TE Connectivity Ltd.
Form 10-Q
January 23, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended December 27, 2013

Or

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

001-33260
(Commission File Number)

TE CONNECTIVITY LTD.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 ý	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The number of common shares outstanding as of January 20, 2014 was 410,230,381.

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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 27, 2013	December 28, 2012
	(in millions, except per share data)	
Net sales	$ 3,326	$ 3,134
Cost of sales	2,209	2,145
Gross margin	1,117	989
Selling, general, and administrative expenses	467	428
Research, development, and engineering expenses	164	171
Acquisition and integration costs		5
Restructuring and other charges, net	7	92
Operating income	479	293
Interest income	5	4
Interest expense	(34)	(37)
Other income (expense), net	32	(226)
Income from continuing operations before income taxes	482	34
Income tax (expense) benefit	(127)	245
Income from continuing operations	355	279
Loss from discontinued operations, net of income taxes	(2)	(2)
Net income attributable to TE Connectivity Ltd.	$ 353	$ 277
Basic earnings per share attributable to TE Connectivity Ltd.:		
Income from continuing operations	$ 0.86	$ 0.66
Net income	0.86	0.66
Diluted earnings per share attributable to TE Connectivity Ltd.:		

Income from continuing operations	$	0.85	$	0.65
Net income		0.84		0.65
Dividends and cash distributions paid per common share	$	0.25	$	0.21
Weighted-average number of shares outstanding:				
Basic		411		422
Diluted		418		426

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 27, 2013	December 28, 2012
	(in millions)	
Net income attributable to TE Connectivity Ltd.	$ 353	$ 277
Other comprehensive income:		
Currency translation	20	29
Adjustments to unrecognized pension and postretirement benefit costs, net of income taxes	7	12
Loss on cash flow hedges, net of income taxes	(3)	(14)
Other comprehensive income	24	27
Comprehensive income attributable to TE Connectivity Ltd.	$ 377	$ 304

See Notes to Condensed Consolidated Financial Statements.

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TE CONNECTIVITY LTD.

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

	December 27, 2013	September 27, 2013
	(in millions, except share data)	
Assets		
Current assets:		
Cash and cash equivalents	$ 1,397	$ 1,403
Accounts receivable, net of allowance for doubtful accounts of $36 and $48, respectively	2,284	2,323
Inventories	1,836	1,762
Prepaid expenses and other current assets	507	487
Deferred income taxes	334	334
Total current assets	6,358	6,309
Property, plant, and equipment, net	3,164	3,166
Goodwill	4,346	4,326
Intangible assets, net	1,219	1,244
Deferred income taxes	2,056	2,146
Receivable from Tyco International Ltd. and Covidien plc	996	1,002
Other assets	304	268
Total Assets	$ 18,443	$ 18,461
Liabilities and Equity		
Current liabilities:		
Current maturities of long-term debt	$ 383	$ 711
Accounts payable	1,361	1,383
Accrued and other current liabilities	1,589	1,762
Deferred revenue	76	68
Total current liabilities	3,409	3,924
Long-term debt	2,615	2,303
Long-term pension and postretirement liabilities	1,150	1,155
Deferred income taxes	321	321
Income taxes	1,979	1,979
Other liabilities	347	393
Total Liabilities	9,821	10,075
Commitments and contingencies (Note 8)		
Equity:		

TE Connectivity Ltd. shareholders' equity:				
Common shares, 428,527,307 shares authorized and issued, CHF 0.57 par value		189		189
Contributed surplus		6,100		6,136
Accumulated earnings		2,825		2,472
Treasury shares, at cost, 17,825,817 and 17,020,636 shares, respectively		(825)		(720)
Accumulated other comprehensive income		327		303
Total TE Connectivity Ltd. shareholders' equity		8,616		8,380
Noncontrolling interests		6		6
Total Equity		8,622		8,386
Total Liabilities and Equity	$	18,443	$	18,461

