, respectively. We do not expect to incur any additional charges related to restructuring programs commenced in fiscal 2015.

Fiscal 2014 Actions

During fiscal 2014, we initiated a restructuring program associated primarily with headcount reductions and manufacturing site and product line closures in the Communications Solutions segment. In connection with this program, we recorded net restructuring charges of \$19 million in fiscal 2014. We do not expect to incur any additional charges related to restructuring programs commenced in fiscal 2014.

Pre-Fiscal 2014 Actions

During fiscal 2016, 2015, and 2014, we recorded net restructuring credits of \$4 million, charges of \$1 million, and charges of \$4 million, respectively, related to pre-fiscal 2014 actions. We do not expect to incur any additional charges related to pre-fiscal 2014 actions.

Total Restructuring Reserves

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

| | Fiscal Year End | |
|---|------------------------|-------------|
| | 2016 | 2015 |
| | (in millions) | |
| Accrued and other current liabilities | \$64 | \$60 |
| Other liabilities | 27 | 24 |
| Restructuring reserves | <u>\$91</u> | <u>\$84</u> |

Gain on Divestiture

During fiscal 2016, we sold our Circuit Protection Devices (“CPD”) business for net cash proceeds of \$333 million. We recognized a pre-tax gain of \$144 million on the transaction. The CPD business was reported in our Communications Solutions segment.

Other Charges (Credits), Net

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

During fiscal 2015, in connection with the sale our Broadband Network Solutions (“BNS”) business, we incurred costs of \$61 million, consisting primarily of \$36 million of legal and professional fees and \$18 million of charges associated with the exit of a facility. These amounts are not directly related to the business sold, and accordingly have been recorded in continuing operations. See Note 4 for additional information regarding the divestiture of BNS.

TE CONNECTIVITY LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Discontinued Operations

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

| | Fiscal | | |
|--|--------|---------------|---------|
| | 2016 | 2015 | 2014 |
| | | (in millions) | |
| Net sales from discontinued operations | \$— | \$1,595 | \$1,939 |
| Pre-tax income from discontinued operations | \$30 | \$ 118 | \$ 224 |
| Pre-tax gain on sale of discontinued operations | 29 | 1,105 | — |
| Income tax (expense) benefit | 9 | (41) | (57) |
| Income from discontinued operations, net of income taxes . . | \$68 | \$1,182 | \$ 167 |

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

In fiscal 2006, the former shareholders of Com-Net initiated a lawsuit related to our fiscal 2001 acquisition of Com-Net. In October 2015, the Court of Common Pleas in Allegheny County, Pennsylvania entered final judgment in favor of the sellers and against us for \$127 million plus costs. In July 2016, we entered into settlement agreements with the sellers pursuant to which we agreed to pay the sellers an aggregate amount of \$96 million, payment of which was made in fiscal 2016, settling all matters in dispute.

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

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

5. Acquisitions

Fiscal 2016 Acquisitions

During fiscal 2016, we acquired four businesses, including the Creganna Medical group, for a combined cash purchase price of \$1.3 billion, net of cash acquired. The acquisitions have been reported as part of our Industrial Solutions and Transportation Solutions segments from the date of acquisition.

We have preliminarily allocated the purchase price of acquired businesses to tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values. We

TE CONNECTIVITY LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Acquisitions (Continued)

are in the process of completing the valuation of identifiable intangible assets, fixed assets, pre-acquisition contingencies, and income taxes. Accordingly, the fair values set forth below are subject to adjustment upon finalization of the valuations. The amount of these potential adjustments could be significant. We expect to complete the purchase price allocation for these acquisitions during fiscal 2017.

The following table summarizes the preliminary allocation of the purchase price to the fair value of identifiable assets acquired and liabilities assumed at the date of acquisition, in accordance with the acquisition method of accounting:

| | <u>(in millions)</u> |
|--|----------------------|
| Cash and cash equivalents | \$ 75 |
| Other current assets | 88 |
| Goodwill | 836 |
| Intangible assets | 530 |
| Other non-current assets | 39 |
| Total assets acquired | <u>1,568</u> |
| Current liabilities | 35 |
| Deferred income taxes | 107 |
| Other non-current liabilities | 15 |
| Total liabilities assumed | <u>157</u> |
| Net assets acquired | 1,411 |
| Cash and cash equivalents acquired | <u>(75)</u> |
| Net cash paid | <u>\$1,336</u> |

The fair values assigned to intangible assets were preliminarily determined through the use of the income approach, specifically the relief from royalty and the multi-period excess earnings methods. Both valuation methods rely on management judgment, including expected future cash flows resulting from existing customer relationships, customer attrition rates, contributory effects of other assets utilized in the business, peer group cost of capital and royalty rates, and other factors. Useful lives for intangible assets were determined based upon the remaining useful economic lives of the intangible assets that are expected to contribute directly or indirectly to future cash flows.

Acquired intangible assets consisted of the following:

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

TE CONNECTIVITY LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Acquisitions (Continued)

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

Goodwill of \$836 million was recognized in these transactions, representing the excess of the purchase price over the fair value of the tangible and intangible assets acquired and liabilities assumed. This goodwill is attributable primarily to cost savings and other synergies related to operational efficiencies including the consolidation of manufacturing, marketing, and general and administrative functions. The goodwill has been allocated to the Industrial Solutions and Transportation Solutions segments and is not deductible for tax purposes. However, prior to being acquired by us, one of the fiscal 2016 acquisitions completed certain acquisitions that resulted in goodwill with an estimated value of \$15 million that is deductible primarily for U.S. tax purposes, which we will deduct through 2025.

Fiscal 2016 acquisitions contributed net sales of \$167 million and operating income of \$8 million to our Consolidated Statement of Operations during fiscal 2016. The operating income included \$10 million of acquisition costs, \$7 million associated with the amortization of acquisition-related fair value adjustments related to acquired inventories and customer order backlog, and \$2 million of integration costs.

Fiscal 2015 Acquisitions

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

TE CONNECTIVITY LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Acquisitions (Continued)

The following table summarizes the allocation of the purchase price to the fair value of identifiable assets acquired and liabilities assumed at the date of acquisition, in accordance with the acquisition method of accounting:

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

The fair values assigned to intangible assets were determined through the use of the income approach, specifically the relief from royalty and the multi-period excess earnings methods. The valuation of tangible assets was derived using a combination of the income, market, and cost approaches. Useful lives for intangible assets were determined based upon the remaining useful economic lives of the intangible assets that are expected to contribute directly or indirectly to future cash flows.

Acquired intangible assets consisted of the following:

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

TE CONNECTIVITY LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Acquisitions (Continued)

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

Goodwill of \$1,064 million was recognized in the transaction, representing the excess of the purchase price over the fair value of the tangible and intangible assets acquired and liabilities assumed. This goodwill is attributable primarily to cost savings and other synergies related to operational efficiencies including the consolidation of manufacturing, marketing, and general and administrative functions. The goodwill has been allocated to the Transportation Solutions segment and is not deductible for tax purposes. However, prior to its merger with us, Measurement Specialties completed certain acquisitions that resulted in goodwill with an estimated value of \$23 million that is deductible primarily for U.S. tax purposes, which we will deduct through 2030.

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

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

Fiscal 2014 Acquisitions

During fiscal 2014, we acquired five businesses, including the SEACON Group (“SEACON”), a leading provider of underwater connector technology and systems, for \$522 million in cash, net of cash acquired.

Pro Forma Financial Information

The following unaudited pro forma financial information reflects our consolidated results of operations had the fiscal 2016 acquisitions occurred at the beginning of fiscal 2015 and the Measurement Specialties acquisition occurred at the beginning of fiscal 2014:

| | Pro Forma for Fiscal | | |
|--------------------------------------|---|-------------|-------------|
| | 2016 | 2015 | 2014 |
| | (in millions, except per share data) | | |
| Net sales | \$12,471 | \$12,613 | \$12,429 |
| Net income | 2,038 | 2,448 | 1,744 |
| Diluted earnings per share | 5.52 | \$ 5.96 | \$ 4.18 |

The pro forma financial information for the fiscal 2016 acquisitions was based on our preliminary allocation of the purchase price and therefore is subject to adjustment upon finalization of the purchase price allocation. The pro forma adjustments, which were not significant, included interest expense based on pro forma changes in our combined capital structure, charges related to acquired customer order backlog, charges related to the amortization of the fair value of acquired intangible assets, charges related to the fair value adjustment to acquisition-date inventories, and acquisition and other costs, and the related tax effects.

Pro forma results do not include any anticipated synergies or other anticipated benefits of these acquisitions. Accordingly, the unaudited pro forma financial information is not necessarily indicative of either future results of operations or results that might have been achieved had these acquisitions occurred at the beginning of the preceding fiscal years.

TE CONNECTIVITY LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Inventories

Inventories consisted of the following:

| | <u>Fiscal Year End</u> | |
|--|------------------------|----------------|
| | <u>2016</u> | <u>2015</u> |
| | (in millions) | |
| Raw materials | \$ 241 | \$ 261 |
| Work in progress | 504 | 535 |
| Finished goods | 669 | 773 |
| Inventoried costs on long-term contracts | 182 | 46 |
| Inventories | <u>\$1,596</u> | <u>\$1,615</u> |

7. Property, Plant, and Equipment, Net

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

| | <u>Fiscal Year End</u> | |
|--|------------------------|-----------------|
| | <u>2016</u> | <u>2015</u> |
| | (in millions) | |
| Land and improvements | \$ 159 | \$ 163 |
| Buildings and improvements | 1,272 | 1,261 |
| Machinery and equipment | 6,890 | 6,692 |
| Construction in process | 567 | 521 |
| Gross property, plant, and equipment | 8,888 | 8,637 |
| Accumulated depreciation | (5,836) | (5,717) |
| Property, plant, and equipment, net | <u>\$ 3,052</u> | <u>\$ 2,920</u> |

Depreciation expense was \$436 million, \$463 million, and \$467 million in fiscal 2016, 2015, and 2014, respectively.

TE CONNECTIVITY LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Goodwill

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

| | <u>Transportation Solutions</u> | <u>Industrial Solutions</u> | <u>Communications Solutions</u> | <u>Total</u> |
|---|-------------------------------------|---------------------------------|-------------------------------------|----------------|
| | (in millions) | | | |
| Fiscal year end 2014 ⁽¹⁾ | \$ 834 | \$2,165 | \$ 727 | \$3,726 |
| Acquisitions | 1,066 | 145 | — | 1,211 |
| Currency translation | <u>(37)</u> | <u>(57)</u> | <u>(19)</u> | <u>(113)</u> |
| Fiscal year end 2015 ⁽¹⁾ | 1,863 | 2,253 | 708 | 4,824 |
| Acquisitions | 60 | 776 | — | 836 |
| Divestiture of business | — | — | (117) | (117) |
| Currency translation | <u>(20)</u> | <u>(24)</u> | <u>(7)</u> | <u>(51)</u> |
| Fiscal year end 2016 ⁽¹⁾ | <u>\$1,903</u> | <u>\$3,005</u> | <u>\$ 584</u> | <u>\$5,492</u> |

(1) At fiscal year end 2016, 2015, and 2014, accumulated impairment losses for the Transportation Solutions and Industrial Solutions segments were \$2,191 million and \$669 million, respectively. Accumulated impairment losses for the Communications Solutions segment were \$1,514 million at fiscal year end 2016 and \$1,626 million at fiscal year end 2015 and 2014.

During fiscal 2016, we acquired four businesses and recognized goodwill of \$836 million, which benefited the Industrial Solutions and Transportation Solutions segments. During fiscal 2015, we completed the acquisition of Measurement Specialties and recognized goodwill of \$1,064 million, which benefited the Transportation Solutions segment. See Note 5 for additional information regarding acquisitions.

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

We completed our annual goodwill impairment test in the fourth quarter of fiscal 2016 and determined that no impairment existed.

9. Intangible Assets, Net

Intangible assets consisted of the following:

| | Fiscal Year End | | | | | |
|----------------------------------|--------------------------------------|-------------------------------------|----------------------------|--------------------------------------|-------------------------------------|----------------------------|
| | 2016 | | Net | 2015 | | Net |
| | <u>Gross Carrying Amount</u> | <u>Accumulated Amortization</u> | <u>Carrying Amount</u> | <u>Gross Carrying Amount</u> | <u>Accumulated Amortization</u> | <u>Carrying Amount</u> |
| | (in millions) | | | | | |
| Customer relationships | \$1,332 | \$(212) | \$1,120 | \$1,053 | \$(148) | \$ 905 |
| Intellectual property | 1,300 | (563) | 737 | 1,150 | (524) | 626 |
| Other | <u>36</u> | <u>(14)</u> | <u>22</u> | <u>37</u> | <u>(13)</u> | <u>24</u> |
| Total | <u>\$2,668</u> | <u>\$(789)</u> | <u>\$1,879</u> | <u>\$2,240</u> | <u>\$(685)</u> | <u>\$1,555</u> |

TE CONNECTIVITY LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. Intangible Assets, Net (Continued)

During fiscal 2016, the gross carrying amount of intangible assets increased by \$530 million as a result of the acquisition of four businesses. See Note 5 for additional information regarding acquisitions.

Intangible asset amortization expense was \$149 million, \$153 million, and \$84 million for fiscal 2016, 2015, and 2014, respectively. The aggregate amortization expense on intangible assets is expected to be as follows:

| | <u>(in millions)</u> |
|-------------------|----------------------|
| Fiscal 2017 | \$ 170 |
| Fiscal 2018 | 170 |
| Fiscal 2019 | 167 |
| Fiscal 2020 | 160 |
| Fiscal 2021 | 157 |
| Thereafter | <u>1,055</u> |
| Total | <u>\$1,879</u> |

10. Accrued and Other Current Liabilities

Accrued and other current liabilities consisted of the following:

| | <u>Fiscal Year End</u> | |
|---|------------------------|----------------|
| | <u>2016</u> | <u>2015</u> |
| | <u>(in millions)</u> | |
| Accrued payroll and employee benefits | \$ 431 | \$ 424 |
| Dividends payable to shareholders | 263 | 260 |
| Income taxes payable | 149 | 198 |
| Share repurchase program payable | — | 177 |
| Restructuring reserves | 64 | 60 |
| Interest payable | 56 | 53 |
| Deferred income taxes | — | 33 |
| Other | <u>474</u> | <u>544</u> |
| Accrued and other current liabilities | <u>\$1,437</u> | <u>\$1,749</u> |

TE CONNECTIVITY LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. Debt

Debt was as follows:

| | Fiscal Year End | |
|--|-----------------|---------|
| | 2016 | 2015 |
| | (in millions) | |
| Commercial paper, at a weighted-average interest rate of 0.69% at fiscal year end 2016 | \$ 330 | \$ — |
| Senior floating rate notes due 2016 ⁽¹⁾ | — | 500 |
| 6.55% senior notes due 2017 | 708 | 708 |
| 2.375% senior notes due 2018 | 325 | 325 |
| 2.35% senior notes due 2019 | 250 | 250 |
| 4.875% senior notes due 2021 | 250 | 250 |
| 3.50% senior notes due 2022 | 500 | 500 |
| 1.100% euro-denominated senior notes due 2023 | 618 | 614 |
| 3.45% senior notes due 2024 | 250 | 250 |
| 3.700% senior notes due 2026 | 350 | — |
| 7.125% senior notes due 2037 | 477 | 477 |
| Other | 3 | — |
| Total principal debt | 4,061 | 3,874 |
| Unamortized discounts and debt issuance costs | (26) | (27) |
| Effects of fair value hedge-designated interest rate swaps | 35 | 37 |
| Total debt | \$4,070 | \$3,884 |

(1) The senior floating rate notes due 2016 bore interest at a rate of three-month London interbank offered rate (“LIBOR”) plus 0.20% per year.

During January 2016, Tyco Electronics Group S.A. (“TEGSA”), our 100%-owned subsidiary, issued \$350 million aggregate principal amount of 3.700% senior notes due February 15, 2026. 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 total commitments of \$1,500 million. The Credit Facility was amended in December 2015 primarily to extend the maturity date from August 2018 to December 2020. TEGSA had no borrowings under the Credit Facility at fiscal year end 2016 and 2015.

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 ½ 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.

TE CONNECTIVITY LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. Debt (Continued)

The Credit Facility contains a financial ratio covenant providing that if, as of the last day of each fiscal quarter, our ratio of Consolidated Total Debt to Consolidated EBITDA (as defined in the Credit Facility) for the then most recently concluded period of four consecutive fiscal quarters exceeds 3.75 to 1.0, an Event of Default (as defined in the Credit Facility) is triggered. The Credit Facility and our other debt agreements contain other customary covenants.

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

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

Principal payments required for debt are as follows:

| | <u>(in millions)</u> |
|-----------------------|----------------------|
| Fiscal 2017 | \$ 331 |
| Fiscal 2018 | 708 |
| Fiscal 2019 | 576 |
| Fiscal 2020 | 1 |
| Fiscal 2021 | 250 |
| Thereafter | <u>2,195</u> |
| Total | <u>\$4,061</u> |

The fair value of our debt, based on indicative valuations, was approximately \$4,424 million and \$4,115 million at fiscal year end 2016 and 2015, respectively.

12. Commitments and Contingencies

Legal Proceedings

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

Income Tax Matters

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

TE CONNECTIVITY LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. 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 shared 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 shared 31%, 27%, and 42%, respectively, of U.S. income tax liabilities that arose from adjustments made by tax authorities to our, Tyco International’s, and Covidien’s U.S. income tax returns. Pursuant to the Tax Sharing Agreement, we entered into certain guarantee commitments and indemnifications with Tyco International and Covidien.

