TE Connectivity Ltd.
Form 10-Q
April 26, 2011

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended March 25, 2011

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 April 20, 2011 was 439,737,786.

TE CONNECTIVITY LTD.
INDEX TO FORM 10-Q

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

TE CONNECTIVITY LTD.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	For the Quarters Ended March 25, 2011	For the Quarters Ended March 26, 2010	For the Six Months Ended March 25, 2011	For the Six Months Ended March 26, 2010
	(in millions, except per share data)			
Net sales	$ 3,472	$ 2,957	$ 6,672	$ 5,849
Cost of sales	2,428	1,999	4,607	4,050
Gross margin	1,044	958	2,065	1,799
Selling, general, and administrative expenses	445	406	847	774
Research, development, and engineering expenses	180	142	343	280
Acquisition and integration costs	1		18	
Restructuring and other charges, net	13	12	52	78
Operating income	405	398	805	667
Interest income	6	6	11	10
Interest expense	(43)	(38)	(78)	(77)
Other income, net	6	75	18	83
Income from continuing operations before income taxes	374	441	756	683
Income tax expense	(74)	(135)	(187)	(204)
Income from continuing operations	300	306	569	479
Loss from discontinued operations, net of income taxes			(3)	
Net income	300	306	566	479
Less: net income attributable to noncontrolling interests	(1)	(2)	(2)	(3)
Net income attributable to TE Connectivity Ltd.	$ 299	$ 304	$ 564	$ 476
Amounts attributable to TE Connectivity Ltd.:				
Income from continuing operations	$ 299	$ 304	$ 567	$ 476
Loss from discontinued operations			(3)	
Net income	$ 299	$ 304	$ 564	$ 476
Basic earnings (loss) per share attributable to TE Connectivity Ltd.:				
Income from continuing operations	$ 0.67	$ 0.67	$ 1.28	$ 1.04
Loss from discontinued operations			(0.01)	
Net income	$ 0.67	$ 0.67	$ 1.27	$ 1.04

Diluted earnings (loss) per share attributable to TE Connectivity Ltd.:				
Income from continuing operations	$ 0.67	$ 0.66	$ 1.26	$ 1.03
Loss from discontinued operations				
Net income	$ 0.67	$ 0.66	$ 1.26	$ 1.03
Cash distributions paid per common share of TE Connectivity Ltd.	$ 0.16	$ 0.16	$ 0.32	$ 0.32
Weighted-average number of shares outstanding:				
Basic	443	457	444	458
Diluted	449	461	449	461

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

TE CONNECTIVITY LTD.

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	March 25, 2011	September 24, 2010
	(in millions, except share data)	
Assets		
Current Assets:		
Cash and cash equivalents	$ 1,239	$ 1,990
Accounts receivable, net of allowance for doubtful accounts of $32 and $44, respectively	2,495	2,259
Inventories	1,912	1,583
Prepaid expenses and other current assets	834	651
Deferred income taxes	263	248
Total current assets	6,743	6,731
Property, plant, and equipment, net	3,129	2,867
Goodwill	3,602	3,211
Intangible assets, net	670	392
Deferred income taxes	2,547	2,447
Receivable from Tyco International Ltd. and Covidien plc	1,150	1,127
Other assets	239	217
Total Assets	$ 18,080	$ 16,992
Liabilities and Shareholders' Equity		
Current Liabilities:		
Current maturities of long-term debt	$ 185	$ 106
Accounts payable	1,558	1,386
Accrued and other current liabilities	1,875	1,804
Deferred revenue	132	164
Total current liabilities	3,750	3,460
Long-term debt	2,559	2,307
Long-term pension and postretirement liabilities	1,387	1,280
Deferred income taxes	285	285
Income taxes	2,223	2,152
Other liabilities	540	452
Total Liabilities	10,744	9,936
Commitments and contingencies (Note 10)		
Shareholders' Equity:		
Common shares, 468,215,574 shares authorized and issued, CHF 1.37 par value and CHF 1.73 par value, respectively	599	599
Contributed surplus	7,726	8,085
Accumulated deficit	(596)	(1,161)
Treasury shares, at cost, 28,542,459 and 24,845,929 shares, respectively	(851)	(721)
Accumulated other comprehensive income	447	246
Total TE Connectivity Ltd. shareholders' equity	7,325	7,048

Noncontrolling interests		11		8
Total Shareholders' Equity		7,336		7,056
Total Liabilities and Shareholders' Equity	$	18,080	$	16,992

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

TE CONNECTIVITY LTD.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	For the Six Months Ended March 25, 2011	March 26, 2010
	(in millions)	
Cash Flows From Operating Activities:		
Net income	$ 566	$ 479
Loss from discontinued operations, net of income taxes	3	
Income from continuing operations	569	479
Adjustments to reconcile net cash provided by operating activities:		
Non-cash restructuring and other charges, net	5	16
Depreciation and amortization	281	266
Deferred income taxes	104	155
Provision for losses on accounts receivable and inventories	13	
Tax sharing income	(17)	(83)
Other	49	38
Changes in assets and liabilities, net of the effects of acquisitions and divestitures:		
Accounts receivable, net	(12)	(146)
Inventories	(177)	(129)
Inventoried costs on long-term contracts	31	(25)
Prepaid expenses and other current assets	49	26
Accounts payable	29	260
Accrued and other current liabilities	(258)	4
Income taxes	13	
Deferred revenue	(38)	(40)
Long-term pension and postretirement liabilities	44	15
Other	26	(6)
Net cash provided by operating activities	711	830
Cash Flows From Investing Activities:		
Capital expenditures	(231)	(157)
Proceeds from sale of property, plant, and equipment	12	5
Proceeds from sale of short-term investments	155	1
Acquisition of business, net of cash acquired	(717)	(55)
Proceeds from divestiture of business, net of cash retained by business sold		12
Other	(9)	(5)
Net cash used in investing activities	(790)	(199)
Cash Flows From Financing Activities:		
Decrease in commercial paper	(100)	
Proceeds from long-term debt	249	
Repayment of long-term debt	(470)	

Proceeds from exercise of share options	65	3
Repurchase of common shares	(281)	(165)
Payment of cash distributions to shareholders	(141)	(146)
Other	(6)	(5)
Net cash used in financing activities	(684)	(313)
Effect of currency translation on cash	12	
Net increase (decrease) in cash and cash equivalents	(751)	318
Cash and cash equivalents at beginning of period	1,990	1,521
Cash and cash equivalents at end of period	$ 1,239	$ 1,839

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS (UNAUDITED)

1. Basis of Presentation

Company Name Change

In March 2011, the shareholders of Tyco Electronics Ltd. approved an amendment to the company's articles of association to change the name of the company from "Tyco Electronics Ltd." to "TE Connectivity Ltd." The name change was effective March 10, 2011. The company's ticker symbol "TEL" on the New York Stock Exchange remains unchanged.

Basis of Presentation

The unaudited Condensed Consolidated Financial Statements of TE Connectivity Ltd. ("TE Connectivity" or the "Company") 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 use of 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 Company consists of three reportable segments: Transportation Solutions, Communications and Industrial Solutions, and Network Solutions. The Company's former Transportation Connectivity segment was renamed Transportation Solutions during the second quarter of fiscal 2011. Effective for the first quarter of fiscal 2011, the Company reorganized its management and segments to align the organization around its strategy. The Company's businesses in the former Specialty Products Group Aerospace, Defense, and Marine; Medical; Circuit Protection; and Touch Solutions have been moved into other segments. Also, the former Subsea Communications segment and the businesses associated with ADC Telecommunications, Inc. ("ADC"), acquired on December 8, 2010, have been included in the Network Solutions segment. See Note 4 for additional information regarding the Company's acquisition of ADC and Note 20 for additional information regarding the Company's segments.

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 the Company's audited Consolidated Financial Statements contained in the Company's Annual Report on Form 10-K for the fiscal year ended September 24, 2010.

Unless otherwise indicated, references in the Condensed Consolidated Financial Statements to fiscal 2011 and fiscal 2010 are to the Company's fiscal years ending September 30, 2011 and September 24, 2010, respectively.

Reclassifications

The Company has reclassified certain items on its 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. Accounting Pronouncements

Recently Adopted Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board ("FASB") issued updates to guidance in Accounting Standards Codification ("ASC") 810, *Consolidation*, that address accounting for variable interest entities. The Company adopted these updates to ASC 810 in the first quarter of fiscal 2011. Adoption did not have a material impact on the Company's results of operations, financial position, or cash flows.

In December 2010, the FASB issued an update to guidance in ASC 805, *Business Combinations*, that clarifies the disclosure requirements for pro forma presentation of revenue and earnings related to a business combination. The Company elected to early adopt this guidance during the first quarter of fiscal 2011. See Note 4 for the required pro forma presentation related to the acquisition of ADC.