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 27, 2013	For the Quarters Ended December 28, 2012
	(in millions)	
Cash Flows From Operating Activities:		
Net income attributable to TE Connectivity Ltd.	$ 353	$ 277
Loss from discontinued operations, net of income taxes	2	2
Income from continuing operations	355	279
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	149	152
Deferred income taxes	31	121
Provision for losses on accounts receivable and inventories	23	25
Tax sharing (income) expense	(34)	226
Share-based compensation expense	22	21
Other	25	20
Changes in assets and liabilities, net of the effects of acquisitions and divestitures:		
Accounts receivable, net	27	123
Inventories	(107)	(44)
Inventoried costs on long-term contracts	10	16
Prepaid expenses and other current assets	23	11
Accounts payable	(19)	(38)
Accrued and other current liabilities	(144)	(76)
Income taxes	40	(451)
Other	(14)	8
Net cash provided by continuing operating activities	387	393
Net cash used in discontinued operating activities	(2)	(1)
Net cash provided by operating activities	385	392
Cash Flows From Investing Activities:		
Capital expenditures	(133)	(126)
Proceeds from sale of property, plant, and equipment	12	2
Other	(2)	19
Net cash used in investing activities	(123)	(105)
Cash Flows From Financing Activities:		
Net increase (decrease) in commercial paper	(25)	50
Proceeds from issuance of long-term debt	323	
Repayment of long-term debt	(303)	(714)

Proceeds from exercise of share options	57	16
Repurchase of common shares	(210)	(167)
Payment of common share dividends and cash distributions to shareholders	(103)	(89)
Other	(3)	(2)
Net cash used in continuing financing activities	(264)	(906)
Net cash provided by discontinued financing activities	2	1
Net cash used in financing activities	(262)	(905)
Effect of currency translation on cash	(6)	1
Net decrease in cash and cash equivalents	(6)	(617)
Cash and cash equivalents at beginning of period	1,403	1,589
Cash and cash equivalents at end of period	$ 1,397	$ 972

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 ("U.S.") Dollars, in accordance with accounting principles generally accepted in the U.S. ("GAAP") and the instructions to Form 10-Q under the Securities Exchange Act of 1934, as amended. In management's opinion, the unaudited Condensed Consolidated Financial Statements contain all normal recurring adjustments necessary for a fair presentation of interim results. The results of operations reported for interim periods are not necessarily indicative of the results of operations for the entire fiscal year or any subsequent interim period.

The year-end balance sheet data was derived from audited financial statements, but does not include all of the information and disclosures required by GAAP. These financial statements should be read in conjunction with our audited Consolidated Financial Statements contained in our Annual Report on Form 10-K for the fiscal year ended September 27, 2013.

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

Unless otherwise indicated, references in the Condensed Consolidated Financial Statements to fiscal 2014 and fiscal 2013 are to our fiscal years ending September 26, 2014 and September 27, 2013, respectively.

2. Restructuring and Other Charges, Net

Net restructuring charges by segment were as follows:

	For the Quarters Ended	
	December 27, 2013	December 28, 2012
	(in millions)	
Transportation Solutions	$ 1	$ 10
Industrial Solutions	1	12
Network Solutions	5	24
Consumer Solutions		46
Restructuring charges, net	$ 7	$ 92

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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 2014 is summarized as follows:

	Balance at September 27, 2013	Charges	Changes in Estimate	Cash Payments	Non-Cash Items	Currency Translation	Balance at December 27, 2013
				(in millions)			
Fiscal 2014 Actions:							
Employee severance	$	$ 3	$	$	$	$	$ 3
Total		3					3
Fiscal 2013 Actions:							
Employee severance	168	1	(2)	(35)		2	134
Facility and other exit costs	1	2		(2)			1
Property, plant, and equipment		3			(3)		
Total	169	6	(2)	(37)	(3)	2	135
Pre-Fiscal 2013 Actions:							
Employee severance	51	1	(3)	(6)		1	44
Facility and other exit costs	26	2		(2)			26
Total	77	3	(3)	(8)		1	70
Total Activity	$ 246	$ 12	$ (5)	$ (45)	$ (3)	$ 3	$ 208

Fiscal 2014 Actions

During fiscal 2014, we initiated a restructuring program and commenced actions to reduce headcount in the Network Solutions and Consumer Solutions segments. In connection with this program, during the quarter ended December 27, 2013, we recorded restructuring charges of $3 million related to employee severance and benefits. We do not expect to incur any additional charges related to restructuring actions commenced in the first quarter of fiscal 2014.

The following table summarizes expected and incurred charges for the fiscal 2014 program by segment:

	Total Expected Charges	Charges Incurred For the Quarter Ended December 27, 2013
	(in millions)	
Network Solutions	$ 2	$ 2
Consumer Solutions	1	1
Total	$ 3	$ 3

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TE CONNECTIVITY LTD.