1997-2000 Audit Years

In October 2012, the Internal Revenue Service (“IRS”) issued special agreement Forms 870-AD, effectively settling its audit of all tax matters for the years 1997 through 2000, excluding one issue involving the tax treatment of certain intercompany debt transactions. The IRS field examination asserted that certain intercompany loans originated during the years 1997 through 2000 did not constitute debt for U.S. federal income tax purposes and disallowed approximately \$2.7 billion of related interest deductions recognized during the period on Tyco International’s U.S. income tax returns. In addition, if the IRS were ultimately successful in asserting its claim, it likely would have disallowed an additional \$6.6 billion of interest deductions reflected on U.S. income tax returns in years subsequent to fiscal 2000. Tyco International disagreed with the IRS position and filed petitions in the U.S. Tax Court contesting the IRS’s proposed adjustments.

In January 2016, Tyco International entered into Stipulations of Settled Issues (the “Stipulations”) with the IRS intended to resolve all disputes related to the intercompany debt matter discussed above. The Stipulations were contingent upon the Appeals Division of the IRS applying the same settlement or framework to all intercompany debt issues on appeal for subsequent audit cycles (years 2001 through 2007).

During the second quarter of fiscal 2016, we made a pre-payment to the IRS of \$443 million, for deficiencies for which we are the primary obligor, to stop the accretion of deficiency interest. Concurrent with remitting this payment, we were reimbursed \$305 million by Tyco International and Covidien pursuant to their indemnifications for pre-separation tax matters. In addition, we paid \$2 million to Covidien for our share of deficiencies for which Covidien was the primary obligor. As a result, our net cash payment in connection with the disputed debt matter was \$140 million during the second quarter of fiscal 2016.

In May 2016, the U.S. Tax Court entered orders consistent with the Stipulations and dismissed the petitions as settled and the Appeals Division of the IRS issued special agreement Forms 870-AD that effectively settled the matters on appeal on the same terms as those set forth in the Stipulations. As a result, we have resolved all aspects of the disputed debt matter before the U.S. Tax Court (for the 1997 through 2000 audit cycle) and before the Appeals Division of the IRS for subsequent audit cycles (2001 through 2007). In addition, we expect the terms of the resolution for the disputed debt matter will be consistently applied by the IRS to all of our U.S. income tax returns filed subsequent to fiscal 2007.

TE CONNECTIVITY LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. Commitments and Contingencies (Continued)

As a result of these developments, in fiscal 2016, we recognized an income tax benefit of \$1,135 million, representing a reduction in tax reserves, and other expense of \$604 million, representing a reduction of associated indemnification receivables, pursuant to the Tax Sharing Agreement with Tyco International and Covidien. The U.S. tax loss and credit carryforwards finalized as a result of the settlement of the disputed debt matter were assessed for realizability in fiscal 2016 and included in our valuation allowance analysis. See Note 15 for further information regarding the valuation allowance for deferred tax assets.

2001-2007 Audit Years

In fiscal 2015, the IRS issued general agreement Forms 870, effectively settling its audits of tax matters for the years 2001 through 2007, excluding the disputed debt matter which was subsequently resolved during fiscal 2016. As a result of these developments, in fiscal 2015, we recognized an income tax benefit of \$201 million, representing a reduction in tax reserves for the matters that were effectively settled, and other expense of \$84 million, representing a reduction of associated indemnification receivables, pursuant to the Tax Sharing Agreement with Tyco International and Covidien.

2008-2010 Audit Years

In fiscal 2015, the IRS issued general agreement Forms 870, effectively settling its audits of tax matters for the years 2008 through 2010, excluding the disputed debt matter. As discussed above, we expect the terms of the resolution for the disputed debt matter will be consistently applied by the IRS to all of our U.S. income tax returns filed subsequent to fiscal 2007. As a result of these developments, in fiscal 2015, we recognized an income tax benefit of \$63 million, representing a reduction in tax reserves for the matters that were effectively settled.

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 2016, we concluded that it was probable that we would incur remedial costs in the range of \$17 million to \$42 million, and that the best estimate within this range was \$20 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.

TE CONNECTIVITY LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. Commitments and Contingencies (Continued)

Leases

We have facility, land, vehicle, and equipment leases that expire at various dates. Rental expense under these leases was \$143 million, \$141 million, and \$130 million for fiscal 2016, 2015, and 2014, respectively. At fiscal year end 2016, the minimum lease payment obligations under non-cancelable lease obligations were as follows:

| | (in millions) |
|-------------------|---------------|
| Fiscal 2017 | \$106 |
| Fiscal 2018 | 86 |
| Fiscal 2019 | 66 |
| Fiscal 2020 | 47 |
| Fiscal 2021 | 41 |
| Thereafter | 98 |
| Total | \$444 |

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 2016, we had outstanding letters of credit, letters of guarantee, and surety bonds of \$324 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 significantly 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 at fiscal year end 2016 and 2015 were \$48 million and \$35 million, respectively.

13. Financial Instruments and Fair Value Measurements

We use derivative and non-derivative financial instruments to manage certain exposures to foreign currency, interest rate, investment, and commodity risks.

The effects of derivative instruments on the Consolidated Statements of Operations were immaterial for fiscal 2016, 2015, and 2014.

TE CONNECTIVITY LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. Financial Instruments and Fair Value Measurements (Continued)

Foreign Exchange Risks and Hedges of Net Investment

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

During fiscal 2015, we entered into cross-currency swap contracts with an aggregate notional value of €1,000 million to reduce our exposure to foreign currency exchange risk associated with certain intercompany loans. Under the terms of these contracts, which have been designated as cash flow hedges, we make quarterly interest payments in euros at 3.50% per annum and receive interest in U.S. dollars at a weighted-average rate of 5.33% per annum. Upon the maturities of these contracts in fiscal 2022, we will pay the principal amount of the loans in euros and receive U.S. dollars from our counterparties.

We hedge our net investment in certain foreign operations using intercompany non-derivative financial instruments denominated in the same currencies. The aggregate notional value of these hedges was \$3,480 million and \$3,880 million at fiscal year end 2016 and 2015, respectively. Foreign exchange losses of \$45 million and foreign exchange gains of \$353 million and \$156 million in fiscal 2016, 2015, and 2014, respectively, were recorded as currency translation, a component of accumulated other comprehensive income (loss), offsetting foreign exchange gains and losses attributable to the translation of the net investment. See Note 19 for additional information.

Interest Rate and Investment Risk Management

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

Commodity Hedges

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

At fiscal year end 2016 and 2015, our commodity hedges had notional values of \$232 million and \$260 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.

TE CONNECTIVITY LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. Financial Instruments and Fair Value Measurements (Continued)

Fair Value Measurements

Financial instruments recorded at fair value on a recurring basis, which consist of derivative instruments and marketable securities, were immaterial at fiscal year end 2016 and 2015.

14. Retirement Plans

Defined Benefit Pension Plans

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

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

| | U.S. Plans | | | Non-U.S. Plans | | |
|--|------------------|-------|-------|----------------|-------|-------|
| | Fiscal | | | Fiscal | | |
| | 2016 | 2015 | 2014 | 2016 | 2015 | 2014 |
| | (\$ in millions) | | | | | |
| Service cost | \$ 9 | \$ 9 | \$ 7 | \$ 48 | \$ 45 | \$ 46 |
| Interest cost | 50 | 48 | 50 | 52 | 58 | 71 |
| Expected return on plan assets | (59) | (67) | (63) | (68) | (72) | (67) |
| Amortization of net actuarial loss | 40 | 25 | 25 | 36 | 33 | 23 |
| Other | — | — | — | (6) | (5) | (3) |
| Net periodic pension benefit cost | \$ 40 | \$ 15 | \$ 19 | \$ 62 | \$ 59 | \$ 70 |
| <i>Weighted-average assumptions used to determine net pension benefit cost during the fiscal year:</i> | | | | | | |
| Discount rate | 4.38% | 4.34% | 4.84% | 2.50% | 2.77% | 3.38% |
| Expected return on plan assets | 6.97% | 7.20% | 7.16% | 5.98% | 6.46% | 5.96% |
| Rate of compensation increase | —% | —% | —% | 2.81% | 2.86% | 2.84% |

TE CONNECTIVITY LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Retirement Plans (Continued)

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

| | U.S. Plans | | Non-U.S. Plans | |
|--|------------------|----------|----------------|-----------|
| | Fiscal | | Fiscal | |
| | 2016 | 2015 | 2016 | 2015 |
| | (\$ in millions) | | | |
| <i>Change in benefit obligation:</i> | | | | |
| Benefit obligation at beginning of fiscal year | \$1,170 | \$1,143 | \$ 2,188 | \$ 2,276 |
| Service cost | 9 | 9 | 48 | 45 |
| Interest cost | 50 | 48 | 52 | 58 |
| Actuarial loss | 102 | 42 | 368 | 87 |
| Benefits and administrative expenses paid | (81) | (74) | (85) | (71) |
| Currency translation | — | — | (63) | (213) |
| Other | — | 2 | 27 | 6 |
| Benefit obligation at end of fiscal year | 1,250 | 1,170 | 2,535 | 2,188 |
| <i>Change in plan assets:</i> | | | | |
| Fair value of plan assets at beginning of fiscal year | 879 | 978 | 1,167 | 1,177 |
| Actual return on plan assets | 130 | (26) | 261 | 72 |
| Employer contributions | 1 | 1 | 66 | 65 |
| Benefits and administrative expenses paid | (81) | (74) | (85) | (71) |
| Currency translation | — | — | (59) | (90) |
| Other | — | — | 21 | 14 |
| Fair value of plan assets at end of fiscal year | 929 | 879 | 1,371 | 1,167 |
| Funded status | \$ (321) | \$ (291) | \$(1,164) | \$(1,021) |
| <i>Amounts recognized on the Consolidated Balance Sheets:</i> | | | | |
| Accrued and other current liabilities | \$ (5) | \$ (5) | \$ (20) | \$ (19) |
| Long-term pension and postretirement liabilities | (316) | (286) | (1,144) | (1,002) |
| Net amount recognized | \$ (321) | \$ (291) | \$(1,164) | \$(1,021) |
| <i>Weighted-average assumptions used to determine pension benefit obligation at fiscal year end:</i> | | | | |
| Discount rate | 3.58% | 4.38% | 1.44% | 2.50% |
| Rate of compensation increase | —% | —% | 2.52% | 2.81% |

TE CONNECTIVITY LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Retirement Plans (Continued)

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

| | U.S. Plans | | Non-U.S. Plans | |
|--|---------------|--------------|----------------|---------------|
| | Fiscal | | Fiscal | |
| | 2016 | 2015 | 2016 | 2015 |
| | (in millions) | | | |
| <i>Change in net loss:</i> | | | | |
| Unrecognized net loss at beginning of fiscal year | \$436 | \$325 | \$711 | \$748 |
| Current year change recorded in accumulated other comprehensive income (loss) | 32 | 136 | 164 | 18 |
| Amortization reclassified to earnings | (40) | (25) | (36) | (55) |
| Unrecognized net loss at end of fiscal year | <u>\$428</u> | <u>\$436</u> | <u>\$839</u> | <u>\$711</u> |
| <i>Change in prior service credit:</i> | | | | |
| Unrecognized prior service credit at beginning of fiscal year | \$ — | \$ — | \$(66) | \$(67) |
| Current year change recorded in accumulated other comprehensive income (loss) | — | — | (10) | (4) |
| Amortization reclassified to earnings ⁽¹⁾ | — | — | 6 | 5 |
| Unrecognized prior service credit at end of fiscal year | <u>\$ —</u> | <u>\$ —</u> | <u>\$(70)</u> | <u>\$(66)</u> |

(1) Amortization of prior service credit is included in other in the above table summarizing the components of net periodic pension benefit cost.

In fiscal 2016, unrecognized actuarial losses recorded in accumulated other comprehensive income (loss) were primarily the result of lower discount rates partially offset by favorable asset performance for both U.S. and non-U.S. defined benefit pension plans as compared to fiscal 2015. In fiscal 2015, unrecognized actuarial losses recorded in accumulated other comprehensive income (loss) for U.S. defined benefit pension plans were due primarily to a change in the mortality assumption and lower than expected asset performance. Unrecognized actuarial losses recorded in accumulated other comprehensive income (loss) for non-U.S. defined benefit pension plans in fiscal 2015 were principally the result of lower discount rates as compared to fiscal 2014.

The estimated amortization of actuarial losses from accumulated other comprehensive income (loss) into net periodic pension benefit cost for U.S. and non-U.S. defined benefit pension plans in fiscal 2017 is expected to be \$40 million and \$43 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 2017 is expected to be \$7 million.

In determining the expected return on plan assets, we consider the relative weighting of plan assets by class and individual asset class performance expectations.

The investment strategies for U.S. and non-U.S. pension plans are governed locally. Our investment strategy for our pension plans is to manage the plans on a going concern basis. Current investment policy is to achieve a reasonable return on assets, subject to a prudent level of portfolio risk, for the purpose of enhancing the security of benefits for participants. Projected returns are based

TE CONNECTIVITY LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Retirement Plans (Continued)

primarily on pro forma asset allocation, expected long-term returns, and forward-looking estimates of active portfolio and investment management.

The long-term target asset allocation in our U.S. plans' master trust is 10% equity and 90% fixed income. Asset re-allocation to meet that target is occurring over a multi-year period based on the funded status, as defined by the Pension Protection Act of 2006 (the "Pension Act Funded Status"), of the U.S. plans' master trust and market conditions. We expect to reach our target allocation when the Pension Act Funded Status exceeds 105%. Based on the Pension Act Funded Status as of fiscal year end 2016, our target asset allocation is 45% equity and 55% fixed income.

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

| | U.S. Plans | | | Non-U.S. Plans | | |
|---|-------------|----------------------------|----------------------------|----------------|----------------------------|----------------------------|
| | Target | Fiscal Year End 2016 | Fiscal Year End 2015 | Target | Fiscal Year End 2016 | Fiscal Year End 2015 |
| Asset category: | | | | | | |
| Equity securities | 45% | 45% | 45% | 41% | 41% | 45% |
| Debt securities | 55 | 55 | 55 | 38 | 33 | 29 |
| Insurance contracts and other investments | — | — | — | 19 | 24 | 24 |
| Real estate investments | — | — | — | 2 | 2 | 2 |
| Total | <u>100%</u> | <u>100%</u> | <u>100%</u> | <u>100%</u> | <u>100%</u> | <u>100%</u> |

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

Our funding policy is to make contributions in accordance with the laws and customs of the various countries in which we operate as well as to make discretionary voluntary contributions from time to time. We expect to make the minimum required contributions of \$6 million and \$48 million to our U.S. and non-U.S. pension plans, respectively, in fiscal 2017. We may also make voluntary contributions at our discretion.

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

| | U.S. Plans | Non-U.S. Plans |
|----------------------------|---------------|----------------|
| | (in millions) | |
| Fiscal 2017 | \$ 73 | \$ 72 |
| Fiscal 2018 | 70 | 73 |
| Fiscal 2019 | 71 | 76 |
| Fiscal 2020 | 72 | 77 |
| Fiscal 2021 | 74 | 80 |
| Fiscal 2022-2026 | 373 | 458 |

TE CONNECTIVITY LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Retirement Plans (Continued)

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

| | U.S. Plans | | Non-U.S. Plans | |
|--|-----------------|---------|-----------------|---------|
| | Fiscal Year End | | Fiscal Year End | |
| | 2016 | 2015 | 2016 | 2015 |
| | (in millions) | | | |
| Accumulated benefit obligation | \$1,250 | \$1,170 | \$2,389 | \$2,041 |
| Pension plans with accumulated benefit obligations in excess of plan assets: | | | | |
| Accumulated benefit obligation | 1,250 | 1,170 | 2,380 | 1,994 |
| Fair value of plan assets | 929 | 879 | 1,361 | 1,119 |
| Pension plans with projected benefit obligations in excess of plan assets: | | | | |
| Projected benefit obligation | 1,250 | 1,170 | 2,534 | 2,188 |
| Fair value of plan assets | 929 | 879 | 1,371 | 1,167 |

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

TE CONNECTIVITY LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Retirement Plans (Continued)

| | Fiscal Year End 2015 | | | | | | | |
|--|----------------------|--------------|------------|--------------|----------------|--------------|-------------|----------------|
| | U.S. Plans | | | | Non-U.S. Plans | | | |
| | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| | (in millions) | | | | | | | |
| Equity: | | | | | | | | |
| U.S. equity securities ⁽¹⁾ | \$245 | \$ — | \$— | \$245 | \$ 60 | \$ — | \$— | \$ 60 |
| Non-U.S. equity securities ⁽¹⁾ | 149 | — | — | 149 | 54 | — | — | 54 |
| Commingled equity funds ⁽²⁾ | — | — | — | — | — | 421 | — | 421 |
| Fixed income: | | | | | | | | |
| Government bonds ⁽³⁾ | — | 64 | — | 64 | — | 202 | — | 202 |
| Corporate bonds ⁽⁴⁾ | — | 404 | — | 404 | — | 13 | — | 13 |
| Commingled bond funds ⁽⁵⁾ | — | — | — | — | — | 171 | — | 171 |
| Other ⁽⁶⁾ | — | 3 | — | 3 | — | 142 | 84 | 226 |
| Subtotal | <u>\$394</u> | <u>\$471</u> | <u>\$—</u> | 865 | <u>\$114</u> | <u>\$949</u> | <u>\$84</u> | 1,147 |
| Items to reconcile to fair value of plan assets ⁽⁷⁾ | | | | 14 | | | | 20 |
| Fair value of plan assets | | | | <u>\$879</u> | | | | <u>\$1,167</u> |

- (1) U.S. and non-U.S. equity securities are valued at the closing price reported on the stock exchange on which the individual securities are traded.
- (2) Commingled equity funds are pooled investments in multiple equity-type securities. Fair value is calculated as the closing price of the underlying investments, an observable market condition, divided by the number of shares of the fund outstanding.
- (3) Government bonds are marked to fair value based on quoted market prices or market approach valuation models using observable market data such as quotes, spreads, and data points for yield curves.
- (4) Corporate bonds are marked to fair value based on quoted market prices or market approach valuation models using observable market data such as quotes, spreads, and data points for yield curves.
- (5) Commingled bond funds are pooled investments in multiple debt-type securities. Fair value is calculated as the closing price of the underlying investments, an observable market condition, divided by the number of shares of the fund outstanding.
- (6) Other investments are composed of insurance contracts, derivatives, short-term investments, structured products such as collateralized obligations and mortgage- and asset-backed securities, real estate investments, and hedge funds. Insurance contracts are valued using cash surrender value, or face value of the contract if a cash surrender value is unavailable (level 2), as these values represent the amount that the plan would receive on termination of the underlying contract. Derivatives, short-term investments, and structured products are marked to fair value using models that are supported by observable market based data (level 2). Real estate investments include investments in commingled real estate funds and are valued at net asset value which is calculated using unobservable inputs that are supported by little or no market activity (level 3). Hedge funds are valued at their net asset value which is calculated using unobservable inputs that are supported by little or no market activity (level 3).
- (7) Items to reconcile to fair value of plan assets include amounts receivable for securities sold, amounts payable for securities purchased, and any cash balances, considered to be carried at book value, that are held in the plans.

