

Sensata Technologies Holding N.V.  
Form 10-Q  
October 24, 2017  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2017

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number 001-34652

SENSATA TECHNOLOGIES HOLDING N.V.  
(Exact Name of Registrant as Specified in Its Charter)

THE NETHERLANDS  
(State or other jurisdiction of  
incorporation or organization)

98-0641254  
(I.R.S. Employer  
Identification No.)

Jan Tinbergenstraat 80, 7559 SP Hengelo  
The Netherlands

31-74-357-8000

(Address of Principal Executive Offices, including Zip Code) (Registrant's Telephone Number, Including Area Code)  
Former name, former address and former fiscal year, if changed since last report.

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

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

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the

Exchange Act. "

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

As of October 13, 2017, 171,296,417 ordinary shares were outstanding.

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## PART I—FINANCIAL INFORMATION

## Item 1. Financial Statements.

## SENSATA TECHNOLOGIES HOLDING N.V.

## Condensed Consolidated Balance Sheets

(In thousands, except per share amounts)

(unaudited)

|  | September 30,<br>2017 | December 31,<br>2016 |
|--|-----------------------|----------------------|
| Assets   |                       |                      |
| Current assets:  |                       |                      |
| Cash and cash equivalents  | \$ 612,972            | \$ 351,428           |
| Accounts receivable, net of allowances of \$12,561 and \$11,811 as of September 30, 2017 and December 31, 2016, respectively                         | 569,881               | 500,211              |
| Inventories  | 447,486               | 389,844              |
| Prepaid expenses and other current assets  | 100,935               | 100,002              |
| Total current assets   | 1,731,274             | 1,341,485            |
| Property, plant and equipment, net   | 735,924               | 724,046              |
| Goodwill   | 3,005,464             | 3,005,464            |
| Other intangible assets, net of accumulated amortization of \$1,727,644 and \$1,607,269 as of September 30, 2017 and December 31, 2016, respectively | 958,972               | 1,075,431            |
| Deferred income tax assets   | 26,678                | 20,695               |
| Other assets   | 79,625                | 73,855               |
| Total assets   | \$ 6,537,937          | \$ 6,240,976         |
| Liabilities and shareholders' equity   |                       |                      |
| Current liabilities:   |                       |                      |
| Current portion of long-term debt, capital lease and other financing obligations   | \$ 13,176             | \$ 14,643            |
| Accounts payable   | 324,119               | 299,198              |
| Income taxes payable   | 27,031                | 23,889               |
| Accrued expenses and other current liabilities   | 263,611               | 245,566              |
| Total current liabilities  | 627,937               | 583,296              |
| Deferred income tax liabilities  | 404,575               | 392,628              |
| Pension and other post-retirement benefit obligations  | 36,192                | 34,878               |
| Capital lease and other financing obligations, less current portion  | 29,990                | 32,369               |
| Long-term debt, net  | 3,224,684             | 3,226,582            |
| Other long-term liabilities  | 32,034                | 29,216               |
| Total liabilities  | 4,355,412             | 4,298,969            |
| Commitments and contingencies (Note 10)  |                       |                      |
| Shareholders' equity:  |                       |                      |
| Ordinary shares, €0.01 nominal value per share, 400,000 shares authorized; 178,437 shares issued   | 2,289                 | 2,289                |
| Treasury shares, at cost, 7,140 and 7,557 shares as of September 30, 2017 and December 31, 2016, respectively  | (290,894              | ) (306,505           |
| Additional paid-in capital   | 1,658,574             | 1,643,449            |
| Retained earnings  | 862,954               | 636,841              |
| Accumulated other comprehensive loss   | (50,398               | ) (34,067            |
| Total shareholders' equity   | 2,182,525             | 1,942,007            |
| Total liabilities and shareholders' equity   | \$ 6,537,937          | \$ 6,240,976         |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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SENSATA TECHNOLOGIES HOLDING N.V.  
 Condensed Consolidated Statements of Operations  
 (In thousands, except per share amounts)  
 (unaudited)

|                                     | For the three months ended |               | For the nine months ended |               |
|-------------------------------------|----------------------------|---------------|---------------------------|---------------|
|                                     | September 30,              | September 30, | September 30,             | September 30, |
|                                     | 2017                       | 2016          | 2017                      | 2016          |
| Net revenue                         | \$ 819,054                 | \$ 789,798    | \$2,466,199               | \$ 2,413,892  |
| Operating costs and expenses:       |                            |               |                           |               |
| Cost of revenue                     | 527,432                    | 508,944       | 1,601,190                 | 1,574,763     |
| Research and development            | 34,002                     | 31,601        | 97,032                    | 95,240        |
| Selling, general and administrative | 75,972                     | 75,046        | 227,256                   | 224,637       |
| Amortization of intangible assets   | 40,317                     | 50,562        | 121,578                   | 151,572       |
| Restructuring and special charges   | 1,329                      | 837           | 18,768                    | 3,167         |
| Total operating costs and expenses  | 679,052                    | 666,990       | 2,065,824                 | 2,049,379     |
| Profit from operations              | 140,002                    | 122,808       | 400,375                   | 364,513       |
| Interest expense, net               | (40,263 )                  | (41,176 )     | (120,578 )                | (125,201 )    |
| Other, net                          | 3,112                      | (726 )        | 7,190                     | 4,892         |
| Income before taxes                 | 102,851                    | 80,906        | 286,987                   | 244,204       |
| Provision for income taxes          | 14,816                     | 11,121        | 47,759                    | 48,297        |
| Net income                          | \$ 88,035                  | \$ 69,785     | \$239,228                 | \$ 195,907    |
| Basic net income per share:         | \$ 0.51                    | \$ 0.41       | \$1.40                    | \$ 1.15       |
| Diluted net income per share:       | \$ 0.51                    | \$ 0.41       | \$1.39                    | \$ 1.14       |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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SENSATA TECHNOLOGIES HOLDING N.V.  
 Condensed Consolidated Statements of Comprehensive Income  
 (In thousands)  
 (unaudited)

|   | For the three months ended |                       | For the nine months ended |                       |
|---|----------------------------|-----------------------|---------------------------|-----------------------|
|   | September 30,<br>2017      | September 30,<br>2016 | September 30,<br>2017     | September 30,<br>2016 |
| Net income  | \$ 88,035                  | \$ 69,785             | \$ 239,228                | \$ 195,907            |
| Other comprehensive loss, net of tax:                             |                            |                       |                           |                       |
| Deferred loss on derivative instruments, net of reclassifications | (6,784 )                   | (8,485 )              | (17,820 )                 | (25,010 )             |
| Defined benefit and retiree healthcare plans                      | 274                        | 24                    | 1,489                     | 291                   |
| Other comprehensive loss  | (6,510 )                   | (8,461 )              | (16,331 )                 | (24,719 )             |
| Comprehensive income  | \$ 81,525                  | \$ 61,324             | \$ 222,897                | \$ 171,188            |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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SENSATA TECHNOLOGIES HOLDING N.V.  
Condensed Consolidated Statements of Cash Flows  
(In thousands)  
(unaudited)

|   | For the nine months ended<br>September 30, 2017 | September 30, 2016 |
|---|---|--------------------|
| Cash flows from operating activities:   |   |                    |
| Net income  | \$ 239,228                                      | \$ 195,907         |
| Adjustments to reconcile net income to net cash provided by operating activities: |   |                    |
| Depreciation  | 82,014  | 77,649             |
| Amortization of deferred financing costs and original issue discounts             | 5,528   | 5,501              |
| Gain on sale of assets  | (1,180 )  | —                  |
| Share-based compensation  | 15,106  | 13,279             |
| Amortization of inventory step-up to fair value                                   | —   | 2,319              |
| Amortization of intangible assets   | 121,578   | 151,572            |
| Deferred income taxes   | 11,836  | 15,706             |
| Unrealized loss on hedges and other non-cash items                                | 5,844   | 660                |
| Changes in operating assets and liabilities, net of effects of acquisitions:      |   |                    |
| Accounts receivable, net  | (69,670 )                                       | (65,373 )          |
| Inventories   | (58,476 )                                       | (20,624 )          |
| Prepaid expenses and other current assets   | (19,251 )                                       | 2,320              |
| Accounts payable and accrued expenses   | 40,144  | 33,371             |
| Income taxes payable  | 3,142   | (6,361 )           |
| Other   | (3,564 )  | (9,575 )           |
| Net cash provided by operating activities   | 372,279   | 396,351            |
| Cash flows from investing activities:   |   |                    |
| Acquisition of CST, net of cash received  | —   | 4,688              |



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|   |            |   |            |   |
|---|------------|---|------------|---|
| Additions to property, plant and equipment and capitalized software     | (103,536)  | ) | (94,584)   | ) |
| Investment in equity securities   | —          |   | (50,000)   | ) |
| Proceeds from the sale of assets  | 8,862      |   | 751        |   |
| Other   | (3,000)    | ) | —          |   |
| Net cash used in investing activities                                   | (97,674)   | ) | (139,145)  | ) |
| Cash flows from financing activities:                                   |            |   |            |   |
| Proceeds from exercise of stock options and issuance of ordinary shares | 5,332      |   | 3,306      |   |
| Payments on debt  | (14,459)   | ) | (297,698)  | ) |
| Payments to repurchase ordinary shares                                  | (2,817)    | ) | (4,672)    | ) |
| Payments of debt issuance costs   | (137)      | ) | (518)      | ) |
| Other   | (980)      | ) | —          |   |
| Net cash used in financing activities                                   | (13,061)   | ) | (299,582)  | ) |
| Net change in cash and cash equivalents                                 | 261,544    |   | (42,376)   | ) |
| Cash and cash equivalents, beginning of period                          | 351,428    |   | 342,263    |   |
| Cash and cash equivalents, end of period                                | \$ 612,972 |   | \$ 299,887 |   |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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SENSATA TECHNOLOGIES HOLDING N.V.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share amounts, or unless otherwise noted)

(unaudited)

1. Business Description and Basis of Presentation

Description of Business

The accompanying unaudited condensed consolidated financial statements reflect the financial position, results of operations, comprehensive income, and cash flows of Sensata Technologies Holding N.V. ("Sensata N.V.") and its wholly-owned subsidiaries, collectively referred to as the "Company," "Sensata," "we," "our," or "us."

Sensata N.V. is incorporated under the laws of the Netherlands and conducts its operations through subsidiary companies that operate business and product development centers primarily in the United States (the "U.S."), the Netherlands, Belgium, China, Germany, Japan, South Korea, and the United Kingdom (the "U.K."); and manufacturing operations primarily in China, Malaysia, Mexico, Bulgaria, France, Germany, the U.K., and the U.S. We organize our operations into two businesses, Performance Sensing and Sensing Solutions.