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

2. Restructuring and Other Charges, Net (Continued)

Fiscal 2013 Actions

During fiscal 2013, we initiated a restructuring program associated with headcount reductions and manufacturing site closures impacting all segments. In connection with this program, during the quarters ended December 27, 2013 and December 28, 2012, we recorded net restructuring charges of $4 million and $105 million, respectively, primarily related to employee severance and benefits and manufacturing site closures impacting all segments. We expect to complete all restructuring actions commenced in fiscal 2013 by the end of fiscal 2015 and to incur total charges of approximately $349 million. Cash spending related to this program was $37 million in the first quarter of fiscal 2014.

The following table summarizes expected, incurred, and remaining charges for the fiscal 2013 program by type:

	Total Expected Charges	Charges Incurred For the Quarter Ended December 27, 2013	For Fiscal 2013	Remaining Expected Charges
	(in millions)			
Employee severance	$ 265	$ (1)	$ 245	$ 21
Facility and other exit costs	13	2	5	6
Property, plant, and equipment	71	3	58	10
Total	$ 349	$ 4	$ 308	$ 37

The following table summarizes expected, incurred, and remaining charges for the fiscal 2013 program by segment:

	Total Expected Charges	Charges Incurred For the Quarter Ended December 27, 2013	For Fiscal 2013	Remaining Expected Charges
	(in millions)			
Transportation Solutions	$ 41	$ 1	$ 37	$ 3
Industrial Solutions	73	1	66	6
Network Solutions	132	2	111	19
Consumer Solutions	103		94	9
Total	$ 349	$ 4	$ 308	$ 37

Pre-Fiscal 2013 Actions

During fiscal 2012, we initiated a restructuring program to reduce headcount across all segments. Also, we initiated a restructuring program in the Transportation Solutions and Industrial Solutions segments associated with the acquisition of Deutsch Group SAS. We initiated a restructuring program during fiscal 2011 which was primarily associated with the acquisition of ADC Telecommunications, Inc. and related headcount reductions in the Network Solutions segment. Additionally, in fiscal 2011, we instituted reductions-in-force across all segments as a result of economic conditions. In connection with these actions, during the quarter December 28, 2012, we recorded net restructuring credits of $13 million primarily related to employee severance and benefits. We do not expect to incur any

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TE CONNECTIVITY LTD.

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

2. Restructuring and Other Charges, Net (Continued)

additional charges related to restructuring actions commenced in fiscal 2012 and 2011. Cash spending related to pre-fiscal 2013 programs was $8 million in the first quarter of fiscal 2014.

Total Restructuring Reserves

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

	December 27, 2013	September 27, 2013
	(in millions)	
Accrued and other current liabilities	$ 172	$ 168
Other liabilities	36	78
Restructuring reserves	$ 208	$ 246

3. Inventories

Inventories consisted of the following:

	December 27, 2013	September 27, 2013
	(in millions)	
Raw materials	$ 271	$ 258
Work in progress	624	597
Finished goods	914	870
Inventoried costs on long-term contracts	27	37
Inventories	$ 1,836	$ 1,762

4. Goodwill

The changes in the carrying amount of goodwill by segment were as follows[1]:

	Transportation Solutions	Industrial Solutions	Network Solutions	Consumer Solutions	Total
			(in millions)		
September 27, 2013[2]	$ 797	$ 1,919	$ 977	$ 633	$ 4,326
Currency translation	3	9	5	3	20

December 27, 2013[2]	$ 800	$ 1,928	$ 982	$ 636	$ 4,346

(1) In connection with the realignment of certain businesses during the first quarter of fiscal 2014, goodwill was re-allocated to reporting units using a relative fair value approach. See Note 17 for additional information regarding our current segment structure.

(2) At December 27, 2013 and September 27, 2013, accumulated impairment losses for the Transportation Solutions, Industrial Solutions, Network Solutions, and Consumer Solutions segments were $2,191 million, $669 million, $1,236 million, and $579 million, respectively.

TE CONNECTIVITY LTD.

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

5. Intangible Assets, Net

Intangible assets consisted of the following:

	December 27, 2013			September 27, 2013		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	(in millions)					
Intellectual property	$ 1,146	$ (514)	$ 632	$ 1,144	$ (499)	$ 645
Customer relationships	658	(104)	554	658	(92)	566
Other	45	(12)	33	46	(13)	33
Total	$ 1,849	$ (630)	$ 1,219	$ 1,848	$ (604)	$ 1,244

Intangible asset amortization expense was $28 million in each of the quarters ended December 27, 2013 and December 28, 2012.

