

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

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

(Mark One)

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

For the Quarterly Period Ended December 27, 2013

Or

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

**001-33260**  
(Commission File Number)

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**TE CONNECTIVITY LTD.**

(Exact name of registrant as specified in its charter)

**Switzerland**  
(Jurisdiction of Incorporation)

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

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

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

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

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subject to such filing requirements for the past 90 days. Yes  No

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

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

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

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

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

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## TE CONNECTIVITY LTD.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

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

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

See Notes to Condensed Consolidated Financial Statements.

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**TE CONNECTIVITY LTD.**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**(UNAUDITED)**

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

See Notes to Condensed Consolidated Financial Statements.

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**TE CONNECTIVITY LTD.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**(UNAUDITED)**

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

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

See Notes to Condensed Consolidated Financial Statements.



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**TE CONNECTIVITY LTD.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(UNAUDITED)**

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

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

See Notes to Condensed Consolidated Financial Statements.

Table of Contents**TE CONNECTIVITY LTD.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****1. Basis of Presentation**

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

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

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

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

**2. Restructuring and Other Charges, Net**

Net restructuring charges by segment were as follows:

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

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## TE CONNECTIVITY LTD.

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

## 2. Restructuring and Other Charges, Net (Continued)

Activity in our restructuring reserves during the first quarter of fiscal 2014 is summarized as follows:

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

***Fiscal 2014 Actions***

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

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

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

Table of Contents**TE CONNECTIVITY LTD.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****2. Restructuring and Other Charges, Net (Continued)***Fiscal 2013 Actions*

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

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

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

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

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

*Pre-Fiscal 2013 Actions*

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

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

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

***Total Restructuring Reserves***

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

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

**3. Inventories**

Inventories consisted of the following:

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

**4. Goodwill**

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

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



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December 27, 2013 <sup>(2)</sup>	\$	800	\$	1,928	\$	982	\$	636	\$	4,346
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- (1) In connection with the realignment of certain businesses during the first quarter of fiscal 2014, goodwill was re-allocated to reporting units using a relative fair value approach. See Note 17 for additional information regarding our current segment structure.
- (2) At December 27, 2013 and September 27, 2013, accumulated impairment losses for the Transportation Solutions, Industrial Solutions, Network Solutions, and Consumer Solutions segments were \$2,191 million, \$669 million, \$1,236 million, and \$579 million, respectively.

Table of Contents**TE CONNECTIVITY LTD.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****5. Intangible Assets, Net**

Intangible assets consisted of the following:

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

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

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

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

**6. Debt**

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

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

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



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**TE CONNECTIVITY LTD.**

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

**7. Guarantees**

***Tax Sharing Agreement***

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

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

At December 27, 2013, we had a liability representing the indemnifications made to Tyco International and Covidien pursuant to the Tax Sharing Agreement of \$223 million of which \$202 million was reflected in accrued and other current liabilities and \$21 million was reflected in other liabilities on the Condensed Consolidated Balance Sheet. At September 27, 2013, the liability was \$223 million and consisted of \$185 million in accrued and other current liabilities and \$38 million in other liabilities. The amount reflected in accrued and other current liabilities is our estimated cash obligation under the Tax Sharing Agreement to Tyco International and Covidien in connection with pre-separation tax matters that could be resolved within the next twelve months.

We have assessed the probable future cash payments to Tyco International and Covidien for pre-separation income tax matters pursuant to the terms of the Tax Sharing Agreement and determined that \$223 million is sufficient to satisfy these expected obligations.

***Other Matters***

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

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**TE CONNECTIVITY LTD.**

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

**7. Guarantees (Continued)**

At December 27, 2013, we had outstanding letters of credit and letters of guarantee in the amount of \$292 million.

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

We generally record estimated product warranty costs when contract revenues are recognized under the percentage-of-completion method for construction related contracts and at the time of sale for products. The estimation is primarily based on historical experience and actual warranty claims. Amounts accrued for warranty claims at December 27, 2013 and September 27, 2013 were \$36 million and \$38 million, respectively.

**8. Commitments and Contingencies**

*Legal Proceedings*

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

At December 27, 2013, we had a contingent purchase price commitment of \$80 million related to our fiscal 2001 acquisition of Com-Net. This represents the maximum amount payable to the former shareholders of Com-Net only after the construction and installation of a communications system was completed for and approved by the State of Florida in accordance with guidelines set forth in the contract. Under the terms of the purchase and sale agreement, we do not believe we have any obligation to the sellers. However, the sellers have contested our position and initiated a lawsuit in June 2006 in the Court of Common Pleas in Allegheny County, Pennsylvania, which is in the discovery phase. A liability for this contingency has not been recorded on the Condensed Consolidated Financial Statements as we do not believe that any payment is probable at this time.

*Income Tax Matters*

In connection with the separation, we entered into a Tax Sharing Agreement that generally governs our, Tyco International's, and Covidien's respective rights, responsibilities, and obligations after the distribution with respect to taxes, including ordinary course of business taxes and taxes, if any, incurred as a result of any failure of the distribution of all of our shares or the shares of Covidien to qualify as a tax-free distribution for U.S. federal income tax purposes within the meaning of Section 355 of the Internal Revenue Code (the "Code") or certain internal transactions undertaken in anticipation of the spin-offs to qualify for tax-favored treatment under the Code.

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**TE CONNECTIVITY LTD.**

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

**8. Commitments and Contingencies (Continued)**

Pursuant to the Tax Sharing Agreement, upon separation, we entered into certain guarantee commitments and indemnifications with Tyco International and Covidien. Under the Tax Sharing Agreement, we, Tyco International, and Covidien share 31%, 27%, and 42%, respectively, of certain contingent liabilities relating to unresolved pre-separation tax matters of Tyco International. See Note 7 for additional information regarding the Tax Sharing Agreement.

During fiscal 2007, the Internal Revenue Service ("IRS") concluded its field examination of certain of Tyco International's U.S. federal income tax returns for the years 1997 through 2000 and issued Revenue Agent Reports that reflected the IRS' determination of proposed tax adjustments for the 1997 through 2000 period. Additionally, the IRS proposed civil fraud penalties against Tyco International arising from alleged actions of former executives in connection with certain intercompany transfers of stock in 1998 and 1999. The penalties were asserted against a prior subsidiary of Tyco International that was distributed to us in connection with the separation. Tyco International appealed certain of the proposed adjustments for the years 1997 through 2000, and Tyco International resolved all but one of the matters associated with the proposed tax adjustments, including reaching an agreement with the IRS on the penalty adjustment in the amount of \$21 million. In October 2012, the IRS issued special agreement Forms 870-AD, effectively settling its audit of all tax matters for the period 1997 through 2000, excluding one issue that remains in dispute as described below. As a result of these developments, in the first quarter of fiscal 2013, we recognized an income tax benefit of \$331 million and other expense of \$231 million pursuant to the Tax Sharing Agreement with Tyco International and Covidien.

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

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**TE CONNECTIVITY LTD.**

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

**8. Commitments and Contingencies (Continued)**

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

However, as the ultimate outcome is uncertain and if the IRS were to prevail on its assertions, our share of the assessed tax, deficiency interest, and applicable withholding taxes and penalties could have a material adverse impact on our results of operations, financial position, and cash flows. We have reviewed the Notices of Deficiency, the relevant facts surrounding the intercompany debt transactions, relevant tax regulations, and applicable case law, and we continue to believe that we are appropriately reserved for this matter.

Tyco International's income tax returns for the years 2001 through 2004 remain subject to adjustment by the IRS upon ultimate resolution of the disputed issue involving certain intercompany loans originated during the period 1997 through 2000. For the undisputed issues for years 2001 through 2004, it is our understanding that Tyco International expects the IRS to issue general agreement Forms 870 during fiscal 2014. The IRS commenced its audit of certain Tyco International income tax returns for the years 2005 through 2007 in fiscal 2011, and it is our understanding that fieldwork for this audit period is expected to be completed in fiscal 2014. Also, during fiscal 2012, the IRS commenced its audit of our income tax returns for the years 2008 through 2010. We expect fieldwork for the 2008 through 2010 audit to conclude in fiscal 2014. Over the next twelve months, we expect to make net cash payments of approximately \$200 million in connection with pre-separation tax matters.

At December 27, 2013 and September 27, 2013, we have reflected \$47 million and \$15 million, respectively, of income tax liabilities related to the audits of Tyco International's and our income tax returns in accrued and other current liabilities as certain of these matters could be resolved within the next twelve months.

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

***Environmental Matters***

We are involved in various stages of investigation and cleanup related to environmental remediation matters at a number of sites. The ultimate cost of site cleanup is difficult to predict given the uncertainties regarding the extent of the required cleanup, the interpretation of applicable laws and regulations, and alternative cleanup methods. As of December 27, 2013, we concluded that it was probable that we would incur remedial costs in the range of \$12 million to \$24 million. As of December 27, 2013, we concluded that the best estimate within this range is \$13 million, of which \$3 million is included in accrued and other current liabilities and \$10 million is included in other liabilities on the Condensed Consolidated Balance Sheet. We believe that any potential payment will not have a material adverse effect on our results of operations, financial position, or cash flows.

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**TE CONNECTIVITY LTD.**

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

**9. Financial Instruments**

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

***Foreign Exchange Risks***

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

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

***Interest Rate and Investment Risk Management***

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

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

***Hedges of Net Investment***

We hedge our net investment in certain foreign operations using intercompany non-derivative financial instruments denominated in the same currencies. The aggregate notional value of these hedges was \$2,201 million and \$2,374 million at December 27, 2013 and September 27, 2013, respectively. We recorded foreign exchange losses of \$31 million and gains of \$2 million during the quarters ended December 27, 2013 and December 28, 2012, respectively, as currency translation, a component of accumulated other comprehensive income, offsetting foreign exchange gains or losses attributable to the translation of the net investment.

