

TE Connectivity Ltd.
Form 10-Q
January 25, 2013

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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 December 28, 2012

Or

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

001-33260
(Commission File Number)

TE CONNECTIVITY LTD.

(Exact name of registrant as specified in its charter)

Switzerland
(Jurisdiction of Incorporation)

98-0518048
(I.R.S. Employer Identification No.)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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

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(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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a
smaller reporting company)

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

The number of common shares outstanding as of January 21, 2013 was 420,260,712.

TE CONNECTIVITY LTD.
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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

TE CONNECTIVITY LTD.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	For the Quarters Ended	
	December 28, 2012	December 30, 2011
	(in millions, except per share data)	
Net sales	\$ 3,134	\$ 3,170
Cost of sales	2,145	2,227
Gross margin	989	943
Selling, general, and administrative expenses	428	383
Research, development, and engineering expenses	171	177
Acquisition and integration costs	5	4
Restructuring and other charges, net	92	18
Operating income	293	361
Interest income	4	5
Interest expense	(37)	(39)
Other income (expense), net	(226)	1
Income from continuing operations before income taxes	34	328
Income tax (expense) benefit	245	(88)
Income from continuing operations	279	240
Income (loss) from discontinued operations, net of income taxes	(2)	22
Net income	277	262
Less: net income attributable to noncontrolling interests		(2)
Net income attributable to TE Connectivity Ltd.	\$ 277	\$ 260
Amounts attributable to TE Connectivity Ltd.:		
Income from continuing operations	\$ 279	\$ 238
Income (loss) from discontinued operations	(2)	22
Net income	\$ 277	\$ 260
Basic earnings per share attributable to TE Connectivity Ltd.:		
Income from continuing operations	\$ 0.66	\$ 0.56
Income from discontinued operations		0.05
Net income	\$ 0.66	\$ 0.61

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Diluted earnings per share attributable to TE Connectivity Ltd.:			
Income from continuing operations	\$	0.65	\$ 0.55
Income from discontinued operations			0.06
Net income	\$	0.65	\$ 0.61
Dividends and cash distributions paid per common share of TE Connectivity Ltd.			
Weighted-average number of shares outstanding:			
Basic		422	425
Diluted		426	429

See Notes to Condensed Consolidated Financial Statements.

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TE CONNECTIVITY LTD.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

	For the Quarters Ended	
	December 28, 2012	December 30, 2011
	(in millions)	
Net income	\$ 277	\$ 262
Other comprehensive income (loss):		
Currency translation	29	(173)
Adjustments to unrecognized pension and postretirement benefit costs, net of income taxes	12	10
Loss on cash flow hedges, net of income taxes	(14)	(15)
Other comprehensive income (loss)	27	(178)
Comprehensive income	304	84
Less: comprehensive income attributable to noncontrolling interests		(2)
Comprehensive income attributable to TE Connectivity Ltd.	\$ 304	\$ 82

See Notes to Condensed Consolidated Financial Statements.

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TE CONNECTIVITY LTD.

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

	December 28, 2012	September 28, 2012
	(in millions, except share data)	
Assets		
Current Assets:		
Cash and cash equivalents	\$ 972	\$ 1,589
Accounts receivable, net of allowance for doubtful accounts of \$45 and \$41, respectively	2,211	2,343
Inventories	1,808	1,808
Prepaid expenses and other current assets	474	474
Deferred income taxes	288	289
Total current assets	5,753	6,503
Property, plant, and equipment, net	3,187	3,213
Goodwill	4,324	4,308
Intangible assets, net	1,325	1,352
Deferred income taxes	2,317	2,460
Receivable from Tyco International Ltd. and Covidien plc	954	1,180
Other assets	276	290
Total Assets	\$ 18,136	\$ 19,306
Liabilities and Equity		
Current Liabilities:		
Current maturities of long-term debt	\$ 351	\$ 1,015
Accounts payable	1,264	1,292
Accrued and other current liabilities	1,384	1,576
Deferred revenue	112	121
Total current liabilities	3,111	4,004
Long-term debt	2,687	2,696
Long-term pension and postretirement liabilities	1,348	1,353
Deferred income taxes	448	448
Income taxes	1,881	2,311
Other liabilities	527	517
Total Liabilities	10,002	11,329
Commitments and contingencies (Note 9)		
Equity:		
TE Connectivity Ltd. Shareholders' Equity:		
Common shares, 439,092,124 shares authorized and issued, CHF 0.77 par value, and 439,092,124 shares authorized and issued, CHF 0.97 par value, respectively	193	193
Contributed surplus	6,812	6,837
Accumulated earnings	1,473	1,196
Treasury shares, at cost, 19,088,710 and 16,408,049 shares, respectively	(605)	(484)
Accumulated other comprehensive income	256	229
Total TE Connectivity Ltd. shareholders' equity	8,129	7,971

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Noncontrolling interests		5		6
Total Equity		8,134		7,977
Total Liabilities and Equity		\$ 18,136	\$	19,306

See Notes to Condensed Consolidated Financial Statements.

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TE CONNECTIVITY LTD.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	For the Quarters Ended	
	December 28, 2012	December 30, 2011
	(in millions)	
Cash Flows From Operating Activities:		
Net income	\$ 277	\$ 262
(Income) loss from discontinued operations, net of income taxes	2	(22)
Income from continuing operations	279	240
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Tax sharing (income) expense	226	(2)
Depreciation and amortization	152	141
Deferred income taxes	121	49
Provision for losses on accounts receivable and inventories	25	27
Share-based compensation expense	21	17
Other	20	(7)
Changes in assets and liabilities, net of the effects of acquisitions and divestitures:		
Accounts receivable, net	123	98
Inventories	(44)	(82)
Inventoried costs on long-term contracts	16	(4)
Prepaid expenses and other current assets	11	21
Accounts payable	(38)	(51)
Accrued and other current liabilities	(76)	(204)
Income taxes	(451)	(13)
Deferred revenue	(9)	(46)
Long-term pension and postretirement liabilities	9	7
Other	8	4
Net cash provided by continuing operating activities	393	195
Net cash provided by (used in) discontinued operating activities	(1)	12
Net cash provided by operating activities	392	207
Cash Flows From Investing Activities:		
Capital expenditures	(126)	(130)
Proceeds from sale of property, plant, and equipment	2	5
Other	19	(1)
Net cash used in investing activities	(105)	(126)
Cash Flows From Financing Activities:		
Net increase in commercial paper	50	179
Repayment of long-term debt	(714)	
Proceeds from exercise of share options	16	12
Repurchase of common shares	(167)	(17)
Payment of common share dividends and cash distributions to shareholders	(89)	(77)
Other	(2)	8
Net cash provided by (used in) continuing financing activities	(906)	105

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Net cash provided by (used in) discontinued financing activities	1	(12)
Net cash provided by (used in) financing activities	(905)	93
Effect of currency translation on cash	1	(3)
Net increase (decrease) in cash and cash equivalents	(617)	171
Cash and cash equivalents at beginning of period	1,589	1,218
Cash and cash equivalents at end of period	\$ 972	\$ 1,389

See Notes to Condensed Consolidated Financial Statements.