On September 28, 2017, the board of directors of Sensata N.V. unanimously approved a plan to change our parent company's location of incorporation from the Netherlands to the U.K. To effect this change, the shareholders of Sensata N.V. will be asked to approve a cross-border merger between Sensata N.V. and Sensata Technologies Holding plc ("Sensata U.K."), a newly formed, public limited company incorporated under the laws of England and Wales, with Sensata U.K. being the surviving entity (the "Merger"). If approved by our shareholders, we would expect to complete the Merger during the first quarter of 2018, which would result in Sensata U.K. becoming the publicly-traded parent of the subsidiary companies that are currently controlled by Sensata N.V.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial information and the instructions to Form 10-Q. Accordingly, these interim financial statements do not include all of the information and note disclosures required by U.S. GAAP for complete financial statements. The accompanying financial information reflects all normal recurring adjustments that are, in the opinion of management, necessary for a fair presentation of the interim period results. The results of operations for the three and nine months ended September 30, 2017 are not necessarily indicative of the results to be expected for the full year, nor were the results of operations of the comparable periods in 2016 necessarily representative of those actually experienced for the full year 2016. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2016.

All intercompany balances and transactions have been eliminated.

All U.S. dollar and share amounts presented, except per share amounts, are stated in thousands, unless otherwise indicated.

Certain reclassifications have been made to prior periods to conform to current period presentation.

2. New Accounting Standards

In May 2014, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606), which creates one Accounting Standards Codification ("ASC") Topic (FASB ASC 606, Revenue from Contracts with Customers) that replaces the current guidance found in FASB ASC 605, Revenue Recognition, and various other revenue accounting standards for specialized transactions and industries. FASB ASU No. 2014-09 outlines a comprehensive five-step revenue recognition model based on the principle that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. FASB ASU No. 2014-09 may be applied using either a full retrospective approach, under which all years included in the financial statements will be presented under the revised guidance, or a modified retrospective approach, under which financial statements will be prepared under the revised guidance for the year of adoption, but not for prior years. Under the latter method, entities will recognize a cumulative catch-up adjustment to the opening balance of retained earnings at the effective date for contracts that still require performance

by the entity.

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In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of Effective Date, which defers the effective date of FASB ASU No. 2014-09 by one year. FASB ASU No. 2014-09 is now effective for annual reporting periods beginning after December 15, 2017, including interim periods within those annual reporting periods. We have developed an implementation plan to adopt this new guidance. As part of this plan, we are currently assessing the impact of the new guidance on our financial position and results of operations. Based on our procedures performed to date, nothing has come to our attention that would indicate that the adoption of FASB ASU No. 2014-09 will have a material impact on our financial position or results of operations. However, we will continue to evaluate this assessment through the remainder of 2017. In addition, the adoption of FASB ASU No. 2014-09 requires new disclosures related to revenue recognition, which we are continuing to evaluate. We intend to adopt FASB ASU No. 2014-09 on January 1, 2018 using the modified retrospective transition method.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which establishes new accounting and disclosure requirements for leases. FASB ASU No. 2016-02 requires lessees to classify most leases as either finance or operating leases and to initially recognize a lease liability and right-of-use asset. Entities may elect to account for certain short-term leases (with a term of 12 months or less) using a method similar to the current operating lease model. The statements of operations will include, for finance leases, separate recognition of interest on the lease liability and amortization of the right-of-use asset and for operating leases, a single lease cost, calculated so that the cost of the lease is allocated over the lease term on a straight-line basis. At December 31, 2016, we were contractually obligated to make future payments of \$69.8 million under our operating lease obligations in existence as of that date, primarily related to long-term facility leases. While we are in the early stages of our implementation process for FASB ASU No. 2016-02, and have not yet determined its impact on our consolidated financial statements, these leases would potentially be required to be presented on the balance sheet in accordance with the requirements of FASB ASU No. 2016-02. FASB ASU No. 2016-02 is effective for annual reporting periods beginning after December 15, 2018, including interim periods within those annual reporting periods, with early adoption permitted. FASB ASU No. 2016-02 must be applied using a modified retrospective approach, which requires recognition and measurement of leases at the beginning of the earliest period presented, with certain practical expedients available.

In August 2017, the FASB issued ASU No. 2017-12, Derivatives and Hedging (Topic 815), which changes both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results, in order to better align an entity's risk management activities and financial reporting for hedging relationships. The amendments expand and refine hedge accounting for both nonfinancial and financial risk components and align the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. FASB ASU No. 2017-12 is effective for annual reporting periods beginning after December 15, 2018, including interim periods within those annual reporting periods, with early adoption permitted. We are still evaluating the impact that this guidance will have on our consolidated financial statements, and we have not yet determined whether we will early adopt FASB ASU No. 2017-12.

### 3. Inventories

The components of inventories as of September 30, 2017 and December 31, 2016 were as follows:

|                 | September 30, December 31, |            |
|-----------------|----------------------------|------------|
|                 | 2017                       | 2016       |
| Finished goods  | \$ 191,165                 | \$ 169,304 |
| Work-in-process | 91,569                     | 74,810     |
| Raw materials   | 164,752                    | 145,730    |
| Inventories     | \$ 447,486                 | \$ 389,844 |

### 4. Shareholders' Equity

#### Treasury Shares

Ordinary shares repurchased by us are recorded at cost, as treasury shares, and result in a reduction of shareholders' equity. We reissue treasury shares as part of our share-based compensation programs. The cost of reissued shares is determined using the first-in, first-out method. During the nine months ended September 30, 2017, we reissued 0.5

million treasury shares, and as a result, we recognized a reduction in Retained earnings of \$13.1 million.

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## Accumulated Other Comprehensive Loss

The following is a roll forward of the components of Accumulated other comprehensive loss for the nine months ended September 30, 2017:

|  | Cash<br>Flow<br>Hedges | Defined<br>Benefit and<br>Retiree<br>Healthcare<br>Plans | Accumulated<br>Other<br>Comprehensive<br>Loss |
|--|------------------------|--|---|
| Balance as of December 31, 2016  | \$23                   | \$ (34,090 )   | \$ (34,067 )                                  |
| Other comprehensive loss before reclassifications, net of tax              | (25,078 )              | —  | (25,078 )                                     |
| Amounts reclassified from accumulated other comprehensive loss, net of tax | 7,258                  | 1,489  | 8,747   |
| Net current period other comprehensive (loss)/income                       | (17,820 )              | 1,489  | (16,331 )                                     |
| Balance as of September 30, 2017   | \$(17,797)             | \$(32,601 )  | \$( 50,398 )                                  |

The details of the amounts reclassified from Accumulated other comprehensive loss for the three and nine months ended September 30, 2017 and 2016 are as follows:

| Component  | Amount of Loss/(Gain) Reclassified from<br>Accumulated Other Comprehensive Loss |             |   |             | Affected Line in Condensed<br>Consolidated Statements of<br>Operations |
|--|---|-------------|---|-------------|--|
|  | For the three months<br>ended<br>September 30,<br>2017                          |             | For the nine months<br>ended<br>September 30,<br>2016 |             |  |
| Derivative instruments designated<br>and qualifying as cash flow<br>hedges |   |             |   |             |  |
| Foreign currency forward<br>contracts                                      | \$4,075   | \$ (2,771 ) | \$(3,678)   | \$(15,075 ) | Net revenue <sup>(1)</sup>   |
| Foreign currency forward<br>contracts                                      | 1,953   | 4,834       | 13,356  | 14,857      | Cost of revenue <sup>(1)</sup>   |
| Total, before taxes  | 6,028   | 2,063       | 9,678   | (218 )      | Income before taxes  |
| Income tax effect  | (1,507 )  | (514 )      | (2,420 )  | 55          | Provision for income taxes   |
| Total, net of taxes  | \$4,521   | \$ 1,549    | \$7,258   | \$(163 )    | Net income   |
| Defined benefit and retiree<br>healthcare plans                            | \$297   | \$ (5 )     | \$1,557   | \$ 324      | Various <sup>(2)</sup>   |
| Income tax effect  | (23 )   | 29          | (68 )   | (33 )       | Provision for income taxes   |
| Total, net of taxes  | \$274   | \$ 24       | \$1,489   | \$ 291      | Net income   |

(1) See Note 12, "Derivative Instruments and Hedging Activities," for additional details on amounts to be reclassified in the future from Accumulated other comprehensive loss.

Amounts related to defined benefit and retiree healthcare plans reclassified from Accumulated other comprehensive loss affect the Cost of revenue, Research and development, and Selling, general and administrative ("SG&A") expense line items in the condensed consolidated statements of operations. The amounts reclassified are included in the computation of net periodic benefit cost. See Note 8, "Pension and Other Post-Retirement Benefits," for additional details of net periodic benefit cost.

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## 5. Restructuring and Special Charges

Restructuring and special charges for the three and nine months ended September 30, 2017 were \$1.3 million and \$18.8 million, respectively, which related primarily to the closing of our facility in Minden, Germany that was part of the acquisition of certain subsidiaries of Custom Sensors & Technologies Ltd. ("CST"), facility exit costs related to a limited number of other line moves and exit activities, and severance costs related to the termination of a limited number of employees. Charges related to the closing of our facility in Minden, Germany for the three and nine months ended September 30, 2017 consisted of (i) severance charges of \$0.0 million and \$8.4 million, respectively, and (ii) facility exit costs of \$1.3 million and \$2.4 million, respectively.

Restructuring and special charges for the three and nine months ended September 30, 2016 were \$0.8 million and \$3.2 million, respectively, which consisted primarily of facility exit costs related to the relocation of manufacturing lines from our facility in the Dominican Republic to a manufacturing facility in Mexico, and severance charges recorded in connection with acquired businesses and the termination of a limited number of employees. We completed the cessation of manufacturing in our Dominican Republic facility in the third quarter of 2016.

Changes to the severance portion of our restructuring liability during the nine months ended September 30, 2017 were as follows:

|  | Severance |
|--|-----------|
| Balance at December 31, 2016                         | \$ 17,350 |
| Charges, net of reversals                            | 11,747    |
| Payments   | (20,072 ) |
| Impact of changes in foreign currency exchange rates | 1,529     |
| Balance at September 30, 2017                        | \$ 10,554 |

## 6. Debt

Our long-term debt and capital lease and other financing obligations as of September 30, 2017 and December 31, 2016 consisted of the following:

|   | Maturity Date     | September 30,<br>2017 | December 31,<br>2016 |
|---|-------------------|-----------------------|----------------------|
| Term Loan   | October 14, 2021  | \$ 927,794            | \$ 937,794           |
| 4.875% Senior Notes   | October 15, 2023  | 500,000               | 500,000              |
| 5.625% Senior Notes   | November 1, 2024  | 400,000               | 400,000              |
| 5.0% Senior Notes   | October 1, 2025   | 700,000               | 700,000              |
| 6.25% Senior Notes  | February 15, 2026 | 750,000               | 750,000              |
| Less: discount  |                   | (15,812 )             | (17,655 )            |
| Less: deferred financing costs                                      |                   | (29,971 )             | (33,656 )            |
| Less: current portion   |                   | (7,327 )              | (9,901 )             |
| Long-term debt, net   |                   | \$ 3,224,684          | \$ 3,226,582         |
| Capital lease and other financing obligations                       |                   | \$ 35,839             | \$ 37,111            |
| Less: current portion   |                   | (5,849 )              | (4,742 )             |
| Capital lease and other financing obligations, less current portion |                   | \$ 29,990             | \$ 32,369            |

As of September 30, 2017, there was \$415.3 million of availability under our \$420.0 million revolving credit facility, net of \$4.7 million in letters of credit. Outstanding letters of credit are issued primarily for the benefit of certain operating activities. As of September 30, 2017, no amounts had been drawn against these outstanding letters of credit, which are scheduled to expire on various dates in 2017 and 2018.