***Commodity Hedges***

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

At December 27, 2013 and September 27, 2013, our commodity hedges had notional values of \$293 million and \$278 million, respectively. We expect that significantly all of the balance in



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## TE CONNECTIVITY LTD.

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

## 9. Financial Instruments (Continued)

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

*Derivative Instrument Summary*

The fair value of our derivative instruments is summarized below:

	December 27, 2013		September 27, 2013	
	Fair Value of Asset Positions <sup>(1)</sup>	Fair Value of Liability Positions <sup>(2)</sup>	Fair Value of Asset Positions <sup>(1)</sup>	Fair Value of Liability Positions <sup>(2)</sup>
	(in millions)			
Derivatives designated as hedging instruments:				
Foreign currency contracts <sup>(3)</sup>	\$ 2	\$ 6	\$ 1	\$ 1
Interest rate swaps	11	7	14	
Commodity swap contracts <sup>(3)</sup>	2	30	2	29
<b>Total derivatives designated as hedging instruments</b>	<b>15</b>	<b>43</b>	<b>17</b>	<b>30</b>
Derivatives not designated as hedging instruments:				
Foreign currency contracts <sup>(3)</sup>		1		1
Investment swaps	3		3	
<b>Total derivatives not designated as hedging instruments</b>	<b>3</b>	<b>1</b>	<b>3</b>	<b>1</b>
<b>Total derivatives</b>	<b>\$ 18</b>	<b>\$ 44</b>	<b>\$ 20</b>	<b>\$ 31</b>

(1) All derivative instruments in asset positions that mature within one year of the balance sheet date are recorded in prepaid expenses and other current assets on the Condensed Consolidated Balance Sheets and totaled \$6 million and \$5 million at December 27, 2013 and September 27, 2013, respectively. All derivative instruments in asset positions that mature more than one year from the balance sheet date are recorded in other assets on the Condensed Consolidated Balance Sheets and totaled \$12 million and \$15 million at December 27, 2013 and September 27, 2013, respectively.

(2) All derivative instruments in liability positions that mature within one year of the balance sheet date are recorded in accrued and other current liabilities on the Condensed Consolidated Balance Sheets and totaled \$34 million and \$29 million at December 27, 2013 and September 27, 2013, respectively. All derivative instruments in liability positions that mature more than one year from the balance sheet date are recorded in other liabilities on the Condensed Consolidated Balance Sheets and totaled \$10 million and \$2 million at

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

(3)

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

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**TE CONNECTIVITY LTD.**

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

**9. Financial Instruments (Continued)**

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

Derivatives Designated as Fair Value Hedges	Location	Gain Recognized	
		For the Quarters Ended December 27, 2013	December 28, 2012
(in millions)			
Interest rate swaps <sup>(1)</sup>	Interest expense	\$ 1	\$ 1

(1) Certain interest rate swaps designated as fair value hedges were terminated in December 2008. Terminated interest rate swaps resulted in all gains presented in this table. Interest rate swaps in place at December 27, 2013 had no ineffective gain or loss recognized on the Condensed Consolidated Statements of Operations during the periods.

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

Derivatives Designated as Cash Flow Hedges	Gain (Loss) Recognized in OCI (Effective Portion) Amount	Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) Location	Amount	Gain (Loss) Recognized in Income (Ineffective Portion and Amount Excluded From Effectiveness Testing) Location	Amount
	(in millions)				
For the Quarter Ended December 27, 2013:					
Foreign currency contracts	\$ (5)	Cost of sales	\$ (1)	Cost of sales	\$
Commodity swap contracts	(11)	Cost of sales	(9)	Cost of sales	
Interest rate swaps <sup>(1)</sup>		Interest expense	(2)	Interest expense	
<b>Total</b>	<b>\$ (16)</b>		<b>\$ (12)</b>		<b>\$</b>

For the Quarter Ended December 28, 2012:					
Foreign currency contracts	\$	Cost of sales	\$ 1	Cost of sales	\$
Commodity swap contracts	(17)	Cost of sales	3	Cost of sales	
Interest rate swaps <sup>(1)</sup>		Interest expense	(2)	Interest expense	

Total \$ (17) \$ 2 \$

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

Table of Contents**TE CONNECTIVITY LTD.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****9. Financial Instruments (Continued)**

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

Derivatives not Designated as Hedging Instruments	Location	Gain (Loss) Recognized	
		For the Quarters Ended December 27, 2013	December 28, 2012
		(in millions)	
Foreign currency contracts	Selling, general, and administrative expenses	\$ (3)	\$ (1)
Investment swaps	Selling, general, and administrative expenses	3	
Total		\$	\$ (1)

Table of Contents**TE CONNECTIVITY LTD.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****10. Fair Value Measurements**

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

Description	Fair Value Measurements Using Inputs Considered as		Fair Value
	Level 1	Level 2	
(in millions)			
December 27, 2013:			
Assets:			
Commodity swap contracts	\$ 2	\$	\$ 2
Interest rate swaps		11	11
Investment swaps		3	3
Foreign currency contracts <sup>(1)</sup>		2	2
Rabbi trust assets	3	80	83
Total assets at fair value	\$ 5	\$ 96	\$ 101

Liabilities:			
Commodity swap contracts	\$ 30	\$	\$ 30
Interest rate swaps		7	7
Foreign currency contracts <sup>(1)</sup>		7	7
Total liabilities at fair value	\$ 30	\$ 14	\$ 44

September 27, 2013:			
Assets:			
Commodity swap contracts	\$ 2	\$	\$ 2
Interest rate swaps		14	14
Investment swaps		3	3
Foreign currency contracts <sup>(1)</sup>		1	1
Rabbi trust assets	3	80	83
Total assets at fair value	\$ 5	\$ 98	\$ 103

Liabilities:

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Commodity swap contracts	\$	29	\$	\$	29	
Foreign currency contracts <sup>(1)</sup>			2		2	
Total liabilities at fair value	\$	29	\$	2	\$	31

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

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

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

Table of Contents**TE CONNECTIVITY LTD.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****10. Fair Value Measurements (Continued)**

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

***Other Financial Instruments***

Other financial instruments include cash and cash equivalents, accounts receivable, accounts payable, and long-term debt. These instruments are recorded on our Condensed Consolidated Balance Sheets at book value. For cash and cash equivalents, accounts receivable, and accounts payable, we believe book value approximates fair value due to the short-term nature of these instruments. The fair value of our debt based on indicative valuations was approximately \$3,160 million and \$3,180 million at December 27, 2013 and September 27, 2013, respectively.

**11. Retirement Plans**

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

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

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

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

**12. Income Taxes**

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



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**TE CONNECTIVITY LTD.**

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

**12. Income Taxes (Continued)**

undisputed tax matters for the period 1997 through 2000, partially offset by charges related to adjustments to prior year income tax returns and the estimated impacts of certain intercompany dividends.

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

For tax years 1997 through 2000, Tyco International has resolved all matters, excluding one disputed issue related to the tax treatment of certain intercompany debt transactions. Tyco International's income tax returns for the years 2001 through 2004 remain subject to adjustment by the IRS upon ultimate resolution of the disputed issue involving certain intercompany loans originated during the period 1997 through 2000. For the undisputed issues for years 2001 through 2004, it is our understanding that Tyco International expects the IRS to issue general agreement Forms 870 during fiscal 2014. The IRS commenced its audit of certain Tyco International income tax returns for the years 2005 through 2007 in fiscal 2011, and it is our understanding that fieldwork for this audit period is expected to be completed in fiscal 2014. Also, during fiscal 2012, the IRS commenced its audit of our income tax returns for the years 2008 through 2010. We expect fieldwork for the 2008 through 2010 audit to conclude in fiscal 2014. See Note 8 for additional information regarding the status of IRS examinations.

Although it is difficult to predict the timing or results of our worldwide examinations, we estimate that up to approximately \$255 million of unrecognized income tax benefits, excluding the impact relating to accrued interest and penalties, could be resolved within the next twelve months.

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

**13. Other Income (Expense), Net**

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

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

Table of Contents**TE CONNECTIVITY LTD.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****14. Earnings Per Share**

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

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

For the quarter ended December 28, 2012, there were seven million share options that were not included in the computation of diluted earnings per share because the instruments' underlying exercise prices were greater than the average market prices of our common shares and inclusion would be antidilutive. There were no antidilutive share options for the quarter ended December 27, 2013.

**15. Equity***Dividends and Distributions to Shareholders*

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

Upon approval by the shareholders of a dividend payment or cash distribution in the form of a capital reduction, we record a liability with a corresponding charge to contributed surplus or common shares. At December 27, 2013 and September 27, 2013, the unpaid portion of the dividends recorded in accrued and other current liabilities on the Condensed Consolidated Balance Sheets totaled \$103 million and \$206 million, respectively.

*Share Repurchase Program*

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

**16. Share Plans**

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

Table of Contents**TE CONNECTIVITY LTD.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****16. Share Plans (Continued)**

During the first quarter of fiscal 2014, we granted 1.5 million share options, 1.0 million restricted share awards, and 0.2 million performance share awards as part of our annual incentive plan grant. The weighted-average grant date fair values for share options, restricted share awards, and performance share awards were \$16.75, \$51.61, and \$51.61, respectively.

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

*Share-Based Compensation Assumptions*

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

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

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

**17. Segment Data**

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

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

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

Net sales and operating income by segment were as follows:

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

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

**18. Tyco Electronics Group S.A.**

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

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## TE CONNECTIVITY LTD.

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

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

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

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

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## TE CONNECTIVITY LTD.