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TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Basis of Presentation

The unaudited Condensed Consolidated Financial Statements of TE Connectivity Ltd. ("TE Connectivity" or the "Company," which may be referred to as "we," "us," or "our") have been prepared in United States Dollars, in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The preparation of the Condensed Consolidated Financial Statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. Actual results could differ materially from these estimates. In management's opinion, the unaudited Condensed Consolidated Financial Statements contain all normal recurring adjustments necessary for a fair presentation of interim results. The results of operations reported for interim periods are not necessarily indicative of the results of operations for the entire fiscal year or any subsequent interim period.

The Condensed Consolidated Financial Statements have been prepared in accordance with the instructions to Form 10-Q under the Securities Exchange Act of 1934, as amended. The year-end balance sheet data was derived from audited financial statements, but does not include all of the information and disclosures required by GAAP. These financial statements should be read in conjunction with our audited Consolidated Financial Statements contained in our Annual Report on Form 10-K for the fiscal year ended September 28, 2012.

Unless otherwise indicated, references in the Condensed Consolidated Financial Statements to fiscal 2013 and fiscal 2012 are to our fiscal years ending September 27, 2013 and September 28, 2012, respectively.

New Segment Structure

Effective for the first quarter of fiscal 2013, we reorganized our management and segments to better align the organization around our strategy. We expect the realignment to enable us to better meet our customers' needs and optimize our efficiency. The following represents the new segment structure:

Transportation Solutions This segment consists of our Automotive business.

Network Solutions The Telecom Networks, Data Communications, Enterprise Networks, and Subsea Communications businesses are presented in this segment.

Industrial Solutions This segment contains our Industrial, Aerospace, Defense, and Marine, and Energy businesses.

Consumer Solutions Our Consumer Devices and Appliances businesses are encompassed in this segment.

Reclassifications

We have reclassified certain items on our Condensed Consolidated Financial Statements to conform to the current year presentation.

Table of Contents**TE CONNECTIVITY LTD.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****2. Restructuring and Other Charges, Net**

Charges to operations by segment were as follows:

	For the Quarters Ended	
	December 28, 2012	December 30, 2011
	(in millions)	
Transportation Solutions	\$ 10	\$ 1
Network Solutions	24	6
Industrial Solutions	12	8
Consumer Solutions	46	3
Restructuring charges, net	\$ 92	\$ 18

Amounts recognized on the Condensed Consolidated Statements of Operations were as follows:

	For the Quarters Ended	
	December 28, 2012	December 30, 2011
	(in millions)	
Cash charges	\$ 77	\$ 19
Non-cash charges (credits)	15	(1)
Restructuring charges, net	\$ 92	\$ 18

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TE CONNECTIVITY LTD.

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

2. Restructuring and Other Charges, Net (Continued)

Activity in our restructuring reserves during the first quarter of fiscal 2013 is summarized as follows:

	Balance at September 28, 2012	Charges	Utilization	Changes in Estimate	Currency Translation	Balance at December 28, 2012
(in millions)						
Fiscal 2013 Actions:						
Employee severance	\$	\$ 90	\$ (2)	\$	\$	\$ 88
Facilities exit costs		1				1
Other		1				1
Total		92	(2)			90
Fiscal 2012 Actions:						
Employee severance	79		(12)	(3)	1	65
Facilities exit costs	1					1
Other	1	1				2
Total	81	1	(12)	(3)	1	68
Pre-Fiscal 2012 Actions:						
Employee severance	51		(7)	(13)	2	33
Facilities exit costs	28	1	(2)			27
Other	1			(1)		
Total	80	1	(9)	(14)	2	60
Total Activity	\$ 161	\$ 94	\$ (23)	\$ (17)	\$ 3	\$ 218

Fiscal 2013 Actions

During fiscal 2013, we initiated several restructuring programs associated with headcount reductions across all segments, and manufacturing site closures in the Consumer Solutions and Network Solutions segments. In connection with these actions, during the quarter ended December 28, 2012, we recorded restructuring charges of \$105 million primarily related to employee severance and benefits and the impairment of fixed assets in connection with exited manufacturing sites' product lines. We expect to complete all restructuring activities commenced in fiscal 2013 by the end of fiscal 2014 and to incur total charges of approximately \$139 million. Cash spending related to this plan was \$2 million in the first quarter of fiscal 2013; we expect cash spending to be approximately \$54 million and \$47 million in fiscal 2013 and 2014, respectively.

Table of Contents**TE CONNECTIVITY LTD.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****2. Restructuring and Other Charges, Net (Continued)**

The following table summarizes charges incurred and total charges expected to be incurred for fiscal 2013 actions by segment:

	Charges Incurred For the Quarter Ended December 28, 2012	Total Charges Expected to be Incurred
	(in millions)	
Transportation Solutions	\$ 11	\$ 12
Network Solutions	25	26
Industrial Solutions	19	20
Consumer Solutions	50	81
Total	\$ 105	\$ 139

Fiscal 2012 Actions

During fiscal 2012, we initiated several restructuring programs resulting in headcount reductions across all segments. Also, we initiated restructuring programs in the Transportation Solutions and Industrial Solutions segments associated with the acquisition of Deutsch Group SAS ("Deutsch"). During the quarter ended December 30, 2011, we recorded net restructuring charges of \$22 million primarily related to employee severance and benefits. We do not expect to incur any additional expense related to restructuring activities commenced in fiscal 2012. Cash spending related to this plan was \$12 million in the first quarter of fiscal 2013; we expect cash spending to be approximately \$70 million and \$10 million in fiscal 2013 and 2014, respectively.