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## Accrued Interest

Accrued interest associated with our outstanding debt is included as a component of Accrued expenses and other current liabilities in the condensed consolidated balance sheets. As of September 30, 2017 and December 31, 2016, accrued interest totaled \$45.7 million and \$36.8 million, respectively.

## 7. Income Taxes

We recorded a Provision for income taxes for the three months ended September 30, 2017 and 2016 of \$14.8 million and \$11.1 million, respectively, and for the nine months ended September 30, 2017 and 2016 of \$47.8 million and \$48.3 million, respectively. The Provision for income taxes consists of current tax expense, which relates primarily to our profitable operations in non-U.S. tax jurisdictions, and deferred tax expense, which relates to adjustments in book-to-tax basis differences primarily due to the step-up in fair value of fixed and intangible assets, including goodwill, acquired in connection with business combination transactions, and the utilization of net operating losses. During the three and nine months ended September 30, 2016, we recognized a benefit from income taxes of \$5.1 million and \$3.7 million, respectively, related to the change in our U.S. valuation allowance associated with the acquisition of CST, for which deferred tax liabilities were established related primarily to the step-up of tangible assets for book purposes.

## 8. Pension and Other Post-Retirement Benefits

We provide various pension and other post-retirement benefit plans for current and former employees, including defined benefit, defined contribution, and retiree healthcare benefit plans.

The components of net periodic benefit cost/(credit) associated with our defined benefit and retiree healthcare plans for the three months ended September 30, 2017 and 2016 were as follows:

|  | U.S. Plans      |               | Retiree Healthcare |               | Non-U.S. Plans  |               | Total         |               |
|--|-----------------|---------------|--------------------|---------------|-----------------|---------------|---------------|---------------|
|  | Defined Benefit |               | September 30,      |               | Defined Benefit |               | September 30, |               |
|  | September 30,   | September 30, | September 30,      | September 30, | September 30,   | September 30, | September 30, | September 30, |
|  | 2017            | 2016          | 2017               | 2016          | 2017            | 2016          | 2017          | 2016          |
| Service cost                           | \$—             | \$—           | \$ 21              | \$ 25         | \$ 661          | \$ 697        | \$ 682        | \$ 722        |
| Interest cost                          | 385             | 332           | 80                 | 94            | 273             | 298           | 738           | 724           |
| Expected return on plan assets         | (527 )          | (659 )        | —                  | —             | (230 )          | (249 )        | (757 )        | (908 )        |
| Amortization of net loss               | 291             | 118           | 8                  | 46            | 64              | 42            | 363           | 206           |
| Amortization of prior service (credit) | —               | —             | (334 )             | (334 )        | (1 )            | (18 )         | (335 )        | (352 )        |
| Loss on settlement                     | 269             | 140           | —                  | —             | —               | 1             | 269           | 141           |
| Net periodic benefit cost/(credit)     | \$418           | \$(69)        | \$(225 )           | \$(169 )      | \$ 767          | \$ 771        | \$ 960        | \$ 533        |



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The components of net periodic benefit cost/(credit) associated with our defined benefit and retiree healthcare plans for the nine months ended September 30, 2017 and 2016 were as follows:

|   | U.S. Plans      |          |                    |           | Non-U.S. Plans  |         | Total         |          |
|---|-----------------|----------|--------------------|-----------|-----------------|---------|---------------|----------|
|   | Defined Benefit |          | Retiree Healthcare |           | Defined Benefit |         |               |          |
|   | September 30,   |          | September 30,      |           | September 30,   |         | September 30, |          |
|   | 2017            | 2016     | 2017               | 2016      | 2017            | 2016    | 2017          | 2016     |
| Service cost                                | \$—             | \$—      | \$ 64              | \$ 76     | \$1,917         | \$2,003 | \$1,981       | \$2,079  |
| Interest cost                               | 1,214           | 1,109    | 239                | 283       | 784             | 887     | 2,237         | 2,279    |
| Expected return on plan assets              | (1,617 )        | (2,006 ) | —                  | —         | (677 )          | (714 )  | (2,294 )      | (2,720 ) |
| Amortization of net loss                    | 854             | 355      | 32                 | 142       | 202             | 89      | 1,088         | 586      |
| Amortization of prior service (credit)/cost | —               | —        | (1,001 )           | (1,001 )  | (3 )            | 8       | (1,004 )      | (993 )   |
| Loss on settlement                          | 1,473           | 730      | —                  | —         | —               | 1       | 1,473         | 731      |
| Net periodic benefit cost/(credit)          | \$1,924         | \$188    | \$ (666 )          | \$ (500 ) | \$2,223         | \$2,274 | \$3,481       | \$1,962  |

## 9. Share-Based Payment Plans

## Share-Based Compensation Expense

The table below presents non-cash compensation expense related to our equity awards, which is recorded within SG&A expense in the condensed consolidated statements of operations, during the identified periods:

|                                  | For the three months ended |                    | For the nine months ended |                    |
|----------------------------------|----------------------------|--------------------|---------------------------|--------------------|
|                                  | September 30, 2017         | September 30, 2016 | September 30, 2017        | September 30, 2016 |
| Stock options                    | \$1,575                    | \$ 1,621           | \$5,055                   | \$ 5,547           |
| Restricted securities            | 3,522                      | 3,136              | 10,051                    | 7,732              |
| Share-based compensation expense | \$5,097                    | \$ 4,757           | \$15,106                  | \$ 13,279          |

## Share-Based Compensation Awards

We grant share-based compensation awards for which vesting is subject only to continued employment and the passage of time (options and restricted stock units ("RSUs" and each an "RSU")), as well as those for which vesting also depends on the attainment of certain performance criteria (performance-based options and performance-based restricted stock units ("PRSUs" and each a "PRSU")).

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We granted the following options under the Sensata Technologies Holding N.V. 2010 Equity Incentive Plan (the "2010 Equity Plan") during the nine months ended September 30, 2017:

| Options Granted to               | Number of Options Granted (in thousands) | Weighted- Average Grant Date Fair Value | Vesting Period               |
|----------------------------------|--|---|------------------------------|
| Various executives and employees | 387                                      | \$14.50                                 | 25% per year over four years |

We granted the following RSUs and PRSUs under the 2010 Equity Plan during the nine months ended September 30, 2017:

| Awards Granted to                | Type of Award       | Number of Units Granted (in thousands) | Percentage of PRSUs Awarded That May Vest | Weighted- Average Grant Date Fair Value |
|----------------------------------|---------------------|--|---|---|
| Various executives and employees | RSU <sup>(1)</sup>  | 147                                    | N/A                                       | \$43.67                                 |
| Directors                        | RSU <sup>(1)</sup>  | 34                                     | N/A                                       | \$41.10                                 |
| Various executives and employees | PRSU <sup>(2)</sup> | 183                                    | 0.0% - 172.5%                             | \$43.67                                 |
| Various executives and employees | PRSU <sup>(2)</sup> | 53                                     | 0.0% - 200.0%                             | \$43.33                                 |

<sup>(1)</sup> RSUs granted during the nine months ended September 30, 2017 vest on various dates between June 2018 and July 2020.

PRSUs granted during the nine months ended September 30, 2017 vest on various dates between April and May

<sup>(2)</sup> 2020, with the amount ultimately vesting within the range shown in the table above, dependent on the extent to which certain performance criteria are met.

#### Option Exercises

During the nine months ended September 30, 2017, 266 stock options were exercised, all of which were settled with shares reissued from treasury.

#### 10. Commitments and Contingencies

##### Legal Proceedings and Claims

We are regularly involved in a number of claims and litigation matters in the ordinary course of business. Most of our litigation matters are third-party claims for property damage allegedly caused by our products but some involve allegations of personal injury or wrongful death. Although it is not feasible to predict the outcome of these matters, based upon our experience and current information known to us, we do not expect the outcome of these matters, either individually or in the aggregate, to have a material adverse effect on our result of operations, financial position, or cash flows.

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## 11. Fair Value Measures

Our assets and liabilities recorded at fair value have been categorized based upon a fair value hierarchy in accordance with FASB ASC 820, Fair Value Measurement.

## Measured on a Recurring Basis

The following table presents information about our assets and liabilities measured at fair value on a recurring basis as of September 30, 2017 and December 31, 2016, aggregated by the level in the fair value hierarchy within which those measurements fell:

|                                    | September 30, 2017   |  | December 31, 2016                                  |  |  |  |
|------------------------------------|--|--|--|--|--|--|
|                                    | Quoted<br>Prices<br>in Significant<br>Markets<br>for Identifiable<br>Assets<br>(Level 1) | Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Quoted<br>Prices<br>in Significant<br>Markets<br>for Identifiable<br>Assets<br>(Level 1) | Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| <b>Assets</b>                      |  |  |  |  |  |  |
| Foreign currency forward contracts | \$—  | \$ 8,869                                   | \$ —   | \$—  | \$ 32,757                                  | \$ —   |
| Commodity forward contracts        | —  | 4,847                                      | —  | —  | 2,639                                      | —  |
| <b>Total</b>                       | <b>\$—</b>   | <b>\$ 13,716</b>                           | <b>\$ —</b>  | <b>\$—</b>   | <b>\$ 35,396</b>                           | <b>\$ —</b>  |
| <b>Liabilities</b>                 |  |  |  |  |  |  |
| Foreign currency forward contracts | \$—  | \$ 31,911                                  | \$ —   | \$—  | \$ 27,201                                  | \$ —   |
| Commodity forward contracts        | —  | 1,666                                      | —  | —  | 3,790                                      | —  |
| <b>Total</b>                       | <b>\$—</b>   | <b>\$ 33,577</b>                           | <b>\$ —</b>  | <b>\$—</b>   | <b>\$ 30,991</b>                           | <b>\$ —</b>  |

## Measured on a Nonrecurring Basis

We evaluated our goodwill and other indefinite-lived intangible assets for impairment as of October 1, 2016 and determined that these assets were not impaired. As of September 30, 2017, no events or changes in circumstances occurred that would have triggered the need for an additional impairment review of goodwill or indefinite-lived intangible assets.

A long-lived asset, which includes Property, plant, and equipment ("PP&E"), is considered held for sale when it meets certain criteria described in FASB ASC 360, Property, Plant, and Equipment. A long-lived asset classified as held for sale is initially measured at the lower of its carrying amount or fair value less cost to sell, and a loss is recognized for any initial adjustment of the asset's carrying amount to its fair value less cost to sell in the period the held for sale criteria are met. In the period that a long-lived asset is considered held for sale it is presented within Prepaid expenses and other current assets on our balance sheet where it remains until it is either sold or no longer meets the held for sale criteria. For comparative purposes, the prior year carrying amount of a long-lived asset considered held for sale is presented within Other assets on our balance sheet.

