NATIONWIDE HEALTH PROPERTIES INC
Form 10-Q
August 06, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2008.

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ______ to ______.

Commission file number 1-9028

NATIONWIDE HEALTH PROPERTIES, INC.

(Exact Name of Registrant as Specified in Its Charter)

Maryland	**95-3997619**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification Number)**
610 Newport Center Drive, Suite 1150 Newport Beach, California	**92660**
(Address of Principal Executive Offices)	**(Zip Code)**

(949) 718-4400

(Registrant s Telephone Number, Including Area Code)

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

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Common stock, $0.10 par value, outstanding at August 4, 2008: 96,782,006

NATIONWIDE HEALTH PROPERTIES, INC.

FORM 10-Q

JUNE 30, 2008

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Part I. Financial Information

Item 1. Financial Statements

NATIONWIDE HEALTH PROPERTIES, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2008 (Unaudited)	December 31, 2007
	(Dollars in thousands)	
ASSETS		
Investments in real estate		
Real estate properties:		
Land	$ 299,080	$ 301,100
Buildings and improvements	2,930,340	2,896,876
	3,229,420	3,197,976
Less accumulated depreciation	(436,823)	(410,865)
	2,792,597	2,787,111
Mortgage loans receivable, net	119,149	121,694
Investment in unconsolidated joint ventures	51,445	52,637
	2,963,191	2,961,442
Cash and cash equivalents	130,106	19,407
Receivables, net	5,361	3,808
Assets held for sale	2,597	
Other assets	283,320	159,696
	$ 3,384,575	$ 3,144,353
LIABILITIES AND STOCKHOLDERS EQUITY		
Unsecured senior credit facility	$	$ 41,000
Senior notes due 2008-2038	1,156,500	1,166,500
Notes and bonds payable	386,314	340,150
Accounts payable and accrued liabilities	133,634	107,844
Total liabilities	1,676,448	1,655,494
Minority interests	52,871	6,166
Commitments and contingencies		
Stockholders equity:		
Preferred stock $1.00 par value; 5,000,000 shares authorized; 7.750% Series B Convertible, 1,064,100 and 1,064,450 shares issued and outstanding at June 30, 2008 and December 31, 2007, respectively, stated at liquidation preference of $100 per share	106,410	106,445
Common stock $0.10 par value; 200,000,000 shares authorized; issued and outstanding: 96,604,835 and 94,805,781 as of June 30, 2008 and December 31, 2007, respectively	9,660	9,481
Capital in excess of par value	1,621,224	1,565,249
Cumulative net income	1,494,220	1,288,751
Accumulated other comprehensive income	2,320	2,561
Cumulative dividends	(1,578,578)	(1,489,794)

Total stockholders equity	1,655,256	1,482,693
	$ 3,384,575	$ 3,144,353

See accompanying notes.

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NATIONWIDE HEALTH PROPERTIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(In thousands, except per share amounts)			
Revenues:				
Rental income:				
Triple-net lease rent	$ 71,529	$ 66,377	$ 141,530	$ 128,923
Operating rent	15,939	2,810	26,870	5,573
	87,468	69,187	168,400	134,496
Interest and other income	6,549	4,994	11,816	9,265
	94,017	74,181	180,216	143,761
Expenses:				
Interest and amortization of deferred financing costs	25,507	25,165	50,246	47,908
Depreciation and amortization	28,933	21,733	56,360	41,426
General and administrative	6,407	5,796	12,905	11,413
Medical office building operating expenses	6,699	1,779	11,562	3,193
	67,546	54,473	131,073	103,940
Income before minority interests and unconsolidated joint ventures	26,471	19,708	49,143	39,821
Minority interests in net losses of consolidated joint ventures	46	81	55	63
Income from unconsolidated joint ventures	848	477	1,901	695
Gain on sale of facilities to unconsolidated joint ventures, net		599		599
Income from continuing operations	27,365	20,865	51,099	41,178
Discontinued operations:				
Gain on sale of facilities, net	140,226	61,180	151,092	61,246
Income from discontinued operations	422	5,388	3,278	11,056
	140,648	66,568	154,370	72,302
Net income	168,013	87,433	205,469	113,480
Preferred stock dividends	(2,062)	(3,791)	(4,125)	(7,581)
Income available to common stockholders	$ 165,951	$ 83,642	$ 201,344	$ 105,899
Basic per share amounts:				
Income from continuing operations available to common stockholders	$ 0.26	$ 0.19	$ 0.49	$ 0.38
Discontinued operations	1.46	0.74	1.61	0.81
Income available to common stockholders	$ 1.72	$ 0.93	$ 2.10	$ 1.19
Basic weighted average shares outstanding	96,351	89,761	95,813	88,979

Diluted per share amounts:				
Income from continuing operations available to common stockholders	$ 0.26	$ 0.19	$ 0.49	$ 0.37
Discontinued operations	1.43	0.74	1.59	0.81
Income available to common stockholders	$ 1.69	$ 0.93	$ 2.08	$ 1.18
Diluted weighted average shares outstanding	98,114	90,222	96,949	89,454
Dividends paid per share	$ 0.44	$ 0.41	$ 0.88	$ 0.82

See accompanying notes.

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NATIONWIDE HEALTH PROPERTIES, INC.

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

(Unaudited)

(In thousands)

	Preferred Stock		Common stock		Capital in excess of	Cumulative	Accumulated other comprehensive	Cumulative	Total stockholders
	Shares	Amount	Shares	Amount	par value	net income	income	dividends	equity
Balances at December 31, 2007	1,064	$ 106,445	94,806	$ 9,481	$ 1,565,249	$ 1,288,751	$ 2,561	$ (1,489,794)	$ 1,482,693
Comprehensive income:									
Net income						205,469			205,469
Amortization of gain on Treasury lock agreements							(241)		(241)
Comprehensive income									205,228
Conversion of preferred stock		(35)			35				
Issuance of common stock			1,799	179	55,940				56,119
Preferred dividends								(4,125)	(4,125)
Common dividends								(84,659)	(84,659)
Balances at June 30, 2008	1,064	$ 106,410	96,605	$ 9,660	$ 1,621,224	$ 1,494,220	$ 2,320	$ (1,578,578)	$ 1,655,256

See accompanying notes.

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NATIONWIDE HEALTH PROPERTIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended June 30,	
	2008	2007
	(In thousands)	
Cash flows from operating activities:		
Net income	$ 205,469	$ 113,480
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	57,726	46,794
Stock-based compensation	2,771	2,238
Gain on sale of facilities, net	(151,092)	(61,845)
Amortization of deferred financing costs	1,283	1,275
Mortgage loan premium amortization	53	191
Straight-line rent	(5,597)	(1,698)
Equity in earnings from unconsolidated joint ventures	31	(239)
Distributions from unconsolidated joint ventures	134	239
Minority interests in net losses of consolidated joint ventures	(55)	(63)
Changes in operating assets and liabilities:		
Receivables	(1,553)	(1,294)
Other assets	(13,386)	21,194
Accounts payable and accrued liabilities	21,482	(1,082)
Net cash provided by operating activities	117,266	119,190
Cash flows from investing activities:		
Acquisition of real estate and related assets and liabilities	(176,765)	(284,430)
Proceeds from sale of real estate facilities	280,077	140,364
Advances to 1031 exchange accommodator	(33,397)	
Investment in mortgage and other loans receivable	(40,493)	(47,935)
Principal payments on mortgage loans receivable	9,242	426
Contributions to unconsolidated joint ventures	(2,671)	(46,758)
Distributions from unconsolidated joint ventures	3,698	25,900
Net cash provided by (used in) investing activities	39,691	(212,433)
Cash flows from financing activities:		
Borrowings under credit facility	169,000	435,000
Repayment of borrowings under credit facility	(210,000)	(364,000)
Repayment of senior unsecured debt	(10,000)	(21,000)
Issuance of notes and bonds payable	8,285	650
Principal payments on notes and bonds payable	(14,991)	(28,174)
Issuance of common stock, net	53,091	146,309
Contributions from minority interests	47,424	110
Distributions to minority interests	(521)	(53)
Dividends paid	(88,546)	(77,090)
Deferred financing costs		(312)
Net cash (used in) provided by financing activities	(46,258)	91,440

Increase (decrease) in cash and cash equivalents	110,699	(1,803)
Cash and cash equivalents, beginning of period	19,407	14,695
Cash and cash equivalents, end of period	$ 130,106	$ 12,892

See accompanying notes.

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NATIONWIDE HEALTH PROPERTIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2008

(Unaudited)

1. Organization

Nationwide Health Properties, Inc., a Maryland corporation, is a real estate investment trust (REIT) that invests primarily in healthcare related senior housing, long-term care properties and medical office buildings. Whenever we refer herein to NHP or to us or use the terms we or our, w are referring to Nationwide Health Properties, Inc. and its subsidiaries, unless the context otherwise requires.

We primarily make our investments by acquiring an ownership interest in senior housing and long-term care facilities and leasing them to unaffiliated tenants under triple-net master leases that transfer the obligation for all facility operating costs (including maintenance, repairs, taxes, insurance and capital expenditures) to the tenant. We also invest in medical office buildings which are not generally subject to triple-net leases and generally have several tenants under separate leases in each building, thus requiring active management and responsibility for many of the associated operating expenses (although many of these are, or can effectively be, passed through to the tenants). However, some of the medical office buildings are subject to triple-net leases. In addition, but to a much lesser extent because we view the risks of this activity to be greater, we extend mortgage loans and other financing to tenants from time to time. For the six months ended June 30 2008, approximately 93% of our revenues were derived from our leases, with the remaining 7% from our mortgage loans and other financing activities.

We believe we have operated in such a manner as to qualify as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended. We intend to continue to qualify as such and therefore to distribute at least 90% of our REIT taxable income (computed without regard to the dividends paid deduction and excluding capital gain) to our stockholders. If we qualify for taxation as a REIT, and we distribute 100% of our taxable income to our stockholders, we will generally not be subject to U.S. federal income taxes on our income that is distributed to stockholders. Accordingly, no provision has been made for federal income taxes.

As of June 30, 2008, we had investments in 562 healthcare facilities and one land parcel located in 43 states, consisting of:

Consolidated facilities:

250 assisted and independent living facilities;

166 skilled nursing facilities;

10 continuing care retirement communities;

7 specialty hospitals;

6 triple-net medical office buildings;

59 multi-tenant medical office buildings, 50 of which are operated by consolidated joint ventures (see Note 5); and

- 1 asset held for sale.

Unconsolidated facilities:

- 19 assisted and independent living facilities;
- 14 skilled nursing facilities; and
- 1 continuing care retirement community.

Mortgage loans secured by:

- 20 skilled nursing facilities;
- 9 assisted and independent living facilities; and
- 1 land parcel.

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NATIONWIDE HEALTH PROPERTIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of June 30, 2008, our directly owned facilities, other than our multi-tenant medical office buildings, most of which are operated by our consolidated joint ventures (see Note 5), were leased and operated by 84 different healthcare providers, including the following publicly traded companies:

	Number of Facilities Operated
Assisted Living Concepts, Inc.	4
Brookdale Senior Living, Inc.	96
Emeritus Corporation	6
Extendicare, Inc.	1
HEALTHSOUTH Corporation	2
Kindred Healthcare, Inc.	1
Sun Healthcare Group, Inc.	4

Two of our triple-net lease tenants each accounted for more than 10% of our revenues at June 30, 2008, as follows:

Brookdale Senior Living, Inc.	13%
Hearthstone Senior Services, L.P.	12%

2. Summary of Significant Accounting Policies

Basis of Presentation

We have prepared the condensed consolidated financial statements included herein without audit. These financial statements include all adjustments that are, in the opinion of management, necessary for a fair presentation of the results of operations for the three and six months ended June 30, 2008 and 2007 pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). All such adjustments are of a normal recurring nature. Certain items in prior period financial statements have been reclassified to conform to current year presentation, including those required by Statement of Financial Accounting Standards (SFAS) No. 144 *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS No. 144). Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States (GAAP) have been condensed or omitted pursuant to these rules and regulations. Although we believe that the disclosures in the financial statements included herein are adequate to make the information presented not misleading, these condensed consolidated financial statements should be read in conjunction with our financial statements and the notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2007 filed with the SEC. The results of operations for the three and six months ended June 30, 2008 and 2007 are not necessarily indicative of the results for a full year.

Principles of Consolidation

The condensed consolidated financial statements include our accounts, the accounts of our wholly owned subsidiaries and the accounts of our majority owned and controlled joint ventures in accordance with GAAP, including Financial Accounting Standards Board (FASB) Interpretation No. 46R *Consolidation of Variable Interest Entities* and Emerging Issues Task Force (EITF) Issue 04-5 *Investor s Accounting for an Investment in a Limited Partnership When the Investor is the Sole General Partner and the Limited Partners Have Certain Rights* (EITF 04-5). All material intercompany accounts and transactions have been eliminated.

Investments in entities that we do not consolidate but for which we have the ability to exercise significant influence over operating and financial policies are reported under the equity method. Under the equity method of accounting, our share of the entity s earnings or losses is included in our operating results.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ materially from those estimates.

NATIONWIDE HEALTH PROPERTIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Revenue Recognition

Rental income from operating leases is recognized in accordance with GAAP, including SFAS No. 13 *Accounting for Leases* and SEC Staff Accounting Bulletin (SAB) No. 101 *Revenue Recognition* as amended by SEC SAB No. 104. Our leases generally contain annual escalators. Many of our leases contain non-contingent rent escalators for which we recognize income on a straight-line basis over the lease term. Recognizing income on a straight-line basis requires us to calculate the total non-contingent rent to be paid over the life of a lease and to recognize the revenue evenly over that life. This method results in rental income in the early years of a lease being higher than actual cash received, creating a straight-line rent receivable asset included in the caption Other assets on our balance sheets. At some point during the lease, depending on its terms, the cash rent payments eventually exceed the straight-line rent which results in the straight-line rent receivable asset decreasing to zero over the remainder of the lease term. We assess the collectibility of straight-line rents in accordance with the applicable accounting standards and our reserve policy and defer recognition of straight-line rent if its collectibility is not reasonably assured. Certain leases contain escalators contingent on gross revenues or other factors, including increases based solely on changes in the Consumer Price Index. Such revenue increases are recognized over the lease term as the related contingencies occur.

Our assessment of the collectibility of straight-line rents is based on several factors, including the financial strength of the tenant and any guarantors, the historical operations and operating trends of the facility, the historical payment pattern of the tenant and the type of facility, among others. If our evaluation of these factors indicates we may not receive the rent payments due in the future, we defer recognition of the straight-line rental income and, depending on the circumstances, we may provide a reserve against the previously recognized straight-line rent receivable asset for a portion, up to its full value, that we estimate may not be recoverable. If our assumptions or estimates regarding the collectibility of future rent payments required by a lease change, we may adjust our reserve to increase or reduce the rental revenue recognized, and/or to increase or reduce the reserve against the existing straight-line rent receivable balance.

We recorded $2.8 million and $5.6 million of revenues in excess of cash received during the three and six months ended June 30, 2008, respectively, and $0.8 million and $1.7 million of revenues in excess of cash received during the three and six months ended June 30, 2007, respectively. We had straight-line rent receivables, net of reserves, recorded under the caption Other assets on our balance sheets of $16.1 million at June 30, 2008 and $10.7 million at December 31, 2007. We evaluate the collectibility of the straight-line rent receivable balances on an ongoing basis and provide reserves against receivables we believe may not be fully recoverable. The ultimate amount of straight-line rent we realize could be less than amounts currently recorded.