3. Restructuring and Other Charges, Net

Restructuring and other charges consisted of the following during the quarters and six months ended March 25, 2011 and March 26, 2010:

	For the Quarters Ended		For the Six Months Ended	
	March 25, 2011	March 26, 2010	March 25, 2011	March 26, 2010
	(in millions)			
Restructuring and related charges, net	$ 13	$ 14	$ 52	$ 65
Loss (gain) on divestiture and impairment of long-lived assets		(2)		13
	$ 13	$ 12	$ 52	$ 78

Restructuring and Related Charges, Net

Charges to operations by segment during the quarters and six months ended March 25, 2011 and March 26, 2010 were as follows:

	For the Quarters Ended		For the Six Months Ended	
	March 25, 2011	March 26, 2010	March 25, 2011	March 26, 2010
	(in millions)			
Transportation Solutions	$ (6)	$	$ (5)	$ 37
Communications and Industrial Solutions	1	12	4	19
Network Solutions	18	2	53	6
	13	14	52	62
Less: credits in cost of sales				3
Restructuring and related charges, net	$ 13	$ 14	$ 52	$ 65

Table of Contents

TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS (UNAUDITED) (Continued)

3. Restructuring and Other Charges, Net (Continued)

Amounts recognized on the Condensed Consolidated Statements of Operations during the quarters and six months ended March 25, 2011 and March 26, 2010 were as follows:

	For the Quarters Ended March 25, 2011	For the Quarters Ended March 26, 2010	For the Six Months Ended March 25, 2011	For the Six Months Ended March 26, 2010
	(in millions)			
Cash charges	$ 8	$ 15	$ 47	$ 59
Non-cash charges	5	(1)	5	3
	13	14	52	62
Less: credits in cost of sales				3
Restructuring and related charges, net	$ 13	$ 14	$ 52	$ 65

Restructuring and Related Cash Charges

Activity in the Company's restructuring reserves during the first six months of fiscal 2011 is summarized as follows:

	Balance at September 24, 2010	Charges	Utilization	Changes in Estimate	Currency Translation and Other	Balance at March 25, 2011
	(in millions)					
Fiscal 2011 Actions:						
Employee severance	$	$ 57	$ (17)	$	$ 12	$ 52
Facility exit costs			(1)		6	5
Other		1				1
Total		58	(18)		18(1)	58
Fiscal 2010 Actions:						
Employee severance	42		(10)	(5)	2	29
Facility exit costs	1					1
Other	2					2
Total	45		(10)	(5)	2	32
Pre-Fiscal 2010 Actions:						

Employee severance	55	1	(16)	(10)	2	32
Facilities exit costs	40	2	(7)			35
Other	5	1	(3)		1	4
Total	100	4	(26)	(10)	3	71
Total Activity	$ 145	$ 62	$ (54)	$ (15)	$ 23	$ 161

---

(1) Includes $16 million of ADC liabilities assumed.

Table of Contents

TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS (UNAUDITED) (Continued)

3. Restructuring and Other Charges, Net (Continued)

Fiscal 2011 Actions

The Company initiated restructuring programs during fiscal 2011 which were primarily associated with the acquisition of ADC and related headcount reductions in the Network Solutions segment. In connection with these actions, during the six months ended March 25, 2011, the Company recorded restructuring charges of $58 million primarily related to employee severance and benefits. The Company expects to complete all restructuring activities commenced in fiscal 2011 by the end of the fiscal year and to incur additional charges, primarily in the Network Solutions segment, of approximately $4 million relating to these initiated actions by completion.

During the six months ended March 25, 2011, in connection with the acquisition of ADC, the Company assumed $16 million of liabilities related to employee severance and exited lease facilities which have been included in the Network Solutions segment. The Company expects to incur charges of $2 million relating to these actions by completion.

Fiscal 2010 Actions

The Company initiated restructuring programs during fiscal 2010 primarily relating to headcount reductions in the Transportation Solutions segment. In connection with these actions, during the six months ended March 25, 2011 and March 26, 2010, the Company recorded net restructuring credits of $5 million and charges of $52 million, respectively, primarily related to employee severance and benefits. The Company expects to complete all restructuring activities commenced in fiscal 2010 by the end of fiscal 2011 and to incur additional charges, primarily in the Transportation Solutions segment, of approximately $3 million relating to these initiated actions by completion.

Pre-Fiscal 2010 Actions

During the six months ended March 25, 2011 and March 26, 2010, the Company recorded net restructuring credits of $6 million and charges of $7 million, respectively, related to pre-fiscal 2010 actions. The Company expects to complete all restructuring activities commenced in fiscal 2009 by the end of fiscal 2011 and to incur additional charges, primarily in the Communications and Industrial Solutions segment, of approximately $5 million relating to these initiated actions by completion.

Restructuring actions initiated in fiscal 2002 primarily related to actions taken as a result of a significant downturn in the telecommunications industry and certain other end markets. As of March 25, 2011, the remaining restructuring reserves related to 2002 actions were $33 million and related to exited lease facilities in the Network Solutions segment. The Company expects that the remaining reserves will continue to be paid out over the expected terms of the lease obligations which range from one to fifteen years.

Restructuring and Related Non-Cash Charges

During the six months ended March 25, 2011 and March 26, 2010, the Company recorded non-cash charges of $5 million and $3 million, respectively, primarily related to the write-off of fixed assets in connection with exited manufacturing facilities and product lines.

Table of Contents

TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS (UNAUDITED) (Continued)

3. Restructuring and Other Charges, Net (Continued)

Total Restructuring Reserves

The Company's restructuring reserves by segment were as follows:

	March 25, 2011	September 24, 2010
	(in millions)	
Transportation Solutions	$ 50	$ 79
Communications and Industrial Solutions	16	19
Network Solutions	95	47
Restructuring reserves	$ 161	$ 145

Restructuring reserves were included in the Company's Condensed Consolidated Balance Sheets as follows:

	March 25, 2011	September 24, 2010
	(in millions)	
Accrued and other current liabilities	$ 80	$ 115
Other liabilities	81	30
Restructuring reserves	$ 161	$ 145

Loss on Divestiture and Impairment of Long-Lived Assets

In December 2009, the Company completed the sale of the Dulmison connectors and fittings product line which was part of the Company's energy business in the Network Solutions segment for net cash proceeds of $12 million. In connection with the divestiture, the Company recorded a pre-tax impairment charge related to long-lived assets and a pre-tax loss on sale totaling $13 million in the first six months of fiscal 2010.

The impairment charge and loss on sale are reflected in restructuring and other charges, net on the Condensed Consolidated Statement of Operations. The Company has presented the long-lived asset impairment, the loss on sale, and the operations of the Dulmison connectors and fittings product line in continuing operations due to immateriality.

4. Acquisition

In July 2010, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") to acquire 100% of the outstanding stock of ADC Telecommunications, Inc. ("ADC"), a provider of broadband communications network connectivity products and related solutions. Pursuant to the Merger Agreement, the Company commenced a tender offer through a subsidiary of the Company to purchase all of the issued and outstanding shares of ADC common stock at a purchase price of $12.75 per share in cash followed by a merger of the subsidiary with and into ADC, with ADC surviving as an indirect wholly-owned subsidiary of the Company. On December 8, 2010, the Company acquired 86.8% of the outstanding common shares of ADC. On December 9, 2010, the Company exercised its option under the Merger Agreement to purchase additional shares from ADC that, when

Table of Contents

TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS (UNAUDITED) (Continued)

4. Acquisition (Continued)

combined with the shares purchased in the tender offer, were sufficient to give the Company ownership of more than 90% of the outstanding ADC common shares. On December 9, 2010, upon effecting a short-form merger under Minnesota law, the Company owned 100% of the outstanding shares of ADC for a total purchase price of approximately $717 million in cash (net of cash acquired of $546 million) and $22 million representing the fair value of ADC share-based awards exchanged for TE Connectivity share options and stock appreciation rights.

Based on the terms and conditions of ADC's share option and stock appreciation right ("SAR") awards (the "ADC Awards"), all ADC Awards became exercisable upon completion of the acquisition. Each outstanding ADC Award was exchanged for approximately 0.4 TE Connectivity share options or SARs and resulted in approximately 3 million TE Connectivity share options being issued with a weighted-average exercise price of $38.88. Issued SARs and the associated liability were insignificant. The fair value associated with the exchange of ADC Awards for TE Connectivity awards was approximately $24 million based on Black-Scholes-Merton pricing valuation model, of which $22 million was recorded as consideration given in the acquisition while the remaining $2 million was recorded as acquisition and integration costs on the Condensed Consolidated Statement of Operations during the six months ended March 25, 2011.

The acquisition was made to accelerate the Company's growth potential in the global broadband connectivity market. The Company expects to realize cost savings and other synergies through operational efficiencies. ADC's businesses are reported as part of the Company's Network Solutions segment from the date of acquisition.

The ADC acquisition was accounted for under the provisions of ASC 805, *Business Combinations*. The Company has allocated the purchase price to tangible and identifiable intangible assets acquired and liabilities assumed based on their fair values. The Company has completed the valuation of the identifiable assets acquired and liabilities assumed as of March 25, 2011.

