

TE Connectivity Ltd.  
Form 10-Q  
April 23, 2015

Use these links to rapidly review the document

[TABLE OF CONTENTS](#)

[Table of Contents](#)

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

---

**FORM 10-Q**

(Mark One)

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

For the Quarterly Period Ended March 27, 2015

Or

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

001-33260

(Commission File Number)

---

**TE CONNECTIVITY LTD.**

(Exact name of registrant as specified in its charter)

**Switzerland**  
(Jurisdiction of Incorporation)

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

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

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

## Edgar Filing: TE Connectivity Ltd. - Form 10-Q

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

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

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

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

(Do not check if a  
smaller reporting company)

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

The number of common shares outstanding as of April 17, 2015 was 406,591,265.

---

TE CONNECTIVITY LTD.  
INDEX TO FORM 10-Q

	Page
<b><u>Part I.</u></b>	
<b><u>Financial Information</u></b>	
<u>Item 1.</u>	
<u>Financial Statements</u>	1
<u>Condensed Consolidated Statements of Operations for the Quarters and Six Months Ended March 27, 2015 and March 28, 2014 (Unaudited)</u>	1
<u>Condensed Consolidated Statements of Comprehensive Income for the Quarters and Six Months Ended March 27, 2015 and March 28, 2014 (Unaudited)</u>	2
<u>Condensed Consolidated Balance Sheets as of March 27, 2015 and September 26, 2014 (Unaudited)</u>	3
<u>Condensed Consolidated Statements of Equity for the Six Months Ended March 27, 2015 and March 28, 2014 (Unaudited)</u>	4
<u>Condensed Consolidated Statements of Cash Flows for the Six Months Ended March 27, 2015 and March 28, 2014 (Unaudited)</u>	5
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	6
<u>Item 2.</u>	
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	33
<u>Item 3.</u>	
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	51
<u>Item 4.</u>	
<u>Controls and Procedures</u>	51
<b><u>Part II.</u></b>	
<b><u>Other Information</u></b>	
<u>Item 1.</u>	
<u>Legal Proceedings</u>	52
<u>Item 1A.</u>	
<u>Risk Factors</u>	52
<u>Item 2.</u>	
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	52
<u>Item 6.</u>	
<u>Exhibits</u>	53
<u>Signatures</u>	54

---

Table of Contents

## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## TE CONNECTIVITY LTD.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	For the Quarters Ended		For the Six Months Ended	
	March 27, 2015	March 28, 2014	March 27, 2015	March 28, 2014
	(in millions, except per share data)			
Net sales	\$3,082	\$2,964	\$6,131	\$5,826
Cost of sales	2,031	1,969	4,060	3,886
<b>Gross margin</b>	1,051	995	2,071	1,940
Selling, general, and administrative expenses	391	379	777	758
Research, development, and engineering expenses	160	145	320	286
Acquisition and integration costs	14	1	38	1
Restructuring and other charges (credits), net	38	(1)	63	5
<b>Operating income</b>	448	471	873	890
Interest income	4	4	9	9
Interest expense	(37)	(31)	(71)	(65)
Other income (expense), net	(5)	16	(75)	48
<b>Income from continuing operations before income taxes</b>	410	460	736	882
Income tax (expense) benefit	(94)	(120)	15	(229)
<b>Income from continuing operations</b>	316	340	751	653
Income from discontinued operations, net of income taxes	283	22	320	62
<b>Net income attributable to TE Connectivity Ltd.</b>	\$599	\$362	\$1,071	\$715

**Basic earnings per share attributable to TE Connectivity Ltd.:**

Income from continuing operations	\$0.78	\$0.83	\$1.85	\$1.59
Income from discontinued operations	0.70	0.05	0.79	0.15
Net income	1.47	0.88	2.63	1.74

**Diluted earnings per share attributable to TE Connectivity Ltd.:**

Income from continuing operations	\$0.77	\$0.82	\$1.82	\$1.57
Income from discontinued operations	0.69	0.05	0.77	0.15
Net income	1.45	0.87	2.59	1.71

<b>Dividends paid per common share</b>	\$0.29	\$0.25	\$0.58	\$0.50
--	--------	--------	--------	--------

Weighted-average number of shares outstanding:

Edgar Filing: TE Connectivity Ltd. - Form 10-Q

Basic	407	410	407	411
Diluted	413	417	413	417

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

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

	For the Quarters Ended		For the Six Months Ended	
	March 27, 2015	March 28, 2014	March 27, 2015	March 28, 2014
	(in millions)			
<b>Net income attributable to TE Connectivity Ltd.</b>	\$599	\$362	\$1,071	\$715
<b>Other comprehensive income (loss):</b>				
Currency translation	(214)	(22)	(425)	(2)
Adjustments to unrecognized pension and postretirement benefit costs, net of income taxes	9	8	19	15
Gains on cash flow hedges, net of income taxes	12	5	7	2
<b>Other comprehensive income (loss)</b>	(193)	(9)	(399)	15
<b>Comprehensive income attributable to TE Connectivity Ltd.</b>	\$406	\$353	\$672	\$730

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

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

	March 27, 2015	September 26, 2014
	(in millions, except share data)	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$697	\$2,457
Accounts receivable, net of allowance for doubtful accounts of \$14	2,094	2,057
Inventories	1,684	1,509
Prepaid expenses and other current assets	659	519
Deferred income taxes	617	324
Assets held for sale	1,861	2,000
<b>Total current assets</b>	<b>7,612</b>	<b>8,866</b>
Property, plant, and equipment, net	2,878	2,920
Goodwill	4,832	3,739
Intangible assets, net	1,630	1,087
Deferred income taxes	2,018	2,047
Receivable from Tyco International plc and Covidien plc	948	1,037
Other assets	325	456
<b>Total Assets</b>	<b>\$20,243</b>	<b>\$20,152</b>
<b>Liabilities and Equity</b>		
Current liabilities:		
Current maturities of long-term debt	\$736	\$577
Accounts payable	1,233	1,230
Accrued and other current liabilities	1,715	1,594
Deferred revenue	96	176
Liabilities held for sale	361	416
<b>Total current liabilities</b>	<b>4,141</b>	<b>3,993</b>
Long-term debt	3,390	3,281
Long-term pension and postretirement liabilities	1,199	1,280
Deferred income taxes	300	229
Income taxes	1,907	2,044
Other liabilities	311	312
<b>Total Liabilities</b>	<b>11,248</b>	<b>11,139</b>
Commitments and contingencies (Note 10)		
Equity:		
TE Connectivity Ltd. shareholders' equity:		
Common shares, 419,070,781 shares authorized and issued, CHF 0.57 par value	184	184
Contributed surplus	4,625	5,231
Accumulated earnings	5,324	4,253
Treasury shares, at cost, 11,985,784 and 11,383,631 shares, respectively	(728)	(644)

Edgar Filing: TE Connectivity Ltd. - Form 10-Q

Accumulated other comprehensive loss	(416)	(17)
Total TE Connectivity Ltd. shareholders' equity	8,989	9,007
Noncontrolling interests	6	6
<b>Total Equity</b>	<b>8,995</b>	<b>9,013</b>
<b>Total Liabilities and Equity</b>	<b>\$20,243</b>	<b>\$20,152</b>

See Notes to Condensed Consolidated Financial Statements.