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

	(in millions)
Remainder of fiscal 2014	$ 83
Fiscal 2015	111
Fiscal 2016	111
Fiscal 2017	111
Fiscal 2018	111
Fiscal 2019	110
Thereafter	582
Total	$ 1,219

6. Debt

During November 2013, Tyco Electronics Group S.A. ("TEGSA"), our 100%-owned subsidiary, redeemed all of its outstanding 5.95% senior notes due 2014, representing $300 million principal amount. We paid an immaterial premium in connection with the early redemption.

During November 2013, TEGSA issued $325 million aggregate principal amount of 2.375% senior notes due December 17, 2018. The notes are TEGSA's unsecured senior obligations and rank equally in right of payment with all existing and any future senior indebtedness of TEGSA and senior to any subordinated indebtedness that TEGSA may incur. The notes are fully and unconditionally guaranteed as to payment on an unsecured senior basis by TE Connectivity Ltd.

As of December 27, 2013, TEGSA had $325 million of commercial paper outstanding at a weighted-average interest rate of 0.28%. TEGSA had $350 million of commercial paper outstanding at a weighted-average interest rate of 0.28% at September 27, 2013.

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TE CONNECTIVITY LTD.

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

7. 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 27, 2013, we had a liability representing the indemnifications made to Tyco International and Covidien pursuant to the Tax Sharing Agreement of $223 million of which $202 million was reflected in accrued and other current liabilities and $21 million was reflected in other liabilities on the Condensed Consolidated Balance Sheet. At September 27, 2013, the liability was $223 million and consisted of $185 million in accrued and other current liabilities and $38 million in other 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 $223 million is sufficient to satisfy these expected obligations.

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.

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TE CONNECTIVITY LTD.

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

7. Guarantees (Continued)

At December 27, 2013, we had outstanding letters of credit and letters of guarantee in the amount of $292 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 27, 2013 and September 27, 2013 were $36 million and $38 million, respectively.

8. Commitments and Contingencies

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. However, the proceedings discussed below in "Income Tax Matters" could have a material effect on our results of operations, financial position, or cash flows.

At December 27, 2013, 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 at this time.

Income Tax Matters

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

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TE CONNECTIVITY LTD.

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

8. Commitments and Contingencies (Continued)

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 7 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 reflected 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 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 the amount of $21 million. 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 field examination asserted that certain intercompany loans originating during the period 1997 through 2000 did not constitute debt for U.S. federal income tax purposes and disallowed approximately $2.7 billion of related interest deductions recognized during the period on Tyco International's U.S. income tax returns. In addition, if the IRS is ultimately successful in asserting its claim, it is likely to disallow an additional $6.6 billion of interest deductions reflected on U.S. income tax returns in years subsequent to fiscal 2000. 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 were unable to resolve this matter through the IRS appeals process. On June 20, 2013, Tyco International advised us that it had received Notices of Deficiency from the IRS for certain former U.S. subsidiaries of Tyco International increasing taxable income by approximately $2.9 billion in connection with the audit of Tyco International's fiscal years 1997 through 2000. The Notices of Deficiency assert that Tyco International owes additional taxes totaling $778 million, associated penalties of $154 million, and withholding taxes of $105 million. In addition, Tyco International received Final Partnership Administrative Adjustments for certain U.S. partnerships owned by former U.S. subsidiaries with respect to which Tyco International estimates an additional tax deficiency of approximately $30 million will be asserted. The amounts asserted by the IRS exclude any applicable deficiency interest, and do not reflect any impact to subsequent period tax liabilities in the event that the IRS were to prevail on some or all of its assertions. We understand that Tyco International strongly disagrees with the IRS position and has filed petitions in the U.S. Tax Court contesting the IRS' proposed adjustments. Tyco International has advised us that it believes there are meritorious defenses for the tax filings in question and that the IRS positions with regard to these matters are inconsistent with the applicable tax laws and existing U.S. Treasury regulations.

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TE CONNECTIVITY LTD.

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

8. Commitments and Contingencies (Continued)

Resolution of this matter in the U.S. Tax Court could take several years and no payments to the IRS with respect to these matters would be required until the matter is fully and finally resolved. In accordance with the terms of a tax sharing agreement, we, Tyco International, and Covidien would share 31%, 27%, and 42%, respectively, of any payments made in connection with these matters.

However, as 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, and cash flows. We have reviewed the Notices of Deficiency, the relevant facts surrounding the intercompany debt transactions, relevant tax regulations, and applicable case law, and we continue to believe that we are appropriately reserved for this matter.