The following table summarizes cumulative charges incurred for fiscal 2012 actions by segment:

	Cumulative Charges Incurred
	(in millions)
Transportation Solutions	\$ 29
Network Solutions	56
Industrial Solutions	26
Consumer Solutions	20
Total	\$ 131

Pre-Fiscal 2012 Actions

During fiscal 2011, we initiated restructuring programs which were primarily associated with the acquisition of ADC Telecommunications, Inc. ("ADC") and related headcount reductions in the Network Solutions segment. Additionally, we increased reductions-in-force across all segments as a result of economic conditions. In connection with these actions, during the quarters ended December 28, 2012 and December 30, 2011, we recorded net restructuring credits of \$13 million and

Table of Contents**TE CONNECTIVITY LTD.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****2. Restructuring and Other Charges, Net (Continued)**

\$4 million, respectively, primarily related to employee severance and benefits. We do not expect to incur any additional expense related to restructuring activities commenced in fiscal 2011.

During fiscal 2002, we recorded restructuring charges primarily related to a significant downturn in the telecommunications industry and certain other end markets. These actions have been completed. As of December 28, 2012, the remaining restructuring reserves related to the fiscal 2002 actions were \$27 million and primarily related to exited lease facilities in the Subsea Communications business in the Network Solutions segment. We expect that the remaining reserves will continue to be paid out over the expected terms of the obligations which range from one to twenty years, the latest ending in fiscal 2022.

Cash spending related to pre-fiscal 2012 actions was \$9 million in the first quarter of fiscal 2013; we expect cash spending to be approximately \$36 million in fiscal 2013.

Restructuring Reserves

Total restructuring reserves by segment were as follows:

	December 28, 2012	September 28, 2012
	(in millions)	
Transportation Solutions	\$ 37	\$ 32
Network Solutions	93	77
Industrial Solutions	30	33
Consumer Solutions	58	19
Restructuring reserves	\$ 218	\$ 161

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

	December 28, 2012	September 28, 2012
	(in millions)	
Accrued and other current liabilities	\$ 179	\$ 118
Other liabilities	39	43
Restructuring reserves	\$ 218	\$ 161

Table of Contents**TE CONNECTIVITY LTD.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****3. Discontinued Operations**

The following table presents net sales, pre-tax income (loss), pre-tax loss on sale, and income tax (expense) benefit from discontinued operations:

	For the Quarters Ended	
	December 28, 2012	December 30, 2011
	(in millions)	
Net sales from discontinued operations	\$	\$ 139
Pre-tax income (loss) from discontinued operations	\$	(1) \$ 30
Pre-tax loss on sale of discontinued operations		(2)
Income tax (expense) benefit		1 (8)
Income (loss) from discontinued operations, net of income taxes	\$	(2) \$ 22

During fiscal 2012, we sold our Touch Solutions and TE Professional Services businesses. These businesses met the held for sale and discontinued operations criteria and were included in discontinued operations in fiscal 2012. Prior to reclassification to discontinued operations, the Touch Solutions and TE Professional Services businesses were included in the former Communications and Industrial Solutions segment and the Network Solutions segment, respectively.

On December 27, 2011, the New York Court of Claims entered judgment in our favor in the amount of \$25 million, payment of which was received in fiscal 2012, in connection with our former Wireless Systems business's State of New York contract. This judgment resolved all outstanding issues between the parties in this matter. This partial recovery of a previously recognized loss, net of legal fees, is reflected in income (loss) from discontinued operations, net of income taxes on the Condensed Consolidated Statement of Operations for the first quarter of fiscal 2012. The Wireless Systems business, which met the held for sale and discontinued operations criteria, was a component of the former Wireless Systems segment.

4. Inventories

Inventories consisted of the following:

	December 28, 2012	September 28, 2012
	(in millions)	
Raw materials	\$ 279	\$ 282
Work in progress	581	573
Finished goods	908	896
Inventoried costs on long-term contracts	40	57
Inventories	\$ 1,808	\$ 1,808

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TE CONNECTIVITY LTD.

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

5. Goodwill

The changes in the carrying amount of goodwill by segment were as follows⁽¹⁾:

	Transportation Solutions	Network Solutions	Industrial Solutions	Consumer Solutions	Total
(in millions)					
September 28, 2012 ⁽²⁾	\$ 793	\$ 981	\$ 1,876	\$ 658	\$ 4,308
Currency translation	3	4	6	3	16
December 28, 2012 ⁽²⁾	\$ 796	\$ 985	\$ 1,882	\$ 661	\$ 4,324

(1) In connection with our change in segment structure, goodwill was re-allocated to reporting units using a relative fair value approach. See Note 1 for additional information regarding the new segment structure.

(2) At December 28, 2012 and September 28, 2012, accumulated impairment losses for the Transportation Solutions, Network Solutions, Industrial Solutions, and Consumer Solutions segments were \$2,191 million, \$1,236 million, \$641 million, and \$607 million, respectively.

6. Intangible Assets, Net

Intangible assets were as follows:

	December 28, 2012			September 28, 2012		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
(in millions)						
Intellectual property	\$ 1,147	\$ (455)	\$ 692	\$ 1,146	\$ (439)	\$ 707
Customer relationships	655	(56)	599	655	(44)	611
Other	76	(42)	34	76	(42)	34
Total	\$ 1,878	\$ (553)	\$ 1,325	\$ 1,877	\$ (525)	\$ 1,352

Intangible asset amortization expense was \$28 million and \$15 million for the quarters ended December 28, 2012 and December 30, 2011, respectively.

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

	(in millions)
Remainder of fiscal 2013	\$ 84
Fiscal 2014	111
Fiscal 2015	111
Fiscal 2016	111
Fiscal 2017	111
Fiscal 2018	110
Thereafter	687

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Total \$ 1,325

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Debt was as follows:

	December 28, 2012	September 28, 2012
	(in millions)	
6.00% senior notes due 2012	\$	\$ 714
5.95% senior notes due 2014	300	300
1.60% senior notes due 2015	250	250
6.55% senior notes due 2017	731	732
4.875% senior notes due 2021	273	274
3.50% senior notes due 2022	498	498
7.125% senior notes due 2037	475	475
3.50% convertible subordinated notes due 2015	89	90
Commercial paper, at a weighted-average interest rate of 0.41% and 0.40%, respectively	350	300
Other	72	78
Total debt⁽¹⁾	3,038	3,711
Less current maturities of long-term debt ⁽²⁾	351	1,015
Long-term debt	\$ 2,687	\$ 2,696

(1) Senior notes are presented at face amount and, if applicable, are net of unamortized discount and the effects of fair value hedge-designated interest rate swaps.