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

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

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

	TE Connectivity Ltd.	TEGSA	Other Subsidiaries (in millions)	Consolidating Adjustments	Total
Net sales	\$	\$	\$ 3,134	\$	\$ 3,134
Cost of sales			2,145		2,145
<b>Gross margin</b>			989		989
Selling, general, and administrative expenses	41	1	386		428
Research, development, and engineering expenses			171		171
Acquisition and integration costs			5		5
Restructuring and other charges, net			92		92
<b>Operating income (loss)</b>	(41)	(1)	335		293
Interest income			4		4
Interest expense		(34)	(3)		(37)
Other expense, net			(226)		(226)
Equity in net income of subsidiaries	323	345		(668)	
Equity in net loss of subsidiaries of discontinued operations	(2)	(2)		4	
Intercompany interest and fees	(3)	13	(10)		
<b>Income from continuing operations before income taxes</b>	277	321	100	(664)	34
Income tax benefit			245		245
<b>Income from continuing operations</b>	277	321	345	(664)	279
Loss from discontinued operations, net of income taxes			(2)		(2)
<b>Net income attributable to TE Connectivity Ltd., TEGSA, or Other Subsidiaries</b>	277	321	343	(664)	277
Other comprehensive income	27	27	24	(51)	27
<b>Comprehensive income attributable to TE Connectivity Ltd., TEGSA, or Other Subsidiaries</b>	\$ 304	\$ 348	\$ 367	\$ (715)	\$ 304

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## TE CONNECTIVITY LTD.

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

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

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

	TE Connectivity Ltd.	TEGSA	Other Subsidiaries (in millions)	Consolidating Adjustments	Total
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$	\$	\$ 1,397	\$	\$ 1,397
Accounts receivable, net			2,284		2,284
Inventories			1,836		1,836
Intercompany receivables	1,570		117	(1,687)	
Prepaid expenses and other current assets	20	4	483		507
Deferred income taxes			334		334
<b>Total current assets</b>	<b>1,590</b>	<b>4</b>	<b>6,451</b>	<b>(1,687)</b>	<b>6,358</b>
Property, plant, and equipment, net			3,164		3,164
Goodwill			4,346		4,346
Intangible assets, net			1,219		1,219
Deferred income taxes			2,056		2,056
Investment in subsidiaries	7,247	15,490		(22,737)	
Intercompany loans receivable	18	3,777	9,163	(12,958)	
Receivable from Tyco International Ltd. and Covidien plc			996		996
Other assets		27	277		304
<b>Total Assets</b>	<b>\$ 8,855</b>	<b>\$ 19,298</b>	<b>\$ 27,672</b>	<b>\$ (37,382)</b>	<b>\$ 18,443</b>
<b>Liabilities and Equity</b>					
Current liabilities:					
Current maturities of long-term debt	\$	\$ 325	\$ 58	\$	\$ 383
Accounts payable	2		1,359		1,361
Accrued and other current liabilities	109	34	1,446		1,589
Deferred revenue			76		76
Intercompany payables	117		1,570	(1,687)	
<b>Total current liabilities</b>	<b>228</b>	<b>359</b>	<b>4,509</b>	<b>(1,687)</b>	<b>3,409</b>
Long-term debt		2,526	89		2,615
Intercompany loans payable	5	9,159	3,794	(12,958)	
Long-term pension and postretirement liabilities			1,150		1,150
Deferred income taxes			321		321
Income taxes			1,979		1,979
Other liabilities		7	340		347

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<b>Total Liabilities</b>	233	12,051	12,182	(14,645)	9,821
<b>Total Equity</b>	8,622	7,247	15,490	(22,737)	8,622
<b>Total Liabilities and Equity</b>	\$ 8,855	\$ 19,298	\$ 27,672	\$ (37,382)	\$ 18,443



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## TE CONNECTIVITY LTD.

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

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

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

	TE Connectivity Ltd.	TEGSA	Other Subsidiaries (in millions)	Consolidating Adjustments	Total
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$	\$	\$ 1,403	\$	\$ 1,403
Accounts receivable, net			2,323		2,323
Inventories			1,762		1,762
Intercompany receivables	1,823	222	255	(2,300)	
Prepaid expenses and other current assets	6	1	480		487
Deferred income taxes			334		334
<b>Total current assets</b>	<b>1,829</b>	<b>223</b>	<b>6,557</b>	<b>(2,300)</b>	<b>6,309</b>
Property, plant, and equipment, net			3,166		3,166
Goodwill			4,326		4,326
Intangible assets, net			1,244		1,244
Deferred income taxes			2,146		2,146
Investment in subsidiaries	7,014	17,040		(24,054)	
Intercompany loans receivable	18	2,120	9,489	(11,627)	
Receivable from Tyco International Ltd. and Covidien plc			1,002		1,002
Other assets		28	240		268
<b>Total Assets</b>	<b>\$ 8,861</b>	<b>\$ 19,411</b>	<b>\$ 28,170</b>	<b>\$ (37,981)</b>	<b>\$ 18,461</b>
<b>Liabilities and Equity</b>					
Current liabilities:					
Current maturities of long-term debt	\$	\$ 650	\$ 61	\$	\$ 711
Accounts payable	1		1,382		1,383
Accrued and other current liabilities	213	49	1,500		1,762
Deferred revenue			68		68
Intercompany payables	256		2,044	(2,300)	
<b>Total current liabilities</b>	<b>470</b>	<b>699</b>	<b>5,055</b>	<b>(2,300)</b>	<b>3,924</b>
Long-term debt		2,213	90		2,303
Intercompany loans payable	5	9,485	2,137	(11,627)	
Long-term pension and postretirement liabilities			1,155		1,155
Deferred income taxes			321		321
Income taxes			1,979		1,979
Other liabilities			393		393

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<b>Total Liabilities</b>	475	12,397	11,130	(13,927)	10,075
<b>Total Equity</b>	8,386	7,014	17,040	(24,054)	8,386
<b>Total Liabilities and Equity</b>	\$ 8,861	\$ 19,411	\$ 28,170	\$ (37,981)	\$ 18,461

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## TE CONNECTIVITY LTD.

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

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

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

	TE Connectivity Ltd.	TEGSA	Other Subsidiaries (in millions)	Consolidating Adjustments	Total
<b>Cash Flows From Operating Activities:</b>					
Net cash provided by (used in) continuing operating activities	\$ (36)	\$ 1,762	\$ 461	\$ (1,800)	\$ 387
Net cash used in discontinued operating activities			(2)		(2)
Net cash provided by (used in) operating activities	(36)	1,762	459	(1,800)	385
<b>Cash Flows From Investing Activities:</b>					
Capital expenditures			(133)		(133)
Proceeds from sale of property, plant, and equipment			12		12
Change in intercompany loans		(1,761)		1,761	
Other			(2)		(2)
Net cash used in investing activities		(1,761)	(123)	1,761	(123)
<b>Cash Flows From Financing Activities:</b>					
Changes in parent company equity <sup>(1)</sup>	19	2	(21)		
Net decrease in commercial paper		(25)			(25)
Proceeds from issuance of long-term debt		323			323
Repayment of long-term debt		(303)			(303)
Proceeds from exercise of share options			57		57
Repurchase of common shares			(210)		(210)
Payment of common share dividends to shareholders	(105)		2		(103)
Intercompany distributions			(1,800)	1,800	
Loan activity with parent	122		1,639	(1,761)	
Other		2	(5)		(3)
Net cash provided by (used in) continuing financing activities	36	(1)	(338)	39	(264)
Net cash provided by discontinued financing activities			2		2
Net cash provided by (used in) financing activities	36	(1)	(336)	39	(262)
Effect of currency translation on cash			(6)		(6)
<b>Net decrease in cash and cash equivalents</b>			(6)		(6)

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<b>Cash and cash equivalents at beginning of period</b>				1,403		1,403
<b>Cash and cash equivalents at end of period</b>	\$	\$	\$	1,397	\$	\$ 1,397

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

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## TE CONNECTIVITY LTD.

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

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

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

	TE Connectivity Ltd.	TEGSA	Other Subsidiaries (in millions)	Consolidating Adjustments	Total
<b>Cash Flows From Operating Activities:</b>					
Net cash provided by (used in) continuing operating activities	\$ (51)	\$ (51)	\$ 495	\$	\$ 393
Net cash used in discontinued operating activities			(1)		(1)
Net cash provided by (used in) operating activities	(51)	(51)	494		392
<b>Cash Flows From Investing Activities:</b>					
Capital expenditures			(126)		(126)
Proceeds from sale of property, plant, and equipment	1		1		2
Change in intercompany loans		711		(711)	
Other			19		19
Net cash provided by (used in) investing activities	1	711	(106)	(711)	(105)
<b>Cash Flows From Financing Activities:</b>					
Changes in parent company equity <sup>(1)</sup>	308	4	(312)		
Net increase in commercial paper		50			50
Repayment of long-term debt		(714)			(714)
Proceeds from exercise of share options			16		16
Repurchase of common shares	(167)				(167)
Payment of cash distributions to shareholders	(91)		2		(89)
Loan activity with parent			(711)	711	
Other			(2)		(2)
Net cash provided by (used in) continuing financing activities	50	(660)	(1,007)	711	(906)
Net cash provided by discontinued financing activities			1		1
Net cash provided by (used in) financing activities	50	(660)	(1,006)	711	(905)
Effect of currency translation on cash			1		1
<b>Net decrease in cash and cash equivalents</b>			(617)		(617)
<b>Cash and cash equivalents at beginning of period</b>			1,589		1,589

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**Cash and cash equivalents at end of period**                    \$                    \$                    \$                    972    \$                    \$                    972

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

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**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our Condensed Consolidated Financial Statements and the accompanying notes included elsewhere in this Quarterly Report. The following discussion may contain forward-looking statements that reflect our plans, estimates, and beliefs. Our actual results could differ materially from those discussed in these forward-looking statements as a result of many factors, including but not limited to those under the heading "Forward-Looking Information" and "Part II. Item 1A. Risk Factors."