Table of Contents

TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS (UNAUDITED) (Continued)

4. Acquisition (Continued)

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

	(in millions)
Cash and cash equivalents	$ 546
Short-term investments	155
Other current assets	540
Property, plant, and equipment	198
Goodwill	366
Intangible assets	308
Deferred income taxes	164
Other long-term assets	18
Total assets acquired	2,295
Current maturities of long-term debt	653
Other current liabilities	260
Long-term pension liabilities	74
Other long-term liabilities	19
Total liabilities assumed	1,006
Net assets acquired	1,289
Amounts attributable to noncontrolling interests	(4)
Conversion of ADC Awards to TE Connectivity share awards	(22)
Cash and cash equivalents acquired	(546)
Net cash paid	$ 717

Other current assets includes trade accounts receivable of $171 million, inventories of $166 million, and deferred income taxes of $16 million. Other current assets also includes assets held for sale of $109 million for which the Company has entered into binding sales agreements. Other current liabilities assumed are primarily comprised of accrued and other current liabilities of $165 million and trade accounts payable of $88 million.

The fair values assigned to intangible assets were determined through the use of the income approach, specifically the relief from royalty method, multi-period excess earnings method, and avoided cost method. These valuation methods rely on management judgments, including expected future cash flows resulting from existing customer relationships, customer attrition rates, contributory effects of other assets utilized in the business, peer group cost of capital and royalty rates, and other factors. The valuation of tangible assets was derived using a combination of the income approach, the market approach, and the cost approach. Significant judgments used in valuing tangible assets include estimated reproduction or replacement cost, useful lives of assets, estimated selling prices, costs to complete, and reasonable profit.

Useful lives for intangible assets were determined based upon the remaining useful economic lives of the intangible assets that are expected to contribute directly or indirectly to future cash flows.

Table of Contents

TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS (UNAUDITED) (Continued)

4. Acquisition (Continued)

Intangible assets acquired consist of the following:

	Amount (in millions)	Weighted-Average Amortization Period (in years)
Customer relationships	$ 175	11
Developed technology and patents	118	12
Customer order backlog	11	0.6
Trade names and trademarks	4	1.3
Total	$ 308	11

The acquired intangible assets are being amortized on a straight-line basis over their expected lives. The $366 million of goodwill is attributable to the excess of the purchase price over the fair value of the net tangible and intangible assets acquired and liabilities assumed. The goodwill recognized is primarily attributable to cost savings and other synergies that the Company expects to realize through operational efficiencies including consolidation of manufacturing, marketing, and general and administrative functions. All of the goodwill has been allocated to the Company's Network Solutions segment and is not deductible for tax purposes. However, prior to its merger with the Company, ADC completed certain acquisitions that resulted in goodwill deductible for U.S. tax purposes of approximately $346 million which the Company will deduct over the next ten years. The decrease in goodwill from the preliminary valuation of $523 million at December 24, 2010 is primarily attributable to the completion of the assessment of the acquired net deferred tax asset. The Company has increased the net deferred tax asset by $150 million principally in connection with the recognition of additional tax benefits of U.S. federal tax loss carryforwards. The Company has concluded it is more likely than not that these additional tax loss carryforwards will be utilized prior to their expiration, and accordingly, has reduced the valuation allowance previously established.

For the quarter ended March 25, 2011, ADC contributed net sales of $279 million and an operating loss of $31 million to the Company's Condensed Consolidated Statements of Operations. The operating loss included charges of $30 million associated with the amortization of acquisition accounting-related fair value adjustments primarily related to inventories and customer order backlog, restructuring charges of $17 million, and acquisition costs of $1 million.

During the period from December 9, 2010 to March 25, 2011, ADC contributed net sales of $330 million and an operating loss of $88 million to the Company's Condensed Consolidated Statements of Operations. The operating loss included restructuring charges of $52 million, charges of $37 million associated with the amortization of acquisition accounting-related fair value adjustments primarily related to inventories and customer order backlog, integration costs of $10 million, and acquisition costs of $8 million.

Table of Contents

TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS (UNAUDITED) (Continued)

4. Acquisition (Continued)

The following unaudited pro forma financial information reflects the consolidated results of operations of the Company had the ADC acquisition occurred at the beginning of fiscal 2010.

	Pro Forma for the Quarters Ended		Pro Forma for the Six Months Ended	
	March 25, 2011	March 26, 2010	March 25, 2011	March 26, 2010
	(in millions)			
Net sales	$ 3,472	$ 3,230	$ 6,883	$ 6,388
Net income attributable to TE Connectivity Ltd.	318	290	561	429

The pro forma financial information is based on the Company's final allocation of purchase price. The significant pro forma adjustments which are described below are net of income tax expense (benefit) at the statutory rate.

Pro forma results for the quarter ended March 25, 2011 were adjusted to exclude $11 million of charges related to the amortization of fair value adjustments to acquisition-date inventories, $6 million of charges related to the amortization of acquired customer order backlog, and $1 million of charges related to depreciation expense.

Pro forma results for the quarter ended March 26, 2010 were adjusted to exclude $2 million of charges related to depreciation expense.

Pro forma results for the six months ended March 25, 2011 were adjusted to exclude $15 million of share-based compensation charges incurred by ADC as a result of the change in control of ADC, $14 million of charges related to the amortization of fair value adjustments to acquisition-date inventories, $13 million of acquisition costs, $7 million of charges related to the amortization of acquired customer order backlog, and $1 million of charges related to depreciation expense.

Pro forma results for the six months ended March 26, 2010 were adjusted to exclude $2 million of charges related to depreciation expense. In addition, pro forma results for the six months ended March 26, 2010 were adjusted to include $15 million of charges related to the amortization of fair value adjustments to acquisition-date inventories, $7 million of charges related to the amortization of acquired customer order backlog, and $1 million of charges related to the amortization of the fair value of acquired intangible assets.

Pro forma results do not include any anticipated synergies or other anticipated benefits of the acquisition. Accordingly, the unaudited pro forma financial information is not necessarily indicative of either future results of operations or results that might have been achieved had the acquisition occurred at the beginning of fiscal 2010.

Table of Contents

TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS (UNAUDITED) (Continued)

5. Inventories

Inventories consisted of the following:

	March 25, 2011	September 24, 2010
	(in millions)	
Raw materials	$ 324	$ 253
Work in progress	573	509
Finished goods	937	739
Inventoried costs on long-term contracts	78	82
Inventories	$ 1,912	$ 1,583

6. Goodwill

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

	Transportation Solutions	Communications and Industrial Solutions	Network Solutions	Total
		(in millions)		
Balance at September 24, 2010:				
Goodwill	$ 2,710	$ 3,311	$ 1,865	$ 7,886
Accumulated impairment losses	(2,191)	(1,459)	(1,025)	(4,675)
	519	1,852	840	3,211
Acquisition			366	366
Currency translation	4	12	9	25
Balance at March 25, 2011:				
Goodwill	2,714	3,323	2,240	8,277
Accumulated impairment losses	(2,191)	(1,459)	(1,025)	(4,675)
	$ 523	$ 1,864	$ 1,215	$ 3,602

7. Intangible Assets, Net

The Company's intangible assets were as follows:

	March 25, 2011			September 24, 2010		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
			(in millions)			
Intellectual property	$ 849	$ (374)	$ 475	$ 730	$ (355)	$ 375
Customer relationships	176	(5)	171			
Other	40	(16)	24	21	(4)	17

Total	$ 1,065	$ (395)	$ 670	$ 751	$ (359)	$ 392

Table of Contents

TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS (UNAUDITED) (Continued)

7. Intangible Assets, Net (Continued)

During the six months ended March 25, 2011, the ADC acquisition increased the gross carrying amount of intangible assets by $308 million. Intangible asset amortization expense was $24 million and $7 million for the quarters ended March 25, 2011 and March 26, 2010, respectively, and $35 million and $15 million for the six months ended March 25, 2011 and March 26, 2010, respectively.

The estimated aggregate amortization expense on intangible assets currently owned by the Company is expected to be as follows:

	(in millions)
Remainder of fiscal 2011	$ 33
Fiscal 2012	59
Fiscal 2013	60
Fiscal 2014	59
Fiscal 2015	58
Fiscal 2016	57
Thereafter	344
	$ 670

8. Debt

Debt was as follows:

	March 25, 2011	September 24, 2010
	(in millions)	
6.00% senior notes due 2012	$ 718	$ 719
5.95% senior notes due 2014	300	300
6.55% senior notes due 2017	738	740
4.875% senior notes due 2021	249	
7.125% senior notes due 2037	475	475
3.50% convertible subordinated notes due 2015	172	
Commercial paper, at an interest rate of 0.55%		100
Other	92	79
Total debt(1)	2,744	2,413
Less current portion(2)	185	106
Long-term debt	$ 2,559	$ 2,307

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

(2) The current portion of long-term debt at March 25, 2011 was comprised of the convertible subordinated notes due 2015 and a portion of amounts shown as other. The current portion of long-term debt at September 24, 2010 was comprised of commercial paper and a portion of amounts shown as other.