Gain on Sale of Facilities

We recognize sales of facilities only upon closing. Payments received from purchasers prior to closing are recorded as deposits. Gains on facilities sold are recognized using the full accrual method upon closing when the collectibility of the sales price is reasonably assured, we have received adequate initial investment from the buyer, we are not obligated to perform significant activities after the sale to earn the gain and other profit recognition criteria have been satisfied. Gains may be deferred in whole or in part until the sales satisfy the requirements of gain recognition on sales of real estate under SFAS No. 66 *Accounting for Sales of Real Estate*. In accordance with SFAS No. 144, gains on facilities sold to unconsolidated joint ventures in which we maintain an ownership interest are included in income from continuing operations, and the portion of the gain representing our retained ownership interest in the joint venture is deferred and included in the caption Accounts payable and accrued liabilities on our balance sheets. All other gains are included in discontinued operations.

Asset Impairment

We review our long-lived assets individually on a quarterly basis to determine if there are indicators of impairment in accordance with SFAS No. 144 and SFAS No. 142 *Goodwill and Other Intangible Assets* (SFAS No. 142). Indicators may include, among others, the tenant s inability to make rent payments, operating losses or negative operating trends at the facility level, notification by a tenant that it will not renew its lease, a decision to dispose of an asset or adverse changes in the fair value of any of our properties. For operating assets, if indicators of impairment exist, we compare the future estimated undiscounted cash flows from the expected use of the property to its net book value to determine if impairment exists. If the sum of the future estimated undiscounted cash flows is higher than the current net book value, in accordance with SFAS Nos. 144 and 142, we conclude no impairment exists. If the sum of the future estimated undiscounted cash flows is lower than its current net book value, we recognize an impairment loss for the difference between the net book value of the asset and its estimated fair value. To the

extent we decide to sell an asset, we recognize an impairment loss if the current net book value of the asset exceeds its fair value less selling costs. The above analyses require us to determine whether there are indicators of impairment for individual assets, to estimate the most likely stream of cash flows from operating assets and to determine the fair value of assets that are impaired or held for sale. If our assumptions, projections or estimates regarding an asset change in the future, we may have to record an impairment charge to reduce or further reduce the net book value of the asset. No impairment charges were recorded during the six months ended June 30, 2008 or 2007.

NATIONWIDE HEALTH PROPERTIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Collectibility of Receivables

We evaluate the collectibility of our rent, mortgage loans and other receivables on a regular basis based on factors including, among others, payment history, the financial strength of the borrower and any guarantors, the value of the underlying collateral, the operations and operating trends of the underlying collateral, if any, the asset type and current economic conditions. If our evaluation of these factors indicates we may not recover the full value of the receivable, we provide a reserve against the portion of the receivable that we estimate may not be recovered. This analysis requires us to determine whether there are factors indicating a receivable may not be fully collectible and to estimate the amount of the receivable that may not be collected. We had reserves included in the caption Receivables, net on our balance sheets of $2.8 million at June 30, 2008 and $2.7 million at December 31, 2007. If our assumptions or estimates regarding the collectibility of a receivable change in the future, we may have to record a reserve to reduce or further reduce the carrying value of the receivable.

Accounting for Stock-Based Compensation

In 1999, we adopted the accounting provisions of SFAS No. 123 *Accounting for Stock-Based Compensation* (SFAS No. 123). In 2005, we adopted SFAS No. 123 (revised 2004) *Share-Based Payment* (SFAS No. 123R). SFAS No. 123 and SFAS No. 123R established a fair value based method of accounting for stock-based compensation. Accounting for stock-based compensation under SFAS No. 123 and SFAS No. 123R causes the fair value of stock-based compensation awards to be amortized as an expense over the vesting period and causes any dividend equivalents earned to be treated as dividends for financial reporting purposes. Stock-based compensation awards are valued at the fair value on the date of grant and amortized as an expense over the vesting period. Net income reflects stock-based compensation expense of $1.4 million and $2.8 million for the three and six months ended June 30, 2008, respectively, and $1.2 million and $2.2 million for the three and six months ended June 30, 2007, respectively.

Land, Buildings and Improvements

We record properties at cost and use the straight-line method of depreciation for buildings and improvements over their estimated remaining useful lives of up to 40 years, generally 20 to 40 years. We review and adjust useful lives periodically. Depreciation expense from continuing operations was $25.5 million and $50.0 million for the three and six months ended June 30, 2008, respectively, and $20.9 million and $39.8 million for the three and six months ended June 30, 2007, respectively.

We allocate purchase prices in accordance with SFAS No. 141 *Business Combinations* (SFAS No. 141). For our triple-net leased facilities, a significant portion of the cost of each property is allocated to buildings. This amount generally approximates 90%. We allocate the purchase price of a property based on management s estimate of its fair value among land, building and, if applicable, equipment as if the property were vacant. Historically, we have generally acquired properties and simultaneously entered into a new market rate lease for the entire property with one tenant. For our multi-tenant medical office buildings, the percentage allocated to buildings may be substantially lower as allocations are made to assets such as lease-up intangible assets, above market tenant and ground lease intangible assets and in-place lease intangible assets (collectively intangible lease assets) included in the caption Other assets on our balance sheets and/or below market tenant and ground lease intangible liabilities included in the caption Accounts payable and accrued liabilities on our balance sheets. We amortize intangible lease assets and liabilities over the remaining lease terms of the respective leases to real estate amortization expense or operating rent, as appropriate.

Derivatives

In the normal course of business, we are exposed to financial market risks, including interest rate risk on our interest-bearing liabilities. We endeavor to limit these risks by following established risk management policies, procedures and strategies, including, on occasion, the use of derivative instruments. We do not use derivative instruments for trading or speculative purposes.

Derivative instruments are recorded on the balance sheet as assets or liabilities based on each instrument s fair value. Changes in the fair value of derivative instruments are recognized currently in earnings, unless the derivative instrument meets the criteria for hedge accounting contained in SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended and interpreted (SFAS No. 133). If the derivative instruments meet the criteria for a cash flow hedge, the gains and losses in the fair value of the derivative instrument are recorded in other comprehensive income. Gains and losses on a cash flow hedge are reclassified into earnings when the forecasted transaction affects earnings. A

contract that is designated as a hedge of an anticipated transaction which is no longer likely to occur is immediately recognized in earnings.

NATIONWIDE HEALTH PROPERTIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Segment Reporting

We report our consolidated financial statements in accordance with SFAS No. 131 *Disclosures about Segments of an Enterprise and Related Information*. We operate in two segments based on our investment and leasing activities: triple-net leases and multi-tenant leases (see Note 17).

Minority Interests

NHP/PMB L.P. (NHP/PMB) is a limited partnership that we formed in April 2008 to acquire properties from entities affiliated with Pacific Medical Buildings LLC (PMB) (see Note 5). We consolidate NHP/PMB consistent with the provisions of EITF 04-5, as our wholly owned subsidiary is the general partner and exercises control. As of June 30, 2008, third party investors owned 1,470,754 limited partnership units in NHP/PMB. After a one year holding period, these limited partnership units are exchangeable for cash or, at our option, shares of our common stock, initially on a one-for-one basis. At June 30, 2008, the cost and market value of the limited partnership units were $47.2 million and $46.3 million, respectively.

We also have two consolidated joint ventures with The Broe Companies (Broe) and one consolidated joint venture with McShane Medical Office Properties, Inc. (McShane) that invest in multi-tenant medical office buildings (see Note 5). The cost of the minority interests for these joint ventures was $5.7 million and $6.2 million at June 30, 2008 and December 31, 2007, respectively.

Fair Value

On January 1, 2008, we adopted the provisions of SFAS No. 157 *Fair Value Measurements* (SFAS No. 157) for our financial assets and liabilities measured at fair value on a recurring basis. SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. SFAS No. 157 also specifies a three-level hierarchy of valuation techniques based upon whether the inputs reflect assumptions other market participants would use based upon market data obtained from independent sources (observable inputs) or reflect our own assumptions of market participant valuation (unobservable inputs) and requires the use of observable inputs if such data is available without undue cost and effort. At June 30, 2008, we had $7.5 million of financial assets and $7.5 million of financial liabilities classified as Level 1 and thus measured at fair value using quoted market prices for identical instruments in active markets from an independent third party source.

In February 2008, the FASB amended SFAS No. 157 to delay the effective date of SFAS 157 for nonfinancial assets and liabilities that are not required or permitted to be measured at fair value on a recurring basis to January 1, 2009. The adoption of SFAS No. 157 for nonfinancial assets and liabilities that are not required or permitted to be measured at fair value on a recurring basis is not expected to have a material impact on our results of operations or financial position.

In February 2007, the FASB issued SFAS No. 159 *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS No. 159). SFAS No. 159 provides companies with an option to report selected financial assets and liabilities at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 was effective January 1, 2008. On January 1, 2008, we did not elect to apply the fair value option to any specific financial assets or liabilities.

Impact of New Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 158 *Employer s Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R)* (SFAS No. 158). SFAS No. 158 requires recognition of the funded status of such plans as an asset or liability, with changes in the funded status recognized through comprehensive income in the year in which they occur. These provisions of SFAS No. 158 were effective December 31, 2006 and were adopted at that time. Additionally, SFAS No. 158 requires measurement of a plan s assets and its obligations at the end of the employer s fiscal year, effective December 31, 2008. SFAS No. 158 has not had, and is not expected to have, a material impact on our results of operations or financial position.

In December 2007, the FASB issued SFAS No. 160 *Noncontrolling Interests in Consolidated Financial Statements an amendment of Accounting Research Bulletin (ARB) No. 51* (SFAS No. 160). SFAS No. 160 clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. SFAS No. 160 changes the way the consolidated income statement is presented, thus requiring consolidated net income to be reported at amounts that include the amounts attributable to both the parent and to the noncontrolling interest. SFAS No. 160 is effective January 1, 2009. The adoption of SFAS No. 160 will require the recognition of gains or losses upon changes in control which could have a significant impact on our results of operations and financial position.

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NATIONWIDE HEALTH PROPERTIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In December 2007, the FASB issued SFAS No. 141 (revised 2007) *Business Combinations* (SFAS No. 141R). SFAS No. 141R retains the fundamental requirements in SFAS No. 141 that the acquisition method of accounting be used for all business combinations and for an acquirer to be identified for each business combination. SFAS No. 141R establishes principles and requirements for how the acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree. Under SFAS No. 141R, certain transaction costs that have historically been capitalized as acquisition costs will be expensed. SFAS No. 141R is effective for business combinations completed on or after January 1, 2009. The adoption of SFAS No. 141R will require us to expense certain transaction costs for business combinations that were previously capitalized which may have a significant impact on our results of operations and financial position based on historical acquisition costs and activity levels.

In March 2008, the FASB issued SFAS No. 161 *Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133* (SFAS No. 161). SFAS No. 161 requires enhanced disclosures about (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations and (iii) how derivative instruments and related hedged items affect an entity s financial position, financial performance and cash flows. SFAS No. 161 is effective January 1, 2009. The adoption of SFAS No. 161 is not expected to have a material impact on our results of operations or financial position.

In April 2008, the FASB issued FASB Staff Position (FSP) No. FAS 142-3 *Determination of the Useful Life of Intangible Assets* (FSP FAS 142-3). FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142 and requires enhanced disclosures about (i) the entity s accounting policy on the treatment of costs incurred to renew or extend the term of a recognized intangible asset, (ii) the weighted average period prior to the next renewal or extension (both explicit and implicit), by major intangible asset class in the period of acquisition or renewal and (iii) the total amount of costs incurred in each period presented to renew or extend the term of a recognized intangible asset , by major intangible asset class for entities that capitalize renewal or extension costs. FSP FAS 142-3 is effective January 1, 2009. The adoption of FSP FAS 142-3 is not expected to have a material impact on our results of operations or financial position.

In June 2008, the FASB issued FSP No. EITF 03-6-1 *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* (FSP EITF 03-6-1). FSP EITF 03-6-1 clarifies that outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends participate in undistributed earnings with common shareholders are considered participating securities, and thus, the issuing entity is required to apply the two-class method of computing basic earnings per share as described in SFAS No. 128 *Earnings per Share*. FSP EITF 03-6-1 is effective January 1, 2009. The adoption of FSP EITF 03-6-1 is not expected to have a material impact on our results of operations but may impact our basic earnings per share.

3. Real Estate Properties

At June 30, 2008, we had direct ownership of:

- 250 assisted and independent living facilities;
- 166 skilled nursing facilities;
- 10 continuing care retirement communities;
- 7 specialty hospitals;

6 triple-net medical office buildings; and

59 multi-tenant medical office buildings, 50 of which are operated by consolidated joint ventures (see Note 5).

We lease our owned senior housing and long-term care facilities and certain medical office buildings to single tenants under triple-net , and in most cases, master leases that are accounted for as operating leases. These leases generally have an initial term of up to 21 years and generally have two or more multiple-year renewal options. As of June 30, 2008, approximately 84% of these facilities were leased under master leases. In addition, the majority of these leases contain cross-collateralization and cross-default provisions tied to other leases with the same tenant, as well as grouped lease renewals and grouped purchase options. As of June 30, 2008, leases covering 414 facilities were backed by security deposits consisting of irrevocable letters of credit or cash totaling $78.3 million. Under terms of the leases, the tenant is responsible for all maintenance, repairs, taxes, insurance and capital expenditures on the leased properties. As of June 30, 2008, leases covering 299 facilities contained provisions for property tax impounds, and leases covering 202 facilities contained provisions for

NATIONWIDE HEALTH PROPERTIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

capital expenditure impounds. We generally lease medical office buildings to multiple tenants under separate non triple-net leases where we are responsible for many of the associated operating expenses (although many of these are, or can effectively be, passed through to the tenants). However, some of the medical office buildings are subject to triple-net leases. No individual property owned by us is material to us as a whole.

During the six months ended June 30, 2008, we acquired 15 assisted and independent living facilities and six skilled nursing facilities in five separate transactions for an aggregate investment of $65.1 million. We also acquired, from entities affiliated with PMB, one multi-tenant medical office building for $13.8 million and, through NHP/PMB, seven multi-tenant medical office buildings for $184.5 million (see Note 5) for an aggregate investment of $198.3 million, of which $157.5 million was allocated to real estate with the remaining $40.8 million allocated to other assets and liabilities. We also acquired one multi-tenant medical office building through our consolidated joint venture with McShane for $2.0 million (see Note 5).

Included in the cost of the acquisitions from PMB affiliates is $6.3 million of accrued acquisition costs at June 30, 2008. These accrued acquisition costs represent our estimate of cash expected to be paid upon conclusion of the agreement with PMB. The accrued acquisition costs at June 30, 2008 are based on closings to date and are contingent upon how many of the original 18 multi-tenant medical office buildings included in the agreement are acquired. The accrued acquisition costs are expected to increase as we and NHP/PMB acquire additional multi-tenant medical office buildings from PMB and its affiliates.