Table of Contents

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

	Common Shares		Treasury Shares		Contributed Surplus	Accumulated Earnings	Accumulated Other Comprehensive Income (Loss)	TE Connectivity Ltd. Shareholders' Equity	Non-controlling Interests	Total Equity
	Shares	Amount	Shares	Amount						
(in millions)										
<b>Balance at September 26, 2014</b>	419	\$184	(11)	\$(644)	\$5,231	\$4,253	\$(17)	\$9,007	\$6	\$9,013
Net income						1,071		1,071		1,071
Other comprehensive loss							(399)	(399)		(399)
Share-based compensation expense					48			48		48
Dividends approved					(537)			(537)		(537)
Exercise of share options			2	89				89		89
Restricted share award vestings and other activity			1	111	(117)			(6)		(6)
Repurchase of common shares			(4)	(284)				(284)		(284)
<b>Balance at March 27, 2015</b>	419	\$184	(12)	\$(728)	\$4,625	\$5,324	\$(416)	\$8,989	\$6	\$8,995
<b>Balance at September 27, 2013</b>	429	\$189	(17)	\$(720)	\$6,136	\$2,472	\$303	\$8,380	\$6	\$8,386
Net income						715		715		715
Other comprehensive income							15	15		15
Share-based compensation expense					43			43		43
Dividends approved					(473)			(473)		(473)
Exercise of share options			3	109				109		109
Restricted share award vestings and other activity			2	77	(83)			(6)		(6)
Repurchase of common shares			(7)	(390)				(390)		(390)
<b>Balance at March 28, 2014</b>	429	\$189	(19)	\$(924)	\$5,623	\$3,187	\$318	\$8,393	\$6	\$8,399

See Notes to Condensed Consolidated Financial Statements.



Table of Contents

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

	For the Six Months Ended	
	March 27, 2015	March 28, 2014
	(in millions)	
<b>Cash Flows From Operating Activities:</b>		
Net income	\$1,071	\$715
Income from discontinued operations, net of income taxes	(320)	(62)
Income from continuing operations	751	653
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	307	270
Non-cash restructuring charges	15	6
Deferred income taxes	(54)	44
Provision for losses on accounts receivable and inventories	28	29
Tax sharing (income) expense	74	(51)
Share-based compensation expense	44	40
Other	46	35
Changes in assets and liabilities, net of the effects of acquisitions and divestitures:		
Accounts receivable, net	(19)	(104)
Inventories	(180)	(95)
Prepaid expenses and other current assets	11	(19)
Accounts payable	(11)	50
Accrued and other current liabilities	(241)	(209)
Deferred revenue	(80)	(10)
Income taxes	(132)	72
Other	(4)	29
Net cash provided by continuing operating activities	555	740
Net cash provided by discontinued operating activities	138	94
Net cash provided by operating activities	693	834
<b>Cash Flows From Investing Activities:</b>		
Capital expenditures	(291)	(281)
Proceeds from sale of property, plant, and equipment	6	21
Acquisition of businesses, net of cash acquired	(1,729)	(18)
Other	(2)	
Net cash used in continuing investing activities	(2,016)	(278)
Net cash used in discontinued investing activities	(14)	(20)
Net cash used in investing activities	(2,030)	(298)
<b>Cash Flows From Financing Activities:</b>		
Net increase (decrease) in commercial paper	(92)	25
Proceeds from issuance of long-term debt	617	323
Repayment of long-term debt	(473)	(360)
Proceeds from exercise of share options	88	109
Repurchase of common shares	(285)	(392)

Edgar Filing: TE Connectivity Ltd. - Form 10-Q

Payment of common share dividends to shareholders	(236)	(205)
Transfers from discontinued operations	124	74
Other	(2)	
Net cash used in continuing financing activities	(259)	(426)
Net cash used in discontinued financing activities	(124)	(74)
Net cash used in financing activities	(383)	(500)
Effect of currency translation on cash	(40)	(10)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(1,760)</b>	<b>26</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>2,457</b>	<b>1,403</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$697</b>	<b>\$1,429</b>

See Notes to Condensed Consolidated Financial Statements.

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

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

The year-end balance sheet data was derived from audited financial statements, but does not include all of the information and disclosures required by GAAP. These financial statements should be read in conjunction with our audited Consolidated Financial Statements contained in our Annual Report on Form 10-K for the fiscal year ended September 26, 2014.

Unless otherwise indicated, references in the Condensed Consolidated Financial Statements to fiscal 2015 and fiscal 2014 are to our fiscal years ending September 25, 2015 and September 26, 2014, respectively.

***New Segment Structure***

Effective for the second quarter of fiscal 2015, we reorganized our management and segments to better align the organization around our strategy. Our businesses in the former Consumer Solutions segment and our continuing businesses in the former Network Solutions segment have been moved into the newly created Communications Solutions segment. (See Note 3 for information regarding discontinued operations.) Also, the former Data Communications and Consumer Devices businesses have been combined to form the Data and Devices business. The following represents the new segment structure:

**Transportation Solutions** The Automotive, Commercial Transportation, and Sensors businesses are included in this segment.

**Industrial Solutions** This segment contains the Industrial Equipment; Aerospace, Defense, Oil, and Gas; and Energy businesses.

**Communications Solutions** The Data and Devices, Appliances, and Subsea Communications businesses are included in this segment.

**2. Restructuring and Other Charges (Credits), Net**

Net restructuring and other charges (credits) consisted of the following:

	<b>For the Quarters Ended</b>		<b>For the Six Months Ended</b>	
	<b>March 27, 2015</b>	<b>March 28, 2014</b>	<b>March 27, 2015</b>	<b>March 28, 2014</b>
	<b>(in millions)</b>			
Restructuring charges (credits), net	\$36	\$(1)	\$61	\$5
Other charges, net	2		2	
	<b>\$38</b>	<b>\$(1)</b>	<b>\$63</b>	<b>\$5</b>



Table of Contents

## TE CONNECTIVITY LTD.

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

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

## Restructuring Charges (Credits), Net

Net restructuring charges (credits) by segment were as follows:

	For the Quarters Ended		For the Six Months Ended	
	March 27, 2015	March 28, 2014	March 27, 2015	March 28, 2014
	(in millions)			
Transportation Solutions	\$1	\$(1)	\$2	\$
Industrial Solutions	15	4	17	6
Communications Solutions	20	(4)	42	(1)
Restructuring charges (credits), net	\$36	\$(1)	\$61	\$5

Activity in our restructuring reserves during the first six months of fiscal 2015 is summarized as follows:

	Balance at September 26, 2014	Charges	Changes in Estimate	Cash Payments	Non-Cash Items	Currency Translation and Other <sup>(1)</sup>	Balance at March 27, 2015
	(in millions)						
Fiscal 2015 Actions:							
Employee severance	\$	\$46	\$	\$(5)	\$	\$	\$41
Property, plant, and equipment		14			(14)		
Total		60		(5)	(14)		41
Fiscal 2014 Actions:							
Employee severance	16			(5)		(1)	10
Facility and other exit costs	1						1
Total	17			(5)		(1)	11
Pre-Fiscal 2014 Actions:							
Employee severance	75	1	(2)	(35)		(6)	33
Facility and other exit costs	22	1		(7)			16
Property, plant, and equipment		1			(1)		
Total	97	3	(2)	(42)	(1)	(6)	49
Total Activity	\$114	\$63	\$(2)	\$(52)	\$(15)	\$(7)	\$101

- 
- (1) Currency translation and other includes \$3 million associated with discontinued operations. See Note 3 for additional information regarding discontinued operations.