14

TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS (UNAUDITED) (Continued)

8. Debt (Continued)

During December 2010, Tyco Electronics Group S.A. ("TEGSA"), a wholly-owned subsidiary of the Company, issued $250 million principal amount of 4.875% senior notes due January 15, 2021. The notes were offered and sold pursuant to an effective registration statement on Form S-3 filed on July 1, 2008, as amended on June 26, 2009. Interest on the notes accrues from the issuance date at a rate of 4.875% per year and is payable semi-annually on January 15 and July 15 of each year, beginning July 15, 2011. 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 the Company. Net proceeds from the issuance were approximately $249 million.

In the first quarter of fiscal 2011, in connection with the acquisition of ADC, the Company assumed $653 million of convertible subordinated notes due 2013, 2015, and 2017. Under the terms of the indentures governing these convertible subordinated notes, following the acquisition of ADC, the right to convert the notes into shares of ADC common stock changed to the right to convert the notes into cash. See Note 4 for more information on the ADC acquisition. In December 2010, the Company's ADC subsidiary commenced offers to purchase $650 million aggregate principal amount of the convertible subordinated notes at par plus accrued interest, pursuant to the terms of the indentures for the notes. The offers to purchase expired in January 2011. Promptly thereafter, $198 million principal amount of the convertible subordinated notes due 2013, $55 million principal amount of the convertible subordinated notes due 2015, and $218 million principal amount of the convertible subordinated notes due 2017 were purchased for an aggregate purchase price of $471 million. All of the convertible subordinated notes purchased by ADC have been cancelled.

Pursuant to an internal reorganization related to the acquisition of ADC, on March 22, 2011, the Company's ADC subsidiary commenced offers to purchase all of its outstanding convertible subordinated notes due 2015 and 2017 at par plus accrued interest. The notes are reflected as current on the Company's Condensed Consolidated Balance Sheet as of March 25, 2011. Subsequent to the quarter ended March 25, 2011, the Company purchased and cancelled notes validly tendered. See Note 21 for additional information regarding the offers.

In April 2007, TEGSA entered into a five-year unsecured senior revolving credit facility ("Credit Facility"). At March 25, 2011, the total effective commitment under the Credit Facility was $1,425 million. TEGSA had no borrowings under the Credit Facility at March 25, 2011 and September 24, 2010.

The Credit Facility contains a financial ratio covenant providing that if the Company's 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 the Company's other debt agreements contain additional customary covenants.

TEGSA's payment obligations under its senior notes, commercial paper, and Credit Facility are fully and unconditionally guaranteed by TE Connectivity Ltd. Neither TE Connectivity Ltd. nor any of its subsidiaries provides a guarantee as to ADC's payment obligations under its convertible notes.

Table of Contents

TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS (UNAUDITED) (Continued)

8. Debt (Continued)

The Company has used, and continues to use, derivative instruments to manage interest rate risk. See Note 11 for information on options to enter into interest rate swaps ("swaptions"), forward starting interest rate swaps, and interest rate swaps.

The fair value of the Company's debt was approximately $2,974 million and $2,680 million at March 25, 2011 and September 24, 2010, respectively.

9. Guarantees

Pursuant to the Separation and Distribution Agreement and Tax Sharing Agreement, upon separation from Tyco International Ltd. ("Tyco International") on June 29, 2007, the Company entered into certain guarantee commitments and indemnifications with Tyco International and Covidien plc ("Covidien"). Under these agreements, principally the Tax Sharing Agreement, Tyco International, Covidien, and TE Connectivity share 27%, 42%, and 31%, respectively, of certain contingent liabilities relating to unresolved pre-separation tax matters of Tyco International. The effect of the Tax Sharing Agreement is to indemnify the Company for 69% of certain liabilities settled in cash by the Company with respect to unresolved pre-separation tax matters. Pursuant to that indemnification, the Company has 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, the Company would be responsible for a portion of the defaulting party or parties' obligation. In addition, Tyco International and Covidien are responsible for their tax liabilities that are not subject to the Tax Sharing Agreement's sharing formula. The Company's indemnification created under the Tax Sharing Agreement qualifies as a guarantee of a third party entity's debt under ASC 460, *Guarantees*.

At March 25, 2011, the Company had a liability representing the indemnifications made to Tyco International and Covidien pursuant to the Tax Sharing Agreement of $339 million of which $210 million was reflected in other liabilities and $129 million was reflected in accrued and other current liabilities on the Condensed Consolidated Balance Sheet. At September 24, 2010, the liability was $339 million and consisted of $205 million in other liabilities and $134 million in accrued and other current liabilities. The amount reflected in accrued and other current liabilities is the Company's 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 one year. The Company has 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 this amount remains sufficient to satisfy these expected obligations.

In disposing of assets or businesses, the Company often provides representations, warranties, and/or indemnities to cover various risks including unknown damage to the 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. The Company does not have the ability to estimate the potential liability from such indemnities because they relate to unknown conditions; however, the Company has no reason to believe that these uncertainties would have a material adverse effect on the Company's results of operations, financial position, or cash flows.

TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS (UNAUDITED) (Continued)

9. Guarantees (Continued)

At March 25, 2011, the Company had outstanding letters of credit and letters of guarantee in the amount of $453 million, of which $50 million was related to its contract with the State of New York (the "State"). As disclosed in Note 10, in January 2009, the State drew down $50 million against an irrevocable standby letter of credit funded by the Company. Although the Company disputes that the State has any basis to do so, the State has the ability to draw up to an additional $50 million against the standby letter of credit which could result in additional charges and could have a significant adverse effect on the Company's results of operations, financial position, and cash flows.

In the normal course of business, the Company is liable for contract completion and product performance. In the opinion of management, except for the potential claims related to the contract with the State of New York discussed above, such obligations will not significantly affect the Company's results of operations, financial position, or cash flows.

The Company generally records estimated product warranty costs at the time of sale. The changes in the Company's warranty liability for the quarters and six months ended March 25, 2011 and March 26, 2010 were as follows:

	For the Quarters Ended		For the Six Months Ended	
	March 25, 2011	March 26, 2010	March 25, 2011	March 26, 2010
	(in millions)			
Balance at beginning of period	$ 55	$ 48	$ 47	$ 43
Warranties issued	7	1	12	3
Acquisition			5	
Warranty expirations and changes in estimate, net	1	1		5
Settlements	(6)	(3)	(7)	(4)
Currency translation	1	(1)	1	(1)
Balance at end of period	$ 58	$ 46	$ 58	$ 46

10. Commitments and Contingencies

TE Connectivity Legal Proceedings

In the ordinary course of business, the Company is subject to various legal proceedings and claims, including patent infringement claims, product liability matters, employment disputes, tax matters, disputes on agreements, other commercial disputes, environmental matters, and antitrust claims. Although it is not feasible to predict the outcome of these proceedings, based upon the Company's experience, current information, and applicable law, the Company does not expect that the outcome of these proceedings, either individually or in the aggregate, will have a material adverse effect on its results of operations, financial position, or cash flows.

Legal Matters under Separation and Distribution Agreement

The Separation and Distribution Agreement among the Company, Tyco International, and Covidien provided for the allocation among the parties of Tyco International's assets, liabilities, and obligations attributable to periods prior to the Company's and Covidien's separations from Tyco International on June 29, 2007. Under the Separation and Distribution Agreement, the Company

Table of Contents

TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS (UNAUDITED) (Continued)

10. Commitments and Contingencies (Continued)

assumed the liability for, and control of, all pending and threatened legal matters at separation related to the Company's business or assumed or retained liabilities. TE Connectivity was responsible for 31% of certain liabilities that arose from litigation pending or threatened at separation that was not allocated to one of the three parties, and Tyco International and Covidien were responsible for 27% and 42%, respectively, of such liabilities. If any party defaults in payment of its allocated share of any such liability, each non-defaulting party will be responsible for an equal portion of the amount in default together with any other non-defaulting party, although any such payments will not release the obligation of the defaulting party. Subject to the terms and conditions of the Separation and Distribution Agreement, Tyco International manages and controls all the legal matters related to the shared contingent liabilities, including the defense or settlement thereof, subject to certain limitations. All costs and expenses that Tyco International incurs in connection with the defense of such litigation, other than the amount of any judgment or settlement, which is allocated in the manner described above, will be borne equally by Tyco International, Covidien, and the Company. At the present time, all significant matters for which the Company shared responsibility with Tyco International and Covidien under the Separation and Distribution Agreement, which as previously reported in the Company's periodic filings generally related to securities class action cases and other securities cases, have been settled. Other than matters described below under "Compliance Matters," the Company presently is not aware of any additional legal matters which may arise for which it would bear a portion of the responsibility under the Separation and Distribution Agreement.