During the six months ended June 30, 2008, we also funded $16.4 million in expansions, construction and capital improvements at certain facilities in accordance with existing lease provisions. Such expansions, construction and capital improvements generally result in an increase in the minimum rents earned by us on these facilities either at the time of funding or upon completion of the project. At June 30, 2008, we had committed to fund additional expansions, construction and capital improvements of $138.3 million.

During the six months ended June 30, 2008, we transferred 23 assisted and independent living facilities and one skilled nursing facility to assets held for sale (see Note 7). All but one of these assets were sold as of June 30, 2008.

During the six months ended June 30, 2008, we sold one assisted and independent living facility and one skilled nursing facility, both not previously transferred to assets held for sale, to the tenants of the facilities pursuant to purchase options for net cash proceeds of $23.4 million. The sales resulted in a total gain of $14.0 million that is included in gain on sale of facilities in discontinued operations. During the six months ended June 30, 2008, we sold one assisted and independent living facility not previously transferred to assets held for sale for net cash proceeds of $1.9 million. We provided financing for $2.5 million of the purchase price. The sale resulted in a gain of $2.1 million that is included in gain on sale of facilities in discontinued operations. We also sold one multi-tenant medical office building through one of our consolidated joint ventures with Broe (see Note 5).

4. Mortgage Loans Receivable

At June 30, 2008, we held 16 mortgage loans receivable secured by 20 skilled nursing facilities, nine assisted and independent living facilities and one land parcel. In addition, we held one mortgage loan receivable secured by the skilled nursing portion of a continuing care retirement community that for facility count purposes is accounted for in the real estate properties above as a continuing care retirement community and therefore is not counted as a separate facility here. At June 30, 2008, the mortgage loans receivable had a net book value of $119.1 million, with individual outstanding principal balances ranging from $0.7 million to $33.0 million and maturities ranging from 2008 to 2024.

During the six months ended June 30, 2008, we funded one mortgage loan secured by one skilled nursing facility in the amount of $6.8 million.

During the six months ended June 30, 2008, two mortgage loans totaling $8.9 million were repaid at maturity.

5. Medical Office Building Joint Ventures

NHP/Broe, LLC

In December 2005, we entered into a joint venture with Broe called NHP/Broe, LLC (Broe I) to invest in multi-tenant medical office buildings. We hold a 90% equity interest in the venture and Broe holds a 10% equity interest. Broe is the managing member of Broe I, but we consolidate the joint venture in our consolidated financial statements. The accounting policies of the joint venture are consistent with our accounting policies.

NATIONWIDE HEALTH PROPERTIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the first 36 months of the Broe I joint venture, we will receive 100% of the cash distributions from the joint venture until we have received a specified return, at which point Broe will receive 100% of the cash distributions until it has received a specified return. If we have not received the specified return after the first 36 months, distributions will go to the members in accordance with their ownership percentages until such time as each member earns the specified return. When the specified return is achieved, Broe will receive an increasing percentage of the cash distributions from the joint venture.

At June 30, 2008, the Broe I joint venture owned 20 multi-tenant medical office buildings located in six states.

During the six months ended June 30, 2008, the Broe I joint venture funded $1.1 million in capital improvements at certain facilities.

During the six months ended June 30, 2008, the Broe I joint venture sold one multi-tenant medical office building for $0.4 million. The sale resulted in a gain of $0.1 million which is included in gain on sale of facilities in discontinued operations.

During the six months ended June 30, 2008, cash distributions from the Broe I joint venture of $0.6 million were made to us. No cash distributions were made to Broe during the six months ended June 30, 2008. All intercompany balances with the Broe I joint venture have been eliminated for purposes of our consolidated financial statements.

NHP/Broe II, LLC

In February 2007, we entered into a second joint venture with Broe called NHP/Broe II, LLC (Broe II) to invest in multi-tenant medical office buildings. We hold a 95% equity interest in the venture and Broe holds a 5% equity interest. Broe is the managing member of Broe II, but we consolidate the joint venture in our consolidated financial statements. The accounting policies of the joint venture are consistent with our accounting policies.

Cash distributions from the Broe II joint venture are made in accordance with the members ownership interests until specified returns are achieved. As the specified returns are achieved, Broe will receive an increasing percentage of the cash distributions from the joint venture.

At June 30, 2008, the Broe II joint venture owned 16 multi-tenant medical office buildings located in four states.

During the six months ended June 30, 2008, the Broe II joint venture funded $0.1 million in capital improvements at certain facilities.

During the six months ended June 30, 2008, the Broe II joint venture placed $7.8 million of secured debt on one multi-tenant medical office building.

During the six months ended June 30, 2008, cash distributions from the Broe II joint venture of $1.6 million and $0.1 million were made to us and to Broe, respectively. All intercompany balances with the Broe II joint venture have been eliminated for purposes of our consolidated financial statements.

McShane/NHP JV, LLC

In December 2007, we entered into a joint venture with McShane called McShane/NHP JV, LLC (McShane/NHP) to invest in multi-tenant medical office buildings. We hold a 95% equity interest in the venture and McShane holds a 5% equity interest. McShane is the managing member of McShane/NHP, but we consolidate the joint venture in our consolidated financial statements. The accounting policies of the joint venture are consistent with our accounting policies.

Cash distributions from the McShane/NHP joint venture are made in accordance with the members ownership interests until specified returns are achieved. As the specified returns are achieved, McShane will receive an increasing percentage of the cash distributions from the joint venture.

At June 30, 2008, the McShane/NHP joint venture owned seven multi-tenant medical office buildings located in one state.

During the six months ended June 30, 2008, the McShane/NHP joint venture acquired the final multi-tenant medical office building of a seven building portfolio. The purchase price for the final building totaled $2.0 million, of which $1.8 million was allocated to real estate with the remaining $0.2 million allocated to other assets and liabilities. The other six multi-tenant medical office buildings were acquired in December 2007. The total portfolio acquisition was originally financed with a bridge loan from us of $31.2 million and capital contributions of $16.0 million and $0.8 million, from us and McShane, respectively.

NATIONWIDE HEALTH PROPERTIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

During the six months ended June 30, 2008, cash distributions from the McShane/NHP joint venture of $0.8 million and $44,000 were made to us and to McShane, respectively. All intercompany balances with the McShane/NHP joint venture have been eliminated for purposes of our consolidated financial statements.

NHP/PMB L.P.

In February 2008, we entered into an agreement with PMB and certain of its affiliates to acquire up to 18 multi-tenant medical office buildings, including six that are currently in development, for $747.6 million, including the assumption of approximately $282.6 million of mortgage financing. In April 2008, NHP/PMB acquired five of the 18 multi-tenant medical office buildings located in one state for $123.5 million, including acquisition costs, which was paid in a combination of cash, the assumption of $61.7 million of mortgage financing and the issuance of 951,402 limited partnership units with a fair value at the date of issuance of $30.2 million. In May 2008, NHP/PMB acquired two more of the 18 multi-tenant medical office buildings located in two states for $61.0 million, including acquisition costs, which was paid in a combination of cash, the assumption of $34.9 million of mortgage financing and the issuance of 519,352 limited partnership units with a fair value at the date of issuance of $17.1 million.

We expect to acquire the remaining 10 multi-tenant medical office buildings for $549.3 million, including the assumption of approximately $186.0 million of mortgage financing. We expect to acquire five of the remaining 10 multi-tenant medical office buildings in 2008, three in 2009 and two in 2010. The acquisition of each of the remaining multi-tenant medical office buildings is subject to the satisfaction of customary closing conditions.

Under the terms of the agreement, a portion of the consideration for the multi-tenant medical office buildings is to be paid in the form of limited partnership units. After a one year holding period, units of NHP/PMB are exchangeable for cash or, at our option, shares of our common stock, initially on a one-for-one basis. Additionally, we entered into another agreement with PMB in which we obtained the right, but not the obligation, to acquire up to $1 billion of multi-tenant medical office buildings developed by PMB over the following seven years.

During the six months ended June 30, 2008, there were no cash distributions made to the partners and 100% of the net loss of the partnership totaling $0.3 million was allocated to us in accordance with the partnership agreement. All intercompany balances with NHP/PMB have been eliminated for purposes of our consolidated financial statements.

In April 2008, we acquired one of the 18 multi-tenant medical office buildings directly from an entity affiliated with PMB for $13.8 million, including acquisition costs (see Note 3). Also in April 2008, we acquired a 50% interest in PMB Real Estate Services LLC (PMBRES), a full service property management company (see Note 6).

6. Investment in Unconsolidated Joint Ventures

State Pension Fund Investor

In January 2007, we entered into a joint venture with a state pension fund investor. The purpose of the joint venture is to acquire and develop assisted living, independent living and skilled nursing facilities. We manage and own 25% of the joint venture, which will fund its investments with approximately 40% equity contributions and 60% debt. The original approved investment target was $475 million, but we exceeded that amount in 2007, and the total potential investment amount has been increased to $975 million. The financial statements of the joint venture are not consolidated in our financial statements as our joint venture partner has substantive participating rights, and our investment is accounted for using the equity method.

At June 30, 2008, the joint venture owned 19 assisted and independent living facilities, 14 skilled nursing facilities and one continuing care retirement community located in nine states. During the six months ended June 30, 2008, the joint venture placed $10.0 million of mortgage financing on one assisted and independent living facility resulting in cash distributions of $7.5 million and $2.5 million to our joint venture partner and us, respectively.

During the six months ended June 30, 2008, the joint venture entered into an interest rate swap contract that is designated as hedging the variability of expected cash flows related to variable rate debt placed on a portion of its portfolio. The cash flow hedge has a fixed rate of 4.235%, a notional amount of $126.1 million and expires on January 1, 2015. The fair value of this contract at June 30, 2008 was $0.5 million.

Cash distributions from the joint venture are made in accordance with the members ownership interests until specified returns are achieved. As the specified returns are achieved, we will receive an increasing percentage of the cash distributions from the joint venture. In addition to our share of the income, we receive a management fee calculated as a percentage of the

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NATIONWIDE HEALTH PROPERTIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

equity investment in the joint venture. This fee is included in our income from unconsolidated joint ventures and in the general and administrative expenses on the joint venture s income statement. During the three and six months ended June 30, 2008, we earned management fees of $1.0 million and $1.9 million, respectively, and our share of the net income was $38,000 and $0.1 million, respectively. During the three and six months ended June 30, 2007, we earned management fees of $0.4 million and $0.5 million, respectively, and our share of the net income was $0.1 million and $0.2 million, respectively.

PMB Real Estate Services LLC

In February 2008, we entered into an agreement with PMB to acquire a 50% interest in PMBRES, a full service property management company. The transaction closed on April 1, 200s;">32 76 (42) 34

Total

$1,837 $(546) $1,291 $1,877 $(525) $1,352

Intangible asset amortization expense was $28 million and $14 million for the quarters ended March 29, 2013 and March 30, 2012, respectively, and $56 million and $29 million for the six months ended March 29, 2013 and March 30, 2012, respectively.

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

	(in millions)
Remainder of fiscal 2013	$55
Fiscal 2014	111
Fiscal 2015	110
Fiscal 2016	110
Fiscal 2017	110
Fiscal 2018	110
Thereafter	685
Total	$1,291

TE CONNECTIVITY LTD.

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

7. Debt

Debt was as follows:

	March 29, 2013	September 28, 2012
	(in millions)	
6.00% senior notes due 2012	$	$714
5.95% senior notes due 2014	300	300
1.60% senior notes due 2015	250	250
6.55% senior notes due 2017	730	732
4.875% senior notes due 2021	272	274
3.50% senior notes due 2022	498	498
7.125% senior notes due 2037	475	475
3.50% convertible subordinated notes due 2015	89	90
Commercial paper, at a weighted-average interest rate of 0.32% and 0.40%, respectively	350	300
Other	66	78
Total debt[1]	3,030	3,711
Less current maturities of long-term debt[2]	715	1,015
Long-term debt	$2,315	$2,696

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

(2) The current maturities of long-term debt at March 29, 2013 was comprised of the 5.95% senior notes due 2014, commercial paper, and a portion of amounts shown as other. The current maturities of long-term debt at September 28, 2012 was comprised of the 6.00% senior notes due 2012, commercial paper, and a portion of amounts shown as other.

Tyco Electronics Group S.A. ("TEGSA"), our 100%-owned subsidiary, has a five-year unsecured senior revolving credit facility ("Credit Facility") with total commitments of $1,500 million. This facility expires in June 2016. TEGSA had no borrowings under the Credit Facility at March 29, 2013 and September 28, 2012.

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

The fair value of our debt, based on indicative valuations, was approximately $3,317 million and $4,034 million at March 29, 2013 and September 28, 2012, respectively.

8. Guarantees

Tax Sharing Agreement

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

TE CONNECTIVITY LTD.

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

8. Guarantees (Continued)

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 March 29, 2013, we had a liability representing the indemnifications made to Tyco International and Covidien pursuant to the Tax Sharing Agreement of $241 million of which $225 million was reflected in other liabilities and $16 million was reflected in accrued and other current liabilities on the Condensed Consolidated Balance Sheet. At September 28, 2012, the liability was $241 million and consisted of $227 million in other liabilities and $14 million in accrued and other current liabilities. The amount reflected in accrued and other current liabilities is our estimated cash obligation under the Tax Sharing Agreement to Tyco International and Covidien in connection with pre-separation tax matters that could be resolved within the next twelve months.

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

Other Matters

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

At March 29, 2013, we had outstanding letters of credit and letters of guarantee in the amount of $359 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 March 29, 2013 and September 28, 2012 were $42 million and $48 million, respectively.

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

9. Commitments and Contingencies

TE Connectivity Legal Proceedings

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

At March 29, 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 or reasonably estimable at this time.

Income Taxes

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.

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

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

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

9. Commitments and Contingencies (Continued)

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

During the first six months of fiscal 2013, we made payments of $67 million for tax deficiencies related to undisputed tax adjustments for the years 1997 through 2000. Tyco International's income tax returns for the years 2001 through 2004 remain subject to adjustment by the IRS upon ultimate resolution of the disputed issue involving certain intercompany loans originated during the period 1997 through 2000. Over the next twelve months, we expect net cash receipts of approximately $36 million, inclusive of related indemnification receipts and payments, in connection with these pre-separation tax matters.

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

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

At March 29, 2013 and September 28, 2012, we have reflected $13 million and $71 million, respectively, of income tax liabilities related to the audits of Tyco International's and our income tax returns in accrued and other current liabilities as certain of these matters could be resolved within the next twelve months.

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

Environmental Matters

We are involved in various stages of investigation and cleanup related to environmental remediation matters at a number of sites. The ultimate cost of site cleanup is difficult to predict given the uncertainties regarding the extent of the required cleanup, the interpretation of applicable laws and regulations, and alternative cleanup methods. As of March 29, 2013, we concluded that it was probable that we would incur remedial costs in the range of $13 million to $24 million. As of March 29, 2013, we concluded that the best estimate within this range is $14 million, of which $3 million is included in accrued and other current liabilities and $11 million is included in other liabilities on the Condensed Consolidated Balance Sheet. We believe that any potential payment of such estimated amounts will not have a material adverse effect on our results of operations, financial position, or cash flows.

TE CONNECTIVITY LTD.