Table of Contents**TE CONNECTIVITY LTD.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****2. Restructuring and Other Charges (Credits), Net (Continued)***Fiscal 2015 Actions*

During fiscal 2015, we initiated a restructuring program associated with headcount reductions and product line closures, primarily impacting the Communications Solutions segment. In connection with this program, during the six months ended March 27, 2015, we recorded restructuring charges of \$60 million. We expect to complete all restructuring actions commenced in the first six months of fiscal 2015 by the end of fiscal 2016 and to incur total charges of approximately \$66 million.

*Fiscal 2014 Actions*

During fiscal 2014, we initiated a restructuring program primarily associated with headcount reductions and manufacturing site and product line closures in the Communications Solutions segment. In connection with this program, during the six months ended March 28, 2014, we recorded restructuring charges of \$7 million. We did not incur any charges during the six months ended March 27, 2015. We do not expect to incur any additional charges related to restructuring actions commenced in fiscal 2014.

*Pre-Fiscal 2014 Actions*

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 to reduce headcount across all segments. Also, during fiscal 2012, we initiated a restructuring program in the Transportation Solutions and Industrial Solutions segments associated with the acquisition of Deutsch Group SAS. During the six months ended March 27, 2015 and March 28, 2014, we recorded net restructuring charges of \$1 million and credits of \$2 million, respectively, related to pre-fiscal 2014 actions. We do not expect to incur any additional significant charges related to pre-fiscal 2014 actions.

*Total Restructuring Reserves*

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

	March 27, 2015	September 26, 2014
	(in millions)	
Accrued and other current liabilities	\$71	\$83
Other liabilities	30	31
Restructuring reserves	\$101	\$114

**3. Discontinued Operations**

On January 27, 2015, we entered into a definitive agreement to sell our Broadband Network Solutions ("BNS") business for \$3.0 billion in cash, subject to a final working capital adjustment. The transaction is expected to close during calendar 2015 pending customary closing conditions and regulatory approvals.

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

The BNS business met the held for sale and discontinued operations criteria and has been included as such in all periods presented in our Condensed Consolidated Financial Statements. Prior to reclassification to discontinued operations, the BNS business was a component of the former Network Solutions segment.

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

	For the Quarters Ended		For the Six Months Ended	
	March 27, 2015	March 28, 2014	March 27, 2015	March 28, 2014
	(in millions)			
Net sales	\$425	\$467	\$842	\$931
Pre-tax income from discontinued operations	\$55	\$35	\$106	\$93
Income tax (expense) benefit	228	(13)	214	(31)
Income from discontinued operations, net of income taxes	\$283	\$22	\$320	\$62

The income tax benefit from discontinued operations for the quarter ended March 27, 2015 primarily reflects an income tax benefit related to the recognition of certain deferred tax assets expected to be realized upon the sale of the BNS business, partially offset by an income tax charge related to the impacts of legal entity restructurings in connection with the anticipated sale of the BNS business.

The following table presents balance sheet information for assets and liabilities held for sale:

	March 27, 2015	September 26, 2014
	(in millions)	
Accounts receivable, net	\$322	\$382
Inventories	224	236
Property, plant, and equipment, net	194	206
Goodwill	845	856
Intangible assets, net	227	242
Other assets	49	78
Total assets	\$1,861	\$2,000
Current maturities of long-term debt	\$89	\$90
Accounts payable	142	161
Other liabilities	130	165
Total liabilities	\$361	\$416



Table of Contents**TE CONNECTIVITY LTD.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****4. Acquisitions**

On October 9, 2014, we acquired 100% of the outstanding shares of Measurement Specialties, Inc. ("Measurement Specialties"), a leading global designer and manufacturer of sensors and sensor-based systems, for \$86.00 in cash per share. The total value paid was approximately \$1.7 billion, net of cash acquired, and included \$225 million for the repayment of Measurement Specialties' debt and accrued interest. Measurement Specialties offers a broad portfolio of technologies including pressure, vibration, force, temperature, humidity, ultrasonics, position, and fluid sensors, for a wide range of applications and industries. This business has been reported as part of our Transportation Solutions segment from the date of acquisition.

The Measurement Specialties acquisition was accounted for under the provisions of Accounting Standards Codification ("ASC") 805, *Business Combinations*. We allocated the purchase price to tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values. During the second quarter of fiscal 2015, we finalized the valuation of identifiable intangible assets, fixed assets, and pre-acquisition contingencies. Adjustments to the estimated fair values of the assets acquired and liabilities assumed presented in the first quarter of fiscal 2015 were not material.

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

	(in millions)
Cash and cash equivalents	\$37
Accounts receivable	85
Inventories	110
Other current assets	20
Property, plant, and equipment	95
Goodwill	1,065
Intangible assets	547
Other non-current assets	8
<b>Total assets acquired</b>	<b>1,967</b>
Current maturities of long-term debt	20
Accounts payable	48
Other current liabilities	63
Long-term debt	203
Deferred income taxes	102
Other non-current liabilities	10
<b>Total liabilities assumed</b>	<b>446</b>
<b>Net assets acquired</b>	<b>1,521</b>
Cash and cash equivalents acquired	(37)
<b>Net cash paid</b>	<b>\$1,484</b>

The fair values assigned to intangible assets were determined through the use of the income approach, specifically the relief from royalty and the multi-period excess earnings methods. Both

Table of Contents**TE CONNECTIVITY LTD.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****4. Acquisitions (Continued)**

valuation methods rely on management judgment, including expected future cash flows resulting from existing customer relationships, customer attrition rates, contributory effects of other assets utilized in the business, peer group cost of capital and royalty rates, and other factors. The valuation of tangible assets was derived using a combination of the income, market, and cost approaches. Significant judgments used in valuing tangible assets include estimated reproduction or replacement cost, useful lives of assets, estimated selling prices, costs to complete, and reasonable profit. Useful lives for intangible assets were determined based upon the remaining useful economic lives of the intangible assets that are expected to contribute directly or indirectly to future cash flows.