Our Condensed Consolidated Financial Statements have been prepared in United States ("U.S.") Dollars, in accordance with accounting principles generally accepted in the U.S. ("GAAP").

Organic net sales growth and free cash flow are non-GAAP financial measures which are discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations. We believe these non-GAAP financial measures, together with GAAP financial measures, provide useful information to investors because they reflect the financial measures that management uses in evaluating the underlying results of our operations. See "Non-GAAP Financial Measures" for more information about these non-GAAP financial measures, including our reasons for including the measures and material limitations with respect to the usefulness of the measures.

**Overview**

TE Connectivity Ltd. ("TE Connectivity" or the "Company," which may be referred to as "we," "us," or "our") is a world leader in connectivity. We design and manufacture products to connect power, data, and signal in a broad array of industries including automotive, energy, industrial, broadband communications, consumer devices, healthcare, and aerospace and defense. We help our customers solve the need for more energy efficiency, always-on communications, and ever-increasing productivity.

Effective for the first quarter of fiscal 2014, we realigned certain businesses, principally the Relay Products business, within our segment reporting structure to better align our product portfolio. The Relay Products business, which was previously included in the Consumer Solutions segment, has been moved to the Industrial Solutions segment. We continue to operate through four reporting segments: Transportation Solutions, Industrial Solutions, Network Solutions, and Consumer Solutions. See Note 17 to the Condensed Consolidated Financial Statements for additional information regarding our segments. Prior period segment results have been restated to conform to the current segment reporting structure.

Our business and operating results have been and will continue to be affected by worldwide economic conditions. Our sales are dependent on certain industry end markets that are impacted by consumer as well as industrial and infrastructure spending, and our operating results can be affected by changes in demand in those markets.

Overall, our net sales increased 6.1% in the first quarter of fiscal 2014 as compared to the same period of fiscal 2013. Increased net sales in the Transportation Solutions segment and, to a lesser degree, the Industrial Solutions segment were partially offset by modest declines in the Network Solutions and Consumer Solutions segments. On an organic basis, net sales increased 7.2% in the first quarter of fiscal 2014 as compared to the same period of fiscal 2013. In the Transportation Solutions segment, our sales in the automotive end market increased 13.9% on an organic basis, with sales increases in the Asia-Pacific, Americas, and EMEA regions. In the Industrial Solutions segment, our organic net sales increased 6.2% with growth in all end markets. In the Consumer Solutions and Network Solutions segments, our organic net sales in the first quarter of fiscal 2014 increased slightly

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from first quarter fiscal 2013 levels. In the Consumer Solutions segment, our organic net sales growth in the appliances end market was offset by declines in the consumer devices end market. Also, in the Network Solutions segment, our organic net sales growth in the telecom networks and enterprise networks end markets was offset by declines in the subsea communications and data communications end markets.

**Outlook**

In the second quarter of fiscal 2014, we expect net sales to be between \$3.4 billion and \$3.5 billion. This reflects sales increases of approximately 10% to 12% in the Transportation Solutions segment and approximately 5% to 7% in the Industrial Solutions segment, partially offset by sales decreases of approximately 3% to 4% in the Consumer Solutions segment. In the Network Solutions segment, we expect our sales to be consistent with second quarter fiscal 2013 levels. In the Transportation Solutions segment, we expect our sales growth to outpace anticipated growth in global automotive production of approximately 5% in the second quarter of fiscal 2014 as compared to the same period of fiscal 2013. In the Industrial Solutions segment, we expect our sales to increase in the industrial equipment end market and, to a lesser degree, in the aerospace, defense, oil, and gas end market. We expect those increases to be partially offset by a decline in our sales in the energy end market in the second quarter of fiscal 2014 as compared to the second quarter of fiscal 2013. In the Consumer Solutions segment, we expect our sales to decline in the consumer devices end market, with this decline partially offset by an increase in our sales in the appliances end market in the second quarter of fiscal 2014 as compared to the same period of fiscal 2013. In the Network Solutions segment, we expect our sales increases in the telecom networks end market and, to a lesser degree, the enterprise networks end market to be offset by decreased sales in the data communications and subsea communications end markets in the second quarter of fiscal 2014 as compared to the same period of fiscal 2013. We expect diluted earnings per share to be in the range of \$0.86 to \$0.90 per share in the second quarter of fiscal 2014.

For fiscal 2014, we expect net sales to be between \$13.8 billion and \$14.2 billion, reflecting expected sales increases of approximately 10% in the Transportation Solutions segment and approximately 4% to 6% in the Industrial Solutions segment. We expect our sales in the Network Solutions and Consumer Solutions segments to be consistent with fiscal 2013 levels. In the Transportation Solutions segment, we expect our sales growth to outpace anticipated growth in global automotive production of approximately 4% from fiscal 2013 levels. In the Industrial Solutions segment, we expect our sales to increase in the aerospace, defense, oil, and gas and industrial equipment end markets and to decline slightly in the energy end market in fiscal 2014 as compared to fiscal 2013. In the Network Solutions segment, we expect our sales increases in the telecom networks and, to a lesser degree, the subsea communications and enterprise networks end markets to be offset by a sales decrease in the data communications end market in fiscal 2014 as compared to fiscal 2013. In the Consumer Solutions segment, we expect our sales increase in the appliances end market to be offset by a sales decrease in the consumer devices end market. We expect diluted earnings per share to be in the range of \$3.60 to \$3.80 per share in fiscal 2014.

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

We are monitoring the current macroeconomic environment and its potential effects on our customers and the end markets we serve. Additionally, we continue to closely manage our costs in line with economic conditions. We also are managing our capital resources and monitoring capital availability to ensure that we have sufficient resources to fund future capital needs. (See further discussion in "Liquidity and Capital Resources.")



Table of Contents**Restructuring**

We plan to continue to simplify our global manufacturing footprint by migrating facilities from higher-cost to lower-cost countries, consolidating within countries, and transferring product lines to lower-cost countries. These initiatives are designed to help us maintain our competitiveness in the industry, improve our operating leverage, and position us for growth in the years ahead. In connection with these initiatives and in response to market conditions, we incurred net restructuring charges of \$7 million during the first quarter of fiscal 2014 and expect to incur net restructuring charges of approximately \$50 million during fiscal 2014. Cash spending related to restructuring was \$45 million during the first quarter of fiscal 2014, and we expect total spending, which will be funded with cash from operations, to be approximately \$175 million in fiscal 2014. Annualized cost savings related to these actions are expected to be approximately \$115 million and are expected to be realized by the end of fiscal 2015. Cost savings will be reflected primarily in cost of sales and selling, general, and administrative expenses.

**Results of Operations**

Key business factors that influenced our results of operations for the periods discussed in this report include:

**Raw material prices.** We expect to purchase approximately 173 million pounds of copper, 136,000 troy ounces of gold, and 2.5 million troy ounces of silver in fiscal 2014. Prices continue to fluctuate. The following table sets forth the average prices incurred related to copper, gold, and silver.

Measure	For the Quarters Ended	
	December 27, 2013	December 28, 2012
Copper	Lb. \$ 3.38	\$ 3.57
Gold	Troy oz. \$ 1,461	\$ 1,678
Silver	Troy oz. \$ 25.22	\$ 31.63

**Foreign exchange.** Approximately 53% of our net sales are invoiced in currencies other than the U.S. Dollar. Our results of operations are influenced by changes in foreign currency exchange rates. Increases or decreases in the value of the U.S. Dollar, compared to other currencies, will directly affect our reported results as we translate those currencies into U.S. Dollars at the end of each fiscal period.

**Consolidated Operations**

**Net Sales.** Net sales increased \$192 million, or 6.1%, to \$3,326 million in the first quarter of fiscal 2014 from \$3,134 million in the first quarter of fiscal 2013. On an organic basis, net sales increased \$226 million, or 7.2%, in the first quarter of fiscal 2014 from the first quarter of fiscal 2013 due primarily to increased net sales in the Transportation Solutions segment and, to a lesser degree, the Industrial Solutions segment. Price erosion adversely affected organic sales by \$61 million in the first quarter of fiscal 2014. Foreign currency exchange rates negatively impacted net sales by \$11 million in the first quarter of fiscal 2014 as compared to the same period of fiscal 2013.

See further discussion of organic net sales below under "Results of Operations by Segment."

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The following table sets forth the percentage of our total net sales by geographic region:

	<b>For the Quarters Ended</b>	
	<b>December 27, 2013</b>	<b>December 28, 2012</b>
Europe/Middle East/Africa ("EMEA")	35%	33%
Asia-Pacific	34	34
Americas	31	33
Total	100%	100%

The following table provides an analysis of the change in our net sales by geographic region:

	<b>Change in Net Sales for the Quarter Ended December 27, 2013 versus Net Sales for the Quarter Ended December 28, 2012</b>						
	<b>Organic<sup>(1)</sup></b>		<b>Translation<sup>(2)</sup></b>		<b>Divestitures</b>		<b>Total</b>
	(\$ in millions)						
EMEA	\$ 67	6.5%	\$ 47	\$ (5)	\$ 109	10.5%	
Asia-Pacific	123	11.5	(48)	(16)	59	5.5	
Americas	36	3.6	(10)	(2)	24	2.4	
Total	\$ 226	7.2%	\$ (11)	\$ (23)	\$ 192	6.1%	

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(1) Represents the change in net sales resulting from volume and price changes, before consideration of acquisitions, divestitures, and the impact of changes in foreign currency exchange rates.