In the first quarter of 2017, we determined that one of our facilities met the held for sale criteria and recorded it at its fair value less costs to sell of \$1.7 million (which approximated its net carrying value at that time). In the third quarter of 2017, we sold the asset for an immaterial gain.

The fair value of assets held for sale is considered to be a Level 3 fair value measurement and is determined based on the use of appraisals, input from market participants, our experience selling similar assets, internally developed cash flow models, or a combination thereof.

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## Financial Instruments Not Recorded at Fair Value

The following table presents the carrying values and fair values of financial instruments not recorded at fair value in the condensed consolidated balance sheets as of September 30, 2017 and December 31, 2016:

|                     | September 30, 2017            |              |         | December 31, 2016             |              |         |
|---------------------|-------------------------------|--------------|---------|-------------------------------|--------------|---------|
|                     | Carrying Value <sup>(1)</sup> | Fair Value   |         | Carrying Value <sup>(1)</sup> | Fair Value   |         |
|                     |                               | Level 1      | Level 2 |                               | Level 1      | Level 2 |
| <b>Liabilities</b>  |                               |              |         |                               |              |         |
| Term Loan           | \$927,794                     | \$-\$932,433 | \$      | -\$937,794                    | \$-\$942,483 | \$ —    |
| 4.875% Senior Notes | \$500,000                     | \$-\$525,000 | \$      | -\$500,000                    | \$-\$514,375 | \$ —    |
| 5.625% Senior Notes | \$400,000                     | \$-\$440,000 | \$      | -\$400,000                    | \$-\$417,752 | \$ —    |
| 5.0% Senior Notes   | \$700,000                     | \$-\$736,750 | \$      | -\$700,000                    | \$-\$686,000 | \$ —    |
| 6.25% Senior Notes  | \$750,000                     | \$-\$819,375 | \$      | -\$750,000                    | \$-\$786,098 | \$ —    |

(1) Carrying value excludes discounts and deferred financing costs.

The fair values of the Term Loan and senior notes are primarily determined using observable prices in markets where these instruments are generally not traded on a daily basis.

Cash and cash equivalents, accounts receivable, and accounts payable are carried at their cost, which approximates fair value, because of their short-term nature.

In March 2016, we acquired \$50.0 million of Series B Preferred Stock of Quanergy Systems, Inc., which we recognized as a cost method investment on our balance sheet. As of September 30, 2017, the fair value of this asset has not been estimated, as there are no indicators of impairment, and it is not practicable to estimate its fair value due to the restricted marketability of this investment.

## 12. Derivative Instruments and Hedging Activities

## Hedges of Foreign Currency Risk

We are exposed to fluctuations in various foreign currencies against our functional currency, the U.S. dollar. We use foreign currency forward agreements to manage this exposure. We currently have outstanding foreign currency forward contracts that qualify as cash flow hedges intended to offset the effect of exchange rate fluctuations on forecasted sales and certain manufacturing costs. We also have outstanding foreign currency forward contracts that are intended to preserve the economic value of foreign currency denominated monetary assets and liabilities; these instruments are not designated for hedge accounting treatment in accordance with FASB ASC 815, Derivatives and Hedging. Foreign currency forward contracts not designated as hedges are not speculative and are used to manage our exposure to foreign exchange movements.

For the three and nine months ended September 30, 2017 and 2016, the ineffective portion of the changes in the fair value of our foreign currency forward agreements that are designated as cash flow hedges was not material and no amounts were excluded from the assessment of effectiveness. As of September 30, 2017, we estimate that \$18.4 million of net losses will be reclassified from Accumulated other comprehensive loss to earnings during the twelve-month period ending September 30, 2018.

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As of September 30, 2017, we had the following outstanding foreign currency forward contracts:

| Notional<br>(in millions) | Effective Date(s)                               | Maturity Date(s)                              | Index  | Weighted-<br>Average<br>Strike Rate | Hedge<br>Designation |
|---------------------------|---|---|--|-------------------------------------|----------------------|
| 65.0 EUR                  | September 27, 2017                              | October 31, 2017                              | Euro to U.S. Dollar<br>Exchange Rate                         | 1.18 USD                            | Not<br>designated    |
| 461.6 EUR                 | Various from April<br>2015 to September<br>2017 | Various from October<br>2017 to December 2019 | Euro to U.S. Dollar<br>Exchange Rate                         | 1.14 USD                            | Designated           |
| 500.0 CNY                 | September 26, 2017                              | October 31, 2017                              | U.S. Dollar to<br>Chinese Renminbi<br>Exchange Rate          | 6.68 CNY                            | Not<br>designated    |
| 132.0 CNY                 | Various in February<br>2017                     | Various from October<br>to December 2017      | U.S. Dollar to<br>Chinese Renminbi<br>Exchange Rate          | 7.05 CNY                            | Designated           |
| 110.0 JPY                 | September 27, 2017                              | October 31, 2017                              | U.S. Dollar to<br>Japanese Yen<br>Exchange Rate              | 112.80 JPY                          | Not<br>designated    |
| 237.0 JPY                 | January 5, 2017                                 | Various from October<br>to December 2017      | U.S. Dollar to<br>Japanese Yen<br>Exchange Rate              | 113.71 JPY                          | Designated           |
| 45,258.3<br>KRW           | Various from April<br>2015 to September<br>2017 | Various from October<br>2017 to August 2019   | U.S. Dollar to<br>Korean Won<br>Exchange Rate                | 1,140.77 KRW                        | Designated           |
| 36.5 MYR                  | Various from April<br>2015 to November<br>2016  | Various from October<br>2017 to October 2018  | U.S. Dollar to<br>Malaysian Ringgit<br>Exchange Rate         | 4.19 MYR                            | Designated           |
| 182.0 MXN                 | September 27, 2017                              | October 31, 2017                              | U.S. Dollar to<br>Mexican Peso<br>Exchange Rate              | 18.24 MXN                           | Not<br>designated    |
| 2,166.8<br>MXN            | Various from April<br>2015 to September<br>2017 | Various from October<br>2017 to August 2019   | U.S. Dollar to<br>Mexican Peso<br>Exchange Rate              | 19.94 MXN                           | Designated           |
| 44.5 GBP                  | Various from April<br>2015 to September<br>2017 | Various from October<br>2017 to August 2019   | British Pound<br>Sterling to U.S.<br>Dollar Exchange<br>Rate | 1.33 USD                            | Designated           |

The notional amounts above represent the total quantities we have outstanding over the remaining contracted periods.

**Hedges of Commodity Risk**

Our objective in using commodity forward contracts is to offset a portion of our exposure to the potential change in prices associated with certain commodities used in the manufacturing of our products, including silver, gold, nickel, aluminum, copper, platinum, and palladium. The terms of these forward contracts fix the price at a future date for various notional amounts associated with these commodities. These instruments are not designated for hedge accounting treatment in accordance with FASB ASC 815. Commodity forward contracts not designated as hedges are not speculative and are used to manage our exposure to commodity price movements.

We had the following outstanding commodity forward contracts, none of which were designated as derivatives in qualifying hedging relationships, as of September 30, 2017:

| Commodity | Notional | Remaining Contracted Periods |
|-----------|----------|------------------------------|
|-----------|----------|------------------------------|

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|           |                    |                            | Weighted-Average<br>Strike Price Per Unit |
|-----------|--------------------|----------------------------|---|
| Silver    | 1,109,455 troy oz. | October 2017 - August 2019 | \$17.69                                   |
| Gold      | 12,150 troy oz.    | October 2017 - August 2019 | \$1,269.40                                |
| Nickel    | 287,659 pounds     | October 2017 - August 2019 | \$4.68                                    |
| Aluminum  | 5,554,370 pounds   | October 2017 - August 2019 | \$0.84                                    |
| Copper    | 7,394,018 pounds   | October 2017 - August 2019 | \$2.54                                    |
| Platinum  | 8,036 troy oz.     | October 2017 - August 2019 | \$996.80                                  |
| Palladium | 1,927 troy oz.     | October 2017 - August 2019 | \$759.11                                  |

The notional amounts above represent the total quantities we have outstanding over the remaining contracted periods.

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## Financial Instrument Presentation

The following table presents the fair values of our derivative financial instruments and their classification in the condensed consolidated balance sheets as of September 30, 2017 and December 31, 2016:

|   | Asset Derivatives                         |                    | Fair Value        |  | Liability Derivatives |                   | Fair Value |  |
|---|---|--------------------|-------------------|--|-----------------------|-------------------|------------|--|
|   | Balance Sheet Location                    | September 30, 2017 | December 31, 2016 | Balance Sheet Location                         | September 30, 2017    | December 31, 2016 |            |  |
| Derivatives designated as hedging instruments     |   |                    |                   |  |                       |                   |            |  |
| Foreign currency forward contracts                | Prepaid expenses and other current assets | \$6,909            | \$ 24,796         | Accrued expenses and other current liabilities | \$23,838              | \$ 20,990         |            |  |
| Foreign currency forward contracts                | Other assets                              | 1,956              | 5,693             | Other long-term liabilities                    | 7,327                 | 3,814             |            |  |
| Total   |   | \$8,865            | \$ 30,489         |  | \$31,165              | \$ 24,804         |            |  |
| Derivatives not designated as hedging instruments |   |                    |                   |  |                       |                   |            |  |
| Commodity forward contracts                       | Prepaid expenses and other current assets | \$4,173            | \$ 2,097          | Accrued expenses and other current liabilities | \$1,400               | \$ 2,764          |            |  |
| Commodity forward contracts                       | Other assets                              | 674                | 542               | Other long-term liabilities                    | 266                   | 1,026             |            |  |
| Foreign currency forward contracts                | Prepaid expenses and other current assets | 4                  | 2,268             | Accrued expenses and other current liabilities | 746                   | 2,397             |            |  |
| Total   |   | \$4,851            | \$ 4,907          |  | \$2,412               | \$ 6,187          |            |  |

These fair value measurements are all categorized within Level 2 of the fair value hierarchy.