Intangible assets acquired consisted of the following:

	Amount	Weighted-Average Amortization Period
	(in millions)	(in years)
Customer relationships	\$370	18
Developed technology	161	9
Trade names and trademarks	4	1
Customer order backlog	12	<1
<b>Total</b>	<b>\$547</b>	<b>15</b>

The acquired intangible assets are being amortized on a straight-line basis over their expected useful lives.

Goodwill of \$1,065 million was recognized in the transaction, representing the excess of the purchase price over the fair value of the tangible and intangible assets acquired and liabilities assumed. This goodwill is attributable primarily to cost savings and other synergies related to operational efficiencies including the consolidation of manufacturing, marketing, and general and administrative functions. The goodwill has been allocated to the Transportation Solutions segment and is not deductible for tax purposes. However, prior to its merger with us, Measurement Specialties completed certain acquisitions that resulted in goodwill with an estimated value of \$23 million that is deductible primarily for U.S. tax purposes, which we will deduct through 2030.

For the quarter ended March 27, 2015 and the period from October 9, 2014 to March 27, 2015, Measurement Specialties contributed net sales of \$138 million and \$263 million, respectively, to our Condensed Consolidated Statements of Operations. Due to the commingled nature of our operations, it is not practicable to separately identify operating income of Measurement Specialties on a stand-alone basis.

Table of Contents**TE CONNECTIVITY LTD.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****4. Acquisitions (Continued)***Pro Forma Financial Information*

The following unaudited pro forma financial information reflects our consolidated results of operations had the Measurement Specialties acquisition occurred at the beginning of fiscal 2014:

	Pro Forma for the Quarters Ended		Pro Forma for the Six Months Ended	
	March 27, 2015	March 28, 2014	March 27, 2015	March 28, 2014
	(in millions, except per share data)			
Net sales	\$3,082	\$3,069	\$6,150	\$6,035
Net income attributable to TE Connectivity Ltd.	602	355	1,095	696
Diluted earnings per share attributable to TE Connectivity Ltd.	\$1.46	\$0.85	\$2.65	\$1.67

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

Pro forma results for the quarter ended March 27, 2015 were adjusted to exclude \$2 million of charges related to acquired customer order backlog and include \$1 million of interest expense based on pro forma changes in our capital structure.

Pro forma results for the quarter ended March 28, 2014 were adjusted to include \$12 million of charges related to the amortization of the fair value of acquired intangible assets, \$4 million of interest expense based on pro forma changes in our capital structure, and \$1 million of charges related to acquired customer order backlog.

Pro forma results for the six months ended March 27, 2015 were adjusted to exclude \$16 million of acquisition costs, \$15 million of share-based compensation expense incurred by Measurement Specialties as a result of the change in control of Measurement Specialties, \$11 million of charges related to the fair value adjustment to acquisition-date inventories, \$8 million of income tax expense based on the estimated impact of combining Measurement Specialties into our global tax position, and \$7 million of charges related to acquired customer order backlog. In addition, pro forma results for the six months ended March 27, 2015 were adjusted to include \$2 million of interest expense based on pro forma changes in our capital structure.

Pro forma results for the six months ended March 28, 2014 were adjusted to include \$11 million of charges related to the fair value adjustment to acquisition-date inventories, \$11 million of charges related to the amortization of the fair value of acquired intangible assets, \$7 million of charges related to acquired customer order backlog, \$7 million of interest expense based on pro forma changes in our capital structure, and \$1 million of income tax expense based on the estimated impact of combining Measurement Specialties into our global tax position.

Pro forma results do not include any anticipated synergies or other anticipated benefits of the acquisition. Accordingly, the unaudited pro forma financial information is not necessarily indicative of

Table of Contents**TE CONNECTIVITY LTD.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****4. Acquisitions (Continued)**

either future results of operations or results that might have been achieved had the Measurement Specialties acquisition occurred at the beginning of fiscal 2014.

During the six months ended March 27, 2015, we acquired three additional companies for \$245 million in cash, net of cash acquired.

**5. Inventories**

Inventories consisted of the following:

	March 27, 2015	September 26, 2014
	(in millions)	
Raw materials	\$272	\$211
Work in progress	600	562
Finished goods	812	736
Inventories	\$1,684	\$1,509

**6. Goodwill**

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

	Transportation Solutions	Industrial Solutions	Communications Solutions	Total
	(in millions)			
September 26, 2014 <sup>(2)</sup>	\$834	\$2,165	\$740	\$3,739
Acquisitions	1,066	147		1,213
Currency translation	(40)	(60)	(20)	(120)
March 27, 2015 <sup>(2)</sup>	\$1,860	\$2,252	\$720	\$4,832

(1) In connection with the realignment of certain businesses during the second quarter of fiscal 2015, goodwill was re-allocated to reporting units using a relative fair value approach. See Note 1 for additional information regarding our current segment structure.

(2) At March 27, 2015 and September 26, 2014, accumulated impairment losses for the Transportation Solutions, Industrial Solutions, and Communications Solutions segments were \$2,191 million, \$669 million, and \$1,646 million, respectively.

During the first six months of fiscal 2015, we completed the acquisition of Measurement Specialties and recognized \$1,065 million of goodwill which benefits the Transportation Solutions segment. See Note 4 for additional information on the acquisition of Measurement Specialties.





Table of Contents**TE CONNECTIVITY LTD.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****7. Intangible Assets, Net**

Intangible assets consisted of the following:

	March 27, 2015		Net Carrying Amount	September 26, 2014		Net Carrying Amount
	Gross Carrying Amount	Accumulated Amortization		Gross Carrying Amount	Accumulated Amortization	
	(in millions)					
Intellectual property	\$1,149	\$(487)	\$662	\$986	\$(453)	\$533
Customer relationships	1,066	(124)	942	614	(83)	531
Other	38	(12)	26	35	(12)	23
Total	\$2,253	\$(623)	\$1,630	\$1,635	\$(548)	\$1,087

During the first six months of fiscal 2015, the gross carrying amount of intangible assets increased by \$547 million as a result of the Measurement Specialties acquisition. Intangible asset amortization expense was \$38 million and \$20 million for the quarters ended March 27, 2015 and March 28, 2014, respectively, and \$80 million and \$40 million for the six months ended March 27, 2015 and March 28, 2014, respectively.

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

	(in millions)
Remainder of fiscal 2015	\$73
Fiscal 2016	141
Fiscal 2017	137
Fiscal 2018	137
Fiscal 2019	135
Fiscal 2020	131
Thereafter	876
Total	\$1,630

**8. Debt**

During February 2015, Tyco Electronics Group S.A. ("TEGSA"), our 100%-owned subsidiary, repaid, at maturity, \$250 million of 1.60% senior notes due 2015.

During February 2015, TEGSA issued €550 million (approximately \$617 million using an exchange rate of \$1.12 per €1.00) aggregate principal amount of 1.100% senior notes due March 1, 2023. The notes are TEGSA's unsecured senior obligations and rank equally in right of payment with all existing and any future senior indebtedness of TEGSA and senior to any subordinated indebtedness that TEGSA may incur. The notes are fully and unconditionally guaranteed as to payment on an unsecured basis by TE Connectivity Ltd.