TE CONNECTIVITY LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Retirement Plans (Continued)

Changes in Level 3 assets in non-U.S. plans were primarily the result of purchases in fiscal 2016 and 2015.

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 \$59 million, \$60 million, and \$61 million for fiscal 2016, 2015, and 2014, respectively.

Deferred Compensation Plans

We maintain nonqualified deferred compensation plans, which permit eligible employees to defer a portion of their compensation. A record keeping account is set up for each participant and the participant chooses from a variety of measurement funds for the deemed investment of their accounts. The measurement funds correspond to a number of funds in our 401(k) plans and the account balance fluctuates with the investment returns on those funds. Total deferred compensation liabilities were \$132 million and \$118 million at fiscal year end 2016 and 2015, respectively. See Note 13 for additional information regarding our risk management strategy related to deferred compensation liabilities.

Postretirement Benefit Plans

In addition to providing pension and 401(k) benefits, we also provide certain health care coverage continuation for qualifying retirees from the date of retirement to age 65. The accumulated postretirement benefit obligation was \$45 million and \$40 million at fiscal year end 2016 and 2015, 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 2016, 2015, and 2014 was not significant.

TE CONNECTIVITY LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. Income Taxes

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

| | Fiscal | | |
|--|---------------|--------|--------|
| | 2016 | 2015 | 2014 |
| | (in millions) | | |
| Current income tax expense (benefit): | | | |
| U.S.: | | | |
| Federal | \$(1,115) | \$(67) | \$ 128 |
| State | (163) | 12 | (3) |
| Non-U.S. | 321 | 352 | 302 |
| | (957) | 297 | 427 |
| Deferred income tax expense (benefit): | | | |
| U.S.: | | | |
| Federal | 173 | 87 | (311) |
| State | 20 | 5 | (3) |
| Non-U.S. | (15) | (52) | 33 |
| | 178 | 40 | (281) |
| Income tax expense (benefit) | \$ (779) | \$337 | \$ 146 |

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

| | Fiscal | | |
|---|---------------|---------|----------|
| | 2016 | 2015 | 2014 |
| | (in millions) | | |
| U.S. | \$ (115) | \$ (31) | \$ (133) |
| Non-U.S. | 1,277 | 1,606 | 1,893 |
| Income from continuing operations before income taxes | \$1,162 | \$1,575 | \$1,760 |

TE CONNECTIVITY LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. Income Taxes (Continued)

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

| | Fiscal | | |
|--|-----------------|---------------|---------------|
| | 2016 | 2015 | 2014 |
| | (in millions) | | |
| Notional U.S. federal income tax expense at the statutory rate | \$ 407 | \$ 551 | \$ 616 |
| Adjustments to reconcile to the income tax expense (benefit): | | | |
| U.S. state income tax expense (benefit), net | (93) | 11 | (4) |
| Other (income) expense—Tax Sharing Agreement ⁽¹⁾ | 221 | 18 | (23) |
| Tax law changes | (3) | 10 | (1) |
| Tax credits | (10) | (9) | (8) |
| Non-U.S. net earnings ⁽²⁾ | (342) | (275) | (287) |
| Nondeductible charges | 2 | 2 | 3 |
| Change in accrued income tax liabilities | (1,056) | (183) | 112 |
| Valuation allowance | 97 | (3) | (239) |
| Legal entity restructuring | 39 | 211 | — |
| Divestitures | (31) | — | — |
| Other | (10) | 4 | (23) |
| Income tax expense (benefit) | <u>\$ (779)</u> | <u>\$ 337</u> | <u>\$ 146</u> |

(1) Other income (expense), net pursuant to the Tax Sharing Agreement with Tyco International and Covidien is not taxable or deductible.

(2) Excludes nondeductible charges and other items which are separately presented.

The income tax benefit for fiscal 2016 included a \$1,135 million income tax benefit related to the effective settlement of tax matters for the years 1997 through 2000 which resolved all aspects of the disputed debt matter with the IRS through the year 2007, partially offset by a \$91 million income tax charge related to an increase to the valuation allowance for certain U.S. deferred tax assets. Additionally, the tax benefit for fiscal 2016 included an \$83 million net income tax benefit related to tax settlements in certain other tax jurisdictions, partially offset by an income tax charge related to certain legal entity restructurings. See Note 12 for additional information regarding settlements with the IRS.

The increase to the valuation allowance for deferred tax assets primarily relates to certain U.S. federal and state tax loss and credit carryforwards. Based on our forecast of taxable income for certain U.S. tax reporting groups, U.S. tax loss and credit carryforwards finalized as a result of settlement of the disputed debt matter with the IRS, and certain tax planning actions and strategies, we believed it was more likely than not that a portion of our deferred tax assets would not be realized.

The income tax expense for fiscal 2015 included a \$264 million income tax benefit related to the effective settlement of all undisputed tax matters for the years 2001 through 2010, partially offset by a \$216 million income tax charge associated with the tax impacts of certain intercompany legal entity restructurings made in connection with our integration of Measurement Specialties. Also, income tax expense for fiscal 2015 included an income tax charge of \$29 million associated with the tax impacts of certain intercompany dividends related to the restructuring and sale of BNS.

TE CONNECTIVITY LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. Income Taxes (Continued)

The income tax expense for fiscal 2014 included an income tax benefit of \$282 million recognized in connection with a reduction in the valuation allowance associated with certain tax loss carryforwards relating to ADC Telecommunications, Inc. (“ADC”), partially offset by an income tax charge related to adjustments to prior year income tax returns.

In fiscal 2014, we acquired SEACON, and its U.S. operations were combined with our ADC U.S. federal consolidated tax group. In addition, the ADC U.S. tax group was combined with other U.S. legal entities and assets. We reassessed the realization of the revised ADC U.S. tax group’s tax loss and credit carryforwards. Based on our forecast of taxable income of the reorganized combined tax group, we believed it was more likely than not that a tax benefit would be realized on additional U.S. federal and state net operating losses. Accordingly, we reduced the valuation allowance and recorded a tax benefit of \$282 million.

Deferred income taxes result from temporary differences between the amount of assets and liabilities recognized for financial reporting and tax purposes. The components of the net deferred income tax asset were as follows:

| | Fiscal Year End | |
|---|-----------------|----------|
| | 2016 | 2015 |
| | (in millions) | |
| Deferred tax assets: | | |
| Accrued liabilities and reserves | \$ 286 | \$ 262 |
| Tax loss and credit carryforwards | 4,656 | 4,856 |
| Inventories | 46 | 57 |
| Pension and postretirement benefits | 349 | 295 |
| Deferred revenue | 11 | 17 |
| Interest | 470 | 394 |
| Unrecognized income tax benefits | 10 | 378 |
| Other | 32 | 4 |
| | 5,860 | 6,263 |
| Deferred tax liabilities: | | |
| Intangible assets | (761) | (809) |
| Property, plant, and equipment | (15) | (1) |
| Other | (84) | (89) |
| | (860) | (899) |
| Net deferred tax asset before valuation allowance | 5,000 | 5,364 |
| Valuation allowance | (3,096) | (3,237) |
| Net deferred tax asset | \$ 1,904 | \$ 2,127 |

TE CONNECTIVITY LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. Income Taxes (Continued)

Our tax loss and credit carryforwards (tax effected) at fiscal year end 2016 were as follows:

| | Expiration Period | | | Total |
|---|-------------------|--------------------------------|------------------|----------------|
| | Through 2021 | Fiscal 2022 Through 2036 | No Expiration | |
| | (in millions) | | | |
| U.S. Federal: | | | | |
| Net operating loss carryforwards | \$ — | \$1,404 | \$ — | \$1,404 |
| Tax credit carryforwards | 15 | 124 | 70 | 209 |
| Capital loss carryforwards | 36 | — | — | 36 |
| U.S. State: | | | | |
| Net operating loss carryforwards. | 53 | 55 | — | 108 |
| Tax credit carryforwards | 12 | 15 | 7 | 34 |
| Non-U.S.: | | | | |
| Net operating loss carryforwards | 12 | 5 | 2,813 | 2,830 |
| Tax credit carryforwards | — | 1 | — | 1 |
| Capital loss carryforwards | 7 | — | 27 | 34 |
| Total tax loss and credit carryforwards . . . | <u>\$135</u> | <u>\$1,604</u> | <u>\$2,917</u> | <u>\$4,656</u> |

The valuation allowance for deferred tax assets of \$3,096 million and \$3,237 million at fiscal year end 2016 and 2015, respectively, relates principally to the uncertainty of the utilization of certain deferred tax assets, primarily tax loss, capital loss, and credit carryforwards in various jurisdictions. 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. At fiscal year end 2016, approximately \$169 million of the valuation allowance relates to share-based compensation and will be recorded to equity if certain net operating losses and tax credit carryforwards are utilized.

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 2016, certain subsidiaries had approximately \$21 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 2016, we had approximately \$6.9 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 approximately \$1.5 billion of tax expense would be recognized on the

TE CONNECTIVITY LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. Income Taxes (Continued)

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 Position Provisions of ASC 740

As of fiscal year end 2016, we had total unrecognized income tax benefits of \$490 million. If recognized in future years, \$370 million of these currently unrecognized income tax benefits would impact income tax expense (benefit) and the effective tax rate. As of fiscal year end 2015, we had total unrecognized income tax benefits of \$1,368 million. If recognized in future years, \$1,291 million of these unrecognized income tax benefits would impact income tax expense (benefit) and the effective tax rate. The following table summarizes the activity related to unrecognized income tax benefits:

| | Fiscal | | |
|--|---------------|----------------|----------------|
| | 2016 | 2015 | 2014 |
| | (in millions) | | |
| Balance at beginning of fiscal year | \$1,368 | \$1,595 | \$1,617 |
| Additions related to prior periods tax positions | 75 | 24 | 22 |
| Reductions related to prior periods tax positions | (817) | (291) | (57) |
| Additions related to current period tax positions | 124 | 97 | 32 |
| Acquisitions | 4 | — | 7 |
| Settlements | (205) | (29) | (14) |
| Reductions due to lapse of applicable statute of limitations | (59) | (28) | (12) |
| Balance at end of fiscal year | <u>\$ 490</u> | <u>\$1,368</u> | <u>\$1,595</u> |

We record accrued interest as well as penalties related to uncertain tax positions as part of income tax expense (benefit). As of fiscal year end 2016 and 2015, we had \$54 million and \$1,076 million, respectively, of accrued interest and penalties related to uncertain tax positions on the Consolidated Balance Sheets, recorded primarily in income taxes. The decrease in the accrued interest and penalties from fiscal year end 2015 was due primarily to the effective settlement of tax matters for the years 1997 through 2000 which resolved all aspects of the disputed debt matter with the IRS through the year 2007. During fiscal 2016, 2015, and 2014, we recognized income tax benefits of \$765 million, expense of \$7 million, and expense of \$99 million, respectively, related to interest and penalties on the Consolidated Statements of Operations.

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

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

TE CONNECTIVITY LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. Income Taxes (Continued)

As of fiscal year end 2016, under applicable statutes, the following tax years remained subject to examination in the major tax jurisdictions indicated:

| <u>Jurisdiction</u> | <u>Open Years</u> |
|--|-------------------|
| China | 2006 through 2016 |
| Czech Republic | 2013 through 2016 |
| Germany | 2013 through 2016 |
| Hong Kong | 2010 through 2016 |
| Ireland | 2011 through 2016 |
| Italy | 2010 through 2016 |
| Japan | 2010 through 2016 |
| Korea | 2011 through 2016 |
| Luxembourg | 2011 through 2016 |
| Netherlands | 2012 through 2016 |
| Singapore | 2011 through 2016 |
| Spain | 2012 through 2016 |
| Switzerland | 2011 through 2016 |
| United Kingdom | 2015 through 2016 |
| U.S.—federal and state and local | 1998 through 2016 |

In most jurisdictions, taxing authorities retain the ability to review prior tax years and to adjust any net operating loss and tax credit carryforwards from these years that are utilized in a subsequent period.

Although it is difficult to predict the timing or results of our worldwide examinations, we estimate that up to approximately \$90 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 2016.

16. Other Income (Expense), Net

In fiscal 2016, 2015, and 2014, we recorded net other expense of \$632 million, net other expense of \$55 million, and net other income of \$63 million, respectively, primarily pursuant to the Tax Sharing Agreement with Tyco International and Covidien. The net other expense in fiscal 2016 included \$604 million related to the effective settlement of tax matters for the years 1997 through 2000 which resolved all aspects of the disputed debt matter with the IRS through the year 2007 and \$46 million related to a tax settlement in another jurisdiction. The net other expense in fiscal 2015 included \$84 million related to the effective settlement of undisputed tax matters for the years 2001 through 2007. See Note 12 for further information regarding the Tax Sharing Agreement and settlements with the IRS. The net other income in fiscal 2014 included \$18 million of income related to our share of a settlement agreement entered into by Tyco International with a former subsidiary, CIT Group Inc., which arose from a pre-separation claim for which we were entitled to 31% once resolved.

TE CONNECTIVITY LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. Earnings Per Share

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

| | Fiscal | | |
|--|---------------|-------------|-------------|
| | 2016 | 2015 | 2014 |
| | (in millions) | | |
| Basic | 366 | 405 | 410 |
| Dilutive impact of share-based compensation arrangements | 3 | 6 | 7 |
| Diluted | 369 | 411 | 417 |

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

18. Equity

Common Shares

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

Subject to certain conditions specified in our articles of association, we are authorized to increase our conditional share capital by issuing new shares in aggregate not exceeding 50% of our authorized shares. In March 2016, our shareholders approved for a period of two years ending on March 2, 2018, our board of directors' authorization to issue additional new shares, subject to certain conditions specified in the articles of association, in aggregate not exceeding 50% of the amount of our authorized shares.

Common Shares Held in Treasury

At fiscal year end 2016, approximately 28 million common shares were held in treasury, of which 2 million were owned by one of our subsidiaries. At fiscal year end 2015, approximately 20 million common shares were held in treasury, of which 6 million were owned by one of our subsidiaries. Shares held both directly by us and by our subsidiary are presented as treasury shares on the Consolidated Balance Sheets.

In fiscal 2016, 2015, and 2014, our shareholders approved the cancellation of 31 million, 5 million, and 10 million shares, respectively, purchased under our share repurchase program. These capital reductions by cancellation of shares were subject to a notice period and filing with the commercial register in Switzerland.

Contributed Surplus

Contributed surplus established for Swiss tax and statutory purposes ("Swiss Contributed Surplus"), subject to certain conditions, is a freely distributable reserve. Distributions to shareholders from Swiss

TE CONNECTIVITY LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18. Equity (Continued)

Contributed Surplus are free from withholding tax. As of fiscal year end 2016 and 2015, Swiss Contributed Surplus was CHF 7,878 million and CHF 8,392 million, respectively (equivalent to \$6,992 million and \$7,505 million, respectively).

Dividends and Distributions to Shareholders

Under Swiss law, subject to certain conditions, distributions to shareholders made in the form of a reduction of registered share capital or from reserves from capital contributions (equivalent to Swiss Contributed Surplus) are exempt from Swiss withholding tax. Distributions or 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>Payment Type</u> | <u>Annual Payment Per Share</u> | <u>Payment Dates</u> |
|----------------------|---|---|--|
| March 2013 . . | Dividend payment out of contributed surplus | CHF 0.96 (equivalent to \$1.00), payable in four quarterly installments of \$0.25 | Third quarter of fiscal 2013 Fourth quarter of fiscal 2013 First quarter of fiscal 2014 Second quarter of fiscal 2014 |
| March 2014 . . | Dividend payment out of contributed surplus | CHF 1.04 (equivalent to \$1.16), payable in four quarterly installments of \$0.29 | Third quarter of fiscal 2014 Fourth quarter of fiscal 2014 First quarter of fiscal 2015 Second quarter of fiscal 2015 |
| March 2015 . . | Dividend payment out of contributed surplus | \$1.32 (equivalent to CHF 1.27), payable in four quarterly installments of \$0.33 | Third quarter of fiscal 2015 Fourth quarter of fiscal 2015 First quarter of fiscal 2016 Second quarter of fiscal 2016 |
| March 2016 . . | Dividend payment out of contributed surplus | \$1.48 (equivalent to CHF 1.48), payable in four quarterly installments of \$0.37 | Third quarter of fiscal 2016 Fourth quarter of fiscal 2016 First quarter of fiscal 2017 Second quarter of fiscal 2017 |

Upon shareholders' approval of a dividend payment or cash distribution in the form of a capital reduction, we record a liability with a corresponding charge to contributed surplus or common shares. At fiscal year end 2016 and 2015, the unpaid portion of the dividends recorded in accrued and other current liabilities on the Consolidated Balance Sheets totaled \$263 million and \$260 million, respectively.