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 through 2000. For the undisputed issues for years 2001 through 2004, it is our understanding that Tyco International expects the IRS to issue general agreement Forms 870 during fiscal 2014. The IRS commenced its audit of certain Tyco International income tax returns for the years 2005 through 2007 in fiscal 2011, and it is our understanding that fieldwork for this audit period is expected to be completed in fiscal 2014. Also, during fiscal 2012, the IRS commenced its audit of our income tax returns for the years 2008 through 2010. We expect fieldwork for the 2008 through 2010 audit to conclude in fiscal 2014. Over the next twelve months, we expect to make net cash payments of approximately $200 million in connection with pre-separation tax matters.

At December 27, 2013 and September 27, 2013, we have reflected $47 million and $15 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 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 27, 2013, we concluded that it was probable that we would incur remedial costs in the range of $12 million to $24 million. As of December 27, 2013, we concluded that the best estimate within this range is $13 million, of which $3 million is included in accrued and other current liabilities and $10 million is included in other liabilities on the Condensed Consolidated Balance Sheet. We believe that any potential payment will not have a material adverse effect on our results of operations, financial position, or cash flows.

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TE CONNECTIVITY LTD.

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

9. 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 and other cash transactions.

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 to manage interest rate exposure in periods prior to the anticipated issuance of fixed-rate debt. We also utilize investment swaps to manage earnings exposure on certain non-qualified deferred compensation liabilities.

During the first quarter of fiscal 2014, we entered into interest rate swaps designated as fair value hedges on $300 million principal amount of the 3.50% senior notes due 2022. The maturity dates of the interest rate swaps coincide with the maturity date of the notes. Under these contracts, we receive fixed amounts of interest applicable to the underlying notes and pay floating amount based upon the three-month U.S. Dollar London interbank offered rate.

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 $2,201 million and $2,374 million at December 27, 2013 and September 27, 2013, respectively. We recorded foreign exchange losses of $31 million and gains of $2 million during the quarters ended December 27, 2013 and December 28, 2012, respectively, as 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 27, 2013 and September 27, 2013, our commodity hedges had notional values of $293 million and $278 million, respectively. We expect that significantly all of the balance in

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TE CONNECTIVITY LTD.

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

9. Financial Instruments (Continued)

accumulated other comprehensive income associated with the commodity hedges will be reclassified into the Condensed Consolidated Statements of Operations within the next twelve months.

Derivative Instrument Summary

The fair value of our derivative instruments is summarized below:

	December 27, 2013		September 27, 2013	
	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)	$ 2	$ 6	$ 1	$ 1
Interest rate swaps	11	7	14	
Commodity swap contracts(3)	2	30	2	29
Total derivatives designated as hedging instruments	15	43	17	30
Derivatives not designated as hedging instruments:				
Foreign currency contracts(3)		1		1
Investment swaps	3		3	
Total derivatives not designated as hedging instruments	3	1	3	1
Total derivatives	$ 18	$ 44	$ 20	$ 31

(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 $6 million and $5 million at December 27, 2013 and September 27, 2013, 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 $12 million and $15 million at December 27, 2013 and September 27, 2013, 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 $34 million and $29 million at December 27, 2013 and September 27, 2013, 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 $10 million and $2 million at

December 27, 2013 and September 27, 2013, respectively.

(3) Contracts are presented gross without regard to any right of offset that exists. The impact of offsetting derivative positions, where contractually allowable, would not have a significant impact on the derivative positions presented in this table.

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TE CONNECTIVITY LTD.

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

9. Financial Instruments (Continued)

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

		Gain Recognized	
		For the Quarters Ended	
Derivatives Designated as Fair Value Hedges	**Location**	**December 27, 2013**	**December 28, 2012**
		(in millions)	
Interest rate swaps[(1)]	Interest expense	$ 1	$ 1

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(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 in place at December 27, 2013 had no ineffective gain or loss recognized on the Condensed Consolidated Statements of Operations during the periods.

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 27, 2013:					
Foreign currency contracts	$ (5)	Cost of sales	$ (1)	Cost of sales	$
Commodity swap contracts	(11)	Cost of sales	(9)	Cost of sales	
Interest rate swaps[(1)]		Interest expense	(2)	Interest expense	
Total	$ (16)		$ (12)		$
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	$

(1) During the quarters ended December 27, 2013 and December 28, 2012, there were no outstanding interest rate swaps designated as cash flow hedges. Losses reclassified from accumulated other comprehensive income to interest expense in both periods relate to forward starting interest rate swaps designated as cash flow hedges terminated in January 2012 and September 2007.