During the quarter ended March 27, 2015, we reclassified \$500 million of senior floating rate notes due 2016 from long-term debt to current maturities of long-term debt on the Condensed Consolidated Balance Sheet.



Table of Contents

**TE CONNECTIVITY LTD.**

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

**8. Debt (Continued)**

As of March 27, 2015, TEGSA had \$235 million of commercial paper outstanding at a weighted-average interest rate of 0.52%. TEGSA had \$327 million of commercial paper outstanding at a weighted-average interest rate of 0.30% at September 26, 2014.

The fair value of our debt, based on indicative valuations, was approximately \$4,449 million and \$4,125 million at March 27, 2015 and September 26, 2014, respectively.

**9. Guarantees**

*Tax Sharing Agreement*

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

Upon separation, we entered into a Tax Sharing Agreement, under which we share responsibility for certain of our, Tyco International's, and Covidien's income tax liabilities based on a sharing formula for periods prior to and including June 29, 2007. We, Tyco International, and Covidien share 31%, 27%, and 42%, respectively, of U.S. income tax liabilities that arise from adjustments made by tax authorities to our, Tyco International's, and Covidien's U.S. income tax returns. The effect of the Tax Sharing Agreement is to indemnify us for 69% of certain liabilities settled in cash by us with respect to unresolved pre-separation tax matters. Pursuant to that indemnification, we have made similar indemnifications to Tyco International and Covidien with respect to 31% of certain liabilities settled in cash by the companies relating to unresolved pre-separation tax matters. If any of the companies responsible for all or a portion of such liabilities were to default in its payment of costs or expenses related to any such liability, we would be responsible for a portion of the defaulting party or parties' obligation. Our indemnification created under the Tax Sharing Agreement qualifies as a guarantee of a third party entity's debt under ASC 460, *Guarantees*. At March 27, 2015 and September 26, 2014, we had a liability of \$21 million representing the indemnifications made to Tyco International and Covidien pursuant to the Tax Sharing Agreement.

*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 27, 2015, we had outstanding letters of credit, letters of guarantee, and surety bonds in the amount of \$322 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.

Table of Contents

**TE CONNECTIVITY LTD.**

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

**9. Guarantees (Continued)**

We generally record estimated product warranty costs when contract revenues are recognized under the percentage-of-completion method for construction related contracts; other warranty reserves are not significant. The estimation is based primarily on historical experience and actual warranty claims. Amounts accrued for warranty claims were \$29 million at March 27, 2015 and September 26, 2014.

**10. Commitments and Contingencies**

*Legal Proceedings*

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

At March 27, 2015, 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. In November 2014, sellers filed their pre-trial statements with the court claiming no less than \$135 million, representing the \$80 million contingent purchase price commitment plus interest and costs. Trial began on March 16, 2015 and has not yet concluded. A liability for this contingency has not been recorded on the Condensed Consolidated Financial Statements as we do not believe that any payment is probable at this time.

*Income Tax Matters*

The Tax Sharing Agreement generally governs our, Tyco International's, and Covidien's respective rights, responsibilities, and obligations with respect to taxes for periods prior to and including June 29, 2007. Pursuant to the Tax Sharing Agreement, we entered into certain guarantee commitments and indemnifications with Tyco International and Covidien. See Note 9 for additional information regarding the Tax Sharing Agreement.

In October 2012, the Internal Revenue Service ("IRS") issued special agreement Forms 870-AD, effectively settling its audit of all tax matters for the years 1997 through 2000, excluding one issue that remains in dispute. The disputed issue involves the tax treatment of certain intercompany debt transactions. The IRS field examination asserted that certain intercompany loans originated during the years 1997 through 2000 did not constitute debt for U.S. federal income tax purposes and disallowed approximately \$2.7 billion of related interest deductions recognized during the period on

Table of Contents

**TE CONNECTIVITY LTD.**

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

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

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

A U.S. Tax Court trial date of February 29, 2016 has been set and the parties are engaged in discovery. We do not expect any payments to the IRS with respect to these matters until they are fully and finally resolved. In accordance with the Tax Sharing Agreement, we, Tyco International, and Covidien would share 31%, 27%, and 42%, respectively, of any payments made in connection with these matters.

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

In the first quarter of fiscal 2015, the IRS issued general agreement Forms 870, effectively settling its audits of tax matters for the years 2001 through 2007, excluding the disputed issue involving certain intercompany loans originated during the years 1997 through 2000. As a result of these developments, in the first six months of fiscal 2015, we recognized an income tax benefit of \$202 million, representing a reduction in tax reserves for the matters that were effectively settled, and other expense of \$94 million, representing a reduction of associated indemnification receivables, pursuant to the Tax Sharing Agreement with Tyco International and Covidien.

During the first six months of fiscal 2015 and 2014, we made net payments of \$26 million and received net reimbursements of \$21 million, respectively, related to pre-separation U.S. tax matters. Over the next twelve months, we expect to make net cash payments of approximately \$19 million in connection with pre-separation U.S. tax matters.

Table of Contents

**TE CONNECTIVITY LTD.**

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

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

During fiscal 2012, the IRS commenced its audit of our income tax returns for the years 2008 through 2010. We expect fieldwork for the 2008 through 2010 audit to conclude in fiscal 2015.

At March 27, 2015 and September 26, 2014, we have reflected \$30 million and \$51 million, respectively, of income tax liabilities related to the audits of Tyco International's and our income tax returns in accrued and other current liabilities as certain of these matters could be resolved within the next twelve months.

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

*Environmental Matters*

We are involved in various stages of investigation and cleanup related to environmental remediation matters at a number of sites. The ultimate cost of site cleanup is difficult to predict given the uncertainties regarding the extent of the required cleanup, the interpretation of applicable laws and regulations, and alternative cleanup methods. As of March 27, 2015, we concluded that it was probable that we would incur remedial costs in the range of \$17 million to \$39 million, and that the best estimate within this range was \$20 million. 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.

**11. Financial Instruments**

*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 \$3,449 million and \$2,893 million at March 27, 2015 and September 26, 2014, respectively. For the quarter and six months ended March 27, 2015, we recorded foreign exchange gains of \$282 million and \$412 million, respectively, as currency translation, a component of accumulated other comprehensive loss, offsetting foreign exchange losses attributable to the translation of the net investment. Foreign exchange gains and losses recorded as currency translation were immaterial for the quarter and six months ended March 28, 2014.

Table of Contents**TE CONNECTIVITY LTD.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****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 For the Quarters Ended		Non-U.S. Plans For the Quarters Ended	
	March 27, 2015	March 28, 2014	March 27, 2015	March 28, 2014
	(in millions)			
Service cost	\$3	\$2	\$13	\$12
Interest cost	12	12	16	18
Expected return on plan assets	(17)	(16)	(19)	(17)
Amortization of net actuarial loss	6	6	9	6
Other			(2)	(1)
Net periodic pension benefit cost	\$4	\$4	\$17	\$18

	U.S. Plans For the Six Months Ended		Non-U.S. Plans For the Six Months Ended	
	March 27, 2015	March 28, 2014	March 27, 2015	March 28, 2014
	(in millions)			
Service cost	\$5	\$4	\$25	\$23
Interest cost	24	25	31	35
Expected return on plan assets	(34)	(32)	(38)	(33)
Amortization of net actuarial loss	13	12	18	12
Other			(3)	(2)
Net periodic pension benefit cost	\$8	\$9	\$33	\$35

During the six months ended March 27, 2015, we contributed \$31 million to our non-U.S. pension plans.