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

10. Financial Instruments

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

Foreign Exchange Risks

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

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

Interest Rate and Investment Risk Management

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

Hedges of Net Investment

We hedge our net investment in certain foreign operations using intercompany non-derivative financial instruments denominated in the same currencies. The aggregate notional value of these hedges was $2,062 million and $2,981 million at March 29, 2013 and September 28, 2012, respectively. We reclassified foreign exchange gains of $63 million and $8 million during the quarters ended March 29, 2013 and March 30, 2012, respectively, and gains of $65 million and $60 million during the six months ended March 29, 2013 and March 30, 2012, respectively, to currency translation, a component of accumulated other comprehensive income, offsetting foreign exchange gains or losses attributable to the translation of the net investment.

Commodity Hedges

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

At March 29, 2013 and September 28, 2012, our commodity hedges had notional values of $266 million and $246 million, respectively. We expect that significantly all of the balance in accumulated other comprehensive income associated with the commodities hedges will be reclassified into the Condensed Consolidated Statements of Operations within the next twelve months.

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TE CONNECTIVITY LTD.

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

10. Financial Instruments (Continued)

Derivative Instrument Summary

The fair value of our derivative instruments is summarized below:

	March 29, 2013		September 28, 2012	
	Fair Value of Asset Positions(1)	Fair Value of Liability Positions(2)	Fair Value of Asset Positions(1)	Fair Value of Liability Positions(2)
	(in millions)			
Derivatives designated as hedging instruments:				
Foreign currency contracts(3)	$	$4	$2	$1
Interest rate swaps	23		26	
Commodity swap contracts(3)	1	15	18	1
Total derivatives designated as hedging instruments	24	19	46	2
Derivatives not designated as hedging instruments:				
Foreign currency contracts(3)	6	5	2	2
Investment swaps	3		1	
Total derivatives not designated as hedging instruments	9	5	3	2
Total derivatives	$33	$24	$49	$4

(1) All derivative instruments in asset positions that mature within one year of the balance sheet date are recorded in prepaid expenses and other current assets on the Condensed Consolidated Balance Sheets and totaled $10 million and $19 million at March 29, 2013 and September 28, 2012, respectively. All derivative instruments in asset positions that mature more than one year from the balance sheet date are recorded in other assets on the Condensed Consolidated Balance Sheets and totaled $23 million and $30 million at March 29, 2013 and September 28, 2012, respectively.

(2) All derivative instruments in liability positions that mature within one year of the balance sheet date are recorded in accrued and other current liabilities on the Condensed Consolidated Balance Sheets and totaled $21 million and $4 million at March 29, 2013 and September 28, 2012, respectively. All derivative instruments in liability positions that mature more than one year from the balance sheet date are recorded in other liabilities on the Condensed Consolidated Balance Sheets and totaled $3 million at March 29, 2013; there were no derivatives in other liabilities at September 28, 2012.

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

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

	Gain Recognized	
Location	For the Quarters Ended	For the Six Months Ended

Derivatives Designated as Fair Value Hedges		March 29, 2013	March 30, 2012	March 29, 2013	March 30, 2012
			(in millions)		
Interest rate swaps[1]	Interest expense	$1	$1	$2	$3

(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 March 29, 2013 had no gain or loss recognized on the Condensed Consolidated Statements of Operations during the periods.

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

10. Financial Instruments (Continued)

The effects of derivative instruments designated as cash flow hedges on the Condensed Consolidated Statements of Operations for the quarters ended 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 March 29, 2013:					
Foreign currency contracts	$(4)	Cost of sales	$	Cost of sales	$
Commodity swap contracts	(14)	Cost of sales	(3)	Cost of sales	
Interest rate swaps[1]		Interest expense	(3)	Interest expense	
Total	$(18)		$(6)		$
For the Quarter Ended March 30, 2012:					
Foreign currency contracts	$2	Cost of sales	$(1)	Cost of sales	$
Commodity swap contracts	18	Cost of sales	4	Cost of sales	
Interest rate swaps and swaptions[1]	(4)	Interest expense	(3)	Interest expense	
Total	$16		$		$

(1) During the quarter ended March 29, 2013, there were no outstanding interest rate swaps designated as cash flow hedges. During the quarter ended March 30, 2012, we terminated forward starting interest rate swaps and swaptions designated as cash flow hedges for a cash payment of $24 million. Prior to the termination, a loss of $2 million was recorded in other comprehensive income related to the effective portions of the hedges during the period. Also during the quarter ended March 30, 2012, we entered into and terminated an interest rate swap designated as a cash flow hedge, recording a loss of $2 million in other comprehensive income. Amounts recognized as interest expense due to ineffectiveness following the termination of all swaps in fiscal 2012 were not material. Losses reclassified from accumulated other comprehensive income to interest expense during the quarters ended March 29, 2013 and March 30, 2012 include the instruments terminated in January 2012 as well as certain forward starting interest rate swaps designated as cash flow hedges that were terminated in September 2007.

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

Derivatives Designated as Cash Flow Hedges	Gain (Loss) Recognized in OCI (Effective Portion)	Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Gain (Loss) Recognized in Income (Ineffective Portion and Amount Excluded From Effectiveness Testing)

	Amount	Location	Amount	Location	Amount
			(in millions)		
For the Six Months Ended March 29, 2013:					
Foreign currency contracts	$(4)	Cost of sales	$1	Cost of sales	$
Commodity swap contracts	(31)	Cost of sales		Cost of sales	
Interest rate swaps[1]		Interest expense	(5)	Interest expense	
Total	$(35)		$(4)		$
For the Six Months Ended March 30, 2012:					
Foreign currency contracts	$(1)	Cost of sales	$(1)	Cost of sales	$
Commodity swap contracts	14	Cost of sales	14	Cost of sales	
Interest rate swaps and swaptions[1]	(5)	Interest expense	(4)	Interest expense	
Total	$8		$9		$

(1) During the six months ended March 29, 2013, there were no outstanding interest rate swaps designated as cash flow hedges. During the six months ended March 30, 2012, we terminated forward starting interest rate swaps and swaptions designated as cash flow

TE CONNECTIVITY LTD.

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

10. Financial Instruments (Continued)

hedges for a cash payment of $24 million. Prior to the termination, a loss of $3 million was recorded in other comprehensive income related to the effective portions of the hedges during the period. Also during the six months ended March 30, 2012, we entered into and terminated an interest rate swap designated as a cash flow hedge, recording a loss of $2 million in other comprehensive income. Amounts recognized as interest expense due to ineffectiveness following the termination of all swaps in fiscal 2012 were not material. Losses reclassified from accumulated other comprehensive income to interest expense during the six months ended March 29, 2013 and March 30, 2012 include the instruments terminated in January 2012 as well as certain forward starting interest rate swaps designated as cash flow hedges that were terminated in September 2007.

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

		Gain (Loss) Recognized			
		For the Quarters Ended		For the Six Months Ended	
Derivatives not Designated as Hedging Instruments	Location	March 29, 2013	March 30, 2012	March 29, 2013	March 30, 2012
		(in millions)			
Foreign currency contracts	Selling, general, and administrative expenses	$2	$11	$1	$(21)
Investment swaps	Selling, general, and administrative expenses	4	4	4	7
Total		$6	$15	$5	$(14)

During the quarter and six months ended March 30, 2012, we incurred gains of $11 million and losses of $21 million, respectively, as a result of marking foreign currency derivatives not designated as hedging instruments to fair value. These gains and losses were principally driven by Euro-denominated foreign currency contracts entered into in anticipation of the acquisition of Deutsch and were offset by gains realized as a result of re-measuring certain Euro-denominated intercompany non-derivative financial instruments to the U.S. Dollar.

11. Fair Value Measurements

Fair value measurements are classified under the following hierarchy:

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

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

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

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TE CONNECTIVITY LTD.

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

11. Fair Value Measurements (Continued)

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

Description	Fair Value Measurements Using Inputs Considered as Level 1	Level 2	Level 3	Fair Value
	(in millions)			
March 29, 2013:				
Assets:				
Commodity swap contracts[1]	$1	$	$	$1
Interest rate swaps		23		23
Investment swaps		3		3
Foreign currency contracts[1]		6		6
Rabbi trust assets	3	80		83
Total assets at fair value	$4	$112	$	$116
Liabilities:				
Commodity swap contracts[1]	$15	$	$	$15
Foreign currency contracts[1]		9		9
Total liabilities at fair value	$15	$9	$	$24
September 28, 2012:				
Assets:				
Commodity swap contracts[1]	$18	$	$	$18
Interest rate swaps		26		26
Investment swaps		1		1
Foreign currency contracts[1]		4		4
Rabbi trust assets	4	79		83
Total assets at fair value	$22	$110	$	$132
Liabilities:				
Commodity swap contracts[1]	$1	$	$	$1
Foreign currency contracts[1]		3		3
Total liabilities at fair value	$1	$3	$	$4

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

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

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

maturity.

As of March 29, 2013 and September 28, 2012, we did not have significant financial assets or liabilities that were measured at fair value on a non-recurring basis or non-financial assets or liabilities that were measured at fair value.

During the second quarter of fiscal 2012, we used significant other observable inputs (level 2) to calculate an impairment charge related to the TE Professional Services business. See Note 3 for additional information.

TE CONNECTIVITY LTD.

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

11. Fair Value Measurements (Continued)

Other Financial Instruments

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

12. Retirement Plans

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

	U.S. Plans		Non-U.S. Plans	
	For the Quarters Ended		For the Quarters Ended	
	March 29, 2013	March 30, 2012	March 29, 2013	March 30, 2012
	(in millions)			
Service cost	$1	$1	$15	$13
Interest cost	12	13	18	19
Expected return on plan assets	(15)	(14)	(18)	(14)
Other[1]	9	11	8	6
Net periodic pension benefit cost	$7	$11	$23	$24

	U.S. Plans		Non-U.S. Plans	
	For the Six Months Ended		For the Six Months Ended	
	March 29, 2013	March 30, 2012	March 29, 2013	March 30, 2012
	(in millions)			
Service cost	$3	$3	$30	$26
Interest cost	23	26	36	38
Expected return on plan assets	(30)	(29)	(36)	(27)
Other[1]	18	21	16	12
Net periodic pension benefit cost	$14	$21	$46	$49

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(1) Other consists primarily of amortization of net actuarial losses.

The net periodic postretirement benefit cost for postretirement benefit plans was insignificant for the quarters and six months ended March 29, 2013 and March 30, 2012.

During the six months ended March 29, 2013, we contributed $50 million to our non-U.S. pension plans and insignificant amounts to our U.S. pension plans and postretirement benefit plans.

13. Income Taxes

We recorded tax provisions of $60 million and $91 million for the quarters ended March 29, 2013 and March 30, 2012, respectively. The provision for the quarter ended March 29, 2013 reflects tax benefits recognized in connection with the lapse of statutes of limitations for examinations of prior year income tax returns in certain

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TE CONNECTIVITY LTD.

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

13. Income Taxes (Continued)

non-U.S. locations partially offset by charges related to adjustments to prior year income tax returns. In addition, the provision for the quarter ended March 29, 2013 reflects tax benefits recognized in connection with the extension of the U.S. research and development credit for fiscal 2012 enacted in January 2013 through the American Taxpayer Relief Act of 2012. The tax provision for the quarter ended March 30, 2012 reflects tax benefits recognized due to the lapse of statutes of limitations for examinations of prior year income tax returns in certain non-U.S. locations.

We recorded an income tax benefit of $185 million and a tax provision of $179 million for the six months ended March 29, 2013 and March 30, 2012, respectively. The benefit for the six months ended March 29, 2013 reflects a $331 million income tax benefit related to the effective settlement of all undisputed tax matters for the period 1997 through 2000. In addition, the provision for the six months ended March 29, 2013 reflects tax benefits recognized in connection with the lapse of statutes of limitations for examinations of prior year income tax returns in certain non-U.S. locations partially offset by charges related to adjustments to prior year income tax returns. The provision for the six months ended March 30, 2012 reflects income tax expense associated with certain non-U.S. tax rate changes enacted during the quarter ended December 30, 2011.

We record accrued interest as well as penalties related to uncertain tax positions as part of the provision for income taxes. As of March 29, 2013, we had recorded $965 million of accrued interest and penalties related to uncertain tax positions on the Condensed Consolidated Balance Sheet, of which $963 million was recorded in income taxes and $2 million was recorded in accrued and other current liabilities. As of September 28, 2012, the balance of accrued interest and penalties was $1,335 million, of which $1,299 million was recorded in income taxes and $36 million was recorded in accrued and other current liabilities on the Condensed Consolidated Balance Sheet. The decrease in the accrued interest and penalties from fiscal year end 2012 is due mainly to the effective settlement of all undisputed tax matters for the period 1997 through 2000. During the six months ended March 29, 2013, we recognized $300 million of benefit related to interest and penalties on the Condensed Consolidated Statement of Operations.

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

Although it is difficult to predict the timing or results of our worldwide examinations, we estimate that up to approximately $45 million of unrecognized income tax benefits, excluding the impacts relating to accrued interest and penalties, could be resolved within the next twelve months.

We are not aware of any other matters that would result in significant changes to the amount of unrecognized income tax benefits reflected on the Condensed Consolidated Balance Sheet as of March 29, 2013.

14. Other Income (Expense), Net

We recorded net other income of $9 million and $11 million in the quarters ended March 29, 2013 and March 30, 2012, respectively, primarily consisting of income pursuant to the Tax Sharing Agreement with Tyco International and Covidien. See Note 8 for further information regarding the Tax Sharing Agreement.

We recorded net other expense of $217 million and net other income of $12 million in the six months ended March 29, 2013 and March 30, 2012, respectively, primarily pursuant to the Tax Sharing Agreement with Tyco International and Covidien. The net expense in the six months ended March 29, 2013 includes $231 million

TE CONNECTIVITY LTD.

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

14. Other Income (Expense), Net (Continued)

related to the effective settlement of all undisputed tax matters for the period 1997 through 2000. See Note 9 for additional information.

15. Earnings Per Share

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

	For the Quarters Ended		For the Six Months Ended	
	March 29, 2013	March 30, 2012	March 29, 2013	March 30, 2012
	(in millions)			
Weighted-average shares outstanding:				
Basic	420	427	421	426
Dilutive impact of share-based compensation arrangements	4	4	4	4
Diluted	424	431	425	430

Certain share options were not included in the computation of diluted earnings per share because the instruments' underlying exercise prices were greater than the average market prices of our common shares and inclusion would be antidilutive. Share options not included in the computation totaled 5 million and 6 million for the quarters ended March 29, 2013 and March 30, 2012, respectively, and 6 million and 11 million for the six months ended March 29, 2013 and March 30, 2012, respectively.

16. Equity

Common Shares

In March 2013, our shareholders reapproved and extended through March 6, 2015 our board of directors' authorization to issue additional new shares, subject to certain conditions specified in the articles of association, in aggregate not exceeding 50% of the amount of our authorized shares.

Common Shares Held in Treasury

In March 2013, our shareholders approved the cancellation of 10,564,817 shares purchased under our share repurchase program during the period from December 31, 2011 to December 28, 2012. The capital reduction by cancellation of these shares is subject to a notice period and filing with the commercial register and is not yet reflected on the Condensed Consolidated Balance Sheet.

Distribution to Shareholders

We paid a $0.21 cash distribution to shareholders in the form of a capital reduction to the par value of our common shares in each of the first and second quarters of fiscal 2013. These capital reductions reduced the par value of our common shares from 0.97 Swiss Francs ("CHF") (equivalent to $0.86) to CHF 0.57 (equivalent to $0.44).