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TE CONNECTIVITY LTD.

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

9. Financial Instruments (Continued)

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 27, 2013	December 28, 2012
		(in millions)	
Foreign currency contracts	Selling, general, and administrative expenses	$ (3)	$ (1)
Investment swaps	Selling, general, and administrative expenses	3	
Total		$	$ (1)

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TE CONNECTIVITY LTD.

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

10. Fair Value Measurements

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

Description	Fair Value Measurements Using Inputs Considered as Level 1	Level 2	Fair Value
	(in millions)		
December 27, 2013:			
Assets:			
Commodity swap contracts	$ 2	$	$ 2
Interest rate swaps		11	11
Investment swaps		3	3
Foreign currency contracts[1]		2	2
Rabbi trust assets	3	80	83
Total assets at fair value	$ 5	$ 96	$ 101
Liabilities:			
Commodity swap contracts	$ 30	$	$ 30
Interest rate swaps		7	7
Foreign currency contracts[1]		7	7
Total liabilities at fair value	$ 30	$ 14	$ 44
September 27, 2013:			
Assets:			
Commodity swap contracts	$ 2	$	$ 2
Interest rate swaps		14	14
Investment swaps		3	3
Foreign currency contracts[1]		1	1
Rabbi trust assets	3	80	83
Total assets at fair value	$ 5	$ 98	$ 103
Liabilities:			

Commodity swap contracts	$	29	$		$	29
Foreign currency contracts[1]				2		2
Total liabilities at fair value	$	29	$	2	$	31

(1) Contracts are presented gross without regard to any right of offset that exists. See Note 9 for a reconciliation of amounts to the Condensed Consolidated Balance Sheets.

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.

As of December 27, 2013 and September 27, 2013, we did not have significant financial assets or liabilities that were measured at fair value on a non-recurring basis. We also did not have significant

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TE CONNECTIVITY LTD.

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

10. Fair Value Measurements (Continued)

non-financial assets or liabilities that were measured at fair value as of December 27, 2013 and September 27, 2013.

Other Financial Instruments

Other financial 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. The fair value of our debt based on indicative valuations was approximately $3,160 million and $3,180 million at December 27, 2013 and September 27, 2013, respectively.

11. 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		For the Quarters Ended	
	December 27, 2013	December 28, 2012	December 27, 2013	December 28, 2012
	(in millions)			
Service cost	$ 2	$ 2	$ 13	$ 15
Interest cost	13	11	18	18
Expected return on plan assets	(16)	(15)	(18)	(18)
Amortization of net actuarial loss	6	9	6	10
Amortization of prior service credit			(1)	(2)
Net periodic pension benefit cost	$ 5	$ 7	$ 18	$ 23

The net periodic postretirement benefit cost for postretirement benefit plans was insignificant for the quarters ended December 27, 2013 and December 28, 2012.

During the quarter ended December 27, 2013, we contributed $21 million to our non-U.S. pension plans and insignificant amounts to our U.S. pension plans and postretirement benefit plans.

12. Income Taxes

We recorded a tax provision of $127 million and a tax benefit of $245 million for the quarters ended December 27, 2013 and December 28, 2012, respectively. The provision for the quarter ended December 27, 2013 reflects an income tax charge related to the impacts of certain non-U.S. tax law changes and the associated increase in the valuation allowance for tax loss carryforwards, and charges related to adjustments to prior year income tax returns. The tax benefit for the quarter ended December 28, 2012 reflects a $331 million income tax benefit related to the effective settlement of all

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TE CONNECTIVITY LTD.

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

12. Income Taxes (Continued)

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.

We record accrued interest as well as penalties related to uncertain tax positions as part of the provision for income taxes. As of December 27, 2013, we had recorded $1,046 million of accrued interest and penalties related to uncertain tax positions on the Condensed Consolidated Balance Sheet, of which $1,026 million was recorded in income taxes and $20 million was recorded in accrued and other current liabilities. During the quarter ended December 27, 2013, we recognized $29 million of expense related to interest and penalties on the Condensed Consolidated Statement of Operations. As of September 27, 2013, the balance of accrued interest and penalties was $1,018 million, of which $1,015 million was recorded in income taxes and $3 million was recorded in accrued and other current liabilities on the Condensed Consolidated Balance Sheet.