**13. Income Taxes**

We recorded income tax provisions of \$94 million and \$120 million for the quarters ended March 27, 2015 and March 28, 2014, respectively. The tax provision for the quarter ended March 27, 2015 reflects an income tax charge for the estimated tax impacts of certain intercompany dividends related to the restructuring and anticipated sale of the BNS business, partially offset by an income tax benefit related to the effective settlement of undisputed tax matters for the years 2001 through 2007. The tax provision for the quarter ended March 28, 2014 reflects income tax charges related to adjustments to prior year income tax returns, partially offset by tax benefits recognized in connection

Table of Contents

**TE CONNECTIVITY LTD.**

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

**13. Income Taxes (Continued)**

with 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 \$15 million and an income tax provision of \$229 million for the six months ended March 27, 2015 and March 28, 2014, respectively. The tax benefit for the six months ended March 27, 2015 reflects a \$202 million income tax benefit related to the effective settlement of undisputed tax matters for the years 2001 through 2007, and an income tax benefit related to the impacts of certain non-U.S. tax law changes and the associated reduction in the valuation allowance for tax loss carryforwards. The tax provision for the six months ended March 28, 2014 reflects income tax charges related to adjustments to prior year income tax returns, as well as an income tax charge related to the impact of certain non-U.S. tax law changes and the associated increase in the valuation allowance for tax loss carryforwards.

We record accrued interest as well as penalties related to uncertain tax positions as part of the provision for income taxes. As of March 27, 2015, we had recorded \$1,052 million of accrued interest and penalties related to uncertain tax positions on the Condensed Consolidated Balance Sheet, of which \$1,041 million was recorded in income taxes and \$11 million was recorded in accrued and other current liabilities. During the six months ended March 27, 2015, we recognized a \$36 million income tax benefit related to interest and penalties on the Condensed Consolidated Statement of Operations. As of September 26, 2014, the balance of accrued interest and penalties was \$1,136 million, of which \$1,115 million was recorded in income taxes and \$21 million was recorded in accrued and other current liabilities on the Condensed Consolidated Balance Sheet.

For tax years 1997 through 2000, Tyco International has resolved all matters, excluding one disputed issue related to the tax treatment of certain intercompany debt transactions. Tyco International's income tax returns for the years 2001 through 2007 have been effectively settled but remain subject to adjustment by the IRS upon ultimate resolution of the disputed issue involving certain intercompany loans originated during the years 1997 through 2000. During fiscal 2012, the IRS commenced its audit of our income tax returns for the years 2008 through 2010. We expect fieldwork for the 2008 through 2010 audit to conclude in fiscal 2015. See Note 10 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 \$80 million of unrecognized income tax benefits, excluding the impact relating to accrued interest and penalties, could be resolved within the next twelve months.

We are not aware of any other matters that would result in significant changes to the amount of unrecognized income tax benefits reflected on the Condensed Consolidated Balance Sheet as of March 27, 2015.

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

During the quarters ended March 27, 2015 and March 28, 2014, we recorded net other expense of \$5 million and net other income of \$16 million, respectively, primarily pursuant to the Tax Sharing Agreement with Tyco International and Covidien. See Note 9 for further information regarding the Tax Sharing Agreement.



Table of Contents**TE CONNECTIVITY LTD.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****14. Other Income (Expense), Net (Continued)**

During the six months ended March 27, 2015 and March 28, 2014, we recorded net other expense of \$75 million and net other income of \$48 million, respectively, primarily pursuant to the Tax Sharing Agreement with Tyco International and Covidien. The net other expense for the six months ended March 27, 2015 included \$94 million related to the effective settlement of undisputed tax matters for the years 2001 through 2007. See Note 10 for additional information. The net other income for the six months ended March 28, 2014 included \$18 million of income related to our share of a settlement agreement entered into by Tyco International with a former subsidiary, CIT Group Inc., which arose from a pre-separation claim for which we were entitled to 31% once resolved.

**15. Earnings Per Share**

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

	For the Quarters Ended		For the Six Months Ended	
	March 27, 2015	March 28, 2014	March 27, 2015	March 28, 2014
	(in millions)			
Basic	407	410	407	411
Dilutive impact of share-based compensation arrangements	6	7	6	6
Diluted	413	417	413	417

For the six months ended March 27, 2015, there were one million share options that were not included in the computation of diluted earnings per share because the instruments' underlying exercise prices were greater than the average market prices of our common shares and inclusion would be antidilutive.

**16. Equity*****Common Shares Held in Treasury***

In March 2015, our shareholders approved the cancellation of five million shares purchased under our share repurchase program during the period from December 28, 2013 to December 26, 2014. The capital reduction by cancellation of these shares is subject to a notice period and filing with the commercial register in Switzerland and is not yet reflected on the Condensed Consolidated Balance Sheet.

***Dividends***

In March 2015, our shareholders approved a dividend payment to shareholders of \$1.32 (equivalent to CHF 1.33) per share out of contributed surplus, payable in four equal quarterly installments of \$0.33 per share beginning in the third quarter of fiscal 2015 through the second quarter of fiscal 2016.

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

Upon shareholders' approval of a dividend payment, we record a liability with a corresponding charge to contributed surplus. At March 27, 2015 and September 26, 2014, the unpaid portion of the dividends recorded in accrued and other current liabilities on the Condensed Consolidated Balance Sheets totaled \$537 million and \$236 million, respectively.

***Share Repurchase Program***

In the second quarter of fiscal 2015, our board of directors authorized an increase of \$3.0 billion in the share repurchase program. Common shares repurchased under the share repurchase program were as follows:

	<b>For the Six Months Ended</b>	
	<b>March 27, 2015</b>	<b>March 28, 2014</b>
	(in millions)	
Number of common shares repurchased	4	7
Amount repurchased	\$284	\$390

At March 27, 2015, we had \$3.6 billion of availability remaining under our share repurchase authorization.

**17. Share Plans**

Total share-based compensation expense, which was included in selling, general, and administrative expenses on the Condensed Consolidated Statements of Operations, was as follows:

	<b>For the Quarters Ended</b>		<b>For the Six Months Ended</b>	
	<b>March 27, 2015</b>	<b>March 28, 2014</b>	<b>March 27, 2015</b>	<b>March 28, 2014</b>
	(in millions)			
Share-based compensation expense	\$21	\$20	\$44	\$40

As of March 27, 2015, there was \$183 million of unrecognized compensation expense related to share-based awards, which is expected to be recognized over a weighted-average period of 1.9 years.