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

The following table sets forth the percentage of our total net sales by segment:

	<b>For the Quarters Ended</b>	
	<b>December 27, 2013</b>	<b>December 28, 2012</b>
Transportation Solutions	43%	40%
Industrial Solutions	23	23
Network Solutions	22	24
Consumer Solutions	12	13
Total	100%	100%

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The following table provides an analysis of the change in our net sales by segment:

<b>Change in Net Sales for the Quarter Ended December 27, 2013 versus Net Sales for the Quarter Ended December 28, 2012</b>						
	<b>Organic<sup>(1)</sup></b>		<b>Translation<sup>(2)</sup></b>		<b>Divestitures</b>	<b>Total</b>
	(\$ in millions)					
Transportation Solutions	\$ 176	13.9%	\$		\$	\$ 176 13.9%
Industrial Solutions	45	6.2		2	(4)	43 6.0
Network Solutions	1	0.2		(3)	(19)	(21) (2.9)
Consumer Solutions	4	0.7		(10)		(6) (1.4)
<b>Total</b>	<b>\$ 226</b>	<b>7.2%</b>	<b>\$</b>	<b>(11)</b>	<b>\$ (23)</b>	<b>\$ 192 6.1%</b>

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(1) Represents the change in net sales resulting from volume and price changes, before consideration of acquisitions, divestitures, and the impact of changes in foreign currency exchange rates.

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

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**Gross Margin.** In the first quarter of fiscal 2014, gross margin was \$1,117 million, reflecting a \$128 million increase from gross margin of \$989 million in the first quarter of fiscal 2013. The increase in gross margin resulted primarily from improved manufacturing productivity, higher volume and, to a lesser degree, lower material costs, partially offset by price erosion. Gross margin as a percentage of net sales increased to 33.6% in the first quarter of fiscal 2014 from 31.6% in the first quarter of fiscal 2013.

**Selling, General, and Administrative Expenses.** Selling, general, and administrative expenses increased \$39 million to \$467 million in the first quarter of fiscal 2014 from \$428 million in the first quarter of fiscal 2013. The increase resulted primarily from increased selling expenses to support higher sales levels and increased incentive compensation costs, partially offset by cost savings attributable to restructuring actions. Selling, general, and administrative expenses as a percentage of net sales increased to 14.0% in the first quarter of fiscal 2014 from 13.7% in the same period of fiscal 2013.

**Restructuring and Other Charges, Net.** Net restructuring and other charges were \$7 million and \$92 million in the first quarters of fiscal 2014 and 2013, respectively. During fiscal 2014, we initiated a restructuring program and commenced actions to reduce headcount in the Network Solutions and Consumer Solutions segments. During fiscal 2013, we initiated a restructuring program associated with headcount reductions and manufacturing site closures impacting all segments. See Note 2 to the Condensed Consolidated Financial Statements for additional information regarding net restructuring and other charges.

**Operating Income.** In the first quarter of fiscal 2014, operating income was \$479 million as compared to \$293 million in the first quarter of fiscal 2013. Results for the first quarter of fiscal 2014 included \$7 million of net restructuring and other charges. Results for the first quarter of fiscal 2013 included \$92 million of net restructuring and other charges and \$5 million of acquisition and integration costs. See further discussion of operating income below under "Results of Operations by Segment."

**Non-Operating Items**

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

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

**Income Taxes.** We recorded a tax provision of \$127 million and a tax benefit of \$245 million for the quarters ended December 27, 2013 and December 28, 2012, respectively. The provision for the quarter ended December 27, 2013 reflects an income tax charge related to the impacts of certain non-U.S. tax law changes and the associated increase in the valuation allowance for tax loss carryforwards, and charges related to adjustments to prior year income tax returns. The tax benefit for the quarter ended December 28, 2012 reflects a \$331 million income tax benefit related to the effective settlement of all undisputed tax matters for the period 1997 through 2000, partially offset by charges related to adjustments to prior year income tax returns and the estimated impacts of certain intercompany dividends.

Table of Contents**Results of Operations by Segment****Transportation Solutions**

	<b>For the Quarters Ended</b>	
	<b>December 27, 2013</b>	<b>December 28, 2012</b>
	<b>(\$ in millions)</b>	
Net sales	\$ 1,440	\$ 1,264
Operating income	\$ 296	\$ 192
Operating margin	20.6%	15.2%

Net sales and organic net sales in the Transportation Solutions segment increased \$176 million, or 13.9%, to \$1,440 million in the first quarter of fiscal 2014 from \$1,264 million in the first quarter of fiscal 2013.

In the automotive end market, which is the Transportation Solutions segment's primary industry end market, our organic net sales increased 13.9% in the first quarter of fiscal 2014 as compared to the first quarter of fiscal 2013. The increase resulted from growth of 16.9% in the Asia-Pacific region, 14.9% in the Americas region, and 10.8% in the EMEA region. In the Asia-Pacific region, growth was driven by increasing demand in China and Japan, partially offset by declines in certain southeastern Asia-Pacific areas. Growth in the Americas region was driven by strong consumer demand in North America. In the EMEA region, growth resulted primarily from increased exports to other regions and, to a lesser degree, increased automotive demand in the western and continental EMEA region. In the commercial vehicle market, our organic net sales increase was due to stronger market conditions and the acceleration of purchases in advance of upcoming emission standard changes in the EMEA region and China truck markets.

In the first quarter of fiscal 2014, operating income in the Transportation Solutions segment increased \$104 million to \$296 million from \$192 million in the first quarter of fiscal 2013. Segment results for the first quarter of fiscal 2014 included \$1 million of net restructuring and other charges. Segment results for the first quarter of fiscal 2013 included \$10 million of net restructuring and other charges and \$3 million of acquisition and integration costs related to the acquisition of Deutsch Group SAS ("Deutsch"). Excluding these items, operating income increased in the first quarter of fiscal 2014 as compared to the first quarter of fiscal 2013. The increase resulted primarily from higher volume and, to a lesser degree, improved manufacturing productivity and lower material costs, partially offset by price erosion.

**Industrial Solutions**

	<b>For the Quarters Ended</b>	
	<b>December 27, 2013</b>	<b>December 28, 2012</b>
	<b>(\$ in millions)</b>	
Net sales	\$ 763	\$ 720
Operating income	\$ 99	\$ 72
Operating margin	13.0%	10.0%

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The following table sets forth the Industrial Solutions segment's percentage of total net sales by primary industry end market<sup>(1)</sup>:

	<b>For the Quarters Ended</b>	
	<b>December 27, 2013</b>	<b>December 28, 2012</b>
Industrial Equipment	42%	41%
Aerospace, Defense, Oil, and Gas	33	33
Energy	25	26
Total	100%	100%

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

The following table provides an analysis of the change in the Industrial Solutions segment's net sales by primary industry end market:

	<b>Change in Net Sales for the Quarter Ended December 27, 2013 versus Net Sales for the Quarter Ended December 28, 2012</b>						
	<b>Organic<sup>(1)</sup></b>	<b>Translation<sup>(2)</sup></b>		<b>Divestiture</b>		<b>Total</b>	
	(\$ in millions)						
Industrial Equipment	\$ 28	9.5%	\$ (1)	\$	\$ 27	9.2%	
Aerospace, Defense, Oil, and Gas	9	3.5	1	\$	10	4.2	
Energy	8	4.4	2	(4)	6	3.2	
Total	\$ 45	6.2%	\$ 2	\$	(4)	\$ 43	6.0%

- 
- (1) Represents the change in net sales resulting from volume and price changes, before consideration of acquisitions, divestitures, and the impact of changes in foreign currency exchange rates.

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

Net sales in the Industrial Solutions segment increased \$43 million, or 6.0%, to \$763 million in the first quarter of fiscal 2014 from \$720 million in the first quarter of fiscal 2013. The strengthening of certain foreign currencies positively affected net sales by \$2 million in the first quarter of fiscal 2014 as compared to the first quarter of fiscal 2013. Organic net sales increased \$45 million, or 6.2%, during the first quarter of fiscal 2014 as compared to the same period of fiscal 2013.

In the industrial equipment end market, our organic net sales increased 9.5% in the first quarter of fiscal 2014 as compared to the first quarter of fiscal 2013 due to recovery in most end markets, particularly in the Asia-Pacific and EMEA regions. In the aerospace, defense, oil, and gas end market, our organic net sales increased 3.5% in the first quarter of fiscal 2014 as compared to the first quarter of fiscal 2013. The increase was attributable to increased production in the commercial aviation market and growth resulting from increased oil and gas exploration,

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partially offset by a slowdown in defense spending in North America. In the energy end market, our organic net sales increased 4.4% in the first quarter of fiscal 2014 from the first quarter of fiscal 2013 as a result of increased project activity in the Asia-Pacific region and growth in the EMEA region.

In the first quarter of fiscal 2014, operating income in the Industrial Solutions segment increased \$27 million to \$99 million from \$72 million in the first quarter of fiscal 2013. Segment results for the first quarter of fiscal 2014 included \$1 million of net restructuring and other charges. Segment results for the first quarter of fiscal 2013 included \$12 million of net restructuring and other charges and \$2 million of acquisition and integration costs related to the acquisition of Deutsch. Excluding these items, operating income increased in the first quarter of fiscal 2014 as compared to the same period of

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fiscal 2013. The increase was due to higher volume, lower material costs and, improved manufacturing productivity, partially offset by price erosion.