The following tables present the effect of our derivative financial instruments on the condensed consolidated statements of operations for the three months ended September 30, 2017 and 2016:

| Derivatives designated as hedging instruments     | Amount of Deferred (Loss)/Gain Recognized in Other Comprehensive Loss |                    | Location of Net (Loss)/Gain Reclassified from Accumulated Other Comprehensive Loss into Net Income | Amount of Net (Loss)/Gain Reclassified from Accumulated Other Comprehensive Loss into Net Income |                    |
|---|---|--------------------|--|--|--------------------|
|   | September 30, 2017  | September 30, 2016 |  | September 30, 2017   | September 30, 2016 |
| Foreign currency forward contracts                | \$(16,688)  | \$(6,929)          | Net revenue  | \$(4,075)  | \$ 2,771           |
| Foreign currency forward contracts                | \$1,614   | \$(6,450)          | Cost of revenue  | \$(1,953)  | \$(4,834)          |
| Derivatives not designated as hedging instruments |   |                    |  |  |                    |
|   | Amount of Gain/(Loss) Recognized in Net Income                        |                    | Location of Gain/(Loss) Recognized in Net Income   |  |                    |
|   | September 30, 2017  | September 30, 2016 |  |  |                    |
| Commodity forward contracts                       | \$2,956   | \$ 1,318           | Other, net   |  |                    |

Foreign currency forward contracts \$(3,865) \$ (3,827 ) Other, net

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The following tables present the effect of our derivative financial instruments on the condensed consolidated statements of operations for the nine months ended September 30, 2017 and 2016:

| Derivatives designated as hedging instruments     | Amount of Deferred (Loss)/Gain Recognized in Other Comprehensive Loss |                    | Location of Net Gain/(Loss) Reclassified from Accumulated Other Comprehensive Loss into Net Income | Amount of Net Gain/(Loss) Reclassified from Accumulated Other Comprehensive Loss into Net Income |                    |
|---|---|--------------------|--|--|--------------------|
|   | September 30, 2017  | September 30, 2016 |  | September 2017   | September 30, 2016 |
| Foreign currency forward contracts                | \$ (56,479)   | \$ (12,810 )       | Net revenue  | \$3,678  | \$ 15,075          |
| Foreign currency forward contracts                | \$23,041  | \$ (20,319 )       | Cost of revenue  | \$(13,356)   | \$(14,857 )        |
| Derivatives not designated as hedging instruments | Amount of Gain/(Loss) Recognized in Net Income                        |                    | Location of Gain/(Loss) Recognized in Net Income   |  |                    |
|   | September 30, 2017  | September 30, 2016 |  |  |                    |
| Commodity forward contracts                       | \$6,439   | \$ 12,049          | Other, net   |  |                    |
| Foreign currency forward contracts                | \$(10,542)  | \$(7,912 )         | Other, net   |  |                    |

**Credit Risk Related Contingent Features**

We have agreements with certain of our derivative counterparties that contain a provision whereby if we default on our indebtedness, and where repayment of the indebtedness has been accelerated by the lender, then we could also be declared in default on our derivative obligations.

As of September 30, 2017, the termination value of outstanding derivatives in a liability position, excluding any adjustment for non-performance risk, was \$33.8 million. As of September 30, 2017, we have not posted any cash collateral related to these agreements. If we breach any of the default provisions on any of our indebtedness, as described above, we could be required to settle our obligations under the derivative agreements at their termination values.

**13. Other, Net**

Other, net consisted of the following gains/(losses) for the three and nine months ended September 30, 2017 and 2016:

|  | For the three months ended |                    | For the nine months ended |                    |
|--|----------------------------|--------------------|---------------------------|--------------------|
|  | September 30, 2017         | September 30, 2016 | September 30, 2017        | September 30, 2016 |
| Currency remeasurement gain on net monetary assets | \$ 3,989                   | \$ 1,707           | \$11,010                  | \$ 550             |
| Loss on foreign currency forward contracts         | (3,865 )                   | (3,827 )           | (10,542 )                 | (7,912 )           |
| Gain on commodity forward contracts                | 2,956                      | 1,318              | 6,439                     | 12,049             |
| Other  | 32                         | 76                 | 283                       | 205                |
| Other, net   | \$ 3,112                   | \$ (726 )          | \$7,190                   | \$ 4,892           |

**14. Segment Reporting**

We organize our business into two reportable segments, Performance Sensing and Sensing Solutions, each of which is also an operating segment. Our operating segments are businesses that we manage as components of an enterprise, for which separate financial information is evaluated regularly by our chief operating decision maker in deciding how to allocate resources and assess performance.

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An operating segment's performance is primarily evaluated based on Segment profit, which excludes amortization expense, restructuring and special charges, and certain corporate costs/credits not associated with the operations of the segment, including share-based compensation expense and a portion of depreciation expense associated with assets recorded in connection with acquisitions. In addition, an operating segment's performance excludes results from discontinued operations, if any. Corporate costs excluded from an operating segment's performance are separately stated below and also include costs that are related to functional areas, such as finance, information technology, legal, and human resources. We believe that Segment profit, as defined above, is an appropriate measure for evaluating the operating performance of our segments. However, this measure should be considered in addition to, and not as a substitute for, or superior to, profit from operations or other measures of financial performance prepared in accordance with U.S. GAAP. The accounting policies of each of our reporting segments are materially consistent with those in the summary of significant accounting policies as described in Note 2, "Significant Accounting Policies," included in our Annual Report on Form 10-K for the year ended December 31, 2016.

The following table presents Net revenue and Segment profit for the reported segments and other operating results not allocated to the reported segments for the three and nine months ended September 30, 2017 and 2016:

|                                    | For the three months ended |                    | For the nine months ended |                    |
|------------------------------------|----------------------------|--------------------|---------------------------|--------------------|
|                                    | September 30, 2017         | September 30, 2016 | September 30, 2017        | September 30, 2016 |
| Net revenue:                       |                            |                    |                           |                    |
| Performance Sensing                | \$ 603,932                 | \$ 584,650         | \$ 1,825,904              | \$ 1,797,395       |
| Sensing Solutions                  | 215,122                    | 205,148            | 640,295                   | 616,497            |
| Total net revenue                  | \$ 819,054                 | \$ 789,798         | \$ 2,466,199              | \$ 2,413,892       |
| Segment profit (as defined above): |                            |                    |                           |                    |
| Performance Sensing                | \$ 162,655                 | \$ 155,228         | \$ 483,491                | \$ 453,540         |
| Sensing Solutions                  | 72,372                     | 67,314             | 209,911                   | 198,737            |
| Total segment profit               | 235,027                    | 222,542            | 693,402                   | 652,277            |
| Corporate and other                | (53,379 )                  | (48,335 )          | (152,681 )                | (133,025 )         |
| Amortization of intangible assets  | (40,317 )                  | (50,562 )          | (121,578 )                | (151,572 )         |
| Restructuring and special charges  | (1,329 )                   | (837 )             | (18,768 )                 | (3,167 )           |
| Profit from operations             | 140,002                    | 122,808            | 400,375                   | 364,513            |
| Interest expense, net              | (40,263 )                  | (41,176 )          | (120,578 )                | (125,201 )         |
| Other, net                         | 3,112                      | (726 )             | 7,190                     | 4,892              |
| Income before taxes                | \$ 102,851                 | \$ 80,906          | \$ 286,987                | \$ 244,204         |

## 15. Net Income per Share

Basic and diluted net income per share are calculated by dividing Net income by the number of basic and diluted weighted-average ordinary shares outstanding during the period. For the three and nine months ended September 30, 2017 and 2016, the weighted-average ordinary shares outstanding for basic and diluted net income per share were as follows:

|  | For the three months ended |                    | For the nine months ended |                    |
|--|----------------------------|--------------------|---------------------------|--------------------|
|  | September 30, 2017         | September 30, 2016 | September 30, 2017        | September 30, 2016 |
| Basic weighted-average ordinary shares outstanding   | 171,269                    | 170,840            | 171,116                   | 170,656            |
| Dilutive effect of stock options                     | 618                        | 431                | 567                       | 504                |
| Dilutive effect of unvested restricted securities    | 358                        | 207                | 340                       | 199                |
| Diluted weighted-average ordinary shares outstanding | 172,245                    | 171,478            | 172,023                   | 171,359            |

Net income and net income per share are presented in the condensed consolidated statements of operations.



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Certain potential ordinary shares were excluded from our calculation of diluted weighted-average ordinary shares outstanding because they would have had an anti-dilutive effect on net income per share or because they related to share-based awards that were contingently issuable, for which the contingency had not been satisfied. These potential ordinary shares are as follows:

|                                       | For the three months ended |                    | For the nine months ended |                    |
|---------------------------------------|----------------------------|--------------------|---------------------------|--------------------|
|                                       | September 30, 2017         | September 30, 2016 | September 30, 2017        | September 30, 2016 |
| Anti-dilutive shares excluded         | 1,584                      | 1,355              | 1,635                     | 1,418              |
| Contingently issuable shares excluded | 884                        | 735                | 783                       | 632                |

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**CAUTIONARY STATEMENT FOR PURPOSES OF THE SAFE HARBOR PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995**

This report contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (Exchange Act). All statements, other than statements of historical facts included in this report, are forward-looking statements, including information concerning our possible or assumed future results or operations, business strategies, financing plans, competitive position, potential growth opportunities, potential operation performance, improvements, acquisitions, divestitures, the effects of competition, and the effects of future legislation or regulations. Forward-looking statements are typically identified by use of terms such as "may," "believe," "expect," "anticipate," "intend," "estimate," "project," "target," "goal," "plan," "should," "will," "predict," "guidance," "potential," "forecast," "outlook," "could," "budget," "objectives," "strategy" and similar expressions that convey the uncertainty of future events or outcomes. Forward-looking statements involve risks, uncertainties, and assumptions. Actual results may differ materially from those expressed in these forward-looking statements. Investors should not place undue reliance on any forward-looking statements. We do not have any intention or obligation to update forward-looking statements after we file this report except as required by law.

Although we believe that the expectations reflected in such forward-looking statements are reasonable, this information is based upon assumptions and anticipated results that are subject to numerous uncertainties and risks. The following and other risks described in greater detail in "Part 1. Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016, could cause our results to differ materially from those expressed in forward-looking statements:

- conditions affecting demand for our products in the industries we serve, particularly the automotive industry;
- competition and pricing pressure;
- raw material availability, quality, and cost;
- financial condition of, and relationships with, customers and vendors;
- reliance on third-party suppliers;
- changes to current policies by the U.S. government;
- changes in tax rates;
- conditions in the global markets we operate in and serve, including the impact of the anticipated exit of the United Kingdom from the European Union;
- risks associated with current and future acquisitions and divestitures;
- labor disputes or increased labor costs;
- 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 laws and regulations;
- our ability to protect our intellectual property rights;
- risks of litigation;
- our level of indebtedness and ability to operate within the limitations imposed by our debt instruments; and
- various risks associated with being a Dutch corporation.

There may be other risks and uncertainties that we are unable to predict at this time or that we currently do not expect that may cause actual results to differ materially from those contained in any forward-looking statements we may make and that may affect our operating and financial performance.

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## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion of our financial condition and results of operations should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2016, filed with the U.S. Securities and Exchange Commission on February 2, 2017, and the unaudited condensed consolidated financial statements and the notes thereto included elsewhere in this Quarterly Report on Form 10-Q.

## Results of Operations

The tables below present our results of operations, in millions of dollars and as a percentage of net revenue, for the three and nine months ended September 30, 2017 compared to the three and nine months ended September 30, 2016. We have derived the results of operations from the condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q. Amounts and percentages have been calculated based on unrounded numbers. Accordingly, certain amounts may not add due to the effect of rounding.