During the first quarter of fiscal 2015, we granted the following equity awards as part of our annual incentive plan grant:

	<b>Shares</b>	<b>Weighted- Average Grant-Date Fair Value</b>
	(in millions)	
Share options	1.7	\$18.82
Restricted share awards	1.1	61.50
Performance share awards	0.2	61.50

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

As of March 27, 2015, we had 19 million shares available for issuance under our stock and incentive plans, of which the TE Connectivity Ltd. 2007 Stock and Incentive Plan, as amended and restated, is the primary plan.

*Share-Based Compensation Assumptions*

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	36%
Risk free interest rate	1.97%
Expected annual dividend per share	\$1.16
Expected life of options (in years)	6.0

**18. Segment Data**

Effective for the second quarter of fiscal 2015, we reorganized our management and segments to better align the organization around our strategy. See Note 1 for additional information regarding our new segment structure.

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

Net sales by segment were as follows:

	For the Quarters Ended		For the Six Months Ended	
	March 27, 2015	March 28, 2014	March 27, 2015	March 28, 2014
	(in millions)			
Transportation Solutions	\$1,610	\$1,571	\$3,222	\$3,011
Industrial Solutions	797	789	1,581	1,552
Communications Solutions	675	604	1,328	1,263
Total <sup>(1)</sup>	\$3,082	\$2,964	\$6,131	\$5,826

(1)

Intersegment sales were not material and were recorded at selling prices that approximated market prices.

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

Operating income by segment was as follows:

	For the Quarters Ended		For the Six Months Ended	
	March 27, 2015	March 28, 2014	March 27, 2015	March 28, 2014
	(in millions)			
Transportation Solutions	\$323	\$338	\$618	\$623
Industrial Solutions	84	102	170	197
Communications Solutions	41	31	85	70
Total	\$448	\$471	\$873	\$890

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

	March 27, 2015	September 26, 2014
	(in millions)	
Transportation Solutions	\$3,312	\$3,062
Industrial Solutions	1,710	1,735
Communications Solutions	1,634	1,689
Total segment assets <sup>(1)</sup>	6,656	6,486
Other current assets	3,834	5,300
Other non-current assets	9,753	8,366
Total assets	\$20,243	\$20,152

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

**19. Tyco Electronics Group S.A.**

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

Table of Contents

## 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 27, 2015

	TE Connectivity Ltd.	TEGSA	Other Subsidiaries (in millions)	Consolidating Adjustments	Total
Net sales	\$	\$	\$3,082	\$	\$3,082
Cost of sales			2,031		2,031
<b>Gross margin</b>			1,051		1,051
Selling, general, and administrative expenses <sup>(1)</sup>	37	(146)	500		391
Research, development, and engineering expenses			160		160
Acquisition and integration costs			14		14
Restructuring and other charges, net			38		38
<b>Operating income (loss)</b>	(37)	146	339		448
Interest income			4		4
Interest expense		(36)	(1)		(37)
Other expense, net			(5)		(5)
Equity in net income of subsidiaries	351	229		(580)	
Equity in net income of subsidiaries of discontinued operations	283	283		(566)	
Intercompany interest income (expense), net	2	12	(14)		
<b>Income from continuing operations before income taxes</b>	599	634	323	(1,146)	410
Income tax expense			(94)		(94)
<b>Income from continuing operations</b>	599	634	229	(1,146)	316
Income from discontinued operations, net of income taxes			283		283
<b>Net income attributable to TE Connectivity Ltd., TEGSA, or Other Subsidiaries</b>	599	634	512	(1,146)	599
Other comprehensive loss	(193)	(193)	(195)	388	(193)
<b>Comprehensive income attributable to TE Connectivity Ltd., TEGSA, or Other Subsidiaries</b>	\$406	\$441	\$317	\$(758)	\$406

(1) TEGSA selling, general, and administrative expenses include gains of \$123 million related to intercompany transactions. These gains are offset by corresponding losses recorded by Other Subsidiaries.

Table of Contents

## 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 28, 2014

	TE Connectivity Ltd.	TEGSA	Other Subsidiaries (in millions)	Consolidating Adjustments	Total
Net sales	\$	\$	\$2,964	\$	\$2,964
Cost of sales			1,969		1,969
<b>Gross margin</b>			995		995
Selling, general, and administrative expenses	54		325		379
Research, development, and engineering expenses			145		145
Acquisition and integration costs			1		1
Restructuring and other credits, net			(1)		(1)
<b>Operating income (loss)</b>	(54)		525		471
Interest income			4		4
Interest expense		(30)	(1)		(31)
Other income, net			16		16
Equity in net income of subsidiaries	395	411		(806)	
Equity in net income of subsidiaries of discontinued operations	22	22		(44)	
Intercompany interest income (expense), net	(1)	14	(13)		
<b>Income from continuing operations before income taxes</b>	362	417	531	(850)	460
Income tax expense			(120)		(120)
<b>Income from continuing operations</b>	362	417	411	(850)	340
Income from discontinued operations, net of income taxes			22		22
<b>Net income attributable to TE Connectivity Ltd., TEGSA, or Other Subsidiaries</b>	362	417	433	(850)	362
Other comprehensive loss	(9)	(9)	(11)	20	(9)
<b>Comprehensive income attributable to TE Connectivity Ltd., TEGSA, or Other Subsidiaries</b>	\$353	\$408	\$422	\$(830)	\$353

Table of Contents

## 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 27, 2015

	TE Connectivity Ltd.	TEGSA	Other Subsidiaries (in millions)	Consolidating Adjustments	Total
Net sales	\$	\$	\$6,131	\$	\$6,131
Cost of sales			4,060		4,060
<b>Gross margin</b>			2,071		2,071
Selling, general, and administrative expenses <sup>(1)</sup>	78	(155)	854		777
Research, development, and engineering expenses			320		320
Acquisition and integration costs			38		38
Restructuring and other charges, net			63		63
<b>Operating income (loss)</b>	(78)	155	796		873
Interest income			9		9
Interest expense		(70)	(1)		(71)
Other expense, net			(75)		(75)
Equity in net income of subsidiaries	825	715		(1,540)	
Equity in net income of subsidiaries of discontinued operations	320	320		(640)	
Intercompany interest income (expense), net	4	25	(29)		
<b>Income from continuing operations before income taxes</b>	1,071	1,145	700	(2,180)	736
Income tax benefit			15		15
<b>Income from continuing operations</b>	1,071	1,145	715	(2,180)	751
Income from discontinued operations, net of income taxes			320		320
<b>Net income attributable to TE Connectivity Ltd., TEGSA, or Other Subsidiaries</b>	1,071	1,145	1,035	(2,180)	1,071
Other comprehensive loss	(399)	(399)	(403)	802	(399)
<b>Comprehensive income attributable to TE Connectivity Ltd., TEGSA, or Other Subsidiaries</b>	\$672	\$746	\$632	\$(1,378)	\$672

(1) TEGSA selling, general, and administrative expenses include gains of \$123 million related to intercompany transactions. These gains are offset by corresponding losses recorded by Other Subsidiaries.