(2) The current maturities of long-term debt at December 28, 2012 was comprised of commercial paper and a portion of amounts shown as other. The current maturities of long-term debt at September 28, 2012 was comprised of the 6.00% senior notes due 2012, commercial paper, and a portion of amounts shown as other.

Tyco Electronics Group S.A. ("TEGSA"), our 100%-owned subsidiary, has a five-year unsecured senior revolving credit facility ("Credit Facility"), with total commitments of \$1,500 million. This facility expires in June 2016. TEGSA had no borrowings under the Credit Facility at December 28, 2012 and September 28, 2012.

The Credit Facility contains a financial ratio covenant providing that if, as of the last day of each fiscal quarter, our ratio of Consolidated Total Debt (as defined in the Credit Facility) to Consolidated EBITDA (as defined in the Credit Facility) for the then most recently concluded period of four consecutive fiscal quarters exceeds 3.5 to 1.0, an Event of Default (as defined in the Credit Facility) is triggered. The Credit Facility and our other debt agreements contain other customary covenants.

In addition to the Credit Facility, TEGSA is the borrower under the outstanding senior notes and outstanding commercial paper. TEGSA's payment obligations under its senior notes, commercial paper, and Credit Facility are fully and unconditionally guaranteed by its parent, TE Connectivity Ltd. Neither TE Connectivity Ltd. nor any of its subsidiaries provides a guarantee as to payment obligations under the 3.50% convertible subordinated notes due 2015 issued by ADC prior to its acquisition in December 2010.

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TE CONNECTIVITY LTD.

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

7. Debt (Continued)

We have used, and continue to use, derivative instruments to manage interest rate risk. See Note 10 for additional information.

The fair value of our debt, based on indicative valuations, was approximately \$3,357 million and \$4,034 million at December 28, 2012 and September 28, 2012, respectively.

8. Guarantees

Tax Sharing Agreement

Effective June 29, 2007, we became the parent company of the former electronics businesses of Tyco International Ltd. ("Tyco International"). On June 29, 2007, Tyco International distributed all of our shares, as well as its shares of its former healthcare businesses ("Covidien"), to its common shareholders (the "separation").

Upon separation, we entered into a Tax Sharing Agreement, under which we share responsibility for certain of our, Tyco International's, and Covidien's income tax liabilities based on a sharing formula for periods prior to and including June 29, 2007. We, Tyco International, and Covidien share 31%, 27%, and 42%, respectively, of U.S. income tax liabilities that arise from adjustments made by tax authorities to our, Tyco International's, and Covidien's U.S. income tax returns. The effect of the Tax Sharing Agreement is to indemnify us for 69% of certain liabilities settled in cash by us with respect to unresolved pre-separation tax matters. Pursuant to that indemnification, we have made similar indemnifications to Tyco International and Covidien with respect to 31% of certain liabilities settled in cash by the companies relating to unresolved pre-separation tax matters. If any of the companies responsible for all or a portion of such liabilities were to default in its payment of costs or expenses related to any such liability, we would be responsible for a portion of the defaulting party or parties' obligation. We are responsible for all of our own taxes that are not shared pursuant to the Tax Sharing Agreement's sharing formula. In addition, Tyco International and Covidien are responsible for their tax liabilities that are not subject to the Tax Sharing Agreement's sharing formula. Our indemnification created under the Tax Sharing Agreement qualifies as a guarantee of a third party entity's debt under Accounting Standards Codification 460, *Guarantees*.

At December 28, 2012, we had a liability representing the indemnifications made to Tyco International and Covidien pursuant to the Tax Sharing Agreement of \$241 million of which \$228 million was reflected in other liabilities and \$13 million was reflected in accrued and other current liabilities on the Condensed Consolidated Balance Sheet. At September 28, 2012, the liability was \$241 million and consisted of \$227 million in other liabilities and \$14 million in accrued and other current liabilities. The amount reflected in accrued and other current liabilities is our estimated cash obligation under the Tax Sharing Agreement to Tyco International and Covidien in connection with pre-separation tax matters that could be resolved within the next twelve months.

We have assessed the probable future cash payments to Tyco International and Covidien for pre-separation income tax matters pursuant to the terms of the Tax Sharing Agreement and determined that \$241 million remains sufficient to satisfy these expected obligations.

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TE CONNECTIVITY LTD.

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

8. Guarantees (Continued)

Other Matters

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

At December 28, 2012, we had outstanding letters of credit and letters of guarantee in the amount of \$343 million.

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

We generally record estimated product warranty costs when contract revenues are recognized under the percentage-of-completion method for construction related contracts and at the time of sale for products. The estimation is primarily based on historical experience and actual warranty claims. Amounts accrued for warranty claims at December 28, 2012 and September 28, 2012 were \$48 million.

9. Commitments and Contingencies

TE Connectivity Legal Proceedings

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

At December 28, 2012, we had a contingent purchase price commitment of \$80 million related to our fiscal 2001 acquisition of Com-Net. This represents the maximum amount payable to the former shareholders of Com-Net only after the construction and installation of a communications system was completed for and approved by the State of Florida in accordance with guidelines set forth in the contract. Under the terms of the purchase and sale agreement, we do not believe we have any obligation to the sellers. However, the sellers have contested our position and initiated a lawsuit in June 2006 in the Court of Common Pleas in Allegheny County, Pennsylvania, which is in the discovery phase. A liability for this contingency has not been recorded on the Condensed Consolidated Financial Statements as we do not believe that any payment is probable or reasonably estimable at this time.

Income Taxes

In connection with the separation, we entered into a Tax Sharing Agreement that generally governs our, Covidien's, and Tyco International's respective rights, responsibilities, and obligations after the

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TE CONNECTIVITY LTD.