Share Repurchase Program

During fiscal 2016, our board of directors authorized an increase of \$1.0 billion in the share repurchase program. Common shares repurchased under the share repurchase program were as follows:

| | <u>Fiscal</u> | | |
|---|---------------|-------------|-------------|
| | <u>2016</u> | <u>2015</u> | <u>2014</u> |
| | (in millions) | | |
| Number of common shares repurchased | 43 | 18 | 11 |
| Amount repurchased | \$2,610 | \$1,163 | \$604 |

TE CONNECTIVITY LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18. Equity (Continued)

At fiscal year end 2016, we had \$1.1 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:

| | <u>Currency Translation⁽¹⁾</u> | <u>Unrecognized Pension and Postretirement Benefit Costs</u> | <u>Gains (Losses) on Cash Flow Hedges</u> | <u>Accumulated Other Comprehensive Income (Loss)</u> |
|---|---|--|---|--|
| | (in millions) | | | |
| Balance at fiscal year end 2013 | <u>\$ 931</u> | <u>\$(569)</u> | <u>\$(59)</u> | <u>\$ 303</u> |
| Other comprehensive loss before reclassifications | (216) | (211) | (35) | (462) |
| Amounts reclassified from accumulated other comprehensive income (loss) | 5 | 44 | 49 | 98 |
| Income tax benefit | <u>—</u> | <u>44</u> | <u>—</u> | <u>44</u> |
| Net other comprehensive income (loss), net of tax | <u>(211)</u> | <u>(123)</u> | <u>14</u> | <u>(320)</u> |
| Balance at fiscal year end 2014 | <u>720</u> | <u>(692)</u> | <u>(45)</u> | <u>(17)</u> |
| Other comprehensive loss before reclassifications | (536) | (147) | (44) | (727) |
| Amounts reclassified from accumulated other comprehensive income (loss) | 224 ⁽²⁾ | 75 | 45 | 344 |
| Income tax benefit | <u>—</u> | <u>26</u> | <u>1</u> | <u>27</u> |
| Net other comprehensive income (loss), net of tax | <u>(312)</u> | <u>(46)</u> | <u>2</u> | <u>(356)</u> |
| Balance at fiscal year end 2015 | <u>408</u> | <u>(738)</u> | <u>(43)</u> | <u>(373)</u> |
| Other comprehensive loss before reclassifications | (69) | (190) | (14) | (273) |
| Amounts reclassified from accumulated other comprehensive income (loss) | (23) | 70 | 32 | 79 |
| Income tax (expense) benefit | <u>—</u> | <u>32</u> | <u>(7)</u> | <u>25</u> |
| Net other comprehensive income (loss), net of tax | <u>(92)</u> | <u>(88)</u> | <u>11</u> | <u>(169)</u> |
| Balance at fiscal year end 2016 | <u>\$ 316</u> | <u>\$(826)</u> | <u>\$(32)</u> | <u>\$(542)</u> |

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

TE CONNECTIVITY LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19. Accumulated Other Comprehensive Income (Loss) (Continued)

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

20. Share Plans

Our equity compensation plans, of which the TE Connectivity Ltd. 2007 Stock and Incentive Plan, as amended and restated, 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 2016, our plans provided for a maximum of 67 million shares to be issued as Awards, subject to adjustment as provided under the terms of the plans. A total of 16 million shares remained available for issuance under our plans as of fiscal year end 2016.

Share-Based Compensation Expense

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

| | Fiscal | | |
|--|----------------------|-------------|-------------|
| | 2016 | 2015 | 2014 |
| | (in millions) | | |
| Share-based compensation expense | \$91 | \$89 | \$77 |

We recognized a related tax benefit associated with our share-based compensation arrangements of \$29 million, \$29 million, and \$24 million in fiscal 2016, 2015, and 2014, respectively.

Restricted Share Awards

Restricted share awards, which are generally in the form of restricted share units, are granted subject to certain restrictions. Conditions of vesting are determined at the time of grant. All restrictions on an award will lapse upon death or disability of the employee. If the employee satisfies retirement requirements, a portion of the award may vest, depending on the terms and conditions of the particular grant. Recipients of restricted share units have no voting rights, but do receive dividend equivalents. For grants that vest through passage of time, the fair value of the award at the time of the grant is amortized to expense over the period of vesting. The fair value of restricted share awards is determined based on the closing value of our shares on the grant date. Restricted share awards generally vest in increments over a period of four years as determined by the management development and compensation committee.

TE CONNECTIVITY LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20. Share Plans (Continued)

A summary of restricted share award activity is presented below:

| | <u>Shares</u> | <u>Weighted-Average Grant-Date Fair Value</u> |
|---|------------------|---|
| Nonvested at fiscal year end 2015 | 2,790,934 | \$51.01 |
| Granted | 886,663 | 64.88 |
| Vested | (1,116,283) | 45.46 |
| Forfeited | <u>(274,310)</u> | 54.53 |
| Nonvested at fiscal year end 2016 | <u>2,287,004</u> | \$58.47 |

The weighted-average grant-date fair value of restricted share awards granted during fiscal 2016, 2015, and 2014 was \$64.88, \$62.45, and \$52.21, respectively.

The total fair value of restricted share awards that vested during fiscal 2016, 2015, and 2014 was \$51 million, \$58 million, and \$52 million, respectively.

As of fiscal year end 2016, there was \$74 million of unrecognized compensation cost related to nonvested restricted share awards. The cost is expected to be recognized over a weighted-average period of 1.6 years.

Performance Share Awards

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

A summary of performance share award activity is presented below:

| | <u>Shares</u> | <u>Weighted-Average Grant-Date Fair Value</u> |
|---|-----------------|---|
| Outstanding at fiscal year end 2015 | 700,828 | \$47.32 |
| Granted | 425,861 | 55.15 |
| Vested | (444,429) | 34.46 |
| Forfeited | <u>(55,635)</u> | 56.98 |
| Outstanding at fiscal year end 2016 | <u>626,625</u> | \$60.56 |

The weighted-average grant-date fair value of performance share awards granted during fiscal 2016, 2015, and 2014 was \$55.15, \$61.65, and \$51.63, respectively.

The total fair value of performance share awards that vested during fiscal 2016 was \$15 million. The total fair value of performance share awards that vested in fiscal 2015 and 2014 was insignificant.

TE CONNECTIVITY LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20. Share Plans (Continued)

As of fiscal year end 2016, there was \$18 million of unrecognized compensation cost related to nonvested performance share awards. The cost is expected to be recognized over a weighted-average period of 1.2 years.

Share Options

Share options are granted to purchase our common shares at prices which are equal to or greater than the market price of the common shares on the date the option is granted. Conditions of vesting are determined at the time of grant. All restrictions on the award will lapse upon death or disability of the employee. If the employee satisfies retirement requirements, a portion of the award may vest, 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.

A summary of share option award activity is presented below:

| | Shares | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term (in years) | Aggregate Intrinsic Value (in millions) |
|--|------------------|---------------------------------------|--|--|
| Outstanding at fiscal year end 2015 | 10,124,875 | \$40.05 | | |
| Granted | 1,860,800 | 65.70 | | |
| Exercised | (2,480,662) | 35.68 | | |
| Expired | (61,592) | 44.20 | | |
| Forfeited | (339,041) | 57.18 | | |
| Outstanding at fiscal year end 2016 | <u>9,104,380</u> | \$45.79 | 6.3 | \$172 |
| Vested and expected to vest at fiscal year end 2016 | 8,739,461 | \$45.26 | 6.3 | \$170 |
| Exercisable at fiscal year end 2016 | 5,189,559 | \$36.16 | 4.9 | \$147 |

The weighted-average exercise price of share option awards granted during fiscal 2016, 2015, and 2014 was \$65.70, \$61.70, and \$51.78, respectively.

The total intrinsic value of options exercised during fiscal 2016, 2015, and 2014 was \$67 million, \$107 million, and \$136 million, respectively. We received cash related to the exercise of options of \$90 million, \$103 million, and \$156 million in fiscal 2016, 2015, and 2014, respectively. The related excess cash tax benefit classified as a financing cash inflow on the Consolidated Statements of Cash Flows for fiscal 2016, 2015, and 2014 was not material.

As of fiscal year end 2016, there was \$36 million of unrecognized compensation cost related to nonvested share options granted under our share option plans. The cost is expected to be recognized over a weighted-average period of 1.6 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

TE CONNECTIVITY LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20. Share Plans (Continued)

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:

| | <u>Fiscal</u> | | |
|--|---------------|-------------|-------------|
| | <u>2016</u> | <u>2015</u> | <u>2014</u> |
| Weighted-average grant-date fair value | \$14.26 | \$18.77 | \$16.81 |
| Assumptions: | | | |
| Expected share price volatility | 26% | 36% | 39% |
| Risk free interest rate | 2.0% | 2.0% | 1.8% |
| Expected annual dividend per share | \$ 1.32 | \$ 1.16 | \$ 1.00 |
| Expected life of options (in years) | 5.7 | 6.0 | 6.0 |

21. Segment and Geographic Data

We operate through three reportable segments: Transportation Solutions, Industrial Solutions, and Communications Solutions. See Note 1 for a description of the segments in which we operate. We aggregate our operating segments into reportable segments based upon similar economic characteristics and business groupings of products, services, and customers.

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

TE CONNECTIVITY LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21. Segment and Geographic Data (Continued)

Net sales and operating income by segment were as follows:

| | Net Sales | | | Operating Income | | |
|------------------------------------|-----------------|-----------------|-----------------|--------------------|----------------|----------------|
| | Fiscal | | | Fiscal | | |
| | 2016 | 2015 | 2014 | 2016 | 2015 | 2014 |
| | (in millions) | | | | | |
| Transportation Solutions | \$ 6,503 | \$ 6,351 | \$ 6,090 | \$1,191 | \$1,193 | \$1,245 |
| Industrial Solutions | 3,215 | 3,179 | 3,302 | 343 | 352 | 431 |
| Communications Solutions | 2,520 | 2,703 | 2,581 | 368 ⁽¹⁾ | 204 | 129 |
| Total | <u>\$12,238</u> | <u>\$12,233</u> | <u>\$11,973</u> | <u>\$1,902</u> | <u>\$1,749</u> | <u>\$1,805</u> |

(1) Includes pre-tax gain of \$144 million on the sale of our CPD business during fiscal 2016.

No single customer accounted for a significant amount of our net sales in fiscal 2016, 2015, and 2014.

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 | | |
| | 2016 | 2015 | 2014 | 2016 | 2015 | 2014 |
| | (in millions) | | | | | |
| Transportation Solutions | \$ 337 | \$ 347 | \$ 285 | \$ 429 | \$ 400 | \$ 379 |
| Industrial Solutions | 131 | 123 | 102 | 107 | 104 | 143 |
| Communications Solutions | 117 | 146 | 164 | 92 | 96 | 113 |
| Total | <u>\$ 585</u> | <u>\$ 616</u> | <u>\$ 551</u> | <u>\$ 628</u> | <u>\$ 600</u> | <u>\$ 635</u> |

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

| | Segment Assets | | |
|---|-----------------|-----------------|-----------------|
| | Fiscal Year End | | |
| | 2016 | 2015 | 2014 |
| | (in millions) | | |
| Transportation Solutions | \$ 3,501 | \$ 3,310 | \$ 3,062 |
| Industrial Solutions | 1,720 | 1,720 | 1,735 |
| Communications Solutions | 1,473 | 1,625 | 1,689 |
| Total segment assets ⁽¹⁾ | 6,694 | 6,655 | 6,486 |
| Other current assets | 1,133 | 4,150 | 5,311 |
| Other non-current assets | 9,781 | 9,784 | 8,335 |
| Total assets | <u>\$17,608</u> | <u>\$20,589</u> | <u>\$20,132</u> |

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

TE CONNECTIVITY LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21. Segment and Geographic Data (Continued)

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

| | Net Sales ⁽¹⁾ | | | Property, Plant, and Equipment, Net | | |
|---|--------------------------|-----------------|-----------------|--|----------------|----------------|
| | Fiscal | | | Fiscal Year End | | |
| | 2016 | 2015 | 2014 | 2016 | 2015 | 2014 |
| | (in millions) | | | | | |
| Americas: | | | | | | |
| U.S. | \$ 3,901 | \$ 3,817 | \$ 3,119 | \$ 922 | \$ 887 | \$ 837 |
| Other Americas | 298 | 321 | 396 | 93 | 87 | 97 |
| Total Americas | <u>4,199</u> | <u>4,138</u> | <u>3,515</u> | <u>1,015</u> | <u>974</u> | <u>934</u> |
| Europe/Middle East/Africa: | | | | | | |
| Switzerland | 2,979 | 2,992 | 3,483 | 62 | 55 | 54 |
| Germany | 127 | 117 | 126 | 334 | 313 | 330 |
| Other Europe/Middle East/Africa | 1,010 | 883 | 615 | 630 | 588 | 642 |
| Total Europe/Middle East/Africa | <u>4,116</u> | <u>3,992</u> | <u>4,224</u> | <u>1,026</u> | <u>956</u> | <u>1,026</u> |
| Asia-Pacific: | | | | | | |
| China | 2,165 | 2,367 | 2,331 | 491 | 529 | 492 |
| Other Asia-Pacific | 1,758 | 1,736 | 1,903 | 520 | 461 | 468 |
| Total Asia-Pacific | <u>3,923</u> | <u>4,103</u> | <u>4,234</u> | <u>1,011</u> | <u>990</u> | <u>960</u> |
| Total | <u>\$12,238</u> | <u>\$12,233</u> | <u>\$11,973</u> | <u>\$3,052</u> | <u>\$2,920</u> | <u>\$2,920</u> |

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

TE CONNECTIVITY LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

22. Quarterly Financial Data (unaudited)

Summarized quarterly financial data was as follows:

| | Fiscal | | | | | | | |
|--|--------------------------------------|----------------------------------|---------------------------------|----------------------------------|---------------------------------|-------------------|------------------|----------------------------------|
| | 2016 | | | | 2015 | | | |
| | First Quarter | Second Quarter ⁽¹⁾ | Third Quarter ⁽²⁾ | Fourth Quarter ⁽³⁾ | First Quarter ⁽⁴⁾ | Second Quarter | Third Quarter | Fourth Quarter ⁽⁵⁾ |
| | (in millions, except per share data) | | | | | | | |
| Net sales | \$2,833 | \$2,952 | \$3,121 | \$3,332 | \$3,049 | \$3,082 | \$3,118 | \$2,984 |
| Gross margin | 945 | 962 | 1,022 | 1,104 | 1,020 | 1,051 | 1,048 | 968 |
| Acquisition and integration costs | 5 | 3 | 11 | 3 | 24 | 14 | 8 | 9 |
| Restructuring and other charges (credits), net | 40 | (99) | 31 | 30 | 25 | 38 | 19 | 70 |
| Income from continuing operations | 324 | 389 | 791 | 437 | 435 | 316 | 351 | 136 |
| Income (loss) from discontinued operations, net of income taxes | 29 | (9) | 48 | — | 37 | 283 | (42) | 904 |
| Net income | \$ 353 | \$ 380 | \$ 839 | \$ 437 | \$ 472 | \$ 599 | \$ 309 | \$1,040 |
| Basic earnings per share: | | | | | | | | |
| Income from continuing operations | \$ 0.84 | \$ 1.07 | \$ 2.22 | \$ 1.23 | \$ 1.07 | \$ 0.78 | \$ 0.86 | \$ 0.34 |
| Net income | 0.92 | 1.04 | 2.35 | 1.23 | 1.16 | 1.47 | 0.76 | 2.60 |
| Diluted earnings per share: | | | | | | | | |
| Income from continuing operations | \$ 0.83 | \$ 1.06 | \$ 2.19 | \$ 1.22 | \$ 1.05 | \$ 0.77 | \$ 0.85 | \$ 0.34 |
| Net income | 0.91 | 1.03 | 2.32 | 1.22 | 1.14 | 1.45 | 0.75 | 2.57 |

- (1) Results for the second quarter of fiscal 2016 included a pre-tax gain of \$146 million on the sale of our CPD business.
- (2) Results for the third quarter of fiscal 2016 included a \$1,135 million income tax benefit associated with the effective settlement of tax matters for the years 1997 through 2000 which resolved all aspects of the disputed debt matter with the IRS through the year 2007 and the related impact of \$604 million to other expense pursuant to the Tax Sharing Agreement with Tyco International and Covidien. In addition, results for the third quarter of fiscal 2016 included a \$91 million income tax charge related to an increase to the valuation allowance for certain U.S. deferred tax assets, and an \$83 million net income tax benefit related to tax settlements in certain other tax jurisdictions and the related impact of \$46 million to other expense pursuant to the Tax Sharing Agreement with Tyco International and Covidien.
- (3) Results for the fourth quarter of fiscal 2016 included an additional week. See Note 1 for additional information regarding our fiscal year end.
- (4) Results for the first quarter of fiscal 2015 included \$27 million of charges from the amortization of acquisition-related fair value adjustments to acquired inventories and customer order backlog associated primarily with Measurement Specialties. Results for the first quarter of fiscal 2015 also included a \$189 million income tax benefit associated with the effective settlement of all undisputed tax matters for the years 2001 through 2007 and the related impact of \$83 million to other expense pursuant to the Tax Sharing Agreement with Tyco International and Covidien.
- (5) Results for the fourth quarter of fiscal 2015 included a \$216 million income tax charge associated with the tax impacts of certain intercompany legal entity restructurings made in connection with our integration of Measurement Specialties and a \$63 million income tax benefit associated with the effective settlement of all undisputed tax matters for the years 2008 through 2010. In addition, in the fourth quarter of fiscal 2015, income (loss) from discontinued operations, net of income taxes included the gain on the sale of our BNS business.