Compliance Matters

As previously reported in the Company's periodic filings, Tyco International received and has responded to various allegations that certain improper payments were made by Tyco International subsidiaries, including TE Connectivity subsidiaries, in recent years prior to the separation. Tyco International reported to the U.S. Department of Justice and the Securities and Exchange Commission the investigative steps and remedial measures that it had taken in response to the allegations, including that it retained outside counsel to perform a company-wide baseline review of its policies, controls, and practices with respect to compliance with the Foreign Corrupt Practices Act ("FCPA"), and that it would continue to investigate and make periodic progress reports to these agencies. To date, the Company's baseline review has revealed that some of the Company's former business practices may not have complied with FCPA requirements. At this time, the Company believes it has adequate amounts recorded related to these matters, the amounts of which are not significant. Any judgment, settlement, or other cost incurred by Tyco International in connection with these matters not specifically allocated to Tyco International, Covidien, or the Company would be subject to the liability sharing provisions of the Separation and Distribution Agreement.

Income Taxes

In prior years, in connection with the Internal Revenue Service ("IRS") audit of various fiscal years, Tyco International submitted to the IRS proposed adjustments to prior period U.S. federal income tax returns resulting in a reduction in the taxable income previously filed. The IRS accepted substantially all of the proposed adjustments for fiscal 1997 through 2000 for which the IRS had completed its field work. On the basis of previously accepted amendments, the Company has determined that acceptance of adjustments presented for additional periods through fiscal 2006 is more

Table of Contents

TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS (UNAUDITED) (Continued)

10. Commitments and Contingencies (Continued)

likely than not to be accepted and, accordingly, has recorded them, as well as the impacts of the adjustments accepted by the IRS, on the Condensed Consolidated Financial Statements.

As the Company's tax return positions continue to be updated for periods prior to separation, additional adjustments may be identified and recorded on the Condensed Consolidated Financial Statements. While the final adjustments cannot be determined until the income tax return amendment process is completed, the Company believes that any resulting adjustments will not have a material impact on its results of operations, financial position, or cash flows. Additionally, adjustments may be recorded to shareholders' equity in the future for the impact of filing final or amended income tax returns in certain jurisdictions where those returns include a combination of Tyco International, Covidien, and/or the Company's subsidiaries for the periods prior to the separation.

During fiscal 2007, the 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 which reflect the IRS' determination of proposed tax adjustments for the 1997 through 2000 period. Tyco International has appealed certain proposed adjustments totaling approximately $1 billion. 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. Based upon statutory guidelines, Tyco International estimates the proposed penalties could range between $30 million and $50 million, and it is the Company's understanding that Tyco International is vigorously opposing the assertion of any such penalties. The penalty is asserted against a prior subsidiary of Tyco International that was distributed to TE Connectivity in connection with the separation. Any penalty ultimately imposed upon the TE Connectivity subsidiary would be subject to sharing with Tyco International and Covidien under the Tax Sharing Agreement. It is the Company's understanding that Tyco International continues to make progress towards resolving a substantial number of the proposed tax adjustments for the years 1997 through 2000; however, several significant matters remain in dispute. The primary issues in dispute involve the tax treatment of certain intercompany transactions. If Tyco International is not able to resolve these contested adjustments through the IRS appeals process, it may choose to litigate the disputed issues. In addition, Tyco International could settle with the IRS and pay any related deficiencies for the undisputed tax adjustments within the next twelve months.

The IRS continues to audit certain Tyco International income tax returns for the years 2001 through 2004 and is nearing completion of its fieldwork for this period. It is possible that the audit for the years 2001 through 2004 will conclude within the next twelve months. During the fourth quarter of fiscal 2009, Tyco International settled a matter with the IRS concerning certain tax deductions claimed on Tyco International's income tax returns for the years 2001 through 2004. The Company has reflected $244 million of liabilities related to the audits of Tyco International's income tax returns for 1997 through 2000 and 2001 through 2004 in accrued and other current liabilities on the Condensed Consolidated Balance Sheets at March 25, 2011 and September 24, 2010 as certain of these matters could be resolved within one year. It is anticipated that the IRS will commence its audit of certain Tyco International income tax returns for the years 2005 through 2007 in fiscal 2011.

The Company continues to believe that the amounts recorded in its 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 the Company's results of operations, financial position, or cash flows.

Table of Contents

TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS (UNAUDITED) (Continued)

10. Commitments and Contingencies (Continued)

Environmental Matters

The Company is involved in various stages of investigation and cleanup related to environmental remediation matters at a number of sites. The ultimate cost of site cleanup is difficult to predict given the uncertainties regarding the extent of the required cleanup, the interpretation of applicable laws and regulations, and alternative cleanup methods. As of March 25, 2011, the Company concluded that it was probable that it would incur remedial costs in the range of $14 million to $25 million. As of March 25, 2011, the Company concluded that the best estimate within this range is $14 million, of which $6 million is included in accrued and other current liabilities and $8 million is included in other liabilities on the Condensed Consolidated Balance Sheet. In view of the Company's financial position and reserves for environmental matters of $14 million, the Company believes that any potential payment of such estimated amounts will not have a material adverse effect on its results of operations, financial position, or cash flows.

Matters Related to the Company's Former Wireless Systems Business

Certain liabilities and contingencies related to the Company's former Wireless Systems business were retained by the Company when this business was sold in fiscal 2009. These include certain retained liabilities related to the State of New York contract and a contingent purchase price commitment related to the acquisition of Com-Net by the Wireless Systems business in 2001. See additional information below.

State of New York Contract

In September 2005, the Company was awarded a twenty-year lease contract with the State of New York to construct, operate, and maintain a statewide wireless communications network for use by state and municipal first responders. In August 2008, the Company was served by the State with a default notice related to the first regional network, pursuant to the contract. Under the terms of the contract, the Company had 45 days to rectify the purported deficiencies noted by the State. In October 2008, the Company informed the State that all technical deficiencies had been remediated and the system was operating in accordance with the contract specifications and certified the system ready for testing. The State conducted further testing during November and December 2008. In January 2009, the State notified the Company that, in the State's opinion, the Company had not fully remediated the issues cited by the State and it had determined that the Company was in default of the contract and that it had exercised its right to terminate the contract. The State contends that it has the right under the contract to recoup costs incurred by the State in conjunction with the implementation of the network, and as a result of this contention, in January 2009, the State drew down $50 million against an irrevocable standby letter of credit funded by the Company. The State has the ability to draw up to an additional $50 million against the standby letter of credit, although the Company disputes that the State has any basis to do so.

In February 2009, the Company filed a claim in the New York Court of Claims, seeking over $100 million in damages, and alleging a number of causes of action, including breach of contract, unjust enrichment, defamation, conversion, breach of the covenant of good faith and fair dealing, the imposition of a constructive trust, and seeking a declaration that the State terminated the contract "for convenience." In September 2009, the Court granted the State's motion to dismiss all counts of the

Table of Contents

TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS (UNAUDITED) (Continued)

10. Commitments and Contingencies (Continued)

complaint, with the exception of the breach of contract claim and a claim for breach of warranty in connection with the State's drawdown on the $50 million letter of credit. In November 2009, the State filed an answer to the complaint and counterclaim asserting breach of contract and alleging that the State has incurred damages in excess of $275 million. The Company moved to dismiss the counterclaim in February 2010, and in June 2010 the Court denied the motion. The Company filed its answer to the State's counterclaim in July 2010. The Company believes that the counterclaim is without merit and intends to vigorously pursue its claims in this matter. A trial date has been set for October 2011.

Com-Net

At March 25, 2011, the Company had a contingent purchase price commitment of $80 million related to its 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 for the State of Florida is finished and the State of Florida has approved the system based on the guidelines set forth in the contract. Under the terms of the purchase and sale agreement, the Company does not believe it has any obligation to the sellers. However, the sellers have contested the Company's position and initiated a lawsuit in June 2006 in the Court of Common Pleas in Allegheny County, Pennsylvania, which is in the motion pleading and discovery phase. A liability for this contingency has not been recorded on the Condensed Consolidated Financial Statements as the Company does not believe that any payment is probable or reasonably estimable at this time.

11. Financial Instruments

The Company's financial instruments consist primarily of cash and cash equivalents, accounts receivable, accounts payable, debt, and derivative financial instruments. The fair value of cash and cash equivalents, accounts receivable, and accounts payable approximated book value as of March 25, 2011 and September 24, 2010. See Note 8 for disclosure of the fair value of debt and Note 12 for additional information on fair value measurements.

The Company uses derivative and non-derivative financial instruments to manage certain exposures to foreign currency, interest rate, and commodity risks.

Foreign Exchange Risks

As part of managing the exposure to changes in foreign currency exchange rates, the Company utilizes 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.

The Company expects 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.