## Three Months Ended September 30, 2017 Compared to the Three Months Ended September 30, 2016

| (\$ in millions)                    | For the three months ended |                       |                                     |                                     |
|-------------------------------------|----------------------------|-----------------------|-------------------------------------|-------------------------------------|
|                                     | September 30,<br>2017      | September 30,<br>2016 | Percent of<br>Amount Net<br>Revenue | Percent of<br>Amount Net<br>Revenue |
| Net revenue:                        |                            |                       |                                     |                                     |
| Performance Sensing                 | \$603.9                    | \$584.7               | 73.7 %                              | 74.0 %                              |
| Sensing Solutions                   | 215.1                      | 205.1                 | 26.3                                | 26.0                                |
| Net revenue                         | 819.1                      | 789.8                 | 100.0                               | 100.0                               |
| Operating costs and expenses:       |                            |                       |                                     |                                     |
| Cost of revenue                     | 527.4                      | 508.9                 | 64.4                                | 64.4                                |
| Research and development            | 34.0                       | 31.6                  | 4.2                                 | 4.0                                 |
| Selling, general and administrative | 76.0                       | 75.0                  | 9.3                                 | 9.5                                 |
| Amortization of intangible assets   | 40.3                       | 50.6                  | 4.9                                 | 6.4                                 |
| Restructuring and special charges   | 1.3                        | 0.8                   | 0.2                                 | 0.1                                 |
| Total operating costs and expenses  | 679.1                      | 667.0                 | 82.9                                | 84.5                                |
| Profit from operations              | 140.0                      | 122.8                 | 17.1                                | 15.5                                |
| Interest expense, net               | (40.3 )                    | (41.2 )               | (4.9 )                              | (5.2 )                              |
| Other, net                          | 3.1                        | (0.7 )                | 0.4                                 | (0.1 )                              |
| Income before taxes                 | 102.9                      | 80.9                  | 12.6                                | 10.2                                |
| Provision for income taxes          | 14.8                       | 11.1                  | 1.8                                 | 1.4                                 |
| Net income                          | \$88.0                     | \$69.8                | 10.7 %                              | 8.8 %                               |

## Net revenue

Net revenue for the three months ended September 30, 2017 increased \$29.3 million, or 3.7%, to \$819.1 million from \$789.8 million for the three months ended September 30, 2016. This increase in net revenue was composed of a 3.3% increase in Performance Sensing and a 4.9% increase in Sensing Solutions. Excluding a 0.1% increase due to changes in foreign currency exchange rates, organic revenue growth was 3.6% when compared to the three months ended September 30, 2016. Organic revenue growth is a non-GAAP financial measure. Refer to the section entitled Non-GAAP Financial Measures for further information on our use of this measure.

Performance Sensing net revenue for the three months ended September 30, 2017 increased \$19.3 million, or 3.3%, to \$603.9 million from \$584.7 million for the three months ended September 30, 2016. Excluding a 0.2% increase due to changes in foreign currency exchange rates, organic revenue growth was 3.1% when compared to the three months ended September 30, 2016. This organic revenue growth was primarily driven by our heavy vehicle off road ("HVOR") business, including content growth, most notably in the construction and agriculture markets, as well as market growth, principally in the on-road truck markets in North America and China. In general, regulatory

requirements for safer vehicles, higher fuel efficiency, and lower emissions, such as the Corporate Average Fuel Economy ("CAFE") requirements in the U.S., "Euro 6d" requirements in Europe, and "China National 6" requirements in Asia, as well as consumer demand for operator productivity and convenience,

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drive the need for advancements in engine management, safety features, efficiency, and operator controls that in turn can lead to a growing demand for our sensors.

Sensing Solutions net revenue for the three months ended September 30, 2017 increased \$10.0 million, or 4.9%, to \$215.1 million from \$205.1 million for the three months ended September 30, 2016. Excluding a 0.3% decline due to changes in foreign currency exchange rates, organic revenue growth was 5.2% when compared to the three months ended September 30, 2016. The organic revenue growth was primarily due to market strength across all of our key end-markets, particularly in China, as well as content growth, primarily in the heating, ventilation and air-conditioning ("HVAC") and industrial markets.

Cost of revenue

Cost of revenue for the three months ended September 30, 2017 and 2016 was \$527.4 million (64.4% of net revenue) and \$508.9 million (64.4% of net revenue), respectively.

Research and development expense

Research and development ("R&D") expense for the three months ended September 30, 2017 and 2016 was \$34.0 million and \$31.6 million, respectively. We invest in R&D to support new platform and technology developments, both in our recently acquired and existing businesses, in order to drive future revenue growth. The level of R&D expense is related to the number of products in development, the stage of such products in the development process, the complexity of the underlying technology, the potential scale of the product upon successful commercialization, and the level of our exploratory research.

Selling, general and administrative expense

Selling, general and administrative ("SG&A") expense for the three months ended September 30, 2017 and 2016 was \$76.0 million and \$75.0 million, respectively. SG&A expense consists of all expenditures incurred in connection with the sales and marketing of our products, as well as administrative overhead costs. These costs are fixed or variable in nature, and we may at times experience increased or decreased variable costs for reasons other than increased or decreased net revenue. As a result, SG&A expense will not necessarily remain consistent as a percentage of revenue.

Amortization of intangible assets

Amortization expense associated with definite-lived intangible assets for the three months ended September 30, 2017 and 2016 was \$40.3 million and \$50.6 million, respectively. Definite-lived intangible assets are amortized on an economic benefit basis according to the useful lives of the assets, or on a straight-line basis if a pattern of economic benefits cannot be reliably determined. In general, the economic benefit of an intangible asset is concentrated towards the beginning of that intangible asset's useful life. Amortization expense decreased as certain intangible assets, primarily related to the Sensors & Controls and High Temperature Sensing acquisitions in 2006 and 2011, respectively, are at, or are nearing, the end of their useful lives.

Restructuring and special charges

Restructuring and special charges for the three months ended September 30, 2017 and 2016 were \$1.3 million and \$0.8 million, respectively. The restructuring and special charges for the three months ended September 30, 2017 consisted primarily of facility exit costs of \$1.3 million related to the closing of our facility in Minden, Germany that was part of the acquisition of certain subsidiaries of Custom Sensors & Technologies Ltd. ("CST"). The restructuring and special charges for the three months ended September 30, 2016 consisted primarily of facility exit costs related to the relocation of manufacturing lines from our facility in the Dominican Republic to a manufacturing facility in Mexico, and severance charges recorded in connection with acquired businesses and the termination of a limited number of employees. We completed the cessation of manufacturing in our Dominican Republic facility in the third quarter of 2016.

Interest expense, net

Interest expense, net for the three months ended September 30, 2017 and 2016 was \$40.3 million and \$41.2 million, respectively.

Other, net

Other, net for the three months ended September 30, 2017 and 2016 represented a net gain of \$3.1 million and a net loss of \$0.7 million, respectively. The change in Other, net relates to fluctuations in foreign currency exchange rates, net of any offsetting hedge gain or loss and fluctuations in commodity prices relative to the strike prices on



outstanding forward contracts. Refer to Note 13, "Other, Net," of our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for a detail of the components of Other, net.

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## Provision for income taxes

Provision for income taxes for the three months ended September 30, 2017 and 2016 was \$14.8 million and \$11.1 million, respectively. The provision for income taxes consists of current tax expense, which relates primarily to our profitable operations in non-U.S. tax jurisdictions and withholding taxes on interest and royalty income, and deferred tax expense, which relates to adjustments in book-to-tax basis differences primarily related to the step-up in fair value of fixed and intangible assets, including goodwill, acquired in connection with business combination transactions, and the utilization of net operating losses.

The change in the provision for income taxes was primarily due to a change in the amount and distribution of income recorded in various jurisdictions, the impact of changes in foreign currency exchange rates, and a change in our U.S. valuation allowance associated with the acquisition of CST, for which deferred tax liabilities were established related primarily to the step-up of tangible assets for book purposes, for which we recorded a benefit from income taxes of \$5.1 million during the three months ended September 30, 2016.

## Nine Months Ended September 30, 2017 Compared to the Nine Months Ended September 30, 2016

| (\$ in millions)                    | For the nine months ended |                              |                    |                              |  |  |
|-------------------------------------|---------------------------|------------------------------|--------------------|------------------------------|--|--|
|                                     | September 30, 2017        |                              | September 30, 2016 |                              |  |  |
|                                     | Amount                    | Percent of<br>Net<br>Revenue | Amount             | Percent of<br>Net<br>Revenue |  |  |
| Net revenue:                        |                           |                              |                    |                              |  |  |
| Performance Sensing                 | \$1,825.9                 | 74.0 %                       | \$1,797.4          | 74.5 %                       |  |  |
| Sensing Solutions                   | 640.3                     | 26.0                         | 616.5              | 25.5                         |  |  |
| Net revenue                         | 2,466.2                   | 100.0                        | 2,413.9            | 100.0                        |  |  |
| Operating costs and expenses:       |                           |                              |                    |                              |  |  |
| Cost of revenue                     | 1,601.2                   | 64.9                         | 1,574.8            | 65.2                         |  |  |
| Research and development            | 97.0                      | 3.9                          | 95.2               | 3.9                          |  |  |
| Selling, general and administrative | 227.3                     | 9.2                          | 224.6              | 9.3                          |  |  |
| Amortization of intangible assets   | 121.6                     | 4.9                          | 151.6              | 6.3                          |  |  |
| Restructuring and special charges   | 18.8                      | 0.8                          | 3.2                | 0.1                          |  |  |
| Total operating costs and expenses  | 2,065.8                   | 83.8                         | 2,049.4            | 84.9                         |  |  |
| Profit from operations              | 400.4                     | 16.2                         | 364.5              | 15.1                         |  |  |
| Interest expense, net               | (120.6)                   | (4.9)                        | (125.2)            | (5.2)                        |  |  |
| Other, net                          | 7.2                       | 0.3                          | 4.9                | 0.2                          |  |  |
| Income before taxes                 | 287.0                     | 11.6                         | 244.2              | 10.1                         |  |  |
| Provision for income taxes          | 47.8                      | 1.9                          | 48.3               | 2.0                          |  |  |
| Net income                          | \$239.2                   | 9.7 %                        | \$195.9            | 8.1 %                        |  |  |

## Net revenue

Net revenue for the nine months ended September 30, 2017 increased \$52.3 million, or 2.2%, to \$2,466.2 million from \$2,413.9 million for the nine months ended September 30, 2016. This increase in net revenue was composed of a 1.6% increase in Performance Sensing and 3.9% increase in Sensing Solutions. Excluding a 1.4% decline due to changes in foreign currency exchange rates, particularly related to the Euro and Chinese Renminbi, organic revenue growth was 3.6% when compared to the nine months ended September 30, 2016. Organic revenue growth is a non-GAAP financial measure. Refer to the section entitled Non-GAAP Financial Measures for further information on our use of this measure.

Performance Sensing net revenue for the nine months ended September 30, 2017 increased \$28.5 million, or 1.6%, to \$1,825.9 million from \$1,797.4 million for the nine months ended September 30, 2016. Excluding a 1.6% decline due to changes in foreign currency exchange rates, particularly related to the Euro and Chinese Renminbi, organic revenue growth was 3.2% when compared to the nine months ended September 30, 2016. This organic revenue growth was primarily driven by our HVOR business, primarily as a result of content growth in the construction and agriculture markets, as well as the on-road truck markets in North America and China. In addition, we believe that the major

end-markets within HVOR have been recovering, including the North American Class 8 truck market, which has been particularly weak in prior quarters and

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represents a significant part of our HVOR business. Our automotive end-markets in Asia, primarily in China, experienced growth from both content and an expanding market.