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

9. Commitments and Contingencies (Continued)

distribution with respect to taxes, including ordinary course of business taxes and taxes, if any, incurred as a result of any failure of the distribution of all of our shares or the shares of Covidien to qualify as a tax-free distribution for U.S. federal income tax purposes within the meaning of Section 355 of the Internal Revenue Code (the "Code") or certain internal transactions undertaken in anticipation of the spin-offs to qualify for tax-favored treatment under the Code.

Pursuant to the Tax Sharing Agreement, upon separation, we entered into certain guarantee commitments and indemnifications with Tyco International and Covidien. Under the Tax Sharing Agreement, we, Tyco International, and Covidien share 31%, 27%, and 42%, respectively, of certain contingent liabilities relating to unresolved pre-separation tax matters of Tyco International. See Note 8 for additional information regarding the Tax Sharing Agreement.

During fiscal 2007, the Internal Revenue Service ("IRS") concluded its field examination of certain of Tyco International's U.S. federal income tax returns for the years 1997 through 2000 and issued Revenue Agent Reports that reflect the IRS' determination of proposed tax adjustments for the 1997 through 2000 period. Additionally, the IRS proposed civil fraud penalties against Tyco International arising from alleged actions of former executives in connection with certain intercompany transfers of stock in 1998 and 1999. The penalties were asserted against a prior subsidiary of Tyco International that was distributed to us in connection with the separation. Tyco International appealed certain of the proposed adjustments for the years 1997 through 2000, and Tyco International has now resolved all but one of the matters associated with the proposed tax adjustments, including reaching an agreement with the IRS on the penalty adjustment. In October 2012, the IRS issued special agreement Forms 870-AD, effectively settling its audit of all tax matters for the period 1997 through 2000, excluding one issue that remains in dispute as described below. As a result of these developments, in the first quarter of fiscal 2013, we recognized an income tax benefit of \$331 million and other expense of \$231 million pursuant to the Tax Sharing Agreement with Tyco International and Covidien.

The disputed issue involves the tax treatment of certain intercompany debt transactions. The IRS has asserted that certain intercompany loans originating during the period 1997 through 2000 did not constitute debt for U.S. federal income tax purposes and has disallowed related interest deductions recognized on Tyco International's U.S. income tax returns during the period. Tyco International contends that the intercompany financing qualified as debt for U.S. tax purposes and that the interest deductions reflected on the income tax returns are appropriate. The IRS and Tyco International remain unable to resolve this matter through the IRS appeals process. We understand that Tyco International expects to receive statutory notices of deficiency from the IRS in our fiscal 2013. Upon receipt of these statutory notices, we expect that Tyco International will commence litigation of this matter with the IRS in U.S. federal court. Based upon relevant facts surrounding the intercompany debt transactions, relevant tax regulations, and applicable case law, we believe that we are adequately reserved for this matter. However, the ultimate outcome is uncertain and if the IRS were to prevail on its assertions, our share of the assessed tax, deficiency interest, and applicable withholding taxes and penalties could have a material adverse impact on our results of operations, financial position, or cash flows.

During the first quarter of fiscal 2013, we made payments of \$35 million for tax deficiencies related to undisputed tax adjustments for the years 1997 through 2000. Tyco International's income tax returns for the years 2001 through 2004 remain subject to adjustment by the IRS upon ultimate resolution of the disputed issue involving certain intercompany loans originated during the period 1997

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TE CONNECTIVITY LTD.

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

9. Commitments and Contingencies (Continued)

through 2000. Over the next twelve months, we expect net cash receipts of approximately \$12 million, inclusive of related indemnification receipts and payments, in connection with these pre-separation tax matters.

The IRS commenced its audit of certain Tyco International income tax returns for the years 2005 through 2007 in fiscal 2011.

During fiscal 2012, the IRS commenced its audit of our income tax returns for the years 2008 through 2010.

At December 28, 2012 and September 28, 2012, we have reflected \$36 million and \$71 million, respectively, of income tax liabilities related to the audits of Tyco International's and our income tax returns in accrued and other current liabilities as certain of these matters could be resolved within the next twelve months.

We continue to believe that the amounts recorded on our Condensed Consolidated Financial Statements relating to the matters discussed above are appropriate. However, the ultimate resolution is uncertain and could result in a material impact to our results of operations, financial position, or cash flows.

Environmental Matters

We are involved in various stages of investigation and cleanup related to environmental remediation matters at a number of sites. The ultimate cost of site cleanup is difficult to predict given the uncertainties regarding the extent of the required cleanup, the interpretation of applicable laws and regulations, and alternative cleanup methods. As of December 28, 2012, we concluded that it was probable that we would incur remedial costs in the range of \$13 million to \$24 million. As of December 28, 2012, we concluded that the best estimate within this range is \$14 million, of which \$5 million is included in accrued and other current liabilities and \$9 million is included in other liabilities on the Condensed Consolidated Balance Sheet. We believe that any potential payment of such estimated amounts will not have a material adverse effect on our results of operations, financial position, or cash flows.

10. Financial Instruments

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

Foreign Exchange Risks

As part of managing the exposure to changes in foreign currency exchange rates, we utilize foreign currency forward and swap contracts, a portion of which are designated as cash flow hedges. The objective of these contracts is to minimize impacts to cash flows and profitability due to changes in foreign currency exchange rates on intercompany transactions, accounts receivable, accounts payable, and other cash transactions.

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TE CONNECTIVITY LTD.

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

10. Financial Instruments (Continued)

We expect that significantly all of the balance in accumulated other comprehensive income associated with the cash flow hedge-designated instruments addressing foreign exchange risks will be reclassified into the Condensed Consolidated Statements of Operations within the next twelve months.

Interest Rate and Investment Risk Management

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

Hedges of Net Investment

We hedge our net investment in certain foreign operations using intercompany non-derivative financial instruments denominated in the same currencies. The aggregate notional value of these hedges was \$2,437 million and \$2,981 million at December 28, 2012 and September 28, 2012, respectively. We reclassified foreign exchange gains of \$2 million and \$52 million during the quarters ended December 28, 2012 and December 30, 2011, respectively, to currency translation, a component of accumulated other comprehensive income, offsetting foreign exchange gains or losses attributable to the translation of the net investment.

Commodity Hedges

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

At December 28, 2012 and September 28, 2012, our commodity hedges had notional values of \$268 million and \$246 million, respectively. We expect that significantly all of the balance in accumulated other comprehensive income associated with the commodities hedges will be reclassified into the Condensed Consolidated Statements of Operations within the next twelve months.