Table of Contents

TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS (UNAUDITED) (Continued)

11. Financial Instruments (Continued)

Interest Rate and Investment Risk Management

The Company issues debt, from time to time, to fund its operations and capital needs. Such borrowings can result in interest rate exposure. To manage the interest rate exposure and to minimize overall interest cost, the Company uses interest rate swaps to convert a portion of fixed-rate debt into variable-rate debt (via fair value hedge designation). The Company uses forward starting interest rate swaps and swaptions to manage interest rate exposure in periods prior to the anticipated issuance of fixed-rate debt (via cash flow hedge designation). The Company also utilizes interest rate swap and swaption contracts, a portion of which are designated as cash flow hedges, to manage interest rate and earnings exposure on cash and cash equivalents, and certain non-qualified deferred compensation liabilities.

During the first six months of fiscal 2011, the Company entered into interest rate swaps designated as fair value hedges on $150 million principal amount of the 4.875% senior notes. The maturity dates of the interest rate swaps coincide with the maturity date of the notes. Under these contracts, the Company receives fixed amounts of interest applicable to the underlying notes and pays a floating amount based upon the three month U.S. Dollar London interbank offered rate.

The Company utilizes an interest rate swap designated as a cash flow hedge to manage interest rate exposure on a notional amount of $40 million of cash and cash equivalents as of March 25, 2011 and September 24, 2010. The fair value of the contract was not material as of March 25, 2011 and September 24, 2010.

The Company utilizes a swap to manage exposure related to certain of the Company's non-qualified deferred compensation liabilities. The notional amount of the swap was $29 million and $19 million at March 25, 2011 and September 24, 2010, respectively, and acts as an economic hedge of changes in a portion of the liabilities. Both the change in value of the swap contract and the non-qualified deferred compensation liabilities are recorded in selling, general, and administrative expense in the Condensed Consolidated Statements of Operations.

Commodity Hedges

As part of managing the exposure to certain commodity price fluctuations, the Company utilizes commodity swap contracts, all 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 prices of commodities used in production.

At March 25, 2011 and September 24, 2010, the Company's commodity hedges had notional values of $128 million and $108 million, respectively. The Company expects 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.

Hedges of Net Investment

The Company hedges its 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 $2,054 million and $1,672 million at March 25, 2011 and September 24, 2010, respectively. The Company reclassified foreign exchange losses of $116 million and gains of $38 million

Table of Contents

TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS (UNAUDITED) (Continued)

11. Financial Instruments (Continued)

during the quarters ended March 25, 2011 and March 26, 2010, respectively, and losses of $102 million and gains of $54 million during the six months ended March 25, 2011 and March 26, 2010, respectively. These amounts were recorded as currency translation, a component of accumulated other comprehensive income, offsetting foreign exchange gains or losses attributable to the translation of the net investment. See additional information in Note 18.

Derivative Instrument Summary

The fair value of the Company's derivative instruments as of March 25, 2011 and September 24, 2010 is summarized below.

	March 25, 2011		September 24, 2010	
	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	$	$ 4	$
Interest rate swaps and swaptions	4	6	3	12
Commodity swap contracts	23		12	
Total derivatives designated as hedging instruments	29	6	19	12
Derivatives not designated as hedging instruments:				
Foreign currency contracts(3)	5	2	5	3
Investment swaps	1		2	
Total derivatives not designated as hedging instruments	6	2	7	3
Total derivatives	$ 35	$ 8	$ 26	$ 15

(1) All foreign currency derivatives, commodity swap derivatives, and investment swap derivatives that are in asset positions are recorded in prepaid expenses and other current assets on the Condensed Consolidated Balance Sheets, except where a right of offset against liability positions exists. Derivative instruments in prepaid expenses and other current assets on the Condensed Consolidated Balance Sheets totaled $30 million and $22 million at March 25, 2011 and September 24, 2010, respectively. All interest rate swaps and swaption derivatives in asset positions are recorded in other assets on the Condensed Consolidated Balance Sheets and totaled $4 million and $3 million at March 25, 2011 and September 24, 2010, respectively.

(2) All foreign currency derivatives, commodity swap derivatives, and investment swap derivatives that are in liability positions are recorded in accrued and other current liabilities on the Condensed Consolidated Balance Sheets, except where a right of offset against asset positions exists. Derivative instruments in accrued and other current liabilities on the Condensed Consolidated Balance Sheets totaled $1 million and $2 million at March 25, 2011 and September 24, 2010, respectively. All interest rate swaps and swaption derivatives in liability positions are recorded in other liabilities on the Condensed Consolidated Balance Sheets and totaled $6 million and $12 million at March 25, 2011 and September 24, 2010, respectively.

(3) Contracts are presented gross without regard to any right of offset that exists.

Table of Contents

TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS (UNAUDITED) (Continued)

11. Financial Instruments (Continued)

The effects of derivative instruments designated as fair value hedges on the Condensed Consolidated Statement of Operations for the quarters and six months ended March 25, 2011 and March 26, 2010 were as follows:

Derivatives Designated as Fair Value Hedges	Location	Gain Recognized For the Quarters Ended March 25, 2011	Gain Recognized For the Quarters Ended March 26, 2010	For the Six Months Ended March 25, 2011	For the Six Months Ended March 26, 2010
		(in millions)			
Interest rate swaps(1)	Interest expense	$ 1	$ 1	$ 3	$ 3

(1) Certain interest rate swaps designated as fair value hedges were terminated in December 2008. Terminated interest rate swaps resulted in a gain of $1 million in each of the quarters ended March 25, 2011 and March 26, 2010, and a gain of $3 million in each of the six months ended March 25, 2011 and March 26, 2010. Interest rate swaps in place at March 25, 2011 had no gain or loss recognized on the Condensed Consolidated Statement of Operations during the periods.

The effects of derivative instruments designated as cash flow hedges on the Condensed Consolidated Statement of Operations for the quarters ended March 25, 2011 and March 26, 2010 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	Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) Amount	Gain (Loss) Recognized in Income (Ineffective Portion and Amount Excluded From Effectiveness Testing) Location	Gain (Loss) Recognized in Income (Ineffective Portion and Amount Excluded From Effectiveness Testing) Amount
		(in millions)			
For the Quarter Ended March 25, 2011:					
Foreign currency contracts	$	Cost of sales	$	Cost of sales(1)	$
Commodity swap contracts	13	Cost of sales	8	Cost of sales	
Interest rate swaps and swaptions(2)		Interest expense	(1)	Interest expense	(1)
Total	$ 13		$ 7		$ (1)
For the Quarter Ended March 26, 2010:					
Foreign currency contracts	$ 1	Cost of sales	$	Cost of sales(1)	$
Commodity swap contracts		Cost of sales	2	Cost of sales	
Interest rate swaps and swaptions(2)	(3)	Interest expense	(2)	Interest expense	(1)
Total	$ (2)		$		$ (1)

(1) Depending on the nature of the hedge, ineffectiveness is recorded in cost of sales or selling, general, and administrative expenses.

Table of Contents

TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS (UNAUDITED) (Continued)

11. Financial Instruments (Continued)

(2) Certain forward starting interest rate swaps designated as cash flow hedges were terminated in September 2007. Terminated forward starting interest rate swaps resulted in losses of $1 million and $2 million reflected in interest expense for the quarters ended March 25, 2011 and March 26, 2010, respectively. Forward starting interest rate swaps in place at March 25, 2011 did not result in any gains or losses during the period. Forward starting interest rate swaps in place at March 26, 2010 resulted in losses of $2 million in other comprehensive income related to the effective portions of the hedge during the period. Interest rate swaptions in place at March 25, 2011 resulted in losses of $1 million in interest expense as a result of amounts excluded from hedging relationship; there were no gains or losses recorded in other comprehensive income during the period. Interest rate swaptions in place at March 26, 2010 resulted in losses of $1 million in other comprehensive income related to the effective portions of the hedges and losses of $1 million in interest expense as a result of amounts excluded from the hedging relationship.

The effects of derivative instruments designated as cash flow hedges on the Condensed Consolidated Statement of Operations for the six months ended March 25, 2011 and March 26, 2010 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 Six Months Ended March 25, 2011:					
Foreign currency contracts	$	Cost of sales	$ 2	Cost of sales(1)	$
Commodity swap contracts	25	Cost of sales	14	Cost of sales	
Interest rate swaps and swaptions(2)	6	Interest expense	(2)	Interest expense	1
Total	$ 31		$ 14		$ 1
For the Six Months Ended March 26, 2010:					
Foreign currency contracts	$ (1)	Cost of sales	$	Cost of sales(1)	$
Commodity swap contracts	4	Cost of sales	3	Cost of sales	
Interest rate swaps and swaptions(2)	3	Interest expense	(3)	Interest expense	(2)
Total	$ 6		$		$ (2)

---

(1) Depending on the nature of the hedge, ineffectiveness is recorded in cost of sales or selling, general, and administrative expenses.