TE CONNECTIVITY LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

23. Tyco Electronics Group S.A.

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

Condensed Consolidating Statement of Operations
For the Fiscal Year Ended September 30, 2016

| | TE Connectivity Ltd. | TEGSA | Other Subsidiaries | Consolidating Adjustments | Total |
|---|----------------------------|----------------|-----------------------|------------------------------|-----------------|
| | | | (in millions) | | |
| Net sales | \$ — | \$ — | \$12,238 | \$ — | \$12,238 |
| Cost of sales | — | — | 8,205 | — | 8,205 |
| Gross margin | — | — | 4,033 | — | 4,033 |
| Selling, general, and administrative expenses, net ⁽¹⁾ | 168 | 95 | 1,200 | — | 1,463 |
| Research, development, and engineering expenses | — | — | 644 | — | 644 |
| Acquisition and integration costs | — | — | 22 | — | 22 |
| Restructuring and other charges (credits), net | 2 | (1) | 1 | — | 2 |
| Operating income (loss) | (170) | (94) | 2,166 | — | 1,902 |
| Interest income | — | — | 19 | — | 19 |
| Interest expense | — | (126) | (1) | — | (127) |
| Other expense, net | — | — | (632) | — | (632) |
| Equity in net income of subsidiaries | 2,139 | 2,261 | — | (4,400) | — |
| Equity in net income of subsidiaries of discontinued operations | 67 | 168 | — | (235) | — |
| Intercompany interest income (expense), net . | (28) | 98 | (70) | — | — |
| Income from continuing operations before income taxes | 2,008 | 2,307 | 1,482 | (4,635) | 1,162 |
| Income tax benefit | — | — | 779 | — | 779 |
| Income from continuing operations | 2,008 | 2,307 | 2,261 | (4,635) | 1,941 |
| Income (loss) from discontinued operations, net of income taxes ⁽²⁾ | 1 | (101) | 168 | — | 68 |
| Net income | 2,009 | 2,206 | 2,429 | (4,635) | 2,009 |
| Other comprehensive loss | (169) | (169) | (143) | 312 | (169) |
| Comprehensive income | <u>\$1,840</u> | <u>\$2,037</u> | <u>\$ 2,286</u> | <u>\$(4,323)</u> | <u>\$ 1,840</u> |

(1) TEGSA selling, general, and administrative expenses include losses of \$80 million related to intercompany transactions. These losses are offset by corresponding gains recorded by other subsidiaries.

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

TE CONNECTIVITY LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

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

TE CONNECTIVITY LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Condensed Consolidating Statement of Operations
For the Fiscal Year Ended September 26, 2014

| | TE Connectivity Ltd. | TEGSA | Other Subsidiaries (in millions) | Consolidating Adjustments | Total |
|--|----------------------------|-----------------|--|------------------------------|-----------------|
| Net sales | \$ — | \$ — | \$11,973 | \$ — | \$11,973 |
| Cost of sales | — | — | 8,001 | — | 8,001 |
| Gross margin | — | — | 3,972 | — | 3,972 |
| Selling, general, and administrative expenses, net ⁽¹⁾ | 131 | 1,877 | (474) | — | 1,534 |
| Research, development, and engineering expenses | — | — | 583 | — | 583 |
| Acquisition and integration costs | — | — | 31 | — | 31 |
| Restructuring and other charges, net | — | — | 19 | — | 19 |
| Operating income (loss) | (131) | (1,877) | 3,813 | — | 1,805 |
| Interest income | — | — | 19 | — | 19 |
| Interest expense | — | (126) | (1) | — | (127) |
| Other income (expense), net | 18 | (3) | 48 | — | 63 |
| Equity in net income of subsidiaries | 1,729 | 3,672 | — | (5,401) | — |
| Equity in net income of subsidiaries of discontinued operations | 167 | 167 | — | (334) | — |
| Intercompany interest income (expense), net | (2) | 63 | (61) | — | — |
| Income from continuing operations before income taxes | 1,781 | 1,896 | 3,818 | (5,735) | 1,760 |
| Income tax expense | — | — | (146) | — | (146) |
| Income from continuing operations | 1,781 | 1,896 | 3,672 | (5,735) | 1,614 |
| Income from discontinued operations, net of income taxes | — | — | 167 | — | 167 |
| Net income | 1,781 | 1,896 | 3,839 | (5,735) | 1,781 |
| Other comprehensive loss | (320) | (320) | (328) | 648 | (320) |
| Comprehensive income | <u>\$1,461</u> | <u>\$ 1,576</u> | <u>\$ 3,511</u> | <u>\$(5,087)</u> | <u>\$ 1,461</u> |

(1) TEGSA selling, general, and administrative expenses include losses of \$1,874 million related to intercompany transactions. These losses are offset by corresponding gains recorded by other subsidiaries.

TE CONNECTIVITY LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Condensed Consolidating Balance Sheet
As of September 30, 2016

| | TE Connectivity Ltd. | TEGSA | Other Subsidiaries (in millions) | Consolidating Adjustments | Total |
|--|----------------------------|-----------------|--|------------------------------|-----------------|
| 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) | — |
| Receivable from Tyco International plc and Covidien plc | — | — | 12 | — | 12 |
| Other assets | — | 14 | 273 | — | 287 |
| 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 |
| Deferred revenue | — | — | 208 | — | 208 |
| Intercompany payables | 1,363 | — | 36 | (1,399) | — |
| Total current liabilities | 1,630 | 387 | 2,448 | (1,399) | 3,066 |
| Long-term debt | — | 3,737 | 2 | — | 3,739 |
| Intercompany loans payable | — | 10,314 | 3,760 | (14,074) | — |
| Long-term pension and postretirement liabilities | — | — | 1,502 | — | 1,502 |
| Deferred income taxes | — | — | 207 | — | 207 |
| Income taxes | — | — | 247 | — | 247 |
| Other liabilities | — | 18 | 344 | — | 362 |
| Total Liabilities | 1,630 | 14,456 | 8,510 | (15,473) | 9,123 |
| Total Shareholders' Equity | 8,485 | 10,053 | 19,425 | (29,478) | 8,485 |
| Total Liabilities and Shareholders' Equity . . | \$10,115 | \$24,509 | \$27,935 | \$(44,951) | \$17,608 |

TE CONNECTIVITY LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Condensed Consolidating Balance Sheet
As of September 25, 2015

| | TE Connectivity Ltd. | TEGSA | Other Subsidiaries (in millions) | Consolidating Adjustments | Total |
|--|----------------------------|-----------------|--|------------------------------|-----------------|
| Assets | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | \$ — | \$ — | \$ 3,329 | \$ — | \$ 3,329 |
| Accounts receivable, net | — | — | 2,120 | — | 2,120 |
| Inventories | — | — | 1,615 | — | 1,615 |
| Intercompany receivables | 813 | 389 | 66 | (1,268) | — |
| Prepaid expenses and other current assets . . . | 4 | 4 | 468 | — | 476 |
| Deferred income taxes | — | — | 345 | — | 345 |
| Total current assets | 817 | 393 | 7,943 | (1,268) | 7,885 |
| Property, plant, and equipment, net | — | — | 2,920 | — | 2,920 |
| Goodwill | — | — | 4,824 | — | 4,824 |
| Intangible assets, net | — | — | 1,555 | — | 1,555 |
| Deferred income taxes | — | — | 2,144 | — | 2,144 |
| Investment in subsidiaries | 9,505 | 19,645 | — | (29,150) | — |
| Intercompany loans receivable | 22 | 2,328 | 8,110 | (10,460) | — |
| Receivable from Tyco International plc and Covidien plc | — | — | 964 | — | 964 |
| Other assets | — | 27 | 270 | — | 297 |
| Total Assets | <u>\$10,344</u> | <u>\$22,393</u> | <u>\$28,730</u> | <u>\$(40,878)</u> | <u>\$20,589</u> |
| Liabilities and Shareholders' Equity | | | | | |
| Current liabilities: | | | | | |
| Short-term debt | \$ — | \$ 498 | \$ — | \$ — | \$ 498 |
| Accounts payable | 2 | — | 1,141 | — | 1,143 |
| Accrued and other current liabilities | 442 | 75 | 1,232 | — | 1,749 |
| Deferred revenue | — | — | 185 | — | 185 |
| Intercompany payables | 311 | 824 | 133 | (1,268) | — |
| Total current liabilities | 755 | 1,397 | 2,691 | (1,268) | 3,575 |
| Long-term debt | — | 3,385 | 1 | — | 3,386 |
| Intercompany loans payable | 4 | 8,106 | 2,350 | (10,460) | — |
| Long-term pension and postretirement liabilities | — | — | 1,327 | — | 1,327 |
| Deferred income taxes | — | — | 329 | — | 329 |
| Income taxes | — | — | 1,954 | — | 1,954 |
| Other liabilities | — | — | 433 | — | 433 |
| Total Liabilities | <u>759</u> | <u>12,888</u> | <u>9,085</u> | <u>(11,728)</u> | <u>11,004</u> |
| Total Shareholders' Equity | <u>9,585</u> | <u>9,505</u> | <u>19,645</u> | <u>(29,150)</u> | <u>9,585</u> |
| Total Liabilities and Shareholders' Equity . . | <u>\$10,344</u> | <u>\$22,393</u> | <u>\$28,730</u> | <u>\$(40,878)</u> | <u>\$20,589</u> |

TE CONNECTIVITY LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Condensed Consolidating Statement of Cash Flows
For the Fiscal Year Ended September 30, 2016

| | TE Connectivity Ltd. | TEGSA | Other Subsidiaries (in millions) | Consolidating Adjustments | Total |
|--|----------------------------|-------------|--|------------------------------|----------------|
| Cash Flows From Operating Activities: | | | | | |
| Net cash provided by (used in) continuing operating activities ⁽¹⁾ | \$ (37) | \$ 211 | \$ 2,181 | \$ (336) | \$ 2,019 |
| Net cash used in discontinued operating activities | — | — | (97) | — | (97) |
| Net cash provided by (used in) operating activities | (37) | 211 | 2,084 | (336) | 1,922 |
| Cash Flows From Investing Activities: | | | | | |
| Capital expenditures | — | — | (628) | — | (628) |
| Proceeds from sale of property, plant, and equipment | — | — | 8 | — | 8 |
| Acquisition of businesses, net of cash acquired | — | — | (1,336) | — | (1,336) |
| Proceeds from divestiture of business, net of cash retained by sold business | — | 199 | 134 | — | 333 |
| Proceeds from divestiture of discontinued operations, net of cash retained by sold operations ⁽²⁾ | — | (120) | 101 | — | (19) |
| Intercompany distribution receipts ⁽¹⁾ | 1,082 | 1,729 | — | (2,811) | — |
| Change in intercompany loans | — | (1,244) | — | 1,244 | — |
| Other | — | — | 61 | — | 61 |
| Net cash provided by (used in) investing activities | 1,082 | 564 | (1,660) | (1,567) | (1,581) |
| Cash Flows From Financing Activities: | | | | | |
| Changes in parent company equity ⁽³⁾ | 410 | 300 | (710) | — | — |
| Net increase in commercial paper | — | 330 | — | — | 330 |
| Proceeds from issuance of debt | — | 349 | 3 | — | 352 |
| Repayment of debt | — | (500) | (1) | — | (501) |
| Proceeds from exercise of share options | — | — | 90 | — | 90 |
| Repurchase of common shares | (2,780) | — | (7) | — | (2,787) |
| Payment of common share dividends to shareholders | (513) | — | 4 | — | (509) |
| Intercompany distributions ⁽¹⁾ | — | (1,250) | (1,897) | 3,147 | — |
| Loan activity with parent | 1,838 | — | (594) | (1,244) | — |
| Transfers to discontinued operations | — | — | (97) | — | (97) |
| Other | — | (4) | (1) | — | (5) |
| Net cash used in continuing financing activities | (1,045) | (775) | (3,210) | 1,903 | (3,127) |
| Net cash provided by discontinued financing activities | — | — | 97 | — | 97 |
| Net cash used in financing activities | (1,045) | (775) | (3,113) | 1,903 | (3,030) |
| Effect of currency translation on cash | — | — | 7 | — | 7 |
| Net decrease in cash and cash equivalents | — | — | (2,682) | — | (2,682) |
| Cash and cash equivalents at beginning of fiscal year | — | — | 3,329 | — | 3,329 |
| Cash and cash equivalents at end of fiscal year | \$ — | \$ — | \$ 647 | \$ — | 647 |

(1) During fiscal 2016, other subsidiaries made distributions to TEGSA in the amount of \$1,897 million and TEGSA made distributions to TE Connectivity Ltd. in the amount of \$1,250 million. Cash flows are presented based upon the nature of the distributions.

(2) Includes the internal allocation of proceeds between TEGSA and other subsidiaries associated with the divestiture of our BNS business.

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

TE CONNECTIVITY LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

| | TE Connectivity Ltd. | TEGSA | Other Subsidiaries (in millions) | Consolidating Adjustments | Total |
|---|----------------------------|-------------|--|------------------------------|-----------------|
| Cash Flows From Operating Activities: | | | | | |
| Net cash provided by continuing operating activities ⁽¹⁾ | \$ 1,186 | \$ 1,270 | \$ 1,824 | \$(2,661) | \$ 1,619 |
| Net cash provided by discontinued operating activities | — | — | 294 | — | 294 |
| Net cash provided by operating activities | 1,186 | 1,270 | 2,118 | (2,661) | 1,913 |
| Cash Flows From Investing Activities: | | | | | |
| Capital expenditures | — | — | (600) | — | (600) |
| Proceeds from sale of property, plant, and equipment | — | — | 17 | — | 17 |
| Acquisition of businesses, net of cash acquired | — | — | (1,725) | — | (1,725) |
| Proceeds from divestiture of discontinued operations, net of cash retained by sold operations | — | 709 | 2,248 | — | 2,957 |
| Change in intercompany loans | — | (1,304) | — | 1,304 | — |
| Other | — | — | 12 | — | 12 |
| Net cash provided by (used in) continuing investing activities | — | (595) | (48) | 1,304 | 661 |
| Net cash used in discontinued investing activities | — | — | (25) | — | (25) |
| Net cash provided by (used in) investing activities | — | (595) | (73) | 1,304 | 636 |
| Cash Flows From Financing Activities: | | | | | |
| Changes in parent company equity ⁽²⁾ | 80 | 624 | (704) | — | — |
| Net decrease in commercial paper | — | (328) | — | — | (328) |
| Proceeds from issuance of debt | — | 617 | — | — | 617 |
| Repayment of debt | — | (250) | (223) | — | (473) |
| Proceeds from exercise of share options | — | — | 103 | — | 103 |
| Repurchase of common shares | (916) | — | (107) | — | (1,023) |
| Payment of common share dividends to shareholders | (515) | — | 13 | — | (502) |
| Intercompany distributions ⁽¹⁾ | — | (1,335) | (1,326) | 2,661 | — |
| Loan activity with parent | 165 | — | 1,139 | (1,304) | — |
| Transfers from discontinued operations | — | — | 269 | — | 269 |
| Other | — | (4) | 4 | — | — |
| Net cash used in continuing financing activities | (1,186) | (676) | (832) | 1,357 | (1,337) |
| Net cash used in discontinued financing activities | — | — | (269) | — | (269) |
| Net cash used in financing activities | (1,186) | (676) | (1,101) | 1,357 | (1,606) |
| Effect of currency translation on cash | — | — | (71) | — | (71) |
| Net increase (decrease) in cash and cash equivalents | — | (1) | 873 | — | 872 |
| Cash and cash equivalents at beginning of fiscal year | — | 1 | 2,456 | — | 2,457 |
| Cash and cash equivalents at end of fiscal year | \$ — | \$ — | \$ 3,329 | \$ — | \$ 3,329 |

(1) During fiscal 2015, other subsidiaries made distributions to TEGSA in the amount of \$1,326 million and TEGSA made distributions to TE Connectivity Ltd. in the amount of \$1,335 million. Cash flows are presented based upon the nature of the distributions.

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

TE CONNECTIVITY LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Condensed Consolidating Statement of Cash Flows
For the Fiscal Year Ended September 26, 2014

| | TE Connectivity Ltd. | TEGSA | Other Subsidiaries (in millions) | Consolidating Adjustments | Total |
|---|----------------------------|-------------|--|------------------------------|-----------------|
| Cash Flows From Operating Activities: | | | | | |
| Net cash provided by (used in) continuing operating activities ⁽¹⁾ | \$(296) | \$ 1,829 | \$ 2,153 | \$(1,882) | \$ 1,804 |
| Net cash provided by discontinued operating activities | — | — | 279 | — | 279 |
| Net cash provided by (used in) operating activities | (296) | 1,829 | 2,432 | (1,882) | 2,083 |
| Cash Flows From Investing Activities: | | | | | |
| Capital expenditures | — | — | (635) | — | (635) |
| Proceeds from sale of property, plant, and equipment | — | — | 129 | — | 129 |
| Acquisition of businesses, net of cash acquired | — | — | (522) | — | (522) |
| Proceeds from divestiture of business, net of cash retained by sold business | — | — | 3 | — | 3 |
| Intercompany distribution receipts ⁽¹⁾ | — | 99 | — | (99) | — |
| Change in intercompany loans | — | 347 | — | (347) | — |
| Other | — | — | (13) | — | (13) |
| Net cash provided by (used in) continuing investing activities | — | 446 | (1,038) | (446) | (1,038) |
| Net cash used in discontinued investing activities | — | — | (37) | — | (37) |
| Net cash provided by (used in) investing activities | — | 446 | (1,075) | (446) | (1,075) |
| Cash Flows From Financing Activities: | | | | | |
| Changes in parent company equity ⁽²⁾ | 67 | (3,259) | 3,192 | — | — |
| Net decrease in commercial paper | — | (23) | — | — | (23) |
| Proceeds from issuance of debt | — | 1,322 | — | — | 1,322 |
| Repayment of debt | — | (303) | (57) | — | (360) |
| Proceeds from exercise of share options | — | — | 156 | — | 156 |
| Repurchase of common shares | (127) | — | (451) | — | (578) |
| Payment of common share dividends to shareholders | (452) | — | 9 | — | (443) |
| Intercompany distributions ⁽¹⁾ | — | — | (1,981) | 1,981 | — |
| Loan activity with parent | 808 | — | (1,155) | 347 | — |
| Transfers from discontinued operations | — | — | 242 | — | 242 |
| Other | — | (11) | 2 | — | (9) |
| Net cash provided by (used in) continuing financing activities | 296 | (2,274) | (43) | 2,328 | 307 |
| Net cash used in discontinued financing activities | — | — | (242) | — | (242) |
| Net cash provided by (used in) financing activities | 296 | (2,274) | (285) | 2,328 | 65 |
| Effect of currency translation on cash | — | — | (19) | — | (19) |
| Net increase in cash and cash equivalents | — | 1 | 1,053 | — | 1,054 |
| Cash and cash equivalents at beginning of fiscal year | — | — | 1,403 | — | 1,403 |
| Cash and cash equivalents at end of fiscal year | \$ — | \$ 1 | \$ 2,456 | \$ — | \$ 2,457 |

(1) During fiscal 2014, other subsidiaries made distributions to TEGSA in the amount of \$1,981 million. Cash flows are presented based upon the nature of the distributions.