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TE CONNECTIVITY LTD.

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

10. Financial Instruments (Continued)

Derivative Instrument Summary

The fair value of our derivative instruments is summarized below:

	December 28, 2012		September 28, 2012	
	Fair Value of Asset Positions ⁽¹⁾	Fair Value of Liability Positions ⁽²⁾	Fair Value of Asset Positions ⁽¹⁾	Fair Value of Liability Positions ⁽²⁾
	(in millions)			
Derivatives designated as hedging instruments:				
Foreign currency contracts ⁽³⁾	\$ 1	\$ 1	\$ 2	\$ 1
Interest rate swaps	25		26	
Commodity swap contracts	4	7	18	1
Total derivatives designated as hedging instruments	30	8	46	2
Derivatives not designated as hedging instruments:				
Foreign currency contracts ⁽³⁾	3	6	2	2
Investment swaps			1	
Total derivatives not designated as hedging instruments	3	6	3	2
Total derivatives	\$ 33	\$ 14	\$ 49	\$ 4

- (1) All derivative instruments in asset positions that mature within one year of the balance sheet date are recorded in prepaid expenses and other current assets on the Condensed Consolidated Balance Sheets and totaled \$7 million and \$19 million at December 28, 2012 and September 28, 2012, respectively. All derivative instruments in asset positions that mature more than one year from the balance sheet date are recorded in other assets on the Condensed Consolidated Balance Sheets and totaled \$26 million and \$30 million at December 28, 2012 and September 28, 2012, respectively.
- (2) All derivative instruments in liability positions that mature within one year of the balance sheet date are recorded in accrued and other current liabilities on the Condensed Consolidated Balance Sheets and totaled \$13 million and \$4 million at December 28, 2012 and September 28, 2012, respectively. All derivative instruments in liability positions that mature more than one year from the balance sheet date are recorded in other liabilities on the Condensed Consolidated Balance Sheets and totaled \$1 million at December 28, 2012; there were no derivatives in other liabilities at September 28, 2012.
- (3) Contracts are presented gross without regard to any right of offset that exists.

The effects of derivative instruments designated as fair value hedges on the Condensed Consolidated Statements of Operations were as follows:

Derivatives Designated as Fair Value Hedges	Location	Gain Recognized	
		December 28, 2012	December 30, 2011
		(in millions)	
Interest rate swaps ⁽¹⁾	Interest expense	\$ 1	\$ 2

-
- (1) Certain interest rate swaps designated as fair value hedges were terminated in December 2008. Terminated interest rate swaps resulted in all gains presented in this table. Interest rate swaps designated as fair value hedges in place at December 28, 2012 had no gain or loss recognized on the Condensed Consolidated Statements of Operations during the periods.

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TE CONNECTIVITY LTD.

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

10. Financial Instruments (Continued)

The effects of derivative instruments designated as cash flow hedges on the Condensed Consolidated Statements of Operations were as follows:

Derivatives Designated as Cash Flow Hedges	Gain (Loss) Recognized in OCI (Effective Portion) Amount	Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) Location	Amount	Gain (Loss) Recognized in Income (Ineffective Portion and Amount Excluded From Effectiveness Testing)	
				Location	Amount
(in millions)					
For the Quarter Ended December 28, 2012:					
Foreign currency contracts	\$	Cost of sales	\$ 1	Cost of sales	\$
Commodity swap contracts	(17)	Cost of sales	3	Cost of sales	
Interest rate swaps ⁽¹⁾		Interest expense	(2)	Interest expense	
Total	\$ (17)		\$ 2		\$
For the Quarter Ended December 30, 2011:					
Foreign currency contracts	\$ (3)	Cost of sales	\$	Cost of sales	\$
Commodity swap contracts	(4)	Cost of sales	10	Cost of sales	
Interest rate swaps ⁽¹⁾	(1)	Interest expense	(1)	Interest expense	
Total	\$ (8)		\$ 9		\$

(1)

During the quarter ended December 28, 2012, there were no outstanding interest rate swaps designated as cash flow hedges; amounts reclassified from accumulated other comprehensive income into interest expense during the quarter related to forward starting interest rate swaps designated as cash flow hedges that were terminated in January 2012 and September 2007. During the quarter ended December 30, 2011, interest rate swaps designated as cash flow hedges in place resulted in a loss of \$1 million in other comprehensive income related to the effective portions of the hedges during the period. Amounts reclassified from accumulated other comprehensive income into interest expense during the quarter ended December 30, 2011 related to forward starting interest rate swaps designated as cash flow hedges that were terminated in September 2007.

The effects of derivative instruments not designated as hedging instruments on the Condensed Consolidated Statements of Operations were as follows:

Derivatives not Designated as Hedging Instruments	Location	Gain (Loss) Recognized	
		For the Quarters Ended December 28, 2012	December 30, 2011
(in millions)			
Foreign currency contracts	Selling, general, and administrative expenses	\$ (1)	\$ (32)
Investment swaps	Selling, general, and administrative expenses		3
Total		\$ (1)	\$ (29)

TE CONNECTIVITY LTD.

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

10. Financial Instruments (Continued)

During the first quarter of fiscal 2012, we incurred losses of \$32 million as a result of marking foreign currency derivatives not designated as hedging instruments to fair value. These losses were principally driven by Euro-denominated foreign currency contracts entered into in anticipation of the acquisition of Deutsch and were offset by gains realized as a result of re-measuring certain Euro-denominated intercompany non-derivative financial instruments to the U.S. Dollar.

11. Fair Value Measurements

Fair value measurements are classified under the following hierarchy:

Level 1 Quoted prices in active markets for identical assets and liabilities.

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

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

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TE CONNECTIVITY LTD.