(2) Certain forward starting interest rate swaps designated as cash flow hedges were terminated in September 2007. Terminated forward starting interest rate swaps resulted in losses of $2 million and $3 million reflected in interest expense for the six months ended March 25, 2011 and March 26, 2010, respectively. Forward starting interest rate swaps in place at March 25, 2011 and March 26, 2010 resulted in gains of $6 million and gains of $1 million, respectively, in other comprehensive income related to the effective portions of the hedge during the period. Interest rate swaptions in place at March 25, 2011 resulted in gains of $1 million in interest expense as a result of amounts excluded from hedging relationship; there were no gains or losses recorded in other comprehensive income during the period. Interest rate swaptions in place at March 26, 2010 resulted in gains of $2 million in other comprehensive income related to the effective portions of the hedges and losses of $2 million in interest expense as a result of amounts excluded

from the hedging relationship.

Table of Contents

TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS (UNAUDITED) (Continued)

11. Financial Instruments (Continued)

The effects of derivative instruments not designated as hedging instruments on the Condensed Consolidated Statement of Operations for the quarters and six months ended March 25, 2011 and March 26, 2010 were as follows:

Derivatives not Designated as Hedging Instruments	Location	Gain Recognized For the Quarters Ended March 25, 2011	For the Quarters Ended March 26, 2010	For the Six Months Ended March 25, 2011	For the Six Months Ended March 26, 2010
		(in millions)			
Foreign currency contracts	Selling, general, and administrative expenses	$ 5	$	$ 5	$ 5
Investment swaps	Selling, general, and administrative expenses	5		4	
Total		$ 10	$	$ 9	$ 5

12. Fair Value Measurements

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

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

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

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.

Table of Contents

TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS (UNAUDITED) (Continued)

12. 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 Level 1	Level 2	Level 3	Fair Value
		(in millions)		
March 25, 2011:				
Assets:				
Commodity swap contracts	$ 23	$	$	$ 23
Interest rate swaps and swaptions		4		4
Investment swap contracts		1		1
Foreign currency contracts(1)		7		7
Rabbi trust assets	6	78		84
Total assets at fair value	$ 29	$ 90	$	$ 119
Liabilities:				
Interest rate swaps and swaptions	$	$ 6	$	$ 6
Foreign currency contracts(1)		2		2
Total liabilities at fair value	$	$ 8	$	$ 8
September 24, 2010:				
Assets:				
Commodity swap contracts	$ 12	$	$	$ 12
Interest rate swaps and swaptions		3		3
Investment swap contracts		2		2
Foreign currency contracts(1)		9		9
Rabbi trust assets	6	78		84
Total assets at fair value	$ 18	$ 92	$	$ 110
Liabilities:				
Interest rate swaps and swaptions	$	$ 12	$	$ 12
Foreign currency contracts(1)		3		3
Total liabilities at fair value	$	$ 15	$	$ 15

(1) Contracts are presented gross without regard to any right of offset that exists. See Note 11 for a reconciliation of amounts to the Condensed Consolidated Balance Sheets.

As of March 25, 2011 and September 24, 2010, the Company did not have significant financial assets or liabilities that are measured at fair value on a non-recurring basis.

The following is a description of the valuation methodologies used for the respective financial assets and liabilities measured at fair value on a recurring basis:

Commodity swap contracts	Fair value of these assets and liabilities is determined using quoted prices on futures exchanges (level 1).

Table of Contents

TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS (UNAUDITED) (Continued)

12. Fair Value Measurements (Continued)

Interest rate swaps and swaptions Fair value of these assets and liabilities is determined based on observable inputs other than quoted prices. The positions are primarily valued using market approach models that use readily observable interest rates as their basis (level 2).

Investment swap contracts Fair value of these assets is determined based on observable inputs other than quoted prices. The positions are primarily valued using market approach models that use readily observable equity returns as their basis (level 2).

Foreign currency contracts Fair value of these assets and liabilities is determined using the market approach. Values are based on observable market transactions of spot and forward currency rates (level 2).

Rabbi trust assets Rabbi trust assets are principally comprised of comingled equity funds that are marked to fair value based on unadjusted quoted prices in active markets (level 1) and fixed income securities that are marked to fair value based on quoted market prices or other pricing determinations based on the results of market approach valuation models using observable market data such as recently reported trades, bid and offer information, and benchmark securities (level 2).

The majority of derivatives entered into by the Company are valued using the over-the-counter quoted market prices for similar instruments. The Company does not believe that fair values of these derivative instruments materially differ from the amounts that could be realized upon settlement or maturity.

During the six months ended March 26, 2010, the Company used significant other observable inputs (level 2) to calculate a $12 million impairment charge related to the Dulmison connectors and fittings product line sold during the first quarter of fiscal 2010 for $12 million. See Note 3 for additional information.

13. Retirement Plans

The net periodic benefit cost for all U.S. and non-U.S. defined benefit pension plans in the quarters ended March 25, 2011 and March 26, 2010 was as follows:

	U.S. Plans		Non-U.S. Plans	
	For the Quarters Ended		For the Quarters Ended	
	March 25, 2011	March 26, 2010	March 25, 2011	March 26, 2010
	(in millions)			
Service cost	$ 2	$ 1	$ 17	$ 14
Interest cost	13	13	22	22
Expected return on plan assets	(16)	(14)	(14)	(13)
Amortization of net actuarial loss	9	8	10	7
Net periodic benefit cost	$ 8	$ 8	$ 35	$ 30

TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS (UNAUDITED) (Continued)

13. Retirement Plans (Continued)

The net periodic benefit cost for all U.S. and non-U.S. defined benefit pension plans in the six months ended March 25, 2011 and March 26, 2010 was as follows:

	U.S. Plans		Non-U.S. Plans	
	For the Six Months Ended		For the Six Months Ended	
	March 25, 2011	March 26, 2010	March 25, 2011	March 26, 2010
	(in millions)			
Service cost	$ 4	$ 3	$ 33	$ 29
Interest cost	26	27	43	43
Expected return on plan assets	(32)	(29)	(28)	(27)
Amortization of net actuarial loss	18	16	20	15
Settlement/curtailment loss (gain)		2		(1)
Net periodic benefit cost	$ 16	$ 19	$ 68	$ 59

The net periodic benefit cost for postretirement benefit plans was immaterial for the quarters and six months ended March 25, 2011 and March 26, 2010.

The Company anticipates that, at a minimum, it will make the minimum required contributions to its pension plans in fiscal 2011 of $4 million for U.S. plans and $67 million for non-U.S. plans. During the six months ended March 25, 2011, the Company contributed $1 million to its U.S. plans and $40 million to its non-U.S. plans.

The Company expects to make contributions to its postretirement benefit plans of $2 million in fiscal 2011. During the six months ended March 25, 2011, Company contributions to its postretirement benefit plans were $1 million.

14. Income Taxes

The Company recorded a tax provision of $74 million, for an effective income tax rate of 19.8%, and a tax provision of $187 million, for an effective income tax rate of 24.7%, for the quarter and six months ended March 25, 2011, respectively. The effective income tax rate for the quarter ended March 25, 2011 reflects tax benefits recognized in connection with anticipated fiscal 2011 profitability in certain entities operating in lower tax rate jurisdictions partially offset by accruals of interest related to uncertain tax positions. In addition, the effective income tax rate for the quarter ended March 25, 2011 reflects tax benefits associated with certain ADC related restructuring charges and acquisition costs as well as tax benefits related to a favorable tax settlement. The effective income tax rate for the six months ended March 25, 2011 reflects tax benefits recognized in connection with anticipated fiscal 2011 profitability in certain entities operating in lower tax rate jurisdictions partially offset by accruals of interest related to uncertain tax positions and tax benefits related to a favorable tax settlement.

The Company recorded a tax provision of $135 million, for an effective income tax rate of 30.6%, and a tax provision of $204 million, for an effective income tax rate of 29.9% for the quarter and six months ended March 26, 2010, respectively. The effective income tax rate for the quarter and six months ended March 26, 2010 reflects a charge of $118 million primarily associated with certain proposed adjustments to prior year income tax returns and related accrued interest as well as an

TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS (UNAUDITED) (Continued)

14. Income Taxes (Continued)

income tax benefit of $72 million recognized in connection with a reduction in the valuation allowance associated with tax loss carryforwards in certain non-U.S. locations. In addition, the effective income tax rate for the quarter and six months ended March 26, 2010 reflects tax benefits recognized in connection with anticipated increased profitability in fiscal 2010 in certain entities operating in lower tax rate jurisdictions.

The Company records accrued interest as well as penalties related to uncertain tax positions as part of the provision for income taxes. As of March 25, 2011, the Company had recorded $1,323 million of accrued interest and penalties related to uncertain tax positions on the Condensed Consolidated Balance Sheet, of which $1,182 million was recorded in income taxes and $141 million was recorded in accrued and other current liabilities. During the quarter and six months ended March 25, 2011, the Company recognized $30 million and $67 million, respectively, of interest and penalties on the Condensed Consolidated Statements of Operations. As of September 24, 2010, the balance of accrued interest and penalties was $1,252 million, of which $1,119 million was recorded in income taxes and $133 million was recorded in accrued and other current liabilities on the Condensed Consolidated Balance Sheet.