### Network Solutions

	<b>For the Quarters Ended</b>			
	<b>December 27,</b>		<b>December 28,</b>	
	<b>2013</b>		<b>2012</b>	
	<b>(\$ in millions)</b>			
Net sales	\$	713	\$	734
Operating income	\$	46	\$	36
Operating margin		6.5%		4.9%

The following table sets forth the Network Solutions segment's percentage of total net sales by primary industry end market<sup>(1)</sup>:

	<b>For the Quarters Ended</b>		
	<b>December 27,</b>		<b>December 28,</b>
	<b>2013</b>		<b>2012</b>
Telecom Networks	44%		38%
Data Communications	23		27
Enterprise Networks	21		20
Subsea Communications	12		15
<b>Total</b>	<b>100%</b>		<b>100%</b>

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

The following table provides an analysis of the change in the Network Solutions segment's net sales by primary industry end market:

	<b>Change in Net Sales for the Quarter Ended December 27, 2013</b>									
	<b>versus Net Sales for the Quarter Ended December 28, 2012</b>									
	<b>Organic<sup>(1)</sup></b>		<b>Translation<sup>(2)</sup></b>		<b>Divestiture</b>		<b>Total</b>			
	<b>(\$ in millions)</b>									
Telecom Networks	\$	31	10.9%	\$	1	\$	\$	32	11.4%	
Data Communications		(16)	(8.2)			(19)	(35)	(17.6)		
Enterprise Networks		9	5.9		(4)		5	3.4		
Subsea Communications		(23)	(21.1)				(23)	(21.3)		
<b>Total</b>	<b>\$</b>	<b>1</b>	<b>0.2%</b>	<b>\$</b>	<b>(3)</b>	<b>\$</b>	<b>(19)</b>	<b>\$</b>	<b>(21)</b>	<b>(2.9)%</b>

- 
- (1)



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Represents the change in net sales resulting from volume and price changes, before consideration of acquisitions, divestitures, and the impact of changes in foreign currency exchange rates.

(2)

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

In the first quarter of fiscal 2014, net sales in the Network Solutions segment decreased \$21 million, or 2.9%, to \$713 million from \$734 million in the first quarter of fiscal 2013. The weakening of certain foreign currencies negatively affected net sales by \$3 million in the first quarter of fiscal 2014 as compared to the first quarter of fiscal 2013. Organic net sales were flat in the first quarter of fiscal 2014 as compared to the same period of fiscal 2013.

In the telecom networks end market, our organic net sales increased 10.9% in the first quarter of fiscal 2014 as compared to the first quarter of fiscal 2013 as a result of growth in the fiber business in

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the EMEA region. In the data communications end market, our organic net sales decreased 8.2% in the first quarter of fiscal 2014 from the first quarter of fiscal 2013 as a result of market weakness, particularly in the EMEA region, and the exit of certain product lines. In the enterprise networks end market, our organic net sales increased 5.9% in the first quarter of fiscal 2014 as compared to the first quarter of fiscal 2013. The increase was attributable to strong market demand in the Americas and Asia-Pacific regions. The subsea communications end market's organic net sales decreased 21.1% in the first quarter of fiscal 2014 as compared to the first quarter of fiscal 2013 as a result of lower levels of project activity.

Operating income in the Network Solutions segment increased \$10 million to \$46 million in the first quarter of fiscal 2014 from \$36 million in the first quarter of fiscal 2013. Segment results included \$5 million and \$24 million of net restructuring and other charges in the first quarters of fiscal 2014 and 2013, respectively. Excluding these items, operating income decreased in the first quarter of fiscal 2014 as compared to the first quarter of fiscal 2013. The decrease resulted from price erosion and increased material costs, partially offset by improved manufacturing productivity and higher volume.

**Consumer Solutions**

	<b>For the Quarters Ended</b>	
	<b>December 27, 2013</b>	<b>December 28, 2012</b>
	(\$ in millions)	
Net sales	\$ 410	\$ 416
Operating income (loss)	\$ 38	\$ (7)
Operating margin	9.3%	NM <sup>(1)</sup>

(1) Not meaningful.

The following table sets forth the Consumer Solutions segment's percentage of total net sales by primary industry end market<sup>(1)</sup>:

	<b>For the Quarters Ended</b>	
	<b>December 27, 2013</b>	<b>December 28, 2012</b>
Consumer Devices	63%	66%
Appliances	37	34
Total	100%	100%

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

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The following table provides an analysis of the change in the Consumer Solutions segment's net sales by primary industry end market:

<b>Change in Net Sales for the Quarter Ended December 27, 2013 versus Net Sales for the Quarter Ended December 28, 2012</b>						
	<b>Organic<sup>(1)</sup></b>		<b>Translation<sup>(2)</sup></b>		<b>Total</b>	
	(\$ in millions)					
Consumer Devices	\$ (9)	(3.3)%	\$ (8)	\$ (17)	(6.2)%	
Appliances	13	8.3	(2)	11	7.8	
<b>Total</b>	<b>\$ 4</b>	<b>0.7%</b>	<b>\$ (10)</b>	<b>\$ (6)</b>	<b>(1.4)%</b>	

- (1) Represents the change in net sales resulting from volume and price changes, before consideration of acquisitions, divestitures, and the impact of changes in foreign currency exchange rates.
- (2) Represents the change in net sales resulting from changes in foreign currency exchange rates.

In the first quarter of fiscal 2014, net sales in the Consumer Solutions segment decreased \$6 million, or 1.4%, to \$410 million from \$416 million in the first quarter of fiscal 2013. The weakening of certain foreign currencies negatively affected net sales by \$10 million in the first quarter of fiscal 2014 as compared to the first quarter of fiscal 2013. Organic net sales increased \$4 million, or 0.7%, during the first quarter of fiscal 2014 as compared to the first quarter of fiscal 2013.

In the consumer devices end market, our organic net sales decreased 3.3% in the first quarter of fiscal 2014 from the first quarter of fiscal 2013 due to significant declines in the personal computer market, partially offset by increased demand and new product launches in the mobile phone and tablet computer markets. In the appliances end market, our organic net sales increased 8.3% in the first quarter of fiscal 2014 as compared to the same period of fiscal 2013. Strong demand in the Asia-Pacific region and, to a lesser degree, the Americas region was partially offset by declines in the EMEA region resulting from the strategic exit of certain product lines.

Consumer Solutions segment had operating income of \$38 million in the first quarter of fiscal 2014 as compared to an operating loss of \$7 million in the first quarter of fiscal 2013. Segment results included \$46 million of net restructuring and other charges in the first quarter 2013. Excluding these items, operating income was flat in the first quarter of fiscal 2014 as compared to the first quarter of fiscal 2013. The impact of price erosion and lower volume was offset by improved manufacturing productivity and lower material costs.

### **Liquidity and Capital Resources**

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

	<b>For the Quarters Ended</b>	
	<b>December 27, 2013</b>	<b>December 28, 2012</b>
	(in millions)	
Net cash provided by operating activities	\$ 385	\$ 392
Net cash used in investing activities	(123)	(105)
Net cash used in financing activities	(262)	(905)
Effect of currency translation on cash	(6)	1

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Net decrease in cash and cash equivalents	\$	(6)	\$	(617)
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Our ability to fund our future capital needs will be affected by our ability to continue to generate cash from operations and may be affected by our ability to access the capital markets, money markets,

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or other sources of funding, as well as the capacity and terms of our financing arrangements. We believe that cash generated from operations and, to the extent necessary, these other sources of potential funding will be sufficient to meet our anticipated capital needs for the foreseeable future. We may use excess cash to reduce our outstanding debt, including through the possible repurchase of our debt in accordance with applicable law, to purchase a portion of our common shares pursuant to our authorized share repurchase program, to pay distributions or dividends on our common shares, or to acquire strategic businesses or product lines. The cost or availability of future funding may be impacted by financial market conditions. We will continue to monitor financial markets and respond as necessary to changing conditions.

**Cash Flows from Operating Activities**

In the first quarter of fiscal 2014, net cash provided by continuing operating activities decreased \$6 million to \$387 million from \$393 million in the first quarter of fiscal 2013. The decrease resulted primarily from increased inventory levels and higher restructuring- and incentive-related cash usage, partially offset by higher earnings and decreased tax payments.

The amount of income taxes paid, net of refunds, during the first quarters of fiscal 2014 and 2013 was \$56 million and \$84 million, respectively. During the first quarter of fiscal 2013, we made payments of \$35 million for tax deficiencies related to pre-separation U.S. tax matters for the years 1997 through 2000. No payments or receipts occurred during the first quarter of fiscal 2014 for pre-separation tax matters. We expect to make net cash payments related to pre-separation tax matters of approximately \$200 million during the next twelve months. These amounts include payments in which we are the primary obligor to the taxing authorities and for which we expect a portion to be reimbursed by Tyco International and Covidien under the Tax Sharing Agreement as well as indemnification payments to Tyco International and Covidien under the Tax Sharing Agreement for tax matters where they are the primary obligor to the taxing authorities. See Note 8 to the Condensed Consolidated Financial Statements for additional information related to pre-separation tax matters.

In addition to net cash provided by operating activities, we use free cash flow, a non-GAAP financial measure, as a useful measure of our ability to generate cash. Free cash flow was \$266 million in the first quarter of fiscal 2014 as compared to \$304 million in the first quarter of fiscal 2013. The decrease in free cash flow was primarily driven by increased inventory levels and higher restructuring- and incentive-related cash usage, partially offset by higher earnings.

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

	<b>For the Quarters Ended</b>	
	<b>December 27, 2013</b>	<b>December 28, 2012</b>
	<b>(in millions)</b>	
Net cash provided by continuing operating activities	\$ 387	\$ 393
Capital expenditures	(133)	(126)
Proceeds from sale of property, plant, and equipment	12	2
Payments related to pre-separation U.S. tax matters, net		35
<b>Free cash flow</b>	<b>\$ 266</b>	<b>\$ 304</b>

**Cash Flows from Investing Activities**

Capital spending increased \$7 million in the first quarter of fiscal 2014 to \$133 million as compared to \$126 million in the first quarter of fiscal 2013. We expect fiscal 2014 capital spending levels to be approximately 4% to 5% of net sales. We believe our capital funding levels are adequate to

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support new programs, and we continue to invest in our manufacturing infrastructure to further enhance productivity and manufacturing capabilities.