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

11. Fair Value Measurements (Continued)

Financial assets and liabilities recorded at fair value on a recurring basis were as follows:

Description	Fair Value Measurements Using Inputs Considered as			Fair Value
	Level 1	Level 2	Level 3	
(in millions)				
December 28, 2012:				
Assets:				
Commodity swap contracts	\$ 4	\$	\$	\$ 4
Interest rate swaps		25		25
Foreign currency contracts ⁽¹⁾		4		4
Rabbi trust assets	4	79		83
Total assets at fair value	\$ 8	\$ 108	\$	\$ 116
Liabilities:				
Commodity swap contracts	\$ 7	\$	\$	\$ 7
Foreign currency contracts ⁽¹⁾		7		7
Total liabilities at fair value	\$ 7	\$ 7	\$	\$ 14
September 28, 2012:				
Assets:				
Commodity swap contracts	\$ 18	\$	\$	\$ 18
Interest rate swaps		26		26
Investment swap contracts		1		1
Foreign currency contracts ⁽¹⁾		4		4
Rabbi trust assets	4	79		83
Total assets at fair value	\$ 22	\$ 110	\$	\$ 132
Liabilities:				
Commodity swap contracts	\$ 1	\$	\$	\$ 1
Foreign currency contracts ⁽¹⁾		3		3
Total liabilities at fair value	\$ 1	\$ 3	\$	\$ 4

(1) Contracts are presented gross without regard to any right of offset that exists. See Note 10 for a reconciliation of amounts to the Condensed Consolidated Balance Sheets.

There have been no changes in the valuation methodologies used for financial assets and liabilities measured at fair value on a recurring basis during fiscal 2013.

The majority of the derivatives that we enter into are valued using over-the-counter quoted market prices for similar instruments. We do not believe that the fair values of these derivative instruments differ materially from the amounts that would be realized upon settlement or maturity.

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As of December 28, 2012 and September 28, 2012, we did not have significant financial assets or liabilities that were measured at fair value on a non-recurring basis or non-financial assets or liabilities that were measured at fair value.

Table of Contents**TE CONNECTIVITY LTD.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****11. Fair Value Measurements (Continued)***Other Financial Instruments*

Financial instruments other than derivative instruments include cash and cash equivalents, accounts receivable, accounts payable, and long-term debt. These instruments are recorded on our Condensed Consolidated Balance Sheets at book value. For cash and cash equivalents, accounts receivable and accounts payable, we believe book value approximates fair value due to the short-term nature of these instruments. See Note 7 for disclosure of the fair value of long-term debt. There have been no changes in the valuation methodologies used for other financial instruments during fiscal 2013.

12. Retirement Plans

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

	U.S. Plans		Non-U.S. Plans	
	For the Quarters Ended December 28, 2012	December 30, 2011	For the Quarters Ended December 28, 2012	December 30, 2011
	(in millions)			
Service cost	\$ 2	\$ 2	\$ 15	\$ 13
Interest cost	11	13	18	19
Expected return on plan assets	(15)	(15)	(18)	(13)
Amortization of net actuarial loss	9	10	10	8
Amortization of prior service credit			(2)	(2)
Net periodic pension benefit cost	\$ 7	\$ 10	\$ 23	\$ 25

The net periodic postretirement benefit cost for postretirement benefit plans was insignificant for the quarters ended December 28, 2012 and December 30, 2011.

We anticipate that, at a minimum, we will make the minimum required contributions to our pension plans in fiscal 2013 of \$4 million for U.S. plans and \$97 million for non-U.S. plans. During the quarter ended December 28, 2012, we contributed \$1 million to our U.S. plans and \$20 million to our non-U.S. plans.

We anticipate that we will make contributions to our postretirement benefit plans of \$2 million in fiscal 2013. During the quarter ended December 28, 2012, contributions to our postretirement benefit plans were insignificant.

13. Income Taxes

We recorded an income tax benefit of \$245 million and a tax provision of \$88 million for the quarters ended December 28, 2012 and December 30, 2011, respectively. The benefit for the quarter ended December 28, 2012 reflects a \$331 million income tax benefit related to the effective settlement of all undisputed tax matters for the period 1997 through 2000, partially offset by charges related to adjustments to prior year income tax returns and the estimated impacts of certain intercompany dividends. The provision for the quarter ended December 30, 2011 reflects income tax expense associated with certain non-U.S. tax rate changes enacted during the quarter.

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TE CONNECTIVITY LTD.

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

13. Income Taxes (Continued)

We record accrued interest as well as penalties related to uncertain tax positions as part of the provision for income taxes. As of December 28, 2012, we had recorded \$963 million of accrued interest and penalties related to uncertain tax positions on the Condensed Consolidated Balance Sheet, of which \$944 million was recorded in income taxes and \$19 million was recorded in accrued and other current liabilities. As of September 28, 2012, the balance of accrued interest and penalties was \$1,335 million, of which \$1,299 million was recorded in income taxes and \$36 million was recorded in accrued and other current liabilities on the Condensed Consolidated Balance Sheet. The decrease in the accrued interest and penalties from fiscal year end 2012 is due mainly to the effective settlement of all undisputed tax matters for the period 1997 through 2000. During the quarter ended December 28, 2012, we recognized \$320 million of benefit related to interest and penalties on the Condensed Consolidated Statement of Operations.

For tax years 1997 through 2004, Tyco International has resolved all matters, excluding one disputed issue related to the tax treatment of certain intercompany debt transactions. During fiscal 2011, the IRS commenced its audit of certain Tyco International income tax returns for the years 2005 through 2007. Also, during fiscal 2012, the IRS commenced its audit of our income tax returns for the years 2008 through 2010. See Note 9 for additional information regarding the status of IRS examinations.

Although it is difficult to predict the timing or results of our worldwide examinations, we estimate that up to approximately \$75 million of unrecognized income tax benefits, excluding the impacts relating to accrued interest and penalties, could be resolved within the next twelve months.

We are not aware of any other matters that would result in significant changes to the amount of unrecognized income tax benefits reflected on the Condensed Consolidated Balance Sheet as of December 28, 2012.

14. Other Income (Expense), Net

During the quarter ended December 28, 2012, we recorded other expense of \$226 million pursuant to the Tax Sharing Agreement with Tyco International and Covidien. See Note 8 for further information regarding the Tax Sharing Agreement. The expense in the quarter ended December 28, 2012 is primarily related to the effective settlement of all undisputed tax matters for the period 1997 through 2000. See Note 9 for additional information.