For tax years 1997 through 2000, Tyco International has resolved all matters, excluding one disputed issue related to the tax treatment of certain intercompany debt transactions. 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 through 2000. For the undisputed issues for years 2001 through 2004, it is our understanding that Tyco International expects the IRS to issue general agreement Forms 870 during fiscal 2014. The IRS commenced its audit of certain Tyco International income tax returns for the years 2005 through 2007 in fiscal 2011, and it is our understanding that fieldwork for this audit period is expected to be completed in fiscal 2014. Also, during fiscal 2012, the IRS commenced its audit of our income tax returns for the years 2008 through 2010. We expect fieldwork for the 2008 through 2010 audit to conclude in fiscal 2014. See Note 8 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 $255 million of unrecognized income tax benefits, excluding the impact relating to accrued interest and penalties, could be resolved within the next twelve months.

We are not aware of any other matters that would result in significant changes to the amount of unrecognized income tax benefits reflected on the Condensed Consolidated Balance Sheet as of December 27, 2013.

13. Other Income (Expense), Net

During the quarter ended December 27, 2013, we recorded net other income of $32 million primarily consisting of income pursuant to the Tax Sharing Agreement with Tyco International and Covidien. This amount included $18 million of income related to our share of a settlement agreement entered into by Tyco International with a former subsidiary, CIT Group Inc., which arose from a pre-separation claim for which we were entitled to 31% once resolved. See Note 7 for further information regarding the Tax Sharing Agreement.

During the quarter ended December 28, 2012, we recorded net other expense of $226 million, including $231 million related to the effective settlement of all undisputed tax matters for the period 1997 through 2000. See Note 8 for additional information.

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TE CONNECTIVITY LTD.

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

14. Earnings Per Share

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

	For the Quarters Ended December 27, 2013	December 28, 2012
	(in millions)	
Basic	411	422
Dilutive impact of share-based compensation arrangements	7	4
Diluted	418	426

For the quarter ended December 28, 2012, there were seven million share options that 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. There were no antidilutive share options for the quarter ended December 27, 2013.

15. Equity

Dividends and Distributions to Shareholders

We paid a cash dividend of $0.25 per share to shareholders out of contributed surplus in the first quarter of fiscal 2014.

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 27, 2013 and September 27, 2013, the unpaid portion of the dividends recorded in accrued and other current liabilities on the Condensed Consolidated Balance Sheets totaled $103 million and $206 million, respectively.

Share Repurchase Program

In the first quarter of fiscal 2014, our board of directors authorized an increase of $1 billion in the share repurchase program. We repurchased approximately four million of our common shares for $212 million and approximately five million of our common shares for $178 million under our share repurchase authorization during the quarters ended December 27, 2013 and December 28, 2012, respectively. At December 27, 2013, we had $1,267 million of availability remaining under our share repurchase authorization.

16. Share Plans

Total share-based compensation expense, which was primarily included in selling, general, and administrative expenses on the Condensed Consolidated Statements of Operations, was $22 million and $21 million during the first quarters of fiscal 2014 and 2013, respectively. As of December 27, 2013, there was $189 million of unrecognized compensation expense related to share-based awards, which is expected to be recognized over a weighted-average period of 2.1 years.

TE CONNECTIVITY LTD.

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

16. Share Plans (Continued)

During the first quarter of fiscal 2014, we granted 1.5 million share options, 1.0 million restricted share awards, and 0.2 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 $16.75, $51.61, and $51.61, respectively.

As of December 27, 2013 we had 22 million shares available for issuance under our stock and incentive plans, of which the TE Connectivity Ltd. 2007 Stock and Incentive Plan, as amended and restated, is the primary plan.

Share-Based Compensation Assumptions

Prior to fiscal 2014, we calculated the grant-date fair value of our share option awards utilizing the historical share volatility of a composite of our peers and implied volatility derived from exchange-traded options on that same composite of peers. Effective for the first quarter of fiscal 2014, as a result of now having historical share price information for a period of time equal to our expected option life assumption, we began to employ our historical share volatility when calculating the grant-date fair value of our share option grants using the Black-Scholes-Merton option pricing model. Currently, we do not have exchange-traded options of sufficient duration to employ an implied volatility assumption in the calculation and therefore rely solely on the historical volatility calculation. The change in methodology did not have a significant impact on share-based compensation expense during the first quarter of fiscal 2014.