In March 2013, our shareholders approved a dividend payment to shareholders of CHF 0.96 (equivalent to $1.00) per share out of contributed surplus, payable in four equal quarterly installments of $0.25 per share beginning in the third quarter of fiscal 2013 through the second quarter of fiscal 2014.

TE CONNECTIVITY LTD.

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

16. Equity (Continued)

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 March 29, 2013 and September 28, 2012, the unpaid portion of the dividends and distributions recorded in accrued and other current liabilities on the Condensed Consolidated Balance Sheets totaled $417 million and $178 million, respectively.

Share Repurchase Program

During the first six months of fiscal 2013, we repurchased approximately 11 million of our common shares for $409 million under our share repurchase authorization. During the first six months of fiscal 2012, we did not purchase any of our common shares. At March 29, 2013, we had $898 million of availability remaining under our share repurchase authorization.

17. Share Plans

Total share-based compensation expense was $19 million and $18 million during the quarters ended March 29, 2013 and March 30, 2012, respectively, and $40 million and $35 million during the six months ended March 29, 2013 and March 30, 2012, respectively. These expenses were primarily included in selling, general, and administrative expenses on the Condensed Consolidated Statements of Operations. As of March 29, 2013, there was $162 million of unrecognized compensation cost related to share-based awards. The cost is expected to be recognized over a weighted-average period of 2.0 years.

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

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

As of March 29, 2013, we had 26 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.

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TE CONNECTIVITY LTD.

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

17. Share Plans (Continued)

Share-Based Compensation Assumptions

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

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

18. Segment Data

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

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

Net sales by segment was as follows:

	For the Quarters Ended		For the Six Months Ended	
	March 29, 2013	March 30, 2012	March 29, 2013	March 30, 2012
	(in millions)			
Transportation Solutions	$1,385	$1,274	$2,649	$2,505
Network Solutions	725	815	1,459	1,617
Industrial Solutions	736	711	1,436	1,396
Consumer Solutions	419	449	855	901
Total[1]	$3,265	$3,249	$6,399	$6,419

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

Operating income by segment was as follows:

	For the Quarters Ended		For the Six Months Ended	
	March 29, 2013	March 30, 2012	March 29, 2013	March 30, 2012
	(in millions)			
Transportation Solutions	$241	$196	$433	$380
Network Solutions	19	53	55	112
Industrial Solutions	78	104	148	194
Consumer Solutions	21	32	16	60
Total	$359	$385	$652	$746

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TE CONNECTIVITY LTD.

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

18. Segment Data (Continued)

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

	March 29, 2013	September 28, 2012
	(in millions)	
Transportation Solutions	$2,833	$2,877
Network Solutions	1,752	1,857
Industrial Solutions	1,516	1,549
Consumer Solutions	1,030	1,081
Total segment assets[1]	7,131	7,364
Other current assets	1,847	2,352
Other non-current assets	9,162	9,590
Total assets	$18,140	$19,306

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

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TE CONNECTIVITY LTD.

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

19. Tyco Electronics Group S.A.

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

Condensed Consolidating Statement of Operations (UNAUDITED)
For the Quarter Ended March 29, 2013

	TE Connectivity Ltd.	Tyco Electronics Group S.A.	Other Subsidiaries	Consolidating Adjustments	Total
			(in millions)		
Net sales	$	$	$3,265	$	$3,265
Cost of sales			2,213		2,213
Gross margin			1,052		1,052
Selling, general, and administrative expenses	33	2	403		438
Research, development, and engineering expenses			171		171
Acquisition and integration costs			3		3
Restructuring and other charges, net			81		81
Operating income (loss)	(33)	(2)	394		359
Interest income			5		5
Interest expense		(34)	(1)		(35)
Other income, net			9		9
Equity in net income of subsidiaries	315	337		(652)	
Equity in net loss of subsidiaries from discontinued operations	(1)	(1)		2	
Intercompany interest and fees	(4)	14	(10)		
Income from continuing operations before income taxes	277	314	397	(650)	338
Income tax expense			(60)		(60)
Income from continuing operations	277	314	337	(650)	278
Loss from discontinued operations, net of income taxes			(1)		(1)
Net income attributable to TE Connectivity Ltd., Tyco Electronics Group S.A., or Other Subsidiaries	277	314	336	(650)	277
Other comprehensive loss	(122)	(122)	(124)	246	(122)
Comprehensive income attributable to TE Connectivity Ltd., Tyco Electronics Group S.A., or Other Subsidiaries	$155	$192	$212	$(404)	$155

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TE CONNECTIVITY LTD.

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

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

Condensed Consolidating Statement of Operations (UNAUDITED)
For the Quarter Ended March 30, 2012

	TE Connectivity Ltd.	Tyco Electronics Group S.A.	Other Subsidiaries	Consolidating Adjustments	Total
			(in millions)		
Net sales	$	$	$3,249	$	$3,249
Cost of sales			2,228		2,228
Gross margin			1,021		1,021
Selling, general, and administrative expenses, net	39	(50)	438		427
Research, development, and engineering expenses			173		173
Acquisition costs			4		4
Restructuring and other charges, net			32		32
Operating income (loss)	(39)	50	374		385
Interest income			7		7
Interest expense		(43)	(1)		(44)
Other income, net			11		11
Equity in net income of subsidiaries	309	285		(594)	
Equity in net loss of subsidiaries of discontinued operations	(10)	(10)		20	
Intercompany interest and fees	(3)	17	(14)		
Income from continuing operations before income taxes	257	299	377	(574)	359
Income tax expense			(91)		(91)
Income from continuing operations	257	299	286	(574)	268
Loss from discontinued operations, net of income taxes			(10)		(10)
Net income	257	299	276	(574)	258
Less: net income attributable to noncontrolling interests			(1)		(1)
Net income attributable to TE Connectivity Ltd., Tyco Electronics Group S.A., or Other Subsidiaries	257	299	275	(574)	257
Other comprehensive income	139	139	140	(279)	139
Comprehensive income attributable to TE Connectivity Ltd., Tyco Electronics Group S.A., or Other Subsidiaries	$396	$438	$415	$(853)	$396

TE CONNECTIVITY LTD.

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

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

Condensed Consolidating Statement of Operations (UNAUDITED)
For the Six Months Ended March 29, 2013

	TE Connectivity Ltd.	Tyco Electronics Group S.A.	Other Subsidiaries	Consolidating Adjustments	Total
			(in millions)		
Net sales	$	$	$6,399	$	$6,399
Cost of sales			4,358		4,358
Gross margin			2,041		2,041
Selling, general, and administrative expenses	74	3	789		866
Research, development, and engineering expenses			342		342
Acquisition and integration costs			8		8
Restructuring and other charges, net			173		173
Operating income (loss)	(74)	(3)	729		652
Interest income			9		9
Interest expense		(68)	(4)		(72)
Other expense, net			(217)		(217)
Equity in net income of subsidiaries	638	682		(1,320)	
Equity in net loss of subsidiaries from discontinued operations	(3)	(3)		6	
Intercompany interest and fees	(7)	27	(20)		
Income from continuing operations before income taxes	554	635	497	(1,314)	372
Income tax benefit			185		185
Income from continuing operations	554	635	682	(1,314)	557
Loss from discontinued operations, net of income taxes			(3)		(3)
Net income attributable to TE Connectivity Ltd., Tyco Electronics Group S.A., or Other Subsidiaries	554	635	679	(1,314)	554
Other comprehensive loss	(95)	(95)	(100)	195	(95)
Comprehensive income attributable to TE Connectivity Ltd., Tyco Electronics Group S.A., or Other Subsidiaries	$459	$540	$579	$(1,119)	$459

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TE CONNECTIVITY LTD.

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

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

Condensed Consolidating Statement of Operations (UNAUDITED)
For the Six Months Ended March 30, 2012

	TE Connectivity Ltd.	Tyco Electronics Group S.A.	Other Subsidiaries	Consolidating Adjustments	Total
			(in millions)		
Net sales	$	$	$6,419	$	$6,419
Cost of sales			4,455		4,455
Gross margin			1,964		1,964
Selling, general, and administrative expenses, net	55	(49)	804		810
Research, development, and engineering expenses			350		350
Acquisition costs		2	6		8
Restructuring and other charges, net			50		50
Operating income (loss)	(55)	47	754		746
Interest income			12		12
Interest expense		(80)	(3)		(83)
Other income, net			12		12
Equity in net income of subsidiaries	565	565		(1,130)	
Equity in net income of subsidiaries of discontinued operations	12	12		(24)	
Intercompany interest and fees	(5)	33	(28)		
Income from continuing operations before income taxes	517	577	747	(1,154)	687
Income tax expense			(179)		(179)
Income from continuing operations	517	577	568	(1,154)	508
Income from discontinued operations, net of income taxes			12		12
Net income	517	577	580	(1,154)	520
Less: net income attributable to noncontrolling interests			(3)		(3)
Net income attributable to TE Connectivity Ltd., Tyco Electronics Group S.A., or Other Subsidiaries	517	577	577	(1,154)	517
Other comprehensive loss	(39)	(39)	(38)	77	(39)
Comprehensive income attributable to TE Connectivity Ltd., Tyco Electronics Group S.A., or Other Subsidiaries	$478	$538	$539	$(1,077)	$478

TE CONNECTIVITY LTD.

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

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

Condensed Consolidating Balance Sheet (UNAUDITED)
As of March 29, 2013

	TE Connectivity Ltd.	Tyco Electronics Group S.A.	Other Subsidiaries	Consolidating Adjustments	Total
			(in millions)		
Assets					
Current Assets:					
Cash and cash equivalents	$	$	$1,073	$	$1,073
Accounts receivable, net			2,214		2,214
Inventories			1,803		1,803
Intercompany receivables	21		32	(53)	
Prepaid expenses and other current assets	19	2	465		486
Deferred income taxes			288		288
Total current assets	40	2	5,875	(53)	5,864
Property, plant, and equipment, net			3,114		3,114
Goodwill			4,279		4,279
Intangible assets, net			1,291		1,291
Deferred income taxes			2,339		2,339
Investment in subsidiaries	8,215	17,398		(25,613)	
Intercompany loans receivable	11	3,222	9,524	(12,757)	
Receivable from Tyco International Ltd. and Covidien plc			963		963
Other assets		37	253		290
Total Assets	$8,266	$20,659	$27,638	$(38,423)	$18,140
Liabilities and Equity					
Current Liabilities:					
Current maturities of long-term debt	$	$650	$65	$	$715
Accounts payable			1,348		1,348
Accrued and other current liabilities	497	49	1,186		1,732
Deferred revenue			106		106
Intercompany payables	32		21	(53)	
Total current liabilities	529	699	2,726	(53)	3,901
Long-term debt		2,225	90		2,315
Intercompany loans payable	4	9,520	3,233	(12,757)	
Long-term pension and postretirement liabilities			1,312		1,312
Deferred income taxes			448		448
Income taxes			1,899		1,899
Other liabilities			532		532
Total Liabilities	533	12,444	10,240	(12,810)	10,407
Total Equity	7,733	8,215	17,398	(25,613)	7,733
Total Liabilities and Equity	$8,266	$20,659	$27,638	$(38,423)	$18,140

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TE CONNECTIVITY LTD.

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

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

Condensed Consolidating Balance Sheet (UNAUDITED)
As of September 28, 2012

	TE Connectivity Ltd.	Tyco Electronics Group S.A.	Other Subsidiaries	Consolidating Adjustments	Total
			(in millions)		
Assets					
Current Assets:					
Cash and cash equivalents	$	$	$1,589	$	$1,589
Accounts receivable, net	1		2,342		2,343
Inventories			1,808		1,808
Intercompany receivables	16		29	(45)	
Prepaid expenses and other current assets	2	1	471		474
Deferred income taxes			289		289
Total current assets	19	1	6,528	(45)	6,503
Property, plant, and equipment, net			3,213		3,213
Goodwill			4,308		4,308
Intangible assets, net			1,352		1,352
Deferred income taxes			2,460		2,460
Investment in subsidiaries	8,192	17,341		(25,533)	
Intercompany loans receivable	11	2,779	8,361	(11,151)	
Receivable from Tyco International Ltd. and Covidien plc			1,180		1,180
Other assets		40	250		290
Total Assets	$8,222	$20,161	$27,652	$(36,729)	$19,306
Liabilities and Equity					
Current Liabilities:					
Current maturities of long-term debt	$	$1,014	$1	$	$1,015
Accounts payable	2		1,290		1,292
Accrued and other current liabilities	210	70	1,296		1,576
Deferred revenue			121		121
Intercompany payables	29		16	(45)	
Total current liabilities	241	1,084	2,724	(45)	4,004
Long-term debt		2,529	167		2,696
Intercompany loans payable	4	8,356	2,791	(11,151)	
Long-term pension and postretirement liabilities			1,353		1,353
Deferred income taxes			448		448
Income taxes			2,311		2,311
Other liabilities			517		517
Total Liabilities	245	11,969	10,311	(11,196)	11,329
Total Equity	7,977	8,192	17,341	(25,533)	7,977

Total Liabilities and Equity	$8,222	$20,161	$27,652	$(36,729)	$19,306

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TE CONNECTIVITY LTD.

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

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

Condensed Consolidating Statement of Cash Flows (UNAUDITED)
For the Six Months Ended March 29, 2013

	TE Connectivity Ltd.	Tyco Electronics Group S.A.	Other Subsidiaries	Consolidating Adjustments	Total
			(in millions)		
Cash Flows From Operating Activities:					
Net cash provided by (used in) continuing operating activities	$(68)	$(62)	$969	$	$839
Net cash used in discontinued operating activities			(2)		(2)
Net cash provided by (used in) operating activities	(68)	(62)	967		837
Cash Flows From Investing Activities:					
Capital expenditures			(253)		(253)
Proceeds from sale of property, plant, and equipment	1		3		4
Change in intercompany loans		721		(721)	
Other			17		17
Net cash provided by (used in) investing activities	1	721	(233)	(721)	(232)
Cash Flows From Financing Activities:					
Changes in parent company equity[1]	613	5	(618)		
Net increase in commercial paper		50			50
Repayment of long-term debt		(714)			(714)
Proceeds from exercise of share options			86		86
Repurchase of common shares	(365)				(365)
Payment of cash distributions to shareholders	(181)		4		(177)
Loan borrowing with parent			(721)	721	
Other			(2)		(2)
Net cash provided by (used in) continuing financing activities	67	(659)	(1,251)	721	(1,122)
Net cash provided by discontinued financing activities			2		2
Net cash provided by (used in) financing activities	67	(659)	(1,249)	721	(1,120)
Effect of currency translation on cash			(1)		(1)
Net decrease in cash and cash equivalents			(516)		(516)
Cash and cash equivalents at beginning of period			1,589		1,589
Cash and cash equivalents at end of period	$	$	$1,073	$	$1,073

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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)

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

Condensed Consolidating Statement of Cash Flows (UNAUDITED)
For the Six Months Ended March 30, 2012

	TE Connectivity Ltd.	Tyco Electronics Group S.A.	Other Subsidiaries	Consolidating Adjustments	Total
			(in millions)		
Cash Flows From Operating Activities:					
Net cash provided by (used in) continuing operating activities	$(70)	$(16)	$762	$	$676
Net cash provided by discontinued operating activities			53		53
Net cash provided by (used in) operating activities	(70)	(16)	815		729
Cash Flows From Investing Activities:					
Capital expenditures			(270)		(270)
Proceeds from sale of property, plant, and equipment			7		7
Change in intercompany loans	(16)	(810)		826	
Other			(7)		(7)
Net cash used in continuing investing activities	(16)	(810)	(270)	826	(270)
Net cash used in discontinued investing activities			(1)		(1)
Net cash used in investing activities	(16)	(810)	(271)	826	(271)
Cash Flows From Financing Activities:					
Changes in parent company equity[(1)]	261	(483)	222		
Net increase in commercial paper		569			569
Proceeds from long-term debt		748			748
Proceeds from exercise of share options			48		48
Repurchase of common shares	(17)				(17)
Payment of common share dividends	(158)		5		(153)
Loan borrowing with parent			826	(826)	
Other		(8)	48		40
Net cash provided by continuing financing activities	86	826	1,149	(826)	1,235
Net cash used in discontinued financing activities			(52)		(52)
Net cash provided by financing activities	86	826	1,097	(826)	1,183
Effect of currency translation on cash			7		7
Net increase in cash and cash equivalents			1,648		1,648
Cash and cash equivalents at beginning of period			1,218		1,218
Cash and cash equivalents at end of period	$	$	$2,866	$	$2,866

(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 Dollars, in accordance with accounting principles generally accepted in the United States of America ("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 at the heart of electronic connections for a broad array of industries including automotive, energy and 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.