15. Earnings Per Share

Basic earnings per share attributable to TE Connectivity Ltd. is computed by dividing net income attributable to TE Connectivity Ltd. by the basic weighted-average number of common shares outstanding. Diluted earnings per share attributable to TE Connectivity Ltd. is computed by dividing net income attributable to TE Connectivity Ltd. by the weighted-average number of common shares outstanding adjusted for potentially dilutive unexercised share options and non-vested restricted and

Table of Contents**TE CONNECTIVITY LTD.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****15. Earnings Per Share (Continued)**

performance share awards ("Dilutive Share Awards"). The following table sets forth the denominators of the basic and diluted earnings per share computations:

	For the Quarters Ended	
	December 28, 2012	December 30, 2011
	(in millions)	
Weighted-average shares outstanding:		
Basic	422	425
Dilutive Share Awards	4	4
Diluted	426	429

Certain share options were not included in the computation of diluted earnings per share because the instruments' underlying exercise prices were greater than the average market prices of our common shares and inclusion would be antidilutive. Share options not included in the computation totaled 7 million and 16 million for the quarters ended December 28, 2012 and December 30, 2011, respectively.

16. Equity*Distribution to Shareholders*

During the first quarter of fiscal 2013, we paid a \$0.21 cash distribution to shareholders in the form of a capital reduction to the par value of our common shares. This capital reduction reduced the par value of our common shares from 0.97 Swiss Francs ("CHF") (equivalent to \$0.86) to CHF 0.77 (equivalent to \$0.65).

Upon approval by the shareholders of a dividend payment or cash distribution in the form of a capital reduction, we record a liability with a corresponding charge to contributed surplus or common shares. At December 28, 2012 and September 28, 2012, the unpaid portion of the dividends and distributions recorded in accrued and other current liabilities on the Condensed Consolidated Balance Sheets totaled \$88 million and \$178 million, respectively.

Share Repurchase Program

During the first quarter of fiscal 2013, we repurchased approximately 5 million of our common shares for \$178 million under our share repurchase authorization. During the first quarter of fiscal 2012, we did not purchase any of our common shares. At December 28, 2012, we had \$1,129 million of availability remaining under our share repurchase authorization.

17. Share Plans

Total share-based compensation expense during the first quarters of fiscal 2013 and 2012 totaled \$21 million and \$17 million, respectively. These expenses were primarily included in selling, general, and administrative expenses on the Condensed Consolidated Statements of Operations. As of December 28, 2012, there was \$184 million of unrecognized compensation cost related to share-based awards. The cost is expected to be recognized over a weighted-average period of 2.2 years.

Table of Contents**TE CONNECTIVITY LTD.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****17. Share Plans (Continued)**

During the first quarter of fiscal 2013, we granted 2.8 million share options, 1.5 million restricted share awards, and 0.3 million performance share awards as part of our annual incentive plan grant. The weighted-average grant date fair values for share options, restricted share awards, and performance share awards were \$8.57, \$34.05, and \$34.05, respectively.

Performance share awards, which are generally in the form of performance share units, are granted with pay-out subject to vesting requirements and certain performance conditions that are determined at the time of grant. Based on our performance, the pay-out of performance share units can range from 0% to 200% of the number of units originally granted. Certain employees who receive performance share awards also are granted an opportunity to earn additional performance shares subject to the attainment of additional performance criteria which are set at the time of grant. Attainment of the performance criteria will result in an additional pay-out of performance share units equal to 100% of the performance share units paid out under the original performance share award. The grant date fair value of performance share awards is expensed over the period of performance once achievement of the performance criteria is deemed probable. Recipients of performance share units have no voting rights but do receive dividend equivalents. Performance share awards generally vest after a period of three years as determined by the management development and compensation committee of the board of directors. There were no performance share awards outstanding at September 28, 2012.

As of December 28, 2012, we had 22 million shares available for issuance under the TE Connectivity Ltd. 2007 Stock and Incentive Plan, as amended and restated, and 3 million shares available for issuance primarily under the TE Connectivity Ltd. 2010 Stock and Incentive Plan.

Share-Based Compensation Assumptions

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

Expected share price volatility	34%
Risk free interest rate	0.9%
Expected annual dividend per share	\$ 0.84
Expected life of options (in years)	6.0

18. Segment Data

Effective for the first quarter of fiscal 2013, we reorganized our management and segments to better align the organization around our strategy. See Note 1 for additional information regarding our new segment structure.

The following segment information reflects the new segment reporting structure. Prior period segment results have been restated to conform to the new segment structure.

Table of Contents**TE CONNECTIVITY LTD.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****18. Segment Data (Continued)**

Net sales and operating income (loss) by segment were as follows:

	Net Sales ⁽¹⁾		Operating Income (Loss)	
	For the Quarters Ended		For the Quarters Ended	
	December 28, 2012	December 30, 2011	December 28, 2012	December 30, 2011
	(in millions)			
Transportation Solutions	\$ 1,264	\$ 1,231	\$ 192	\$ 184
Network Solutions	734	802	36	59
Industrial Solutions	700	685	70	90
Consumer Solutions	436	452	(5)	28
Total	\$ 3,134	\$ 3,170	\$ 293	\$ 361

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

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

	December 28, 2012	September 28, 2012
	(in millions)	
Transportation Solutions	\$ 2,836	\$ 2,871
Network Solutions	1,757	1,853
Industrial Solutions	1,539	1,561
Consumer Solutions	1,074	1,079
Total segment assets⁽¹⁾	7,206	7,364
Other current assets	1,734	2,352
Other non-current assets	9,196	9,590
Total assets	\$ 18,136	\$ 19,306

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

19. Tyco Electronics Group S.A.

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

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TE CONNECTIVITY LTD.

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

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

Condensed Consolidating Statement of Operations (UNAUDITED)
For the Quarter Ended December 28, 2012

	TE Connectivity Ltd.	Tyco Electronics Group S.A.	Other Subsidiaries (in millions)	Consolidating Adjustments	Total
Net sales	\$	\$	\$ 3,134	\$	\$ 3,134
Cost of sales			2,145		2,145
Gross margin			989		989
Selling, general, and administrative expenses	41	1	386		428
Research, development, and engineering expenses			171		171
Acquisition and integration costs			5		5
Restructuring and other charges, net			92		92
Operating income (loss)	(41)	(1)	335		293
Interest income			4		4
Interest expense		(34)	(3)		(37)
Other income, net			(226)		(226)
Equity in net income of subsidiaries	323	345		(668)	
Equity in net loss of subsidiaries from discontinued operations	(2)	(2)		4	
Intercompany interest and fees	(3)	13	(10)		
Income from continuing operations before income taxes	277	321	100	(664)	34
Income tax benefit					