In fiscal 2007, the IRS concluded its field examination of certain of Tyco International's U.S. federal income tax returns for the years 1997 through 2000. Tyco International is in the process of appealing certain tax adjustments proposed by the IRS related to this period. In fiscal 2008, the IRS commenced its field examination of certain Tyco International U.S. federal income tax returns for the years 2001 through 2004. Tyco International's U.S. federal tax filings for years subsequent to 2004 also remain open to examination by the IRS. See Note 10 for additional information regarding the status of IRS examinations.

Although it is difficult to predict the timing or results of these pending examinations, it is the Company's understanding that Tyco International continues to make progress towards resolving a substantial number of proposed tax adjustments for the audit cycles of 1997 through 2000 and 2001 through 2004. Accordingly, Tyco International and the IRS could reach agreement on certain of these matters within the next twelve months. While the ultimate resolution is uncertain, based upon the current status of these examinations, the Company estimates that up to approximately $300 million of unrecognized tax benefits, excluding the impacts relating to accrued interest and penalties, could be resolved within the next twelve months.

The Company is not aware of any other matters that would result in significant changes to the amount of unrecognized tax benefits reflected on the Condensed Consolidated Balance Sheet as of March 25, 2011.

15. Other Income, Net

The Company recorded net other income of $6 million and $75 million in the quarters ended March 25, 2011 and March 26, 2010, respectively, and $18 million and $83 million in the six months ended March 25, 2011 and March 26, 2010, respectively, primarily consisting of income pursuant to the Tax Sharing Agreement with Tyco International and Covidien. The $75 million of income in the second quarter of fiscal 2010 reflects a net increase to the receivable from Tyco International and Covidien

TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS (UNAUDITED) (Continued)

15. Other Income, Net (Continued)

primarily related to certain proposed adjustments to prior period income tax returns and related accrued interest.

16. Earnings Per Share

Basic earnings per share 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 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 share awards. The following table sets forth the denominators of the basic and diluted earnings per share computations:

	For the Quarters Ended		For the Six Months Ended	
	March 25, 2011	March 26, 2010	March 25, 2011	March 26, 2010
	(in millions)			
Weighted-average shares outstanding:				
Basic	443	457	444	458
Share options and restricted share awards	6	4	5	3
Diluted	449	461	449	461

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 TE Connectivity's common shares and inclusion would be antidilutive. Such shares not included in the computation were 10 million and 18 million for the quarters ended March 25, 2011 and March 26, 2010, respectively, and 14 million and 20 million for the six months ended March 25, 2011 and March 26, 2010, respectively.

17. Shareholders' Equity

Common Shares

Subject to certain conditions specified in the articles of association, the Company is authorized to increase its share capital by issuing new shares in aggregate not exceeding 50% of the Company's authorized shares. Additionally, in March 2011, the Company's shareholders reapproved and extended through March 9, 2013 the Company's board of directors' authorization to issue additional new shares, subject to certain conditions specified in the articles, in aggregate not exceeding 50% of the amount of the Company's authorized shares. Although the Company states its par value in Swiss Francs ("CHF"), it continues to use the U.S. Dollar as its reporting currency for preparing its Condensed Consolidated Financial Statements.

Common Shares Held in Treasury

At March 25, 2011, approximately 29 million common shares were held in treasury, of which 17 million were owned by a subsidiary of the Company. At September 24, 2010, approximately 25 million common shares were held in treasury, of which 21 million were owned by a subsidiary of the

Table of Contents

TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS (UNAUDITED) (Continued)

17. Shareholders' Equity (Continued)

Company. Shares held both directly by the Company and by the subsidiary are presented as treasury shares on the Condensed Consolidated Balance Sheets.

In March 2011, the Company's shareholders approved the cancellation of 5,134,890 shares purchased under the Company's share repurchase program during the period from July 27, 2010 to December 24, 2010. The capital reduction by cancellation of shares is subject to a notice period and filing with the commercial register and is expected to be effective in the third quarter of fiscal 2011.

Contributed Surplus

Contributed surplus, subject to certain conditions, is a distributable reserve.

Distributions to Shareholders

Under Swiss law, distributions to shareholders made in the form of a reduction of registered share capital are exempt from Swiss withholding tax. Beginning on January 1, 2011, distributions to shareholders made out of reserves from capital contributions are also exempt from Swiss withholding tax. The Company has recorded contributed surplus as a free reserve established for Swiss Statutory purposes on its statutory balance sheet. Distributions or dividends on the Company's shares must be approved by the Company's shareholders.

In March 2010, the Company's shareholders approved a cash distribution to shareholders in the form of a capital reduction to the par value of the Company's common shares of CHF 0.72 (equivalent to $0.64) per share, payable in four equal installments in each quarter beginning in the third quarter of fiscal 2010 through the second quarter of fiscal 2011. The Company paid the third and fourth installments of the distribution at a rate of $0.16 per share each during the quarters ended December 24, 2010 and March 25, 2011. These capital reductions reduced the par value of the Company's common shares from CHF 1.73 (equivalent to $1.60) to CHF 1.37 (equivalent to $1.28).

In March 2011, the Company's shareholders approved a dividend payment to shareholders of CHF 0.68 (equivalent to $0.72) per share out of contributed surplus, payable in four equal quarterly installments of $0.18 per share beginning in the third quarter of fiscal 2011 through the second quarter of fiscal 2012 to shareholders of record on specified dates in each of the four quarters.

Upon approval by the shareholders of a dividend payment or cash distribution in the form of a capital reduction, the Company records a liability with a corresponding charge to contributed surplus or common shares. At March 25, 2011 and September 24, 2010, the declared but unpaid portion of dividends and distributions recorded in accrued and other current liabilities on the Condensed Consolidated Balance Sheets were $317 million and $142 million, respectively.

Share Repurchase Program

During September 2010, the Company's board of directors authorized an increase in the share repurchase program from $2.0 billion to $2.75 billion. During the second quarter and first six months of fiscal 2011, the Company purchased approximately 7 million and 8 million, respectively, of its common shares for $236 million and $281 million, respectively. During the second quarter and first six months of fiscal 2010, the Company purchased approximately 6 million and 7 million, respectively, of its

Table of Contents

TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS (UNAUDITED) (Continued)

17. Shareholders' Equity (Continued)

common shares for $147 million and $165 million, respectively. Since inception of the share repurchase program, the Company has purchased approximately 69 million shares for $2,179 million.

18. Comprehensive Income

Comprehensive income consisted of the following:

	For the Quarters Ended		For the Six Months Ended	
	March 25, 2011	March 26, 2010	March 25, 2011	March 26, 2010
	(in millions)			
Net income	$ 300	$ 306	$ 566	$ 479
Currency translation[1]	190	(106)	161	(162)
Gain (loss) on cash flow hedges, net of income taxes	5	(4)	16	4
Amortization of unrecognized pension and postretirement benefit costs, net of income taxes	12	14	24	20
	507	210	767	341
Less: comprehensive income attributable to noncontrolling interests	(1)	(2)	(2)	(3)
Comprehensive income attributable to TE Connectivity Ltd.	$ 506	$ 208	$ 765	$ 338

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

19. Share Plans

Total share-based compensation costs were $19 million and $16 million during the quarters ended March 25, 2011 and March 26, 2010, respectively, and $41 million and $31 million during the six months ended March 25, 2011 and March 26, 2010, respectively. Share-based compensation costs were primarily presented in selling, general, and administrative expenses on the Condensed Consolidated Statements of Operations.

As of March 25, 2011, there were 15 million shares available for issuance under the Company's stock and incentive plans, of which the Tyco Electronics Ltd. 2007 Stock and Incentive Plan, as amended and restated, is the primary plan.

Table of Contents

TE CONNECTIVITY LTD.

NOTES TO CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS (UNAUDITED) (Continued)

19. Share Plans (Continued)

Restricted Share Awards

A summary of the Company's outstanding restricted share awards as of March 25, 2011 and changes during the six months then ended are presented below:

	Shares	Weighted-Average Grant-Date Fair Value
Non-vested at September 24, 2010	5,044,812	$ 23.12
Granted	2,132,911	34.01
Vested	(1,467,020)	22.71
Forfeited	(184,515)	26.39
Non-vested at March 25, 2011	5,526,188	$ 27.32

As of March 25, 2011, there was $106 million of unrecognized compensation cost related to non-vested restricted share awards. The cost is expected to be recognized over a weighted-average period of 2.6 years.

All unvested restricted share awards held by ADC employees fully vested upon acquisition by the Company, as stipulated in the original terms and conditions of the awards. As a result, all ADC restricted share awards vested, and were fully expensed by ADC, coincident to the acquisition.

Share Options

A summary of the Company's outstanding share option awards as of March 25, 2011 and changes during the six months then ended are presented below:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
Outstanding at September 24, 2010	25,143,547	$ 33.26		
Granted	2,880,950	33.80		
Effect of conversion of ADC share options into TE Connectivity Ltd. share options	2,937,569	38.88		
Exercised	(3,085,005)	21.02		
Expired	(2,349,315)	54.35		
Forfeited	(367,184)	22.11		