**Cash Flows from Financing Activities and Capitalization**

Total debt at December 27, 2013 and September 27, 2013 was \$2,998 million and \$3,014 million, respectively. See Note 6 to the Condensed Consolidated Financial Statements for additional information regarding debt.

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

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

TEGSA has a five-year unsecured senior revolving credit facility ("Credit Facility") with total commitments of \$1,500 million. This facility expires in August 2018. TEGSA had no borrowings under the Credit Facility at December 27, 2013 and September 27, 2013.

The Credit Facility contains a financial ratio covenant providing that if, as of the last day of each fiscal quarter, our ratio of Consolidated Total Debt (as defined in the Credit Facility) to Consolidated EBITDA (as defined in the Credit Facility) for the then most recently concluded period of four consecutive fiscal quarters exceeds 3.75 to 1.0, an Event of Default (as defined in the Credit Facility) is triggered. The Credit Facility and our other debt agreements contain other customary covenants. None of our covenants are presently considered restrictive to our operations. As of December 27, 2013, we were in compliance with all of our debt covenants and believe that we will continue to be in compliance with our existing covenants for the foreseeable future.

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

Payments of common share dividends and cash distributions to shareholders were \$103 million and \$89 million in the first quarters of fiscal 2014 and 2013, respectively. We paid a cash dividend of \$0.25 per share to shareholders out of contributed surplus in the first quarter of fiscal 2014.

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

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At December 27, 2013, we had a backlog of unfilled orders of \$2,688 million compared to a backlog of \$2,569 at September 27, 2013. Backlog by reportable segment was as follows:

	December 27, 2013	September 27, 2013
	(in millions)	
Transportation Solutions	\$ 1,032	\$ 996
Industrial Solutions	877	791
Network Solutions	502	475
Consumer Solutions	277	307
<b>Total</b>	<b>\$ 2,688</b>	<b>\$ 2,569</b>

**Commitments and Contingencies****Legal Proceedings**

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

At December 27, 2013, we had a contingent purchase price commitment of \$80 million related to our fiscal 2001 acquisition of Com-Net. This represents the maximum amount payable to the former shareholders of Com-Net only after the construction and installation of a communications system was completed for and approved by the State of Florida in accordance with guidelines set forth in the contract. Under the terms of the purchase and sale agreement, we do not believe we have any obligation to the sellers. However, the sellers have contested our position and initiated a lawsuit in June 2006 in the Court of Common Pleas in Allegheny County, Pennsylvania, which is in the discovery phase. A liability for this contingency has not been recorded on the Condensed Consolidated Financial Statements as we do not believe that any payment is probable at this time.

**Income Tax Matters**

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

In connection with our separation from Tyco International in 2007, we entered into a Tax Sharing Agreement that generally governs our, Tyco International's, and Covidien's respective rights, responsibilities, and obligations after the distribution with respect to taxes, including ordinary course of business taxes and taxes, if any, incurred as a result of any failure of the distribution of all of our shares or the shares of Covidien to qualify as a tax-free distribution for U.S. federal income tax purposes within the meaning of Section 355 of the Internal Revenue Code (the "Code") or certain internal transactions undertaken in anticipation of the spin-offs to qualify for tax-favored treatment under the Code.

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Pursuant to the Tax Sharing Agreement, upon separation, we entered into certain guarantee commitments and indemnifications with Tyco International and Covidien. Under the Tax Sharing Agreement, we, Tyco International, and Covidien share 31%, 27%, and 42%, respectively, of certain contingent liabilities relating to unresolved pre-separation tax matters of Tyco International. See Note 7 to the Condensed Consolidated Financial Statements for additional information regarding the Tax Sharing Agreement.

During fiscal 2007, the Internal Revenue Service ("IRS") concluded its field examination of certain of Tyco International's U.S. federal income tax returns for the years 1997 through 2000 and issued Revenue Agent Reports that reflected the IRS' determination of proposed tax adjustments for the 1997 through 2000 period. Additionally, the IRS proposed civil fraud penalties against Tyco International arising from alleged actions of former executives in connection with certain intercompany transfers of stock in 1998 and 1999. The penalties were asserted against a prior subsidiary of Tyco International that was distributed to us in connection with the separation. Tyco International appealed certain of the proposed adjustments for the years 1997 through 2000, and Tyco International resolved all but one of the matters associated with the proposed tax adjustments, including reaching an agreement with the IRS on the penalty adjustment in the amount of \$21 million. In October 2012, the IRS issued special agreement Forms 870-AD, effectively settling its audit of all tax matters for the period 1997 through 2000, excluding one issue that remains in dispute as described below. As a result of these developments, in the first quarter of fiscal 2013, we recognized an income tax benefit of \$331 million and other expense of \$231 million pursuant to the Tax Sharing Agreement with Tyco International and Covidien.

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

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



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However, as the ultimate outcome is uncertain and if the IRS were to prevail on its assertions, our share of the assessed tax, deficiency interest, and applicable withholding taxes and penalties could have a material adverse impact on our results of operations, financial position, and cash flows. We have reviewed the Notices of Deficiency, the relevant facts surrounding the intercompany debt transactions, relevant tax regulations, and applicable case law, and we continue to believe that we are appropriately reserved for this matter.

Tyco International's income tax returns for the years 2001 through 2004 remain subject to adjustment by the IRS upon ultimate resolution of the disputed issue involving certain intercompany loans originated during the period 1997 through 2000. For the undisputed issues for years 2001 through 2004, it is our understanding that Tyco International expects the IRS to issue general agreement Forms 870 during fiscal 2014. The IRS commenced its audit of certain Tyco International income tax returns for the years 2005 through 2007 in fiscal 2011, and it is our understanding that fieldwork for this audit period is expected to be completed in fiscal 2014. Also, during fiscal 2012, the IRS commenced its audit of our income tax returns for the years 2008 through 2010. We expect fieldwork for the 2008 through 2010 audit to conclude in fiscal 2014. Over the next twelve months, we expect to make net cash payments of approximately \$200 million in connection with pre-separation tax matters.

At December 27, 2013 and September 27, 2013, we have reflected \$47 million and \$15 million, respectively, of income tax liabilities related to the audits of Tyco International's and our income tax returns in accrued and other current liabilities as certain of these matters could be resolved within the next twelve months.

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

#### **Off-Balance Sheet Arrangements**

In certain instances, we have guaranteed the performance of third parties and provided financial guarantees for uncompleted work and financial commitments. The terms of these guarantees vary with end dates ranging from fiscal 2014 through the completion of such transactions. The guarantees would be triggered in the event of nonperformance, and the potential exposure for nonperformance under the guarantees would not have a material effect on our results of operations, financial position, or cash flows.

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

At December 27, 2013, we had outstanding letters of credit and letters of guarantee in the amount of \$292 million.

We have recorded liabilities for known indemnifications included as part of environmental liabilities. See Note 8 to the Condensed Consolidated Financial Statements for a discussion of these liabilities.

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

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Pursuant to the Tax Sharing Agreement, upon separation, we entered into certain guarantee commitments and indemnifications with Tyco International and Covidien. Under the Tax Sharing Agreement, we, Tyco International, and Covidien share 31%, 27%, and 42%, respectively, of certain contingent liabilities relating to unresolved pre-separation tax matters of Tyco International. The effect of the Tax Sharing Agreement is to indemnify us for 69% of certain liabilities settled in cash by us with respect to unresolved pre-separation tax matters. Pursuant to that indemnification, we have made similar indemnifications to Tyco International and Covidien with respect to 31% of certain liabilities settled in cash by the companies relating to unresolved pre-separation tax matters. If any of the companies responsible for all or a portion of such liabilities were to default in its payment of costs or expenses related to any such liability, we would be responsible for a portion of the defaulting party or parties' obligation. These arrangements have been valued upon our separation from Tyco International in accordance with Accounting Standards Codification 460, *Guarantees*, and, accordingly, liabilities amounting to \$223 million were recorded on the Condensed Consolidated Balance Sheet at December 27, 2013. See Notes 7 and 8 to the Condensed Consolidated Financial Statements for additional information.

**Critical Accounting Policies and Estimates**

The preparation of the Condensed Consolidated Financial Statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenue and expenses.

Our accounting policies for revenue recognition, goodwill and other intangible assets, income taxes, pension and postretirement benefits, acquisitions, and contingent liabilities are based on, among other things, judgments and assumptions made by management. During the quarter ended December 27, 2013, there were no significant changes to these policies or to the underlying accounting assumptions and estimates used in these policies from those disclosed in the Consolidated Financial Statements and accompanying notes contained in our Annual Report on Form 10-K for the fiscal year ended September 27, 2013.

**Non-GAAP Financial Measures**

**Organic Net Sales Growth**

Organic net sales growth is a non-GAAP financial measure. The difference between reported net sales growth (the most comparable GAAP measure) and organic net sales growth (the non-GAAP measure) consists of the impact from foreign currency exchange rates, acquisitions, and divestitures. Organic net sales growth is a useful measure of the underlying results and trends in our business. It excludes items that are not completely under management's control, such as the impact of changes in foreign currency exchange rates, and items that do not reflect the underlying growth of the company, such as acquisition and divestiture activity.