As discussed in Note 1 to the Condensed Consolidated Financial Statements, effective for the first quarter of fiscal 2013, we reorganized our management and segments to align the organization around our strategy. We now operate through four reportable segments: Transportation Solutions, Network Solutions, Industrial Solutions, and Consumer Solutions. 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 global 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 were flat in the second quarter and first six months of fiscal 2013 as compared to the same periods of fiscal 2012. On an organic basis, net sales decreased 4.0% and 4.2% in the second quarter and first six months of fiscal 2013, respectively, as compared to the same periods of fiscal 2012. On an organic basis, we experienced declines in our sales into industrial- and infrastructure-based markets, primarily as a result of weakness in the industrial and subsea communications end markets in our Industrial Solutions and Network Solutions segments, respectively. Also, on an organic basis, our sales into consumer-based markets were flat. Increases in the automotive end market in the Transportation Solutions segment were offset by declines in the consumer devices and appliance end markets in the Consumer Solutions segment. The acquisition of Deutsch Group SAS ("Deutsch") in April 2012 benefited the automotive and aerospace, defense, and marine end markets in the Transportation Solutions and Industrial Solutions segments, respectively. In the second quarter and first six months of fiscal 2013, Deutsch contributed net sales of $172 million and $320 million, respectively.

Outlook

Net sales in the third quarter of fiscal 2013 are expected to be between $3.325 billion and $3.425 billion. This reflects a decrease in net sales in the Consumer Solutions and Network Solutions segments and, to a lesser degree, the Industrial Solutions segment, partially offset by an increase in net sales in the Transportation Solutions

segment, as compared to the third quarter of fiscal 2012. Global automotive production in the third quarter of fiscal 2013 is expected to increase approximately 2% relative to the same period of fiscal 2012. During the third quarter of fiscal 2013, we expect continued weakness in the data communications, industrial, appliance, consumer devices, and telecom networks end markets. Also, we expect lower levels of project activity in the subsea communications end market as compared to the third quarter of fiscal 2012. In the third quarter of fiscal 2013, we expect diluted earnings per share to be in the range of $0.65 to $0.69 per share.

For fiscal 2013, we expect net sales to be between $13.075 billion and $13.375 billion, reflecting expected sales increases in the Transportation Solutions segment offset by decreases in the Network Solutions and Consumer Solutions segments from fiscal 2012 levels. We expect our sales into the automotive end market to benefit from an anticipated increase in global automotive production of approximately 2% from fiscal 2012 levels. We expect diluted earnings per share to be in the range of $2.80 to $2.92 per share for fiscal 2013.

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

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

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 profitability growth in the years ahead. In connection with these initiatives and in response to market conditions, we incurred net restructuring charges of approximately $178 million during the first six months of fiscal 2013 and expect to incur net restructuring charges of approximately $275 million during fiscal 2013. Cash spending related to restructuring was $72 million during the first six months of fiscal 2013, and we expect total spending, which will be funded with cash from operations, to be approximately $180 million in fiscal 2013. Annualized cost savings related to these actions are expected to be approximately $100 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

Consolidated Operations

Our results of operations were influenced by the following key business factors during the periods discussed in this report:

Raw material prices. We expect to purchase approximately 168 million pounds of copper, 129,000 troy ounces of gold, and 2.5 million troy ounces of silver in fiscal 2013. Prices continue to fluctuate. The following table sets forth the average prices incurred related to copper, gold, and silver during the periods presented:

		For the Quarters Ended		For the Six Months Ended	
	Measure	March 29, 2013	March 30, 2012	March 29, 2013	March 30, 2012
Copper	Lb.	$3.58	$3.98	$3.58	$3.94
Gold	Troy oz.	$1,663	$1,596	$1,672	$1,576
Silver	Troy oz.	$30.83	$36.41	$31.23	$34.94

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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, as 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.

Net Sales. Net sales increased $16 million, or 0.5%, to $3,265 million in the second quarter of fiscal 2013 as compared to $3,249 million in the second quarter of fiscal 2012. On an organic basis, net sales decreased $133 million, or 4.0%, in the second quarter of fiscal 2013 from the same period of fiscal 2012 as increases in the Transportation Solutions segment were more than offset by declines in the Network Solutions, Industrial Solutions, and Consumer Solutions segments. Foreign currency exchange rates negatively affected net sales by $26 million, or 0.9%, in the second quarter of fiscal 2013 as compared to the second quarter of fiscal 2012. Deutsch, which was acquired on April 3, 2012, contributed net sales of $172 million in the second quarter of fiscal 2013.

In the first six months of fiscal 2013, net sales decreased $20 million, or 0.3%, to $6,399 million from $6,419 million in the first six months of fiscal 2012. On an organic basis, net sales decreased $272 million, or 4.2%, in the first six months of fiscal 2013 as compared to the same period of fiscal 2012 as a result of declines in the Network Solutions and Industrial Solutions segments, and to a lesser degree, the Consumer Solutions segment partially offset by an increase in the Transportation Solutions segment. Foreign currency exchange rates negatively affected net sales by $70 million, or 1.1%, in the first six months of fiscal 2013 as compared to the same period of fiscal 2012. Deutsch contributed net sales of $320 million in the first six months of fiscal 2013.

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

	For the Quarters Ended		For the Six Months Ended	
	March 29, 2013	March 30, 2012	March 29, 2013	March 30, 2012
Europe/Middle East/Africa (EMEA)	35%	35%	34%	34%
Asia-Pacific	33	33	34	34
Americas	32	32	32	32
Total	100%	100%	100%	100%

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

	Change in Net Sales for the Quarter Ended March 29, 2013 versus Net Sales for the Quarter Ended March 30, 2012						Change in Net Sales for the Six Months Ended March 29, 2013 versus Net Sales for the Six Months Ended March 30, 2012					
	Organic[1]		Translation[2]	Acquisition/ Divestiture	Total		Organic[1]		Translation[2]	Acquisition/ Divestiture	Total	
	($ in millions)											
EMEA	$(68)	(5.9)%	$7	$78	$17	1.5%	$(121)	(5.5)%	$(34)	$148	$(7)	(0.3)%
Asia-Pacific	(3)	(0.2)	(23)	15	(11)	(1.0)	(68)	(3.1)	(21)	24	(65)	(2.9)
Americas	(62)	(6.0)	(10)	82	10	1.0	(83)	(4.1)	(15)	150	52	2.6
Total	$(133)	(4.0)%	$(26)	$175	$16	0.5%	$(272)	(4.2)%	$(70)	$322	$(20)	(0.3)%

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

	For the Quarters Ended		For the Six Months Ended	
	March 29, 2013	March 30, 2012	March 29, 2013	March 30, 2012
Transportation Solutions	42%	39%	41%	39%
Network Solutions	22	25	23	25
Industrial Solutions	23	22	23	22
Consumer Solutions	13	14	13	14
Total	100%	100%	100%	100%

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

	Change in Net Sales for the Quarter Ended March 29, 2013 versus Net Sales for the Quarter Ended March 30, 2012						Change in Net Sales for the Six Months Ended March 29, 2013 versus Net Sales for the Six Months Ended March 30, 2012					
	Organic[1]		Translation[2]	Acquisition/ Divestiture	Total		Organic[1]		Translation[2]	Acquisition/ Divestiture	Total	
	($ in millions)											
Transportation Solutions	$32	2.5%	$(11)	$90	$111	8.7%	$20	0.8%	$(36)	$160	$144	5.7%
Network Solutions	(89)	(10.9)	(4)	3	(90)	(11.0)	(152)	(9.4)	(8)	2	(158)	(9.8)
Industrial Solutions	(53)	(7.4)	(4)	82	25	3.5	(107)	(7.7)	(13)	160	40	2.9
Consumer Solutions	(23)	(5.1)	(7)		(30)	(6.7)	(33)	(3.7)	(13)		(46)	(5.1)
Total	$(133)	(4.0)%	$(26)	$175	$16	0.5%	$(272)	(4.2)%	$(70)	$322	$(20)	(0.3)%

(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.

Gross Margin. Gross margin increased $31 million to $1,052 million in the second quarter of fiscal 2013 from $1,021 million in the second quarter of fiscal 2012. In the first six months of fiscal 2013, gross margin increased $77 million to $2,041 million as compared to $1,964 million in the first six months of fiscal 2012. The increases in gross margin resulted primarily from manufacturing productivity gains and, to a lesser degree, lower material costs, partially offset by price erosion. In the second quarter of fiscal 2013, gross margin as a percentage of net sales increased to 32.2% from 31.4% in the same period of fiscal 2012. Gross margin as a percentage of net sales increased to 31.9% in the first six months of fiscal 2013 from 30.6% in the same period of fiscal 2012.

Selling, General, and Administrative Expenses. In the second quarter of fiscal 2013, selling, general, and administrative expenses increased $11 million to $438 million from $427 million in the second quarter of fiscal 2012. Selling, general, and administrative expenses increased $56 million to $866 million in the first six months of fiscal 2013 as compared to $810 million in the same period of fiscal 2012. Additional selling, general, and administrative expenses of Deutsch were partially offset by expense reductions achieved through cost control measures.

Acquisition and Integration Costs. In connection with the acquisition of Deutsch, we incurred acquisition and integration costs of $3 million and $4 million during the second quarters of fiscal 2013 and 2012, respectively. We incurred acquisition and integration costs of $8 million during both the first six months of fiscal 2013 and 2012.

Restructuring and Other Charges, Net. Net restructuring and other charges were $81 million in the second quarter of fiscal 2013 as compared to $32 million in the same period of fiscal 2012. Net restructuring and other charges were $173 million in the first six months of

fiscal 2013 as compared to $50 million the first six months of fiscal 2012. During fiscal 2013, we initiated a restructuring program associated with headcount reductions and manufacturing site closures impacting all segments. During fiscal 2012, we initiated a restructuring program resulting in headcount reductions across all segments. Also, we initiated a restructuring program associated with the acquisition of Deutsch. See Note 2 to the Condensed Consolidated Financial Statements for additional information regarding net restructuring and other charges.

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Operating Income. In the second quarter of fiscal 2013, operating income was $359 million as compared to $385 million in the second quarter of fiscal 2012. Results for the second quarter of fiscal 2013 included $81 million of net restructuring and other charges and $3 million of acquisition and integration costs. Results for the second quarter of fiscal 2012 included $32 million of net restructuring and other charges and $4 million of acquisition costs. Excluding these items, operating income increased in the second quarter of fiscal 2013 as compared to the second quarter of fiscal 2012.

Operating income was $652 million and $746 million in the first six months of fiscal 2013 and 2012, respectively. Results for the first six months of fiscal 2013 included $173 million of net restructuring and other charges and $8 million of acquisition and integration costs. Results for the first six months of fiscal 2012 included $50 million of net restructuring and other charges and $8 million of acquisition costs. Excluding these items, operating income increased in the first six months of fiscal 2013 as compared to the first six months of fiscal 2012.

Non-Operating Items

Other Income (Expense), Net

We recorded net other income of $9 million and $11 million in the quarters ended March 29, 2013 and March 30, 2012, respectively, primarily consisting of income pursuant to the Tax Sharing Agreement with Tyco International Ltd. ("Tyco International") and Covidien plc ("Covidien"). See Note 8 to the Condensed Consolidated Financial Statements for further information regarding the Tax Sharing Agreement.

We recorded net other expense of $217 million and net other income of $12 million in the six months ended March 29, 2013 and March 30, 2012, respectively, primarily pursuant to the Tax Sharing Agreement with Tyco International and Covidien. The net expense in the six months ended March 29, 2013 includes $231 million related to the effective settlement of all undisputed tax matters for the period 1997 through 2000. See Note 9 to the Condensed Consolidated Financial Statements for additional information.

Income Taxes

We recorded tax provisions of $60 million and $91 million for the quarters ended March 29, 2013 and March 30, 2012, respectively. The provision for the quarter ended March 29, 2013 reflects tax benefits recognized in connection with the lapse of statutes of limitations for examinations of prior year income tax returns in certain non-U.S. locations partially offset by charges related to adjustments to prior year income tax returns. In addition, the provision for the quarter ended March 29, 2013 reflects tax benefits recognized in connection with the extension of the U.S. research and development credit for fiscal 2012 enacted in January 2013 through the American Taxpayer Relief Act of 2012. The tax provision for the quarter ended March 30, 2012 reflects tax benefits recognized due to the lapse of statutes of limitations for examinations of prior year income tax returns in certain non-U.S. locations.

We recorded an income tax benefit of $185 million and a tax provision of $179 million for the six months ended March 29, 2013 and March 30, 2012, respectively. The benefit for the six months ended March 29, 2013 reflects a $331 million income tax benefit related to the effective settlement of all undisputed tax matters for the period 1997 through 2000. In addition, the provision for the six months ended March 29, 2013 reflects tax benefits recognized in connection with the lapse of statutes of limitations for examinations of prior year income tax returns in certain non-U.S. locations partially offset by charges related to adjustments to prior year income tax returns. The provision for the six months ended March 30, 2012 reflects income tax expense associated with certain non-U.S. tax rate changes enacted during the quarter ended December 30, 2011.

Income (Loss) from Discontinued Operations, Net of Income Taxes

Loss from discontinued operations was $1 million and $10 million in the second quarters of fiscal 2013 and 2012, respectively. In the first six months of fiscal 2013 and 2012, loss from discontinued operations was $3 million and income from discontinued operations was $12 million, respectively.

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During fiscal 2012, we sold our Touch Solutions and TE Professional Services businesses. These businesses met the held for sale and discontinued operations criteria and were included in discontinued operations. In the second quarter of fiscal 2012, we recorded a pre-tax impairment charge of $28 million, which is included in income (loss) from discontinued operations, net of income taxes on the Condensed Consolidated Statement of Operations, to write the carrying value of the TE Professional Services business down to its estimated fair value less costs to sell.