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

TE CONNECTIVITY LTD.

SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS

Fiscal Years Ended September 30, 2016, September 25, 2015, and September 26, 2014

| <u>Description</u> | <u>Balance at Beginning of Year</u> | <u>Additions Charged to Costs and Expenses</u> | <u>Acquisitions, Divestitures, and Other</u> | <u>Deductions</u> | <u>Balance at End of Year</u> |
|---|---|--|--|-------------------|-----------------------------------|
| | | | (in millions) | | |
| Fiscal 2016: | | | | | |
| Allowance for doubtful accounts receivable | \$ 18 | \$ — | \$ 1 | \$ (2) | \$ 17 |
| Valuation allowance on deferred tax assets | 3,237 | 283 | 1 | (425) | 3,096 |
| Fiscal 2015: | | | | | |
| Allowance for doubtful accounts receivable | \$ 14 | \$ 2 | \$ 3 | \$ (1) | \$ 18 |
| Valuation allowance on deferred tax assets | 1,706 | 1,627 | 1 | (97) | 3,237 |
| Fiscal 2014: | | | | | |
| Allowance for doubtful accounts receivable | \$ 29 | \$ 2 | \$— | \$ (17) | \$ 14 |
| Valuation allowance on deferred tax assets | 1,801 | 285 | — | (380) | 1,706 |

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 30, 2016, 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 30, 2016 present fairly, in all material respects, the financial position of the Company and the result of its operations and its cash flows in accordance with accounting principles generally accepted in the United States of America, and comply with Swiss law.

Report on Other Legal Requirements

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

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

We recommend that the consolidated financial statements submitted to you be approved.

Deloitte AG

/s/ Matthias Gschwend
Licensed Audit Expert
Auditor in charge

/s/ Dominik Voegtli
Licensed Audit Expert

Zurich, November 15, 2016

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TE CONNECTIVITY LTD.
INDEX TO SWISS STATUTORY FINANCIAL STATEMENTS

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TE CONNECTIVITY LTD.
SWISS STATUTORY FINANCIAL STATEMENTS
STATEMENTS OF OPERATIONS
Fiscal Years Ended September 30, 2016 and September 25, 2015

| | September 30, 2016 | | September 25, 2015 | |
|---|--------------------|------------------|--------------------|------------------|
| | U.S. dollars | Swiss francs | U.S. dollars | Swiss francs |
| | (in millions) | | | |
| Income | | | | |
| Income from distributions made by a subsidiary (Note 2) | \$1,250 | CHF 1,209 | \$1,335 | CHF 1,300 |
| Pre-separation tax settlement income, net (Note 3) . | 317 | 311 | 10 | 10 |
| Insurance premiums charged to subsidiaries | 10 | 10 | 13 | 13 |
| Intercompany interest income | — | — | 7 | 6 |
| Total income | 1,577 | 1,530 | 1,365 | 1,329 |
| Expenses | | | | |
| Salary and social costs | 4 | 4 | 5 | 4 |
| General and administrative costs | 4 | 4 | 4 | 4 |
| Legal and consulting costs | 7 | 7 | 7 | 7 |
| Insurance premiums | 12 | 12 | 16 | 15 |
| Expenses for services provided by subsidiaries | 45 | 44 | 54 | 52 |
| Remeasurement loss (gain) on foreign currency transactions | 15 | 15 | (13) | (12) |
| Intercompany interest expense | 28 | 27 | 4 | 4 |
| Total expenses | 115 | 113 | 77 | 74 |
| Net income | \$1,462 | CHF 1,417 | \$1,288 | CHF 1,255 |

See Notes to Swiss Statutory Financial Statements.

TE CONNECTIVITY LTD.
SWISS STATUTORY FINANCIAL STATEMENTS
BALANCE SHEETS
As of September 30, 2016 and September 25, 2015

| | September 30, 2016 | | September 25, 2015 | |
|---|----------------------------------|-------------------|--------------------|-------------------|
| | U.S. dollars | Swiss francs | U.S. dollars | Swiss francs |
| | (in millions, except share data) | | | |
| Assets | | | | |
| Current assets: | | | | |
| Accounts receivable from subsidiaries (Note 3) | \$ 41 | CHF 40 | \$ 817 | CHF 798 |
| Prepaid expenses and other current assets | 4 | 3 | 5 | 5 |
| Total current assets | 45 | 43 | 822 | 803 |
| Investments in subsidiaries (Notes 2 and 8) | 9,644 | 10,439 | 9,649 | 10,443 |
| Total Assets | \$ 9,689 | CHF 10,482 | \$10,471 | CHF 11,246 |
| Liabilities and Shareholders' Equity | | | | |
| Current liabilities: | | | | |
| Accounts payable | \$ 1 | CHF 1 | \$ 1 | CHF 1 |
| Accounts payable to subsidiaries (Note 3) | 47 | 46 | 44 | 43 |
| Loans from subsidiaries (Note 3) | 1,318 | 1,279 | 272 | 266 |
| Accrued and other current liabilities | 9 | 9 | 186 | 182 |
| Approved but unpaid distributions to shareholders (Note 4) | 264 | 264 | 264 | 256 |
| Total current liabilities | 1,639 | 1,599 | 767 | 748 |
| Unrealized translation gains (Note 2) | — | 645 | — | 580 |
| Total Liabilities | 1,639 | 2,244 | 767 | 1,328 |
| Commitments, contingencies, and guarantees (Note 3) | | | | |
| Shareholders' equity (Note 4): | | | | |
| Share capital, 382,835,381 and 414,064,381 shares authorized and issued, CHF 0.57 par value | 168 | 218 | 182 | 236 |
| Statutory reserves: | | | | |
| General reserve from earnings | 38 | 49 | 38 | 49 |
| Free reserves: | | | | |
| Reserves from capital contributions (Note 4) | 6,992 | 7,878 | 7,505 | 8,392 |
| Allocated reserves for the acquisition of treasury shares by a subsidiary (Note 2) | (111) | (110) | (175) | (166) |
| Unappropriated accumulated earnings | 2,364 | 1,594 | 2,728 | 1,968 |
| Own shares held in treasury | (1,512) | (1,501) | (915) | (875) |
| Reserves for treasury shares (Note 2) | 111 | 110 | 341 | 314 |
| Total Shareholders' Equity | 8,050 | 8,238 | 9,704 | 9,918 |
| Total Liabilities and Shareholders' Equity | \$ 9,689 | CHF 10,482 | \$10,471 | CHF 11,246 |

See Notes to Swiss Statutory Financial Statements.

1. Basis of Presentation

TE Connectivity Ltd. (“TE Connectivity” or the “Company,” which may be referred to as “we,” “us,” or “our”), incorporated in Schaffhausen, Switzerland, is the ultimate holding company of TE Connectivity Ltd. and its subsidiaries (the “TE Group”) with a listing on the New York Stock Exchange. We employed less than 10 full time positions during the fiscal years ended September 30, 2016 and September 25, 2015. 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 30, 2016.

The accompanying statements of operations reflect the results of operations for the fiscal years ended September 30, 2016 and September 25, 2015, and have been prepared in accordance with the requirements of Swiss law for companies, the Swiss Code of Obligations. The financial statements present the results of the holding company on a stand-alone basis and do not represent the consolidated operations of the TE Group.

Fiscal Year

Unless otherwise indicated, references in the financial statements to fiscal 2016 and fiscal 2015 are to our fiscal years ended September 30, 2016 and September 25, 2015. Our fiscal year is a “52-53 week” year ending on the last Friday of September. Fiscal 2016 was a 53 week year and fiscal 2015 was a 52 week year.

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 2016 and 2015, exchange rates were CHF 0.9694:\$1 and CHF 0.9768:\$1, respectively). Revenue and expenses, excluding income from distributions made by a subsidiary, are translated using the average exchange rates in effect for the period presented (exchange rates were CHF 0.9823:\$1 and CHF 0.9558:\$1 for fiscal 2016 and 2015, 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. The reserves for treasury shares reflects all treasury shares held by a subsidiary and is recorded at historical cost.

We established the reserves for treasury shares during fiscal 2016 and 2015 by charging, as management deemed appropriate, either accumulated earnings or allocated reserves for the acquisition of treasury shares by a subsidiary. 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.

2. Summary of Significant Accounting Policies (Continued)

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. No impairments were recorded during fiscal 2016 or 2015.

During fiscal 2016 and 2015, a subsidiary distributed CHF 1,209 million (equivalent to \$1,250 million) and CHF 1,300 million (equivalent to \$1,335 million), respectively, to us. The distributions are included in income from distributions made by a subsidiary in our statements of operations.

Salaries and Social Charges

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

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 have two open lines of credit, the 2012 Line and the Schaffhausen Line, with wholly-owned subsidiaries. Both lines bear interest at the 1-month London interbank offered rate (“LIBOR”) plus 0.40% (0.53% and 0.59% at fiscal year end 2016 and 2015, respectively). The 2012 Line has a CHF 485 million limit (equivalent to \$500 million) on the principal drawable and matures in September 2017. The Schaffhausen Line does not have a limit on the amount drawable and matures in April 2017. At September 30, 2016 and September 25, 2015, there were no outstanding borrowings under either of the open lines of credit.

We utilize a cash pooling relationship with a wholly-owned subsidiary (the “Cash Pool”). The Cash Pool does not have an expiration date and accrues interest based on LIBOR. At September 30, 2016, we had a Cash Pool asset and Cash Pool liability of CHF 3 million (equivalent to \$3 million) and CHF 1,001 million (equivalent to \$1,033 million), respectively, that were included in accounts receivable from subsidiaries and loans from subsidiaries, respectively, on our balance sheet. At September 25, 2015, our Cash Pool position was an asset of CHF 779 million (equivalent to \$797 million) and was included in accounts receivable from subsidiaries on our balance sheet.

In order to minimize currency exposure related to distributions to shareholders approved in Swiss francs and paid in U.S. dollars, we enter into arrangements with a wholly-owned subsidiary in which we borrow Swiss francs from, and simultaneously loan U.S. dollars to, the subsidiary. As distributions to shareholders are paid, both the borrowing and the loan receivable are partially settled. As of September 30, 2016 and September 25, 2015, the borrowing totaled CHF 278 million (equivalent to \$287 million) and CHF 266 million (equivalent to \$272 million), respectively, and was reflected as loans from subsidiaries on our balance sheets. At September 30, 2016 and September 25, 2015, the related loan receivable, which approximates the borrowing, was included in the net Cash Pool liability reflected in loans from subsidiaries and the Cash Pool asset reflected in accounts receivable from subsidiaries, respectively, on our balance sheets.

We have fully and unconditionally guaranteed the debt of a subsidiary, Tyco Electronics Group S.A., totaling approximately CHF 3,961 million (equivalent to \$4,086 million) and

3. Commitments, Contingencies, and Guarantees (Continued)

CHF 3,812 million (equivalent to \$3,902 million) at September 30, 2016 and September 25, 2015, respectively. As of September 30, 2016, we have not been required to perform on our guarantee.

Tax Sharing Agreement

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

During fiscal 2016 and 2015, we recorded net income of CHF 311 million (equivalent to \$317 million) and CHF 10 million (equivalent to \$10 million), respectively, related to the TSA and tax settlements involving Tyco International, Covidien, and us. These amounts are presented in pre-separation tax settlement income, net in our statements of operations.

Performance Guarantees

From time to time, we provide performance guarantees and surety bonds in favor of our subsidiaries. At September 30, 2016 and September 25, 2015, these performance guarantees totaled CHF 81 million (equivalent to \$84 million) and CHF 82 million (equivalent to \$84 million), respectively. 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 responsibility 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 group.

4. Equity

Changes in Equity Accounts

The following table presents activity related to our equity accounts during fiscal 2016 and 2015 in Swiss francs.

| | Share Capital | General Reserve from Earnings | Reserves from Capital Contributions | Allocated Reserves for the Acquisition of Treasury Shares by a Subsidiary | Unappropriated Accumulated Earnings | Own Shares Held in Treasury | Reserves for Treasury Shares held by a Subsidiary | Total Shareholders' Equity |
|---|-------------------|--|--|--|---|-----------------------------------|--|----------------------------------|
| | (in CHF millions) | | | | | | | |
| September 26, 2014 | CHF 239 | CHF 49 | CHF 8,907 | CHF (45) | CHF 659 | CHF — | CHF 581 | CHF 10,390 |
| Adoption of Swiss accounting rules ⁽¹⁾ | — | — | — | — | 150 | (150) | (150) | (150) |
| Correction related to appropriation of general reserve ⁽²⁾ | — | — | — | — | (49) | — | — | (49) |
| Approved dividends | — | — | (515) | — | — | — | — | (515) |
| Retirement of treasury shares | (3) | — | — | — | (283) | 286 | — | — |
| Acquisition of treasury shares | — | — | — | — | — | (1,011) | — | (1,011) |
| Transfer of reserves for treasury shares and other | — | — | — | (121) | 236 | — | (117) | (2) |
| Net income | — | — | — | — | 1,255 | — | — | 1,255 |
| September 25, 2015 | 236 | 49 | 8,392 | (166) | 1,968 | (875) | 314 | 9,918 |
| Approved dividends | — | — | (514) | — | — | — | — | (514) |
| Retirement of treasury shares | (18) | — | — | — | (1,939) | 1,957 | — | — |
| Acquisition of treasury shares | — | — | — | — | — | (2,583) | — | (2,583) |
| Transfer of reserves for treasury shares and other | — | — | — | 56 | 148 | — | (204) | — |
| Net income | — | — | — | — | 1,417 | — | — | 1,417 |
| September 30, 2016 | <u>CHF 218</u> | <u>CHF 49</u> | <u>CHF 7,878</u> | <u>CHF (110)</u> | <u>CHF 1,594</u> | <u>CHF (1,501)</u> | <u>CHF 110</u> | <u>CHF 8,238</u> |

- (1) On the first day of fiscal 2015, we prospectively adopted new Swiss accounting rules. The most significant impact of adoption was the manner in which we account for treasury shares that we directly hold. Adoption did not impact our accounting for treasury shares held by a subsidiary. On adoption, shares held in treasury of CHF 150 million was reduced to zero with a corresponding reduction in total shareholders' equity via the creation of shares held in treasury and reserves for treasury shares was reduced by CHF 150 million associated with shares held directly by us via an increase in unappropriated accumulated earnings, consistent with how we currently create reserves for treasury shares.
- (2) Reflects a correction to the appropriation of the general reserve in fiscal 2014.

4. Equity (Continued)

The following table presents activity related to our equity accounts during fiscal 2016 and 2015 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) | | | | | | | | |
| September 26, 2014 | \$184 | \$38 | \$8,036 | \$ (51) | \$ 1,315 | \$ — | \$ 644 | \$10,166 |
| Adoption of Swiss accounting rules ⁽¹⁾ | — | — | — | — | 164 | (164) | (164) | (164) |
| Approved dividends | — | — | (531) | — | — | — | — | (531) |
| Retirement of treasury shares | (2) | — | — | — | (303) | 305 | — | — |
| Acquisition of treasury shares | — | — | — | — | — | (1,056) | — | (1,056) |
| Transfer of reserves for treasury shares and other | — | — | — | (124) | 264 | — | (139) | 1 |
| Net income | — | — | — | — | 1,288 | — | — | 1,288 |
| September 25, 2015 | 182 | 38 | 7,505 | (175) | 2,728 | (915) | 341 | 9,704 |
| Approved dividends | — | — | (513) | — | — | — | — | (513) |
| Retirement of treasury shares | (14) | — | — | — | (1,992) | 2,006 | — | — |
| Acquisition of treasury shares | — | — | — | — | — | (2,603) | — | (2,603) |
| Transfer of reserves for treasury shares and other | — | — | — | 64 | 166 | — | (230) | — |
| Net income | — | — | — | — | 1,462 | — | — | 1,462 |
| September 30, 2016 | <u>\$168</u> | <u>\$38</u> | <u>\$6,992</u> | <u>\$(111)</u> | <u>\$ 2,364</u> | <u>\$(1,512)</u> | <u>\$ 111</u> | <u>\$ 8,050</u> |

(1) On the first day of fiscal 2015, we prospectively adopted new Swiss accounting rules. The most significant impact of adoption was the manner in which we account for treasury shares that we directly hold. Adoption did not impact our accounting for treasury shares held by a subsidiary. On adoption, shares held in treasury of \$164 million was reduced to zero with a corresponding reduction in total shareholders' equity via the creation of shares held in treasury and reserves for treasury shares was reduced by \$164 million associated with shares held directly by us via an increase in unappropriated accumulated earnings, consistent with how we currently create reserves for treasury shares.

Authorized Share Capital

In March 2016, our shareholders approved and extended through March 2, 2018 our board of directors' authorization to issue additional new shares, subject to certain conditions specified in the articles, in aggregate not exceeding 50% of the amount of our authorized shares. This authorization can be renewed for additional two-year periods upon shareholder approval. As of September 30, 2016, 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 September 30, 2016, no conditional shares had been issued.