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	39%
Risk free interest rate	1.8%
Expected annual dividend per share	$ 1.00
Expected life of options (in years)	6.0

17. Segment Data

Effective for the first quarter of fiscal 2014, we realigned certain businesses, principally the Relay Products business, within our segment reporting structure to better align our product portfolio. The Relay Products business, which was previously included in the Consumer Solutions segment, has been moved to the Industrial Solutions segment. We continue to operate through four reporting segments: Transportation Solutions, Industrial Solutions, Network Solutions, and Consumer Solutions.

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

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TE CONNECTIVITY LTD.

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

17. Segment Data (Continued)

Net sales and operating income by segment were as follows:

	Net Sales[1]		Operating Income	
	For the Quarters Ended		For the Quarters Ended	
	December 27, 2013	December 28, 2012	December 27, 2013	December 28, 2012
	(in millions)			
Transportation Solutions	$ 1,440	$ 1,264	$ 296	$ 192
Industrial Solutions	763	720	99	72
Network Solutions	713	734	46	36
Consumer Solutions	410	416	38	(7)
Total	$ 3,326	$ 3,134	$ 479	$ 293

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

18. Tyco Electronics Group S.A.

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

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TE CONNECTIVITY LTD.

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

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

Condensed Consolidating Statement of Operations (UNAUDITED)
For the Quarter Ended December 27, 2013

	TE Connectivity Ltd.	TEGSA	Other Subsidiaries	Consolidating Adjustments	Total
			(in millions)		
Net sales	$	$	$ 3,326	$	$ 3,326
Cost of sales			2,209		2,209
Gross margin			1,117		1,117
Selling, general, and administrative expenses	34	1	432		467
Research, development, and engineering expenses			164		164
Restructuring and other charges, net			7		7
Operating income (loss)	(34)	(1)	514		479
Interest income			5		5
Interest expense		(32)	(2)		(34)
Other income (expense), net	18	(3)	17		32
Equity in net income of subsidiaries	371	392		(763)	
Equity in net loss of subsidiaries of discontinued operations	(2)	(2)		4	
Intercompany interest and fees		15	(15)		
Income from continuing operations before income taxes	353	369	519	(759)	482
Income tax expense			(127)		(127)
Income from continuing operations	353	369	392	(759)	355
Loss from discontinued operations, net of income taxes			(2)		(2)
Net income attributable to TE Connectivity Ltd., TEGSA, or Other Subsidiaries	353	369	390	(759)	353
Other comprehensive income	24	24	22	(46)	24
Comprehensive income attributable to TE Connectivity Ltd., TEGSA, or Other Subsidiaries	$ 377	$ 393	$ 412	$ (805)	$ 377

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TE CONNECTIVITY LTD.

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

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

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

	TE Connectivity Ltd.	TEGSA	Other Subsidiaries	Consolidating Adjustments	Total
			(in millions)		
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 expense, net			(226)		(226)
Equity in net income of subsidiaries	323	345		(668)	
Equity in net loss of subsidiaries of 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			245		245
Income from continuing operations	277	321	345	(664)	279
Loss from discontinued operations, net of income taxes			(2)		(2)
Net income attributable to TE Connectivity Ltd., TEGSA, or Other Subsidiaries	277	321	343	(664)	277
Other comprehensive income	27	27	24	(51)	27
Comprehensive income attributable to TE Connectivity Ltd., TEGSA, or Other Subsidiaries	$ 304	$ 348	$ 367	$ (715)	$ 304

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TE CONNECTIVITY LTD.

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

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

Condensed Consolidating Balance Sheet (UNAUDITED)
As of December 27, 2013

	TE Connectivity Ltd.	TEGSA	Other Subsidiaries	Consolidating Adjustments	Total
			(in millions)		
Assets					
Current assets:					
Cash and cash equivalents	$	$	$ 1,397	$	$ 1,397
Accounts receivable, net			2,284		2,284
Inventories			1,836		1,836
Intercompany receivables	1,570		117	(1,687)	
Prepaid expenses and other current assets	20	4	483		507
Deferred income taxes			334		334
Total current assets	1,590	4	6,451	(1,687)	6,358
Property, plant, and equipment, net			3,164		3,164
Goodwill			4,346		4,346
Intangible assets, net			1,219		1,219
Deferred income taxes			2,056		2,056
Investment in subsidiaries	7,247	15,490		(22,737)	
Intercompany loans receivable	18	3,777	9,163	(12,958)	
Receivable from Tyco International Ltd. and Covidien plc			996		996
Other assets		27	277		304
Total Assets	$ 8,855	$ 19,298	$ 27,672	$ (37,382)	$ 18,443
Liabilities and Equity					