Sensing Solutions net revenue for the nine months ended September 30, 2017 increased \$23.8 million, or 3.9%, to \$640.3 million from \$616.5 million for the nine months ended September 30, 2016. Excluding a 0.7% decline due to changes in foreign currency exchange rates, particularly related to the Chinese Renminbi, organic revenue growth was 4.6% when compared to the nine months ended September 30, 2016. The organic revenue growth was primarily due to market strength across all of our key end-markets, particularly in China, as well as content growth in our HVAC and industrial markets.

### Cost of revenue

Cost of revenue for the nine months ended September 30, 2017 and 2016 was \$1,601.2 million (64.9% of net revenue) and \$1,574.8 million (65.2% of net revenue), respectively.

### Research and development expense

R&D expense for the nine months ended September 30, 2017 and 2016 was \$97.0 million and \$95.2 million, respectively. We invest in R&D to support new platform and technology developments, both in our recently acquired and existing businesses, in order to drive future revenue growth. The level of R&D expense is related to the number of products in development, the stage of such products in the development process, the complexity of the underlying technology, the potential scale of the product upon successful commercialization, and the level of our exploratory research.

### Selling, general and administrative expense

SG&A expense for the nine months ended September 30, 2017 and 2016 was \$227.3 million and \$224.6 million, respectively. SG&A expense consists of all expenditures incurred in connection with the sales and marketing of our products, as well as administrative overhead costs. These costs are fixed or variable in nature, and we may at times experience increased or decreased variable costs for reasons other than increased or decreased net revenue. As a result, SG&A expense will not necessarily remain consistent as a percentage of revenue.

### Amortization of intangible assets

Amortization expense associated with definite-lived intangible assets for the nine months ended September 30, 2017 and 2016 was \$121.6 million and \$151.6 million, respectively. Definite-lived intangible assets are amortized on an economic benefit basis according to the useful lives of the assets, or on a straight-line basis if a pattern of economic benefits cannot be reliably determined. In general, the economic benefit of an intangible asset is concentrated towards the beginning of that intangible asset's useful life. Amortization expense decreased as certain intangible assets, primarily related to the Sensors & Controls and High Temperature Sensing acquisitions in 2006 and 2011, respectively, are at, or are nearing, the end of their useful lives.

### Restructuring and special charges

Restructuring and special charges for the nine months ended September 30, 2017 and 2016 were \$18.8 million and \$3.2 million, respectively. The restructuring and special charges for the nine months ended September 30, 2017 consisted primarily of severance charges of \$8.4 million and facility exit costs of \$2.4 million recorded in connection with the closing of our facility in Minden, Germany that was part of the acquisition of CST, facility exit costs related to a limited number of other line moves and exit activities, and severance costs related to the termination of a limited number of employees. The restructuring and special charges for the nine months ended September 30, 2016 consisted primarily of facility exit costs related to the relocation of manufacturing lines from our facility in the Dominican Republic to a manufacturing facility in Mexico, and severance charges recorded in connection with acquired businesses and the termination of a limited number of employees. We completed the cessation of manufacturing in our Dominican Republic facility in the third quarter of 2016.

### Interest expense, net

Interest expense, net for the nine months ended September 30, 2017 and 2016 was \$120.6 million and \$125.2 million, respectively.

### Other, net

Other, net for the nine months ended September 30, 2017 and 2016 represented net gains of \$7.2 million and \$4.9 million, respectively. The change in Other, net relates to fluctuations in foreign currency exchange rates net of any

offsetting hedge gain or loss and fluctuations in commodity prices relative to the strike prices on outstanding forward contracts. Refer to Note 13,

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"Other, Net," of our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for a detail of the components of Other, net.

Provision for income taxes

Provision for income taxes for the nine months ended September 30, 2017 and 2016 was \$47.8 million and \$48.3 million, respectively. The provision for income taxes consists of current tax expense, which relates primarily to our profitable operations in non-U.S. tax jurisdictions and withholding taxes on interest and royalty income, and deferred tax expense, which relates to adjustments in book-to-tax basis differences primarily related to the step-up in fair value of fixed and intangible assets, including goodwill, acquired in connection with business combination transactions, and the utilization of net operating losses.

The change in the provision for income taxes was primarily due to a change in the amount and distribution of income recorded in various jurisdictions, the impact of changes in foreign currency exchange rates, and a change in our U.S. valuation allowance associated with the acquisition of certain subsidiaries of CST, for which deferred tax liabilities were established related primarily to the step-up of tangible assets for book purposes, for which we recorded a benefit from income taxes of \$3.7 million during the nine months ended September 30, 2016.

Non-GAAP Financial Measures

This Quarterly Report on Form 10-Q includes references to organic revenue growth, which is a non-GAAP financial measure. Organic revenue growth is defined as the reported percentage change in net revenue calculated in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"), excluding the impact of acquisitions, net of exited businesses that occurred within the previous 12 months and the effect of differences in foreign currency exchange rates between the current and prior period.

We believe that organic revenue growth provides investors with helpful information with respect to our operating performance, and we use organic revenue growth to evaluate our ongoing operations and for internal planning and forecasting purposes. We believe organic revenue growth provides useful information in evaluating the results of our business because it excludes items that we believe are not indicative of ongoing performance or that we believe impact comparability with the prior year period.

However, organic revenue growth should be considered as supplemental in nature and is not intended to be considered in isolation or as a substitute for net revenue growth prepared in accordance with U.S. GAAP. In addition, our measure of organic revenue growth may not be the same as, or comparable to, similar non-GAAP financial measures presented by other companies.

Liquidity and Capital Resources

We held cash and cash equivalents of \$613.0 million and \$351.4 million at September 30, 2017 and December 31, 2016, respectively, of which \$174.0 million and \$37.8 million, respectively, was held in the Netherlands, \$7.0 million and \$5.7 million, respectively, was held by U.S. subsidiaries, and \$432.0 million and \$307.9 million, respectively, was held by other foreign subsidiaries. The amount of cash and cash equivalents held in the Netherlands and in our U.S. and other foreign subsidiaries fluctuates throughout the year due to a variety of factors, including timing of cash receipts and disbursements in the normal course of business.

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## Cash Flows:

The table below summarizes our primary sources and uses of cash for the nine months ended September 30, 2017 and 2016. We have derived the summarized statements of cash flows from the condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q. Amounts in the table below have been calculated based on unrounded numbers. Accordingly, certain amounts may not add due to the effect of rounding.

| (in millions)   | For the nine months<br>ended |                       |
|---|------------------------------|-----------------------|
|   | September 30,<br>2017        | September 30,<br>2016 |
| Net cash provided by/(used in):   |                              |                       |
| Operating activities:   |                              |                       |
| Net income adjusted for non-cash items                                      | \$480.0                      | \$ 462.6              |
| Changes in operating assets and liabilities, net of effects of acquisitions | (107.7 )                     | (66.2 )               |
| Operating activities  | 372.3                        | 396.4                 |
| Investing activities  | (97.7 )                      | (139.1 )              |
| Financing activities  | (13.1 )                      | (299.6 )              |
| Net change  | \$261.5                      | \$ (42.4 )            |

Operating activities. Net cash provided by operating activities for the nine months ended September 30, 2017 and 2016 was \$372.3 million and \$396.4 million, respectively. The decrease in cash provided by operating activities relates primarily to a build up of inventory to support anticipated line moves, higher cash paid for interest, and higher cash paid related to severance obligations, partially offset by improved operating profitability. The higher cash paid for interest relates to the 6.25% Senior Notes, for which interest payments are due semi-annually on February 15 and August 15 of each year. The payment made on February 15, 2016 did not represent payment for a full six-month period, as the 6.25% Senior Notes were issued on November 27, 2015.

Investing activities. Net cash used in investing activities for the nine months ended September 30, 2017 and 2016 was \$97.7 million and \$139.1 million, respectively, which included \$103.5 million and \$94.6 million, respectively, in capital expenditures. In 2017, we anticipate capital expenditures of approximately \$130 million to \$150 million, which we expect to be funded with net cash provided by operating activities. Net cash used in investing activities for the nine months ended September 30, 2016 also included an investment of \$50.0 million in preferred stock of Quanergy Systems, Inc.

Financing activities. Net cash used in financing activities for the nine months ended September 30, 2017 and 2016 was \$13.1 million and \$299.6 million, respectively, which consisted primarily of \$14.5 million and \$297.7 million, respectively, in payments on debt.

## Indebtedness and Liquidity:

Our liquidity requirements are significant due to our highly leveraged nature. As of September 30, 2017, we had \$3,313.6 million in gross indebtedness, which includes capital lease and other financing obligations and excludes debt discounts and deferred financing costs.

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A summary of our indebtedness as of September 30, 2017 is as follows:

| (in thousands)                 | Maturity Date     | September 30,<br>2017 |
|--------------------------------|-------------------|-----------------------|
| Term Loan                      | October 14, 2021  | \$ 927,794            |
| 4.875% Senior Notes            | October 15, 2023  | 500,000               |
| 5.625% Senior Notes            | November 1, 2024  | 400,000               |
| 5.0% Senior Notes              | October 1, 2025   | 700,000               |
| 6.25% Senior Notes             | February 15, 2026 | 750,000               |
| Less: discount                 |                   | (15,812 )             |
| Less: deferred financing costs |                   | (29,971 )             |
| Less: current portion          |                   | (7,327 )              |
| Long-term debt, net            |                   | \$ 3,224,684          |

|   |           |
|---|-----------|
| Capital lease and other financing obligations                       | \$ 35,839 |
| Less: current portion   | (5,849 )  |
| Capital lease and other financing obligations, less current portion | \$ 29,990 |

As of September 30, 2017, there was \$415.3 million of availability under the Revolving Credit Facility, net of \$4.7 million in letters of credit. Outstanding letters of credit are issued primarily for the benefit of certain operating activities. As of September 30, 2017, no amounts had been drawn against these outstanding letters of credit, which are scheduled to expire on various dates in 2017 and 2018.

#### Capital Resources

Our sources of liquidity include cash on hand, cash flows from operations, and available capacity under the Revolving Credit Facility. In addition, our senior secured credit facilities provide for incremental facilities (the "Accordion"), under which additional term loans may be issued or the capacity of the Revolving Credit Facility may be increased. As of September 30, 2017, \$230.0 million remained available for issuance under the Accordion.

We believe, based on our current level of operations as reflected in our results of operations for the three and nine months ended September 30, 2017, and taking into consideration the restrictions and covenants discussed below, that these sources of liquidity will be sufficient to fund our operations, capital expenditures, ordinary share repurchases, and debt service for at least the next twelve months. However, we cannot make assurances that our business will generate sufficient cash flows from operations or that future borrowings will be available to us in an amount sufficient to enable us to pay our indebtedness or to fund our other liquidity needs. Further, our highly leveraged nature may limit our ability to procure additional financing in the future.