4. Equity (Continued)

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

During the fiscal years ended September 30, 2016 and September 25, 2015, activity related to common shares held in treasury by us was as follows:

| | Number of Shares (in millions) | Total Cost (in CHF millions) | Total Cost (in USD millions) |
|---|--------------------------------------|------------------------------------|------------------------------------|
| Common shares held as of September 26, 2014 . | 2 | CHF 150 | \$ 164 |
| Additions | 17 | 1,011 | 1,056 |
| Shareholder-approved retirements | (5) | (286) | (305) |
| Common shares held as of September 25, 2015 . | 14 | 875 | 915 |
| Additions | 43 | 2,583 | 2,603 |
| Shareholder-approved retirements | (31) | (1,957) | (2,006) |
| Common shares held as of September 30, 2016 . | <u>26</u> | <u>CHF 1,501</u> | <u>\$ 1,512</u> |

In fiscal 2016 and 2015, our shareholders approved the cancellation of 31 million shares and 5 million shares, respectively, purchased under our share repurchase program. These capital reductions by cancellation of shares were subject to a notice period and filing with the commercial register in Switzerland.

We acquire treasury shares with the intent to retire them using a virtual secondary trading line (“Secondary Line”). Pursuant to this Secondary Line, we acquired 43 million shares at a historical cost of CHF 2,583 million (equivalent to \$2,603 million) in fiscal 2016 and 17 million shares at a historical cost of CHF 1,011 million (equivalent to \$1,056 million) in fiscal 2015.

Treasury shares held by us and a subsidiary at September 30, 2016 totaled 26 million and 2 million, respectively, with a combined historical cost of CHF 1,611 million (equivalent to \$1,624 million). Treasury shares held by us and a subsidiary at September 25, 2015 totaled 14 million and 6 million, respectively, with a combined historical cost of CHF 1,189 million (equivalent to \$1,256 million).

During fiscal 2016 and 2015, our board of directors authorized increases of \$1 billion and \$3 billion, respectively, in the share repurchase program. We and our subsidiary repurchased approximately 43 million of our common shares for CHF 2,589 million (equivalent to \$2,610 million) and approximately 18 million of our common shares for CHF 1,115 million (equivalent to \$1,163) during fiscal 2016 and 2015, respectively. At September 30, 2016, we had CHF 1,068 (equivalent to \$1,102 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 September 30, 2016 and September 25, 2015, reserves from capital contributions were CHF 7,878 million (equivalent to \$6,992 million) and CHF 8,392 million (equivalent to \$7,505 million), respectively.

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.

4. Equity (Continued)

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.

Distributions to Shareholders

Under current Swiss tax law, subject to certain conditions, distributions to shareholders made in the form of a reduction of registered share capital or from reserves from capital contributions are exempt from Swiss withholding tax.

During the quarters ended December 26, 2014 and March 27, 2015, we paid the third and fourth installments of the dividend approved in March 2014 at a rate of \$0.29 per installment.

In March 2015, our shareholders approved a dividend payment to shareholders of \$1.32 (approximately CHF 1.27, based on the exchange rate on the date of approval) per share out of reserves from capital contributions, payable in four quarterly installments of \$0.33 per share beginning in the third quarter of fiscal 2015 through the second quarter of fiscal 2016.

In March 2016, our shareholders approved a dividend payment to shareholders of \$1.48 (approximately CHF 1.48, based on the exchange rate on the date of approval) per share out of reserves from capital contributions, payable in four quarterly installments beginning in the third quarter of fiscal 2016 through the second quarter of fiscal 2017. We paid the installments of the dividend at a rate of \$0.37 per share during each of the quarters ended June 24, 2016 and September 30, 2016. We have reflected a liability related to the unpaid distributions in approved but unpaid distributions to shareholders on our balance sheets.

5. Non-Employee Director and Executive Compensation

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

6. Security Ownership of Board of Directors and Executive Officers

Board of Directors

The following table sets forth the shares, options and share units held as of September 30, 2016 and September 25, 2015 by each member of our board of directors serving on our board at September 30, 2016. The share ownership of Mr. Lynch, our Chairman and Chief Executive Officer,

6. Security Ownership of Board of Directors and Executive Officers (Continued)

and Mr. Curtin, our President and a member of the board of directors, is set forth in *Executive Management* below.

| | <u>Year</u> | <u>Shares Held</u> | <u>DSUs Held⁽¹⁾</u> |
|---|-------------|--------------------|--------------------------------|
| Board of Directors: | | | |
| Pierre R. Brondeau | 2016 | 21,878 | 12,618 |
| | 2015 | 19,646 | 12,334 |
| Carol A. (“John”) Davidson ⁽²⁾ | 2016 | 4,857 | — |
| Juergen W. Gromer | 2016 | 77,477 | 41,964 |
| | 2015 | 77,477 | 38,512 |
| William A. Jeffrey | 2016 | 10,986 | — |
| | 2015 | 9,106 | — |
| Yong Nam | 2016 | 10,986 | — |
| | 2015 | 9,106 | — |
| Daniel J. Phelan | 2016 | 20,031 | 12,618 |
| | 2015 | 18,151 | 12,334 |
| Paula A. Sneed | 2016 | 21,231 | 15,489 |
| | 2015 | 19,351 | 15,140 |
| Mark C. Trudeau ⁽²⁾ | 2016 | 1,257 | — |
| John C. Van Scoter ⁽³⁾ | 2016 | 25,127 | 6,758 |
| | 2015 | 23,247 | 6,605 |
| Laura H. Wright | 2016 | 5,209 | — |
| | 2015 | 3,329 | — |

(1) Directors hold deferred share units (“DSUs”). The DSUs are vested upon issuance, generally will be settled in shares on a one-for-one basis within 30 days following the director’s termination, and receive dividend equivalent units.

(2) Messrs. Davidson and Trudeau were first elected to our board of directors on March 2, 2016.

(3) Includes 22,627 shares as of September 30, 2016 and 16,355 shares as of September 25, 2015 held by a limited liability company owned by Mr. Van Scoter and his spouse. Also includes 400 shares held by Mr. Van Scoter’s spouse as of September 30, 2016 and September 25, 2015.

6. Security Ownership of Board of Directors and Executive Officers (Continued)

Executive Management

The following table sets forth the shares, options and share units held as of September 30, 2016 and September 25, 2015 by each member of our executive management serving in such position as of September 30, 2016.

| | Year | Shares Held | Options Held | Options Exercise Price ⁽¹⁾ | Fiscal Years of Expiration | RSUs Held ⁽²⁾ | PSUs Held ⁽³⁾ |
|-----------------------------------|------|-------------|--------------|---------------------------------------|----------------------------|--------------------------|--------------------------|
| Executive Management: | | | | | | | |
| Thomas J. Lynch ⁽⁴⁾ | 2016 | 384,179 | 2,852,765 | \$24.60 - \$65.95 | 2020 - 2026 | 49,993 | 152,312 |
| | 2015 | 332,639 | 3,386,552 | \$24.60 - \$61.50 | 2017 - 2025 | 91,484 | 157,417 |
| Terrence R. Curtin ⁽⁵⁾ | 2016 | 40,181 | 693,700 | \$33.73 - \$72.13 | 2021 - 2026 | 16,643 | 54,439 |
| | 2015 | 40,181 | 581,800 | \$33.73 - \$72.13 | 2021 - 2025 | 29,817 | 51,828 |
| Joseph B. Donahue | 2016 | 38,825 | 251,688 | \$34.05 - \$65.95 | 2023 - 2026 | 29,239 | 44,228 |
| | 2015 | 25,178 | 295,150 | \$34.05 - \$61.50 | 2021 - 2025 | 41,281 | 48,106 |
| John S. Jenkins, Jr. | 2016 | 816 | 140,850 | \$34.05 - \$65.95 | 2023 - 2026 | 10,344 | 25,649 |
| | 2015 | 2,558 | 102,600 | \$34.05 - \$61.50 | 2023 - 2025 | 16,709 | 23,716 |
| Steven T. Merkt | 2016 | 13,051 | 246,026 | \$34.05 - \$65.95 | 2021 - 2026 | 39,827 | 34,621 |
| | 2015 | 1,600 | 178,876 | \$34.05 - \$61.50 | 2021 - 2025 | 46,134 | 34,158 |
| Heath A. Mitts ⁽⁶⁾ | 2016 | — | — | — | — | 76,650 | — |
| Timothy J. Murphy ⁽⁷⁾ | 2016 | 4,507 | 61,300 | \$33.88 - \$65.95 | 2022 - 2026 | 3,541 | 5,961 |
| James O'Toole | 2016 | — | 138,088 | \$34.05 - \$65.95 | 2023 - 2026 | 24,112 | 28,160 |
| | 2015 | 4,929 | 154,076 | \$34.05 - \$61.50 | 2021 - 2025 | 31,137 | 31,364 |
| Kevin N. Rock ⁽⁸⁾ | 2016 | 32,002 | 156,500 | \$34.05 - \$72.13 | 2022 - 2026 | 4,346 | 16,885 |
| | 2015 | 20,725 | 115,450 | \$34.05 - \$72.13 | 2022 - 2025 | 15,662 | 12,687 |
| Robert N. Shaddock | 2016 | 34,474 | 296,150 | \$33.73 - \$61.50 | 2021 - 2025 | 36,564 | 20,233 |
| | 2015 | 18,570 | 367,950 | \$29.15 - \$61.50 | 2018 - 2025 | 40,096 | 34,194 |
| Joan E. Wainwright | 2016 | 33,812 | 119,888 | \$34.05 - \$65.95 | 2022 - 2026 | 5,766 | 16,814 |
| | 2015 | 36,164 | 96,888 | \$34.05 - \$61.50 | 2022 - 2025 | 10,880 | 18,815 |

- (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) Executive management holds restricted share units ("RSUs"). Subject to acceleration upon certain events, the RSUs vest over time on anniversaries of the grant dates, are settled in shares upon vesting on a one-for-one basis, and receive dividend equivalent units.
- (3) The performance share unit ("PSU") amounts in the table above assume achievement of target level of performance including target dividend equivalent units through September 30, 2016 and September 25, 2015, respectively. Under the terms of the PSUs, shares of stock are reserved 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 were granted on November 14, 2013, November 10, 2014 and November 9, 2015. Certain members of executive management also received PSU awards on February 2, 2015 and March 9, 2015. Year One certification results relating to the November 14, 2013 grant occurred on December 8, 2014 and the following shares were reserved: (Mr. Lynch—24,281; Mr. Curtin—7,446; Mr. Donahue—7,446; Mr. Jenkins—3,888; Mr. Merkt—5,503; Mr. O'Toole—4,857; Mr. Rock—1,620; Mr. Shaddock—5,666; and Ms. Wainwright—2,912). Year Two certification results relating to the November 14, 2013 grant occurred on December 14, 2015 and the following shares were reserved: (Mr. Lynch—18,354; Mr. Curtin—5,628; Mr. Donahue—5,628; Mr. Jenkins—2,939; Mr. Merkt—4,160; Mr. O'Toole—3,671; Mr. Rock—1,225; Mr. Shaddock—4,283; and Ms. Wainwright—2,201). Year One certification results relating to the November 10, 2014 grant occurred on December 14, 2015 and the following shares were reserved: (Mr. Lynch—19,181; Mr. Curtin—5,414; Mr. Curtin—1,353 (relating to a March 9, 2015 grant); Mr. Donahue—5,191; Mr. Jenkins—2,934; Mr. Merkt—4,061; Mr. Murphy—167 (relating to a February 2, 2015 grant); Mr. O'Toole—3,383; Mr. Rock—1,353; Mr. Rock—720 (relating to a March 9, 2015 grant); Mr. Shaddock—3,949; and Ms. Wainwright—2,030).

6. Security Ownership of Board of Directors and Executive Officers (Continued)

- (4) Mr. Lynch is chairman of the board of directors and chief executive officer.
- (5) Mr. Curtin is a member of the board of directors and president. On September 29, 2016, the board of directors appointed Mr. Curtin to succeed Mr. Lynch as Chief Executive Officer of TE Connectivity Ltd. effective March 9, 2017.
- (6) Mr. Mitts became a member of executive management in September 2016.
- (7) Mr. Murphy became a member of executive management in March 2016.
- (8) Includes 18,676 shares held in a family trust over which Mr. Rock has dispositive power. Mr. Rock became a member of executive management in March 2015.

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

7. Significant Shareholders

The following table sets forth the information indicated for persons or groups known to us to be beneficial owners of more than 5% of our outstanding shares beneficially owned as of September 30, 2016.

| <u>Name and Address of Beneficial Owner</u> | <u>Number of Shares</u> | <u>Percentage of Class</u> |
|---|-------------------------|----------------------------|
| Dodge & Cox ⁽¹⁾ 555 California Street, 40th Floor San Francisco, CA 94104 | 35,300,732 | 9.9% |
| Harris Associates L.P. ⁽²⁾ 111 S. Wacker Drive, Suite 4600 Chicago, IL 60606 | 29,100,322 | 8.2% |
| The Vanguard Group ⁽³⁾ 100 Vanguard Blvd. Malvern, PA 19355 | 21,635,356 | 6.1% |

- (1) This information is based on a Schedule 13G/A filed with the SEC on February 12, 2016 by Dodge & Cox, which reported sole voting power and sole dispositive power as follows: sole voting power—34,051,956 and sole dispositive power—35,300,732.
- (2) This information is based on a Schedule 13G/A filed with the SEC on February 10, 2016 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—28,102,980 and sole dispositive power—28,102,980. 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.
- (3) This information is based on a Schedule 13G/A filed with the SEC on February 11, 2016 by The Vanguard Group, which reported sole voting power, sole dispositive power and shared dispositive power as follows: sole voting power—646,906, sole dispositive power—20,941,185, and shared dispositive power—694,171.

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 September 30, 2016:

| <u>Entity Name</u> | <u>Jurisdiction</u> | <u>Direct or Indirect Holding⁽¹⁾</u> | <u>Nominal Capital⁽²⁾</u> | <u>Purpose⁽³⁾</u> |
|---|---------------------|---|--------------------------------------|------------------------------|
| Tyco Electronics Group S.A. | Luxembourg | Direct | \$1 | F |
| Tyco Electronics Holdings (Bermuda) No. 7 Limited | Bermuda | Direct | \$— | F |
| TE Connectivity HK Limited. | Hong Kong | Indirect | \$380 | S |
| TE Connectivity Holding International II S.a r.l. | Luxembourg | Indirect | \$— | F |
| TE Connectivity Solutions GmbH | Switzerland | Indirect | CHF— | S |
| Tyco Electronics (Shanghai) Co., Ltd. | China | Indirect | CNY 6 | M |
| TE Connectivity Germany GmbH | Germany | Indirect | EUR 78 | M |
| Tyco Electronics AMP Korea Co., Ltd. | South Korea | Indirect | KRW 6,811 | M |
| Tyco Electronics Corporation | United States | Indirect | \$625 | M |
| Tyco Electronics Holding S.a r.l. | Luxembourg | Indirect | \$593 | F |
| Tyco Electronics Japan G.K. | Japan | Indirect | JPY 21,776 | M |
| Tyco Electronics Singapore Pte Ltd. | Singapore | Indirect | \$183 | S |
| Tyco Electronics Subsea Communications LLC | United States | Indirect | \$— | M |

- (1) All subsidiaries labelled as “direct” are wholly-owned by us. All subsidiaries labelled as “indirect” are wholly-owned indirectly by us.
- (2) Nominal capital is presented in millions for the currencies noted as of September 30, 2016. Nominal capital denoted with a “—” is insignificant.
- (3) “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.

9. Subsequent Events

We have evaluated subsequent events through November 15, 2016, the date the Swiss Statutory Financial Statements were issued, and determined that no significant subsequent events have occurred through this date requiring adjustment to the Swiss Statutory Financial Statements or disclosures.

Proposed Appropriation of Accumulated Earnings

Our board of directors will propose, in conjunction with our annual general meeting, that we carry forward unappropriated accumulated earnings of CHF 1,594 million as included in our balance sheet as of September 30, 2016.

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 30, 2016, 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 30, 2016 comply with Swiss law and the Company’s articles of association.

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 15, 2016

TE Connectivity Ltd.
Swiss Statutory Compensation Report
September 30, 2016

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) for fiscal 2016 consisted of Thomas Lynch, Chairman and Chief Executive Officer; Terrence Curtin, President; Joseph Donahue, Executive Vice President and Chief Operating Officer; John S. Jenkins, Jr., Executive Vice President and General Counsel; Heath Mitts, Executive Vice President and Chief Financial Officer; Steven Merkt, President, Transportation Solutions; Timothy Murphy, Senior Vice President and Chief Human Resource Officer; James O’Toole, President, Communications Solutions; Kevin Rock, President, Industrial Solutions; Robert Shaddock, Executive Vice President and Chief Technology Officer; and Joan Wainwright, President, Channel and Customer Experience. Mario Calastri, served as Interim Chief Financial Officer for part of fiscal 2016; Robert Hau, former Executive Vice President and Chief Financial Officer and Jane Leipold, former Senior Vice President, Global Human Resources were considered part of executive management during part of fiscal 2016 and full fiscal 2015 and are included in this report.

The following sets forth the compensation for the years ended September 30, 2016 and September 25, 2015, of the members of the Board of Directors and Executive Management for all of the functions that they have performed for TE Connectivity. 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 2017 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 2016 and 2015 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 | \$160,000 |
| Additional annual fees: | | |
| Lead Independent Director | \$30,000 | |
| Audit Committee Chair | \$25,000 | |
| Audit Committee Member | \$10,000 | |
| Nominating, Governance & Compliance Committee Chair . . . | \$15,000 | |
| Management, Development & Compensation Committee Chair | \$20,000 | |

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

Our board members also receive non-compensatory reimbursement for expenses incurred in attending board and committee meetings or performing other services for us in their capacities as

B. Compensation of the Board of Directors (Continued)

directors. Such expenses include food, lodging and transportation. Directors who are employees of us or our subsidiaries, including our current chairman of the board, do not receive any compensation for their services as directors.