On December 27, 2011, the New York Court of Claims entered judgment in our favor in the amount of $25 million, payment of which was received in the second quarter of fiscal 2012, in connection with our former Wireless Systems business's State of New York contract. This judgment resolved all outstanding issues between the parties in this matter. This partial recovery of a previously recognized loss, net of legal fees, is reflected in income (loss) from discontinued operations, net of income taxes on the Condensed Consolidated Statement of Operations for the six months ended March 30, 2012.

See Note 3 to the Condensed Consolidated Financial Statements for additional information regarding discontinued operations.

Results of Operations by Segment

Transportation Solutions

	For the Quarters Ended		For the Six Months Ended	
	March 29, 2013	March 30, 2012	March 29, 2013	March 30, 2012
	($ in millions)			
Net sales	$1,385	$1,274	$2,649	$2,505
Operating income	$241	$196	$433	$380
Operating margin	17.4%	15.4%	16.3%	15.2%

The following table provides an analysis of the change in the Transportation Solutions segment's net sales by primary industry end market[1]:

	Change in Net Sales for the Quarter Ended March 29, 2013 versus Net Sales for the Quarter Ended March 30, 2012						Change in Net Sales for the Six Months Ended March 29, 2013 versus Net Sales for the Six Months Ended March 30, 2012					
	Organic[2]		Translation[3]	Acquisition	Total		Organic[2]		Translation[3]	Acquisition	Total	
	($ in millions)											
Automotive	$32	2.5%	$(11)	$90	$111	8.7%	$20	0.8%	$(36)	$160	$144	5.7%

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

(2) 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.

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

Quarter Ended March 29, 2013 Compared to Quarter Ended March 30, 2012

Net sales in our Transportation Solutions segment increased $111 million, or 8.7%, to $1,385 million in the second quarter of fiscal 2013 from $1,274 million in the second quarter of fiscal 2012. Organic net sales increased by $32 million, or 2.5%, in the second quarter of fiscal 2013 as compared to the second quarter of fiscal 2012. The weakening of certain foreign currencies negatively affected net sales by $11 million, or 0.9%, in the second quarter of fiscal 2013 as compared to the same period of fiscal 2012. Deutsch contributed net sales of $90 million in the second quarter of fiscal 2013.

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In the automotive end market, our organic net sales increased 2.5% in the second quarter of fiscal 2013 as compared to the same period of fiscal 2012. The increase was due primarily to growth of 8.1% in the Americas region and 4.0% in the Asia-Pacific region, partially offset by declines of 1.2% in the EMEA region. Growth in the Americas region was attributable to increased consumer demand. Growth in the Asia-Pacific region results from increased demand in China. In the EMEA region, declines resulted from decreased automotive production.

In the second quarter of fiscal 2013, operating income in our Transportation Solutions segment increased $45 million to $241 million from $196 million in the second quarter of fiscal 2012. Segment results for the second quarter of fiscal 2013 included $18 million of net restructuring and other charges, of which $2 million related to restructuring programs associated with the acquisition of Deutsch. Segment results for the second quarter of fiscal 2013 also included $1 million of acquisition and integration costs related to the acquisition of Deutsch. Segment results for the second quarter of fiscal 2012 included $3 million of acquisition costs. Excluding these items, operating income increased in the second quarter of fiscal 2013 as compared to the second quarter of fiscal 2012. The increase resulted primarily from higher volume, lower material costs, and manufacturing productivity gains, partially offset by price erosion.

Six Months Ended March 29, 2013 Compared to Six Months Ended March 30, 2012

In the first six months of fiscal 2013, net sales in our Transportation Solutions segment increased $144 million, or 5.7%, to $2,649 million from $2,505 million in the first six months of fiscal 2012. Organic net sales increased by $20 million, or 0.8%, in the first six months of fiscal 2013 as compared to the same period of fiscal 2012. The weakening of certain foreign currencies negatively affected net sales by $36 million, or 1.4%, in the first six months of fiscal 2013 as compared to the first six months of fiscal 2012. Deutsch contributed net sales of $160 million in the first six months of fiscal 2013.

In the automotive end market, our organic net sales increased 0.8% in the first six months of fiscal 2013 as compared to the first six months of fiscal 2012. The increase was due primarily to growth of 8.3% in the Americas region partially offset by declines of 2.4% in the EMEA region. The Asia-Pacific region was flat. Growth in the Americas region was driven by continued consumer demand resulting in increased vehicle production. In the EMEA region, declines resulted from decreased automotive production. In the Asia-Pacific region, increased demand in China was offset by declines in Japan.

Operating income in our Transportation Solutions segment increased $53 million to $433 million in the first six months of fiscal 2013 from $380 million in the same period of fiscal 2012. Segment results for the first six months of fiscal 2013 included $28 million of net restructuring and other charges, of which $2 million related to restructuring programs associated with the acquisition of Deutsch. Segment results for the first six months of fiscal 2013 also included $4 million of acquisition and integration costs related to the acquisition of Deutsch. Segment results for the first six months of fiscal 2012 included $5 million of acquisition costs and $1 million of net restructuring and other charges. Excluding these items, operating income increased in the first six months of fiscal 2013 as compared to the first six months of fiscal 2012. The increase resulted primarily from higher volume, lower material costs, and manufacturing productivity gains, partially offset by price erosion.

Network Solutions

	For the Quarters Ended		For the Six Months Ended	
	March 29, 2013	March 30, 2012	March 29, 2013	March 30, 2012
	($ in millions)			
Net sales	$725	$815	$1,459	$1,617
Operating income	$19	$53	$55	$112
Operating margin	2.6%	6.5%	3.8%	6.9%

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

	For the Quarters Ended		For the Six Months Ended	
	March 29, 2013	March 30, 2012	March 29, 2013	March 30, 2012
Telecom Networks	42%	39%	40%	38%
Data Communications	27	26	27	26
Enterprise Networks	20	20	20	20
Subsea Communications	11	15	13	16
Total	100%	100%	100%	100%

(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:

	Change in Net Sales for the Quarter Ended March 29, 2013 versus Net Sales for the Quarter Ended March 30, 2012						Change in Net Sales for the Six Months Ended March 29, 2013 versus Net Sales for the Six Months Ended March 30, 2012					
	Organic[(1)]		Translation[(2)]	Divestiture	Total		Organic[(1)]		Translation[(2)]	Divestiture	Total	
	($ in millions)											
Telecom Networks	$(18)	(5.5)%	$(1)	$	$(19)	(5.9)%	$(35)	(5.5)%	$(4)	$	$(39)	(6.3)%
Data Communications	(18)	(8.4)	(1)	3	(16)	(7.6)	(28)	(6.6)	(1)	2	(27)	(6.4)
Enterprise Networks	(14)	(8.6)	(2)		(16)	(9.8)	(27)	(8.2)	(3)		(30)	(9.3)
Subsea Communications	(39)	(32.2)			(39)	(32.2)	(62)	(24.6)			(62)	(24.6)
Total	$(89)	(10.9)%	$(4)	$3	$(90)	(11.0)%	$(152)	(9.4)%	$(8)	$2	$(158)	(9.8)%

(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.

Quarter Ended March 29, 2013 Compared to Quarter Ended March 30, 2012

Net sales in our Network Solutions segment decreased $90 million, or 11%, to $725 million in the second quarter of fiscal 2013 from $815 million in the second quarter of fiscal 2012. Organic net sales decreased $89 million, or 10.9%, in the second quarter of fiscal 2013 from the same period of fiscal 2012. The weakening of certain foreign currencies negatively affected net sales by $4 million, or 0.5%, in the second quarter of fiscal 2013 as compared to the second quarter of fiscal 2012.

In the telecom networks end market, our organic net sales decreased 5.5% in the second quarter of fiscal 2013 as compared to the second quarter of fiscal 2012 due primarily to market weakness and decreased capital investments by customers, particularly in the EMEA region. In the data communications end market, our organic net sales decreased 8.4% in the second quarter of fiscal 2013 from the second quarter of fiscal 2012 as a result of weakness in demand across all regions, particularly in datacenter markets. In the enterprise networks end market, our organic net sales decreased 8.6% in the second quarter of fiscal 2013 as compared to the second quarter of fiscal 2012 with declines resulting primarily from market slowdowns in North America and the EMEA region. Organic net sales in the subsea communications end

market decreased 32.2% in the second quarter of fiscal 2013 as compared to the same period of fiscal 2012 due to lower levels of project activity.

In the second quarter of fiscal 2013, operating income in the Network Solutions segment decreased $34 million to $19 million from $53 million in the second quarter of fiscal 2012. Segment results included net restructuring and other charges of $26 million and $24 million in the second quarters of fiscal 2013 and 2012, respectively. Excluding these items, operating income decreased in the second quarter of fiscal 2013 as compared to the second quarter of fiscal 2012. The decrease was attributable to lower volume and price erosion, partially offset by manufacturing productivity gains.

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Six Months Ended March 29, 2013 Compared to Six Months Ended March 30, 2012

In the first six months of fiscal 2013, net sales in our Network Solutions segment decreased $158 million, or 9.8%, to $1,459 million from $1,617 million in the first six months of fiscal 2012. Organic net sales decreased $152 million, or 9.4%, in the first six months of fiscal 2013 from the first six months of fiscal 2012. The weakening of certain foreign currencies negatively affected net sales by $8 million, or 0.5%, in the first six months of fiscal 2013 as compared to the same period of fiscal 2012.

In the telecom networks end market, our organic net sales decreased 5.5% in the first six months of fiscal 2013 as compared to the first six months of fiscal 2012 due primarily to market weakness and decreased capital investments by customers, particularly in the EMEA and Asia regions. In the data communications end market, our organic net sales decreased 6.6% in the first six months of fiscal 2013 from the same period of fiscal 2012 as a result of weakness in demand across all regions, particularly in datacenter markets. In the enterprise networks end market, our organic net sales decreased 8.2% in the first six months of fiscal 2013 as compared to the first six months of fiscal 2012 with declines resulting primarily from continued market slowdowns in North America and, to a lesser degree, the EMEA and Asia-Pacific regions. Organic net sales in the subsea communications end market decreased 24.6% in the first six months of fiscal 2013 as compared to the same period of fiscal 2012 due to lower levels of project activity.

Operating income in the Network Solutions segment decreased $57 million to $55 million in the first six months of fiscal 2013 from $112 million in the first six months of fiscal 2012. Segment results included net restructuring and other charges of $50 million and $30 million in the first six months of fiscal 2013 and 2012, respectively. Excluding these items, operating income decreased in the first six months of fiscal 2013 as compared to the first six months of fiscal 2012. The decrease resulted from lower volume and price erosion, partially offset by manufacturing productivity gains.

Industrial Solutions

	For the Quarters Ended		For the Six Months Ended	
	March 29, 2013	**March 30, 2012**	**March 29, 2013**	**March 30, 2012**
		($ in millions)		
Net sales	$736	$711	$1,436	$1,396
Operating income	$78	$104	$148	$194
Operating margin	10.6%	14.6%	10.3%	13.9%

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

	For the Quarters Ended		For the Six Months Ended	
	March 29, 2013	**March 30, 2012**	**March 29, 2013**	**March 30, 2012**
Industrial	38%	45%	38%	46%
Aerospace, Defense, and Marine	36	25	35	25
Energy	26	30	27	29
Total	100%	100%	100%	100%

(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:

	Change in Net Sales for the Quarter Ended March 29, 2013 versus Net Sales for the Quarter Ended March 30, 2012						Change in Net Sales for the Six Months Ended March 29, 2013 versus Net Sales for the Six Months Ended March 30, 2012					
	Organic[1]		Translation[2]	Acquisition	Total		Organic[1]		Translation[2]	Acquisition	Total	
	($ in millions)											
Industrial	$(41)	(12.9)%	$(3)	$	$(44)	(13.7)%	$(84)	(13.2)%	$(7)	$	$(91)	(14.2)%
Aerospace, Defense, and Marine	2	1.2	1	82	85	47.2	(3)	(0.8)	(2)	160	155	44.0
Energy	(14)	(6.8)	(2)		(16)	(7.7)	(20)	(5.1)	(4)		(24)	(5.9)
Total	$(53)	(7.4)%	$(4)	$82	$25	3.5%	$(107)	(7.7)%	$(13)	$160	$40	2.9%

(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.

Quarter Ended March 29, 2013 Compared to Quarter Ended March 30, 2012

Net sales in our Industrial Solutions segment increased $25 million, or 3.5%, to $736 million in the second quarter of fiscal 2013 from $711 million in the second quarter of fiscal 2012. Organic net sales decreased $53 million, or 7.4%, during the second quarter of fiscal 2013 as compared to the same period of fiscal 2012. The weakening of certain foreign currencies negatively affected net sales by $4 million, or 0.6%, in the second quarter of fiscal 2013 as compared to the second quarter of fiscal 2012. Deutsch contributed net sales of $82 million in the second quarter of fiscal 2013.

In the industrial end market, our organic net sales decreased 12.9% in the second quarter of fiscal 2013 as compared to the second quarter of fiscal 2012 due to continued market weakness across all regions, particularly in the EMEA region, and share loss in the solar market. In the aerospace, defense, and marine end market, our organic net sales increased 1.2% in the second quarter of fiscal 2013 from the second quarter of fiscal 2012 as increased production in the commercial aviation market and growth in the marine market resulting from increased oil and gas exploration was largely offset by a slowdown in defense spending. In the energy end market, our organic net sales decreased 6.8% in the second quarter of fiscal 2013 as compared to the same period of fiscal 2012 as a result of market declines in the Americas and Asia-Pacific regions.

In the second quarter of fiscal 2013, operating income in the Industrial Solutions segment decreased $26 million to $78 million from $104 million in the second quarter of fiscal 2012. Segment results for the second quarter of fiscal 2013 included $21 million of net restructuring and other charges, of which $1 million related to restructuring programs associated with the acquisition of Deutsch. Segment results for the second quarter of fiscal 2013 also included $2 million of acquisition and integration costs related to the acquisition of Deutsch. Segment results for the second quarter of fiscal 2012 included $1 million of net restructuring and other charges and $1 million of acquisition costs. Excluding these items, operating income decreased in the second quarter of fiscal 2013 as compared to the same period of fiscal 2012. The decrease resulted from the lower volume and, to a lesser degree, price erosion, partially offset by manufacturing productivity gains.

Six Months Ended March 29, 2013 Compared to Six Months Ended March 30, 2012

In the first six months of fiscal 2013, net sales in our Industrial Solutions segment increased $40 million, or 2.9%, to $1,436 million from $1,396 million in the same period of fiscal 2012. Organic net sales decreased $107 million, or 7.7%, during the first six months of fiscal 2013 as compared to the first six months of fiscal 2012. The weakening of certain foreign currencies negatively affected net sales by $13 million, or 0.9%, in the first six months of fiscal 2013 as compared to the same period of fiscal 2012. Deutsch contributed net sales of $160 million in the first six months of fiscal 2013.

In the industrial end market, our organic net sales decreased 13.2% in the first six months of fiscal 2013 as compared to the same period of fiscal 2012 due to continued market weakness across all regions, particularly in the

Asia-Pacific and EMEA regions, and share loss in the solar market. In the aerospace, defense, and marine end market, our organic net sales decreased 0.8% in the first six months of fiscal 2013 from the first six months of fiscal 2012 as a slowdown in defense spending was offset by increased production in the commercial aviation market and market share gains in oil and gas exploration. In the energy end market, our organic net sales decreased 5.1% in the first six months of fiscal 2013 as compared to the same period of fiscal 2012 as a result of market declines in the Americas and Asia-Pacific regions.