Our ability to raise additional financing, and our borrowing costs, may be impacted by short- and long-term debt ratings assigned by independent rating agencies, which are based, in significant part, on our performance as measured by certain credit metrics such as interest coverage and leverage ratios. As of October 23, 2017, Moody's Investors Service's corporate credit rating for Sensata Technologies B.V. ("STBV") was Ba2 with a stable outlook and Standard & Poor's corporate credit rating for STBV was BB+ with a stable outlook. The Standard & Poor's corporate credit rating represents an upgrade, effective on October 23, 2017, from the previous rating of BB with a positive outlook. Any future downgrades to STBV's credit ratings may increase our borrowing costs, but will not reduce availability under our credit agreement dated as of May 12, 2011 (as amended, the "Credit Agreement").

The Credit Agreement and the indentures under which our senior notes were issued contain restrictions and covenants that limit the ability of STBV and certain of its subsidiaries to, among other things, incur subsequent indebtedness, sell assets, make capital expenditures, pay dividends, and make other restricted payments. For a full discussion of these restrictions and covenants, refer to Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations—Capital Resources," included in our Annual Report on Form 10-K for the year ended December 31, 2016.

As of September 30, 2017, we were in compliance with all covenants and default provisions under our credit arrangements.

#### Recently Issued Accounting Pronouncements



In May 2014, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606), which creates one Accounting Standards Codification ("ASC")

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Topic (FASB ASC 606, Revenue from Contracts with Customers) that replaces the current guidance found in FASB ASC 605, Revenue Recognition, and various other revenue accounting standards for specialized transactions and industries. FASB ASU No. 2014-09 outlines a comprehensive five-step revenue recognition model based on the principle that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. FASB ASU No. 2014-09 may be applied using either a full retrospective approach, under which all years included in the financial statements will be presented under the revised guidance, or a modified retrospective approach, under which financial statements will be prepared under the revised guidance for the year of adoption, but not for prior years. Under the latter method, entities will recognize a cumulative catch-up adjustment to the opening balance of retained earnings at the effective date for contracts that still require performance by the entity.

In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of Effective Date, which defers the effective date of FASB ASU No. 2014-09 by one year. FASB ASU No. 2014-09 is now effective for annual reporting periods beginning after December 15, 2017, including interim periods within those annual reporting periods. We have developed an implementation plan to adopt this new guidance. As part of this plan, we are currently assessing the impact of the new guidance on our financial position and results of operations. Based on our procedures performed to date, nothing has come to our attention that would indicate that the adoption of FASB ASU No. 2014-09 will have a material impact on our financial position or results of operations. However, we will continue to evaluate this assessment through the remainder of 2017. In addition, the adoption of FASB ASU No. 2014-09 requires new disclosures related to revenue recognition, which we are continuing to evaluate. We intend to adopt FASB ASU No. 2014-09 on January 1, 2018 using the modified retrospective transition method.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which establishes new accounting and disclosure requirements for leases. FASB ASU No. 2016-02 requires lessees to classify most leases as either finance or operating leases and to initially recognize a lease liability and right-of-use asset. Entities may elect to account for certain short-term leases (with a term of 12 months or less) using a method similar to the current operating lease model. The statements of operations will include, for finance leases, separate recognition of interest on the lease liability and amortization of the right-of-use asset and for operating leases, a single lease cost, calculated so that the cost of the lease is allocated over the lease term on a straight-line basis. At December 31, 2016, we were contractually obligated to make future payments of \$69.8 million under our operating lease obligations in existence as of that date, primarily related to long-term facility leases. While we are in the early stages of our implementation process for FASB ASU No. 2016-02, and have not yet determined its impact on our consolidated financial statements, these leases would potentially be required to be presented on the balance sheet in accordance with the requirements of FASB ASU No. 2016-02. FASB ASU No. 2016-02 is effective for annual reporting periods beginning after December 15, 2018, including interim periods within those annual reporting periods, with early adoption permitted. FASB ASU No. 2016-02 must be applied using a modified retrospective approach, which requires recognition and measurement of leases at the beginning of the earliest period presented, with certain practical expedients available.

In August 2017, the FASB issued ASU No. 2017-12, Derivatives and Hedging (Topic 815), which changes both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results, in order to better align an entity's risk management activities and financial reporting for hedging relationships. The amendments expand and refine hedge accounting for both nonfinancial and financial risk components and align the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. FASB ASU No. 2017-12 is effective for annual reporting periods beginning after December 15, 2018, including interim periods within those annual reporting periods, with early adoption permitted. We are still evaluating the impact that this guidance will have on our consolidated financial statements, and we have not yet determined whether we will early adopt FASB ASU No. 2017-12.

**Critical Accounting Policies and Estimates**

For a discussion of the critical accounting policies that require the use of significant judgments and estimates by management, refer to Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates," included in our Annual Report on Form 10-K for the year ended December 31, 2016.



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Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There have been no significant changes to our market risk since December 31, 2016. For a discussion of market risk affecting us, refer to Part II, Item 7A—"Quantitative and Qualitative Disclosures About Market Risk," included in our Annual Report on Form 10-K for the year ended December 31, 2016.

Item 4. Controls and Procedures.

The required certifications of our Chief Executive Officer and Chief Financial Officer are included as exhibits to this Quarterly Report on Form 10-Q. The disclosures set forth in this Item 4 contain information concerning the evaluation of our disclosure controls and procedures and changes in internal control over financial reporting referred to in these certifications. These certifications should be read in conjunction with this Item 4 for a more complete understanding of the matters covered by the certifications.

Evaluation of Disclosure Controls and Procedures

With the participation of our Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2017. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the U.S. Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate, to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of September 30, 2017, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the nine months ended September 30, 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

There are inherent limitations to the effectiveness of any system of internal control over financial reporting. Accordingly, even an effective system of internal control over financial reporting can only provide reasonable assurance with respect to financial statement preparation and presentation in accordance with U.S. generally accepted accounting principles. Our internal controls over financial reporting are subject to various inherent limitations, including cost limitations, judgments used in decision making, assumptions about the likelihood of future events, the soundness of our systems, the possibility of human error, and the risk of fraud. Moreover, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may be inadequate because of changes in conditions and the risk that the degree of compliance with policies or procedures may deteriorate over time.

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## PART II—OTHER INFORMATION

## Item 1. Legal Proceedings.

As discussed in Part I, Item 3—"Legal Proceedings," in our Annual Report on Form 10-K for the year ended December 31, 2016, we are regularly involved in a number of claims and litigation matters in the ordinary course of business. Most of our litigation matters are third-party claims related to patent infringement allegations or for property damage allegedly caused by our products, but some involve allegations of personal injury or wrongful death. From time to time, we are also involved in disagreements with vendors and customers. Although it is not feasible to predict the outcome of these matters, based upon our experience and current information known to us, we do not expect the outcome of these matters, either individually or in the aggregate, to have a material adverse effect on our result of operations, financial position, or cash flows.

## Item 1A. Risk Factors.

Information regarding risk factors appears in Part I, Item 1A—"Risk Factors," in our Annual Report on Form 10-K for the year ended December 31, 2016. There have been no changes to the risk factors disclosed therein.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

## Issuer Purchases of Equity Securities

| Period                                 | Total<br>Number<br>of Shares<br>Purchased<br>(in<br>shares) | Weighted-Average<br>Price<br>Paid per Share | Total Number of<br>Shares Purchased as<br>Part of Publicly<br>Announced Plan or<br>Programs | Approximate<br>Dollar<br>Value of<br>Shares that<br>May Yet Be<br>Purchased<br>Under the<br>Plan or<br>Programs (in<br>millions) |
|--|---|---|---|--|
| July 1 through July 31, 2017           | 2,117   | <sup>(1)</sup> \$ 45.03                     | —   | \$ 250.0   |
| August 1 through August 31, 2017       | —   | \$ —  | —   | \$ 250.0   |
| September 1 through September 30, 2017 | —   | \$ —  | —   | \$ 250.0   |
| Total                                  | 2,117   | \$ 45.03                                    | —   | \$ 250.0   |

Pursuant to the "withhold to cover" method for collecting and paying withholding taxes for our employees upon the vesting of restricted securities, we withheld from certain employees the shares noted in the table above to cover such tax withholdings. These transactions took place outside of a publicly-announced repurchase plan. The weighted-average price per share listed in the above table is the weighted-average of the fair market prices at which we calculated the number of shares withheld to cover tax for the employees.

## Item 3. Defaults Upon Senior Securities.

None.

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Item 6. Exhibits.

Exhibit No. Description

|      |  |
|------|--|
| 3.1  | <u>Amended Articles of Association of Sensata Technologies Holding N.V.*</u>   |
| 4.1  | <u>Sixth Supplemental Indenture dated as of October 10, 2017, amending the indenture dated as of April 17, 2013 pursuant to which the 4.875% Senior Notes were issued, among Sensata Technologies B.V., the guarantors party thereto and The Bank of New York Mellon, as trustee (incorporated by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K filed on October 13, 2017).</u>  |
| 4.2  | <u>Fifth Supplemental Indenture dated as of October 10, 2017, amending the indenture dated as of October 14, 2014 pursuant to which the 5.625% Senior Notes were issued, among Sensata Technologies B.V., the guarantors party thereto and The Bank of New York Mellon, as trustee (incorporated by reference to Exhibit 4.2 of the Registrant's Current Report on Form 8-K filed on October 13, 2017).</u>  |
| 4.3  | <u>Sixth Supplemental Indenture dated as of October 10, 2017, amending the indenture dated as of March 26, 2015 pursuant to which the 5.000% Senior Notes were issued, among Sensata Technologies B.V., the guarantors party thereto and The Bank of New York Mellon, as trustee (incorporated by reference to Exhibit 4.3 of the Registrant's Current Report on Form 8-K filed on October 13, 2017).</u>  |
| 4.4  | <u>Third Supplemental Indenture dated as of October 10, 2017, amending the indenture dated as of November 27, 2015 pursuant to which the 6.250% Senior Notes were issued, among Sensata Technologies UK Financing Co. plc, the guarantors party thereto and The Bank of New York Mellon, as trustee (incorporated by reference to Exhibit 4.4 of the Registrant's Current Report on Form 8-K filed on October 13, 2017).</u>   |
| 31.1 | <u>Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*</u>  |
| 31.2 | <u>Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*</u>  |
| 32.1 | <u>Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*</u>   |
| 101  | The following materials from the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2017, formatted in XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Operations, (iii) the Condensed Consolidated Statements of Comprehensive Income, (iv) the Condensed Consolidated Statements of Cash Flows, and (v) Notes to the Condensed Consolidated Financial Statements. |

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\* Filed herewith

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: October 24, 2017

SENSATA TECHNOLOGIES HOLDING N.V.

/s/ Martha Sullivan

(Martha Sullivan)

President and Chief Executive Officer

(Principal Executive Officer)

/s/ Paul Vasington

(Paul Vasington)

Executive Vice President and Chief Financial Officer

(Principal Financial Officer)