Each non-employee director received the equity component of their compensation in the form of a grant of common shares of TE Connectivity Ltd., with the exception of Dr. Gromer, who received the equity component of his compensation in the form of deferred stock units (“DSUs”). Under current U.S. tax law, our U.S.-based non-employee directors cannot defer any portion of their compensation, including DSUs and therefore, they were issued common shares (which are immediately taxable) in lieu of DSUs. Because Dr. Gromer is a German citizen, he receives his equity compensation in the form of DSUs.

DSUs awarded to Dr. Gromer vested immediately upon grant, and will be paid in common shares within 30 days following termination (subject to the previously-existing option of deferring the payout). Dividend equivalents or additional DSUs are credited to a non-employee director’s DSU account when dividends or distributions are paid on our common shares.

The following table discloses the cash and equity awards paid to each of our non-employee directors for fiscal 2016 and 2015.

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 Brondeau | 2016 | \$135,000 | \$196,333 | \$27,393 | \$358,726 |
| | 2015 | \$120,417 | \$172,815 | \$25,135 | \$318,367 |
| Carol (John) Davidson ⁽⁴⁾ | 2016 | \$ 58,333 | \$ 99,353 | \$27,500 | \$185,186 |
| | 2015 | \$100,000 | \$165,337 | \$57,869 | \$323,206 |
| Juergen Gromer | 2016 | \$100,000 | \$172,815 | \$47,238 | \$320,053 |
| | 2015 | \$ 90,000 | \$165,337 | — | \$255,337 |
| William Jeffrey | 2016 | \$ 90,000 | \$172,815 | — | \$262,815 |
| | 2015 | \$ 90,000 | \$165,337 | \$64,651 | \$319,988 |
| Yong Nam | 2016 | \$ 90,000 | \$172,815 | — | \$262,815 |
| | 2015 | \$110,000 | \$165,337 | \$24,893 | \$300,230 |
| Daniel Phelan | 2016 | \$101,667 | \$172,815 | \$31,008 | \$305,490 |
| | 2015 | \$ 90,000 | \$165,337 | \$38,204 | \$293,541 |
| Paula Sneed | 2016 | \$ 90,000 | \$172,815 | \$28,595 | \$291,410 |
| | 2015 | \$ 41,667 | \$ 82,701 | \$ 8,156 | \$132,524 |
| David Steiner ⁽⁵⁾ | 2016 | \$100,417 | \$172,815 | \$25,135 | \$298,367 |
| | 2015 | 58,333 | 99,353 | \$45,000 | \$202,686 |
| Mark Trudeau ⁽⁴⁾ | 2016 | \$ 90,000 | \$165,337 | \$ 9,620 | \$264,957 |
| | 2015 | \$ 90,000 | \$172,815 | \$ 9,091 | \$271,906 |
| John Van Scoter | 2016 | \$115,000 | \$165,337 | \$10,000 | \$290,337 |
| | 2015 | \$108,750 | \$172,815 | \$10,000 | \$291,565 |

(1) The amounts shown represent the amount of cash compensation earned in fiscal 2016 and 2015 for Board and committee services. Dr. Brondeau received additional fees for his work as lead independent director for fiscal year 2016 and 2015 (starting March 2015). For fiscal year 2016 and starting in March 2015, Dr. Brondeau, Mr. Phelan and Ms. Wright each

B. Compensation of the Board of Directors (Continued)

received additional fees for their roles as chairs of the nominating, governance and compliance committee, the management development and compensation committee and the audit committee, respectively. For fiscal year 2016 Dr. Gromer received for the full year an additional cash retainer for serving on the audit committee, Mr. Steiner received an additional audit committee cash retainer for serving on the committee for quarter one and two months during quarter two. Mr. Davidson and Mr. Trudeau each received an additional audit committee cash retainer for serving on the committee for one month during quarter two and the last two full quarters of fiscal year 2016. For fiscal 2015, Dr. Brondeau and Ms. Wright each received an additional audit committee cash retainer for serving on the committee until March 2015. Mr. Steiner received an additional audit committee cash retainer for serving on the committee for two months during quarter three and Dr. Gromer received an additional audit committee cash retainer for serving on the committee for fiscal year 2015.

- (2) On November 9, 2015, Dr. Brondeau, Dr. Jeffrey, Mr. Nam, Mr. Phelan, Ms. Sneed, Mr. Van Scoter and Ms. Wright each received a grant of 2,507 common shares. Dr. Brondeau received an additional 470 common shares in equity compensation as a special one-time grant as a result of the Board's assessment of the roles and responsibilities of the Lead Director in fiscal 2016. Dr. Gromer received an award of 2,507 DSUs. In determining the number of common shares and DSUs to be issued, we used the average daily closing price for the 20-day period prior to the grant date (\$63.82 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 2016, was calculated by using the closing price of TE Connectivity Ltd. common shares on the date of grant (\$65.95 per share). As of September 30, 2016, the aggregate number of DSUs outstanding for each non-employee director was as follows: Dr. Brondeau—12,618; Dr. Gromer—41,964; Mr. Phelan—12,618; Ms. Sneed—15,489; Mr. Van Scoter—6,758. On March 2, 2016, Mr. Davidson and Mr. Trudeau received a grant of 1,676 common shares. In determining the number of common shares and DSUs to be issued, we used the average daily closing price for the 20-day period prior to the grant date (\$55.69 per share), the same methodology used to determine employee equity awards. The grant date fair value of these awards, as shown above for fiscal 2016, was calculated by using the closing price of TE Connectivity Ltd. common shares on the date of grant (\$59.28 per share). On November 10, 2014, Dr. Brondeau, Dr. Jeffrey, Mr. Nam, Mr. Phelan, Ms. Sneed, Mr. Steiner and Mr. Van Scoter each received a grant of 2,810 common shares. Dr. Gromer received an award of 2,810 DSUs. In fiscal 2015, in determining the number of common shares and DSUs to be issued, we used the average daily closing price for the 20 day period prior to the grant date (\$56.94 per share), the same methodology used to determine employee equity awards. The grant date fair value of these awards, as shown above for fiscal 2015, was calculated by using the closing price of TE Connectivity Ltd. common shares on the date of grant (\$61.50 per share). The common shares and DSUs vested immediately and non-employee directors receive dividend equivalents in connection with any DSU award granted to them.
- (3) Amounts shown represent the value of dividend equivalent units earned on current and prior DSU awards calculated using the market value on the date of the dividend, company matching gift contributions made on behalf of certain directors under TE Connectivity's matching gift program, and amounts reimbursed to Ms. Sneed in fiscal 2016 and Mr. Phelan in fiscal 2015 for expenses incurred when attending continuing education courses. The \$57,869 and \$47,238 amounts reported in fiscal 2016 and 2015, respectively, for Dr. Gromer are the dividend equivalent unit amount earned on his DSU awards. For Mr. Nam, the \$64,651 represents the payment by the Company of Mr. Nam's Swiss social tax obligations for the period 2012–2015 (and additional amounts paid to Mr. Nam to cover income tax obligations on the Company's social tax payment) as a result of the Company's failure to notify Mr. Nam of his Swiss social tax obligations and to withhold the Swiss social tax amounts as required. Mr. Nam was responsible for his ongoing Swiss social tax obligations effective January 1, 2016. In fiscal 2016 Messrs. Davidson and Trudeau received fees, in the amount of \$22,500 and \$45,000, respectively, for consulting services performed prior to being elected to the board.
- (4) On March 2, 2016, Messrs. Davidson and Trudeau were elected to our Board of Directors. Cash compensation for Messrs. Davidson and Trudeau was pro-rated for service during fiscal year 2016.
- (5) On November 9, 2015, Mr. Steiner received a grant of 1,254 common shares. Mr. Steiner left the board effective March 2, 2016. The number of common shares issued to Mr. Steiner was determined in the same manner applied to all grants on November 9, 2015 and reflects a pro-ration of his service during fiscal 2016. Cash compensation for Mr. Steiner was also pro-rated for his service during fiscal 2016.
- (6) The company has not made any loans or extended credit to any current or former member of the Board of Directors.

c. Compensation of Executive Management

The following table presents information concerning Executive Management's 2016 and 2015 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⁾ (\$) |
|---|---------------------|-------------------------------|---------------|--|---|---|--|--|------------------------------|
| Thomas J. Lynch, Chief Executive Officer | 2016 | \$1,200,000 | — | \$ 3,875,222 | \$4,020,726 | \$1,722,600 | — | \$ 557,736 | \$11,376,284 |
| | 2015 | \$1,200,000 | — | \$ 4,590,360 | \$4,682,416 | \$1,080,000 | — | \$ 612,301 | \$12,165,077 |
| All Other Executive Management ⁽¹⁾ | 2016 | \$6,122,321 | — | \$13,125,894 | \$8,241,510 | \$4,345,074 | \$245,958 | \$1,477,961 | \$33,558,718 |
| | 2015 ⁽²⁾ | \$6,014,607 | — | \$14,921,633 | \$9,549,126 | \$3,216,328 | \$ 90,816 | \$2,516,976 | \$36,309,486 |

- (1) The executive management team for Swiss reporting purposes includes Mr. Curtin, Mr. Donahue, Mr. Jenkins, Ms. Leipold, Mr. Merkt, Mr. Murphy, Mr. O'Toole, Mr. Rock, Mr. Shaddock, Ms. Wainwright and Mr. Hau until his last day of work in March 2016. Mr. Calastri was interim Chief Financial Officer ("CFO") from March 2016 until September 2016. Mr. Mitts became CFO on September 12, 2016.
- (2) 2015 total compensation does not include Messrs. Murphy and Calastri as they were not members of the executive management team for Swiss reporting purposes in fiscal 2015. Mr. Mitts was not an employee in fiscal 2015.
- (3) Amounts shown are not reduced to reflect the named executive officers' 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 performance stock units ("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 the named executive officers' 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 four executives in 2016 and 2015 under the frozen pension plan.
- (8) See the All Other Compensation table below for a breakdown of amounts which include perquisites, matching contributions associated with the company's 401(k) plan and nonqualified defined contribution plan, dividend equivalent units and other amounts. The amounts reflected in the table for perquisites are our incremental cost. We also provide group life, health, hospitalization and medical reimbursement plans which do not discriminate in scope, terms or operation in favor of officers and are available to all full-time employees; the values of the benefits are not shown in the table.
- (9) The company has not made any loans or extended credit to any current or former member of Executive Management.

All Other Compensation

| Name | Year | Perquisites ^(a) (\$) | Insurance Premiums ^(b) (\$) | Dollar Value of Dividends not factored into Grant Date Fair Value ^(c) (\$) | Company Contributions to DC plans ^(d) (\$) | Employee Stock Purchase Plan ("ESPP") Company Match ^(e) (\$) | Payment for unused vacation/ personal time ^(f) (\$) | Severance ^(g) (\$) | Total All Other Compensation (\$) |
|--------------------------------|------|------------------------------------|--|--|---|--|---|----------------------------------|--|
| Thomas J. Lynch | 2016 | \$119,631 | — | \$301,305 | \$136,800 | — | — | — | \$ 557,736 |
| | 2015 | \$ 84,569 | — | \$304,964 | \$222,768 | — | — | — | \$ 612,301 |
| All Other Executive Management | 2016 | \$143,940 | \$673 | \$707,434 | \$623,964 | \$1,950 | — | — | \$1,477,961 |
| | 2015 | \$576,830 | \$620 | \$710,646 | \$800,683 | \$1,950 | \$17,371 | \$408,876 | \$2,516,976 |

(a) Perquisites consisting of the following:

- Amounts in fiscal 2016 and 2015 include the incremental cost to us of Mr. Lynch's non-business use of our aircraft. Mr. Lynch is permitted to use the corporate aircraft for business and non-business purposes. The incremental cost to us during fiscal year 2016 and 2015 includes the direct variable cost and value of the lost corporate tax benefit associated with Mr. Lynch's travel to attend Thermo

c. Compensation of Executive Management (Continued)

Fisher Scientific Inc. and Cummins Inc. board meetings, as Mr. Lynch is a member of the board of directors of both companies, and occasional personal use. Amounts also include for one executive in fiscal 2015 the incremental cost to us of non-business travel after the conclusion of a business trip. Executive officers have limited access to the use of the corporate aircraft for non-business purposes. Amounts in fiscal 2016 for four executives reflect an attendance gift provided to all attendees at a certain business meeting. Amounts in fiscal 2015 for Mr. Lynch and five other executives reflect an attendance gift provided to all attendees at a certain business meeting.

- Amounts reflect a cash perquisite paid for all of fiscal 2016 for one executive and the first quarter of fiscal 2016 for one executive. For fiscal 2015 amounts reflect a cash perquisite paid for the first two quarters for one executive. The executive perquisites allowance program provides a cash allowance of 10% of base salary for executives whose employment is based in the United States.
 - Amounts for fiscal 2016 and fiscal 2015 include various miscellaneous fees and expenses, personal tax preparation assistance, international tax payments and U.S. tax gross-up payments pertaining to expatriate assignments for three executives. 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 EUR to U.S. dollars: \$1.06–\$1.15:EUR in fiscal 2016 and \$1.08–\$1.27:EUR 1 in fiscal 2015 and CNY to U.S. dollars: \$0.149–\$0.158 in fiscal 2016 and \$0.159–\$0.164 in fiscal 2015.
 - Fiscal 2016 amounts include relocation expenses for one executive.
- (b) Additional income reported for participation in a company paid split dollar life insurance program for one executive.
- (c) The value of dividend equivalent units credited in the fiscal year to each individual's unvested RSUs and PSUs using the closing price on the date of the crediting. The dividend equivalent unit value associated with the PSUs reflects target performance and will be adjusted based on certified performance results following the close of the three-year performance period.
- (d) Contributions made on behalf of the named executive officers under TE Connectivity's qualified defined contribution plan and accruals on behalf of the named executive officers under the SSRP (a nonqualified defined contribution excess plan).

| <u>Name</u> | <u>Year</u> | <u>Company Matching Contribution (Qualified Plan)^(*)</u> | <u>Company Contribution (Non-Qualified Plan)</u> |
|--|-------------|---|--|
| Mr. Lynch | 2016 | \$ 15,900 | \$120,900 |
| | 2015 | \$ 15,900 | \$206,868 |
| All Other Executive Management | 2016 | \$172,451 | \$451,514 |
| | 2015 | \$170,353 | \$630,330 |

(*) Included in the amount above is an additional matching contribution of \$5,830 and \$6,360 for fiscal 2016 and \$5,720 and \$6,240 for fiscal 2015 for two executives as a result of a frozen defined benefit plan.

- (e) The company matching contribution made under the TE Connectivity employee stock purchase plan for one executive.
- (f) For fiscal 2015, amount includes the value of unused vacation and personal time paid to one executive as a result of local state law requirements.
- (g) For fiscal 2015, amount includes the value of severance payments for one executive, as per the terms of an employment agreement entered into before January 1, 2014.

**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 30, 2016.

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 remuneration, 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 30, 2016 complies with Swiss law and articles 14–16 of the Ordinance.

Deloitte AG

/s/ Matthias Gschwend
Licensed audit expert
Auditor in charge

/s/ Dominik Voegtli
Licensed audit expert

Zurich, December 13, 2016

BOARD OF DIRECTORS

Thomas J. Lynch
Chairman and
Chief Executive Officer,
TE Connectivity Ltd.

Dr. Juergen W. Gromer
Retired President,
Tyco Electronics

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

Dr. Pierre R. Brondeau*
President, Chairman, and
Chief Executive Officer,
FMC Corporation

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

Paula A. Sneed
Chair and Chief Executive Officer,
Phelps Prescott Group, LLC
Retired Executive Vice President,
Kraft Foods Inc.

Terrence R. Curtin
President and Director,
TE Connectivity Ltd.

Yong Nam
Advisor to the CEO,
Daelim Industrial Co. Ltd.
Former Chief Executive Officer,
LG Electronics Inc.

John C. Van Scoter
President, Chief Executive Officer,
and Director,
eSolar, Inc.

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

Daniel J. Phelan
Retired Chief of Staff,
GlaxoSmithKline plc

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

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

LEADERSHIP TEAM AND OFFICERS

Thomas J. Lynch
Chairman and
Chief Executive Officer

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

Robert J. Ott
Senior Vice President,
Corporate Controller

Terrence R. Curtin
President and Director

Steven T. Merkt
President,
Transportation Solutions

Jeanne Quirk
Senior Vice President,
Mergers and Acquisitions

Mario Calastri
Senior Vice President,
Treasurer

Heath A. Mitts
Executive Vice President,
Chief Financial Officer

Eric J. Resch
Senior Vice President,
Chief Tax Officer

Que Dallara
Senior Vice President,
Corporate Strategy

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

Kevin N. Rock
President,
Industrial Solutions

Joseph B. Donahue
Executive Vice President,
Chief Operating Officer

Minoru Okamoto
Senior Advisor to the CEO

Amy (Shah) Summy
Senior Vice President,
Chief Marketing Officer

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

James O'Toole
President,
Communications Solutions

Joan E. Wainwright
President,
Channel and
Customer Experience

CORPORATE DATA

REGISTERED & PRINCIPAL EXECUTIVE OFFICE

TE Connectivity Ltd.
Rheinstrasse 20
CH-8200 Schaffhausen
Switzerland
+41.0.52.633.66.61

INDEPENDENT AUDITORS

Deloitte & Touche LLP
1700 Market Street
Philadelphia, PA 19103

Deloitte AG
General Guisan-Quai 38
CH-8022 Zurich
Switzerland

STOCK EXCHANGE

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

FORM 10-K

Copies of the company's Annual Report on Form 10-K for the fiscal year that ended September 30, 2016 may be obtained by shareholders without charge upon written request to TE Connectivity Ltd., Rheinstrasse 20, 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:

Wells Fargo 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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