Operating income in the Industrial Solutions segment decreased $46 million to $148 million in the first six months of fiscal 2013 from $194 million in the same period of fiscal 2012. Segment results for the first six months of fiscal 2013 included $33 million of net restructuring and other charges, of which $1 million related to restructuring programs associated with the acquisition of Deutsch. Segment results for the first six months of fiscal 2013 also included $4 million of acquisition and integration costs related to the acquisition of Deutsch. Segment results for the first six months of fiscal 2012 included $9 million of net restructuring and other charges and $3 million of acquisition costs. Excluding these items, operating income decreased in the first six months of fiscal 2013 as compared to the same period of fiscal 2012. The decrease was due to the lower volume and, to a lesser degree, unfavorable material costs and price erosion, partially offset by manufacturing productivity gains.

Consumer Solutions

	For the Quarters Ended		For the Six Months Ended	
	March 29, 2013	March 30, 2012	March 29, 2013	March 30, 2012
	($ in millions)			
Net sales	$419	$449	$855	$901
Operating income	$21	$32	$16	$60
Operating margin	5.0%	7.1%	1.9%	6.7%

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

	For the Quarters Ended		For the Six Months Ended	
	March 29, 2013	March 30, 2012	March 29, 2013	March 30, 2012
Consumer Devices	58%	58%	61%	60%
Appliance	42	42	39	40
Total	100%	100%	100%	100%

(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 Consumer Solutions segment's net sales by primary industry end market:

	Change in Net Sales for the Quarter Ended March 29, 2013 versus Net Sales for the Quarter Ended March 30, 2012						Change in Net Sales for the Six Months Ended March 29, 2013 versus Net Sales for the Six Months Ended March 30, 2012					
	Organic[(1)]		Translation[(2)]	Total			Organic[(1)]		Translation[(2)]	Total		
	($ in millions)											
Consumer Devices	$(10)	(3.9)%	$(5)	$(15)	(5.8)%		$(13)	(2.6)%	$(9)	$(22)	(4.1)%	
Appliance	(13)	(7.0)	(2)	(15)	(7.9)		(20)	(5.6)	(4)	(24)	(6.6)	
Total	$(23)	(5.1)%	$(7)	$(30)	(6.7)%		$(33)	(3.7)%	$(13)	$(46)	(5.1)%	

(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.

Quarter Ended March 29, 2013 Compared to Quarter Ended March 30, 2012

In the second quarter of fiscal 2013, net sales in our Consumer Solutions segment decreased $30 million, or 6.7%, to $419 million from $449 million in the second quarter of fiscal 2012. Organic net sales decreased $23 million, or 5.1%, during the second quarter of fiscal 2013 as compared to the second quarter of fiscal 2012. The weakening of certain foreign currencies negatively affected net sales by $7 million, or 1.6%, in the second quarter of fiscal 2013 as compared to the same period of fiscal 2012.

In the consumer devices end market, our organic net sales decreased 3.9% in the second quarter of fiscal 2013 as compared to the second quarter of fiscal 2012 as share gains in the mobile phone and tablet markets were more than offset by declines in the personal computer market. In the appliance end market, our organic net sales decreased 7.0% in the second quarter of fiscal 2013 as compared to the second quarter of fiscal 2012 due primarily to declines in the EMEA and Americas regions.

Operating income in the Consumer Solutions segment decreased $11 million to $21 million in the second quarter of fiscal 2013 as compared to $32 million in the second quarter of fiscal 2012. Segment results included net restructuring and other charges of $16 million and $7 million in the second quarters of fiscal 2013 and 2012, respectively. Excluding these items, operating income was flat in the second quarter of fiscal 2013 as compared to the second quarter of fiscal 2012. Manufacturing productivity gains were offset by price erosion.

Six Months Ended March 29, 2013 Compared to Six Months Ended March 30, 2012

Net sales in our Consumer Solutions segment decreased $46 million, or 5.1%, to $855 million in the first six months of fiscal 2013 from $901 million in the first six months of fiscal 2012. Organic net sales decreased $33 million, or 3.7%, during the first six months of fiscal 2013 as compared to the same period of fiscal 2012. The weakening of certain foreign currencies negatively affected net sales by $13 million, or 1.4%, in the first six months of fiscal 2013 as compared to the first six months of fiscal 2012.

In the consumer devices end market, our organic net sales decreased 2.6% in the first six months of fiscal 2013 as compared to the first six months of fiscal 2012 due to weakness in the personal computer market, partially offset by increased demand in the mobile phone and tablet markets. In the appliance end market, our organic net sales decreased 5.6% in the first six months of fiscal 2013 as compared to the first six months of fiscal 2012 due primarily to declines in the EMEA region.

Operating income in the Consumer Solutions segment decreased $44 million to $16 million in the first six months of fiscal 2013 as compared to $60 million in the first six months of fiscal 2012. Segment results included net restructuring and other charges of $62 million and $10 million in the first six months of fiscal 2013 and 2012, respectively. Excluding these items, operating income increased in the first six months of fiscal 2013 as compared to the first six months of fiscal 2012. The increase was attributable to manufacturing productivity gains partially offset by price erosion.

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:

	For the Six Months Ended	
	March 29, 2013	March 30, 2012
	(in millions)	
Net cash provided by operating activities	$837	$729
Net cash used in investing activities	(232)	(271)
Net cash provided by (used in) financing activities	(1,120)	1,183
Effect of currency translation on cash	(1)	7
Net increase (decrease) in cash and cash equivalents	$(516)	$1,648

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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, 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, including the payment of our 5.95% senior notes due in January 2014. 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, to respond as necessary to changing conditions.

Cash Flows from Operating Activities

In the first six months of fiscal 2013, net cash provided by continuing operating activities increased $163 million to $839 million from $676 million in the first six months of fiscal 2012. The increase resulted from higher income from continuing operations and improved working capital.

The amount of income taxes paid, net of refunds, was $173 million and $168 million during the first six months of fiscal 2013 and 2012, respectively. Net cash payments during the first six months of fiscal 2013 and 2012 included $67 million and $18 million, respectively, for tax deficiencies related to U.S. tax matters for the years 1997 through 2000. We expect net cash receipts related to pre-separation tax matters of approximately $36 million over 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 receipts from and 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 9 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 performance and ability to generate cash. Free cash flow was $657 million in the first six months of fiscal 2013 as compared to $451 million in the first six months of fiscal 2012. The increase was primarily driven by improved working capital. 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.

	For the Six Months Ended	
	March 29, 2013	March 30, 2012
	(in millions)	
Net cash provided by continuing operating activities	$839	$676
Capital expenditures	(253)	(270)
Proceeds from sale of property, plant, and equipment	4	7
Payments related to pre-separation U.S. tax matters, net	67	18
Payments to settle acquisition-related foreign currency derivative contracts		20
Free cash flow	$657	$451

Cash Flows from Investing Activities

In the first six months of fiscal 2013, capital spending decreased $17 million to $253 million from $270 million in the first six months of fiscal 2012. We expect fiscal 2013 capital spending levels to be approximately 4 to 5% of net sales. We believe our capital funding levels are adequate to support new programs and to invest in our manufacturing infrastructure to further enhance productivity and manufacturing capabilities.

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Cash Flows from Financing Activities and Capitalization

Total debt at March 29, 2013 and September 28, 2012 was $3,030 million and $3,711 million, respectively. See Note 7 to the Condensed Consolidated Financial Statements for additional information regarding debt.

Tyco Electronics Group S.A. ("TEGSA"), our 100%-owned subsidiary, has a five-year unsecured senior revolving credit facility ("Credit Facility") with total commitments of $1,500 million. This facility expires in June 2016. TEGSA had no borrowings under the Credit Facility at March 29, 2013 and September 28, 2012.

The Credit Facility contains a financial ratio covenant providing that if, as of the last day of each fiscal quarter, our ratio of Consolidated Total Debt (as defined in the Credit Facility) to Consolidated EBITDA (as defined in the Credit Facility) for the then most recently concluded period of four consecutive fiscal quarters exceeds 3.5 to 1.0, an Event of Default (as defined in the Credit Facility) is triggered. The Credit Facility and our other debt agreements contain other customary covenants. None of our covenants are presently considered restrictive to our operations. As of March 29, 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 outstanding commercial paper. TEGSA's payment obligations under its senior notes, commercial paper, and Credit Facility are fully and unconditionally guaranteed by its parent, TE Connectivity Ltd. Neither TE Connectivity Ltd. nor any of its subsidiaries provides a guarantee as to payment obligations under the 3.50% convertible subordinated notes due 2015 issued by ADC Telecommunications, Inc. prior to its acquisition in December 2010.

Payment of common share dividends and cash distributions to shareholders were $177 million and $153 million in the first six months of fiscal 2013 and 2012, respectively. We paid a $0.21 cash distribution to shareholders in the form of a capital reduction to the par value of our common shares in each of the first and second quarters of fiscal 2013. These capital reductions reduced the par value of our common shares from 0.97 Swiss Francs ("CHF") (equivalent to $0.86) to CHF 0.57 (equivalent to $0.44).

In March 2013, our shareholders approved a dividend payment to shareholders of CHF 0.96 (equivalent to $1.00) per share out of contributed surplus, payable in four equal quarterly installments of $0.25 per share beginning in the third quarter of fiscal 2013 through the second quarter of fiscal 2014.

During the first six months of fiscal 2013, we repurchased approximately 11 million of our common shares for $409 million under our share repurchase authorization. During the first six months of fiscal 2012, we did not purchase any of our common shares. At March 29, 2013, we had $898 million of availability remaining under our share repurchase authorization.

Backlog

At March 29, 2013, we had a backlog of unfilled orders of $2,673 million compared to a backlog of $2,633 million at September 28, 2012. Backlog by reportable segment was as follows:

	March 29, 2013	September 28, 2012
	(in millions)	
Transportation Solutions	$969	$874
Network Solutions	634	744
Industrial Solutions	787	743
Consumer Solutions	283	272
Total	$2,673	$2,633

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Commitments and Contingencies

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 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.

Pursuant to the Tax Sharing Agreement, upon separation, we entered into certain guarantee commitments and indemnifications with Tyco International and Covidien. Under the Tax Sharing Agreement, we, Tyco International, and Covidien share 31%, 27%, and 42%, respectively, of certain contingent liabilities relating to unresolved pre-separation tax matters of Tyco International. See Note 8 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 reflect the IRS' determination of proposed tax adjustments for the 1997 through 2000 period. Additionally, the IRS proposed civil fraud penalties against Tyco International arising from alleged actions of former executives in connection with certain intercompany transfers of stock in 1998 and 1999. The penalties were asserted against a prior subsidiary of Tyco International that was distributed to us in connection with the separation. Tyco International appealed certain of the proposed adjustments for the years 1997 through 2000, and Tyco International has now resolved all but one of the matters associated with the proposed tax adjustments, including reaching an agreement with the IRS on the penalty adjustment. In October 2012, the IRS issued special agreement Forms 870-AD, effectively settling its audit of all tax matters for the period 1997 through 2000, excluding one issue that remains in dispute as described below. As a result of these developments, in the first six months of fiscal 2013, we recognized an income tax benefit of $331 million and other expense of $231 million pursuant to the Tax Sharing Agreement with Tyco International and Covidien.

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

During the first six months of fiscal 2013, we made payments of $67 million for tax deficiencies related to undisputed tax adjustments for the years 1997 through 2000. Tyco International's income tax returns for the years 2001 through 2004 remain subject to adjustment by the IRS upon ultimate resolution of the disputed issue involving certain intercompany loans originated during the period 1997 through 2000. Over the next twelve months, we expect net cash receipts of approximately $36 million, inclusive of related indemnification receipts and payments, in connection with these pre-separation tax matters.

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

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

At March 29, 2013 and September 28, 2012, we have reflected $13 million and $71 million, respectively, of income tax liabilities related to the audits of Tyco International's and our income tax returns in accrued and other current liabilities as certain of these matters could be resolved within the next twelve months.

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

Legal Matters

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.

At March 29, 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 or reasonably estimable at this time.

Off-Balance Sheet Arrangements

Certain of our segments 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 2013 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 March 29, 2013, we had outstanding letters of credit and letters of guarantee in the amount of $359 million.

We have recorded liabilities for known indemnifications included as part of environmental liabilities. See Note 9 to the Condensed Consolidated Financial Statements for a discussion of these liabilities.

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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.

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. These arrangements have been valued upon our separation from Tyco International in accordance with Accounting Standards Codification 460, *Guarantees*, and, accordingly, liabilities amounting to $241 million were recorded on the Condensed Consolidated Balance Sheet at March 29, 2013. See Notes 8 and 9 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 six months ended March 29, 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 28, 2012.

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 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 performance and 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 excludes net capital expenditures, voluntary pension contributions, and the cash impact of special items. Net capital expenditures are subtracted because they represent long-term commitments. Voluntary pension contributions are subtracted 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," "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.

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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 28, 2012, 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 and the telecommunications, computer, and consumer electronics industries;
- 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;
- Ability to achieve cost savings from restructurings;
- Financial condition and consolidation of customers and vendors;
- Reliance on third-party suppliers;
- Our ability to attract and retain highly qualified personnel;
- Risks associated with our acquisition of Deutsch;
- 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.;

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.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no significant changes in our exposures to market risk during the first six months of fiscal 2013. 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 28, 2012.

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 March 29, 2013. Based on that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective as of March 29, 2013.

Deutsch Acquisition

Securities and Exchange Commission guidance permits management to omit an assessment of an acquired business' internal control over financial reporting from management's assessment of internal control over financial reporting for a period not to exceed one year. In accordance with this guidance, we excluded the Deutsch operations, acquired on April 3, 2012, from the scope of our annual assessment of the effectiveness of internal control over financial reporting for the year ended September 28, 2012. The Deutsch operations will be included in our annual assessment for the year ending September 27, 2013.

Changes in Internal Control Over Financial Reporting

During the quarter ended March 29, 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.

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 28, 2012. 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 28, 2012.

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 28, 2012. 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 March 29, 2013:

Period	Total Number of Shares Purchased[1]	Average Price Paid Per Share[1]	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs[2]	Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs[2]
December 29, 2012 - January 25, 2013	10,518	$37.62		$1,129,276,827
January 26 - March 1, 2013	2,778,520	40.05	2,775,226	1,018,138,109
March 2 - March 29, 2013	2,877,381	41.75	2,877,300	898,015,466
Total	5,666,419	$40.91	5,652,526	

(1) This column includes the following transactions which occurred during the quarter ended March 29, 2013:

(i) the acquisition of 13,893 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 5,652,526 common shares, summarized on a trade-date basis, in conjunction with the share repurchase program announced in September 2007.

(2) 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

Exhibit Number	Exhibit
3.1	Articles of Association of TE Connectivity Ltd. (Incorporated by reference to Exhibit 3.1 to TE Connectivity's Current Report on Form 8-K, filed March 7, 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 March 29, 2013, filed on April 24, 2013, 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 28, 2012, 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: April 24, 2013