We believe organic net sales growth provides useful information to investors because it reflects the underlying growth from the ongoing activities of our business. Furthermore, it provides investors with a view of our operations from management's perspective. We use organic net sales growth to monitor and evaluate performance, as it is an important measure of the underlying results of our operations. Management uses organic net sales growth together with GAAP measures such as net sales growth and operating income in its decision making processes related to the operations of our reporting segments and our overall company. We believe that investors benefit from having access to the same financial measures that management uses in evaluating operations. The discussion and analysis of organic net sales growth in "Results of Operations" above utilizes organic net sales growth as management does internally. Because organic net sales growth calculations may vary among other companies, organic net

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sales growth amounts presented above may not be comparable with similarly titled measures of other companies. Organic net sales growth is a non-GAAP financial measure that is not meant to be considered in isolation or as a substitute for GAAP measures. The primary limitation of this measure is that it excludes items that have an impact on our net sales. This limitation is best addressed by evaluating organic net sales growth in combination with our GAAP net sales. The tables presented in "Results of Operations" above provide reconciliations of organic net sales growth to net sales growth calculated under GAAP.

**Free Cash Flow**

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

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

Free cash flow as presented herein may not be comparable to similarly-titled measures reported by other companies. The primary limitation of this measure is that it excludes items that have an impact on our GAAP cash flow. Also, it subtracts certain cash items that are ultimately within management's and the board of directors' discretion to direct and may imply that there is less or more cash available for our programs than the most comparable GAAP measure indicates. This limitation is best addressed by using free cash flow in combination with the GAAP cash flow results. It should not be inferred that the entire free cash flow amount is available for future discretionary expenditures, as our definition of free cash flow does not consider certain non-discretionary expenditures, such as debt payments. In addition, we may have other discretionary expenditures, such as discretionary dividends, share repurchases, and business acquisitions, that are not considered in the calculation of free cash flow.

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

**Forward-Looking Information**

Certain statements in this quarterly report on Form 10-Q are "forward-looking statements" within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. These statements are based on our management's beliefs and assumptions and on information currently available to our management. Forward-looking statements include, among others, the information concerning our possible or assumed future results of operations, business strategies, financing plans, competitive position, potential growth opportunities, potential operating performance improvements, acquisitions, the effects of competition, and the effects of future legislation or regulations. Forward-looking statements include all statements that are not historical facts and can be identified by the use of forward-looking terminology such as the words "believe," "expect," "plan," "intend," "anticipate,"

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"estimate," "predict," "potential," "continue," "may," "should," or the negative of these terms or similar expressions.

Forward-looking statements involve risks, uncertainties, and assumptions. Actual results may differ materially from those expressed in these forward-looking statements. You should not put undue reliance on any forward-looking statements. We do not have any intention or obligation to update forward-looking statements after we file this report except as required by law.

The following and other risks, which are described in greater detail in "Part I. Item 1A. Risk Factors," in our Annual Report on Form 10-K for the fiscal year ended September 27, 2013, could also cause our results to differ materially from those expressed in forward-looking statements:

conditions in the global or regional economies and global capital markets, and cyclical industry conditions;

conditions affecting demand for products in the industries we serve, particularly the automotive industry;

competition and pricing pressure;

market acceptance of new product introductions and product innovations and product life cycles;

raw material availability, quality, and cost;

fluctuations in foreign currency exchange rates;

financial condition and consolidation of customers and vendors;

reliance on third-party suppliers;

risks associated with future acquisitions and divestitures;

global risks of business interruptions such as natural disasters and political, economic, and military instability;

risks related to compliance with current and future environmental and other laws and regulations;

our ability to protect our intellectual property rights;

risks of litigation;

our ability to operate within the limitations imposed by our debt instruments;

risks relating to our separation on June 29, 2007 from Tyco International Ltd.;

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the possible effects on us of various U.S. and non-U.S. legislative proposals and other initiatives that, if adopted, could materially increase our worldwide corporate effective tax rate and negatively impact our U.S. government contracts business;

various risks associated with being a Swiss corporation;

the impact of fluctuations in the market price of our shares; and

the impact of certain provisions of our articles of association on unsolicited takeover proposals.

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

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**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

There have been no significant changes in our exposures to market risk during the first quarter of fiscal 2014. For further discussion of our exposures to market risk, refer to "Part II. Item 7A. Quantitative and Qualitative Disclosures About Market Risk" in our Annual Report on Form 10-K for the fiscal year ended September 27, 2013.

**ITEM 4. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of December 27, 2013. Based on that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective as of December 27, 2013.

**Changes in Internal Control Over Financial Reporting**

During the quarter ended December 27, 2013, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents**PART II. OTHER INFORMATION****ITEM 1. LEGAL PROCEEDINGS**

There have been no material developments in our legal proceedings since we filed our Annual Report on Form 10-K for the fiscal year ended September 27, 2013. For a description of our previously reported legal proceedings, refer to "Part I. Item 3. Legal Proceedings" in our Annual Report on Form 10-K for the fiscal year ended September 27, 2013.

**ITEM 1A. RISK FACTORS**

There have been no material changes in our risk factors from those disclosed in "Part I. Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended September 27, 2013. The risk factors described in our Annual Report on Form 10-K, in addition to other information set forth in this report, could materially affect our business operations, financial condition, or liquidity. Additional risks and uncertainties not currently known to us or that we currently believe are immaterial also may impair our business operations, financial condition, and liquidity.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS****Recent Sales of Unregistered Securities**

None.

**Issuer Purchases of Equity Securities**

The following table presents information about our purchases of our common shares during the quarter ended December 27, 2013:

<b>Period</b>	<b>Total Number of Shares Purchased<sup>(1)</sup></b>	<b>Average Price Paid Per Share<sup>(1)</sup></b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs<sup>(2)</sup></b>	<b>Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs<sup>(2)</sup></b>
September 28 - October 25, 2013	1,340,507	\$ 51.82	1,340,488	\$ 408,770,664
October 26 - November 29, 2013	1,371,741	52.20	1,145,260	1,348,927,172
November 30 - December 27, 2013	1,547,189	53.18	1,546,394	1,266,680,248
<b>Total</b>	<b>4,259,437</b>	<b>\$ 52.44</b>	<b>4,032,142</b>	

(1) These columns include the following transactions which occurred during the quarter ended December 27, 2013:

- (i) the acquisition of 227,295 common shares from individuals in order to satisfy tax withholding requirements in connection with the vesting of restricted share awards issued under equity compensation plans; and
- (ii) open market purchases totaling 4,032,142 common shares, summarized on a trade-date basis, in conjunction with the share repurchase program announced in September 2007.

(2)

On October 29, 2013, our board of directors authorized a \$1 billion increase in the share repurchase program. Our share repurchase program authorizes us to purchase a portion of our outstanding common shares from time to time through open market or private transactions, depending on business and market conditions. The share repurchase program does not have an expiration date.



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**ITEM 6. EXHIBITS**

<b>Exhibit Number</b>	<b>Exhibit</b>
4.1	Eighth Supplemental Indenture among Tyco Electronics Group S.A., as issuer, TE Connectivity Ltd., as guarantor, and Deutsche Bank Trust Company Americas, as trustee, dated as of November 25, 2013 (Incorporated by reference to Exhibit 4.1 to TE Connectivity's Current Report on Form 8-K, filed November 25, 2013)
10.1	Employment Agreement between Thomas J. Lynch and TE Connectivity Ltd. effective December 20, 2013 (Incorporated by reference to Exhibit 10.1 to TE Connectivity's Current Report on Form 8-K, filed December 20, 2013)
10.2	Employment Agreement between Robert W. Hau and TE Connectivity Ltd. effective December 20, 2013 (Incorporated by reference to Exhibit 10.2 to TE Connectivity's Current Report on Form 8-K, filed December 20, 2013)
10.3	Employment Agreement between Terrence R. Curtin and TE Connectivity Ltd. effective December 20, 2013 (Incorporated by reference to Exhibit 10.3 to TE Connectivity's Current Report on Form 8-K, filed December 20, 2013)
10.4	Employment Agreement between Joseph B. Donahue and TE Connectivity Ltd. effective December 20, 2013 (Incorporated by reference to Exhibit 10.4 to TE Connectivity's Current Report on Form 8-K, filed December 20, 2013)
10.5	Employment Agreement between Robert N. Shaddock and TE Connectivity Ltd. effective December 20, 2013 (Incorporated by reference to Exhibit 10.5 to TE Connectivity's Current Report on Form 8-K, filed December 20, 2013)
31.1	Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
31.2	Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
32.1	Certification by the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**
101	Financial statements from the Quarterly Report on Form 10-Q of TE Connectivity Ltd. for the quarterly period ended December 27, 2013, filed on January 23, 2014, formatted in XBRL: (i) the Condensed Consolidated Statements of Operations, (ii) the Condensed Consolidated Statements of Comprehensive Income, (iii) the Condensed Consolidated Balance Sheets, (iv) the Condensed Consolidated Statements of Cash Flows, and (v) the Notes to Condensed Consolidated Financial Statements*

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\*  
Filed herewith

\*\*  
Furnished herewith

Neither TE Connectivity Ltd. nor any of its consolidated subsidiaries has outstanding any instrument with respect to its long-term debt, other than those filed as an exhibit to TE Connectivity Ltd.'s Annual Report on Form 10-K for the fiscal year ended September 27, 2013, under which the total amount of securities authorized exceeds 10% of the total assets of TE Connectivity Ltd. and its subsidiaries on a consolidated basis. TE Connectivity Ltd. hereby agrees to furnish to the U.S. Securities and Exchange Commission, upon request, a copy of each instrument that defines the rights of holders of such long-term debt that is not filed or incorporated by reference as an exhibit to our annual and quarterly reports.

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**SIGNATURES**

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

TE CONNECTIVITY LTD.

By:                                 /s/ ROBERT W. HAU

Robert W. Hau  
*Executive Vice President and Chief Financial Officer*  
*(Principal Financial Officer)*

Date: January 23, 2014