Table of Contents

## 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 28, 2014

	TE Connectivity Ltd.	TEGSA	Other Subsidiaries (in millions)	Consolidating Adjustments	Total
Net sales	\$	\$	\$5,826	\$	\$5,826
Cost of sales			3,886		3,886
<b>Gross margin</b>			1,940		1,940
Selling, general, and administrative expenses	88	1	669		758
Research, development, and engineering expenses			286		286
Acquisition and integration costs			1		1
Restructuring and other charges, net			5		5
<b>Operating income (loss)</b>	(88)	(1)	979		890
Interest income			9		9
Interest expense		(62)	(3)		(65)
Other income (expense), net	18	(3)	33		48
Equity in net income of subsidiaries	724	761		(1,485)	
Equity in net income of subsidiaries of discontinued operations	62	62		(124)	
Intercompany interest income (expense), net	(1)	29	(28)		
<b>Income from continuing operations before income taxes</b>	715	786	990	(1,609)	882
Income tax expense			(229)		(229)
<b>Income from continuing operations</b>	715	786	761	(1,609)	653
Income from discontinued operations, net of income taxes			62		62
<b>Net income attributable to TE Connectivity Ltd., TEGSA, or Other Subsidiaries</b>	715	786	823	(1,609)	715
Other comprehensive income	15	15	11	(26)	15
<b>Comprehensive income attributable to TE Connectivity Ltd., TEGSA, or Other Subsidiaries</b>	\$730	\$801	\$834	\$(1,635)	\$730



Table of Contents

## 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 27, 2015

	TE Connectivity Ltd.	TEGSA	Other Subsidiaries (in millions)	Consolidating Adjustments	Total
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$	\$	\$697	\$	\$697
Accounts receivable, net			2,094		2,094
Inventories			1,684		1,684
Intercompany receivables	726	499	103	(1,328)	
Prepaid expenses and other current assets	4	4	651		659
Deferred income taxes			617		617
Assets held for sale			1,861		1,861
Total current assets	730	503	7,707	(1,328)	7,612
Property, plant, and equipment, net			2,878		2,878
Goodwill			4,832		4,832
Intangible assets, net			1,630		1,630
Deferred income taxes			2,018		2,018
Investment in subsidiaries	9,432	19,247		(28,679)	
Intercompany loans receivable	22	2,353	8,530	(10,905)	
Receivable from Tyco International plc and Covidien plc			948		948
Other assets		30	295		325
<b>Total Assets</b>	<b>\$10,184</b>	<b>\$22,133</b>	<b>\$28,838</b>	<b>\$(40,912)</b>	<b>\$20,243</b>
<b>Liabilities and Equity</b>					
Current liabilities:					
Current maturities of long-term debt	\$	\$735	\$1	\$	\$736
Accounts payable	2		1,231		1,233
Accrued and other current liabilities	581	51	1,083		1,715
Deferred revenue			96		96
Intercompany payables	602		726	(1,328)	
Liabilities held for sale			361		361
Total current liabilities	1,185	786	3,498	(1,328)	4,141
Long-term debt		3,389	1		3,390
Intercompany loans payable	4	8,526	2,375	(10,905)	
Long-term pension and postretirement liabilities			1,199		1,199
Deferred income taxes			300		300
Income taxes			1,907		1,907
Other liabilities			311		311

Edgar Filing: TE Connectivity Ltd. - Form 10-Q

<b>Total Liabilities</b>	1,189	12,701	9,591	(12,233)	11,248
<b>Total Equity</b>	8,995	9,432	19,247	(28,679)	8,995
<b>Total Liabilities and Equity</b>	\$10,184	\$22,133	\$28,838	\$(40,912)	\$20,243

Table of Contents**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 26, 2014**

	TE Connectivity Ltd.	TEGSA	Other Subsidiaries (in millions)	Consolidating Adjustments	Total
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$	\$1	\$2,456	\$	\$2,457
Accounts receivable, net			2,057		2,057
Inventories			1,509		1,509
Intercompany receivables	932	230	30	(1,192)	
Prepaid expenses and other current assets	6	3	510		519
Deferred income taxes			324		324
Assets held for sale			2,000		2,000
<b>Total current assets</b>	<b>938</b>	<b>234</b>	<b>8,886</b>	<b>(1,192)</b>	<b>8,866</b>
Property, plant, and equipment, net			2,920		2,920
Goodwill			3,739		3,739
Intangible assets, net			1,087		1,087
Deferred income taxes			2,047		2,047
Investment in subsidiaries	8,602	19,966		(28,568)	
Intercompany loans receivable	20	2,160	9,883	(12,063)	
Receivable from Tyco International plc and Covidien plc			1,037		1,037
Other assets		30	426		456
<b>Total Assets</b>	<b>\$9,560</b>	<b>\$22,390</b>	<b>\$30,025</b>	<b>\$(41,823)</b>	<b>\$20,152</b>
<b>Liabilities and Equity</b>					
Current liabilities:					
Current maturities of long-term debt	\$	\$577	\$	\$	\$577
Accounts payable	1		1,229		1,230
Accrued and other current liabilities	282	50	1,262		1,594
Deferred revenue			176		176
Intercompany payables	260		932	(1,192)	
Liabilities held for sale			416		416
<b>Total current liabilities</b>	<b>543</b>	<b>627</b>	<b>4,015</b>	<b>(1,192)</b>	<b>3,993</b>
Long-term debt		3,281			3,281
Intercompany loans payable	4	9,880	2,179	(12,063)	
Long-term pension and postretirement liabilities			1,280		1,280
Deferred income taxes			229		229
Income taxes			2,044		2,044
Other liabilities			312		312

Edgar Filing: TE Connectivity Ltd. - Form 10-Q

<b>Total Liabilities</b>	547	13,788	10,059	(13,255)	11,139
<b>Total Equity</b>	9,013	8,602	19,966	(28,568)	9,013
<b>Total Liabilities and Equity</b>	\$9,560	\$22,390	\$30,025	\$(41,823)	\$20,152

Table of Contents

## 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 27, 2015

	TE Connectivity Ltd.	TEGSA	Other Subsidiaries (in millions)	Consolidating Adjustments	Total
<b>Cash Flows From Operating Activities:</b>					
Net cash provided by (used in) continuing operating activities	\$(72)	\$105	\$522	\$	\$555
Net cash provided by discontinued operating activities			138		138
Net cash provided by (used in) operating activities	(72)	105	660		693
<b>Cash Flows From Investing Activities:</b>					
Capital expenditures			(291)		(291)
Proceeds from sale of property, plant, and equipment			6		6
Acquisition of businesses, net of cash acquired			(1,729)		(1,729)
Change in intercompany loans		(1,816)		1,816	
Other			(2)		(2)
Net cash used in continuing investing activities		(1,816)	(2,016)	1,816	(2,016)
Net cash used in discontinued investing activities			(14)		(14)
Net cash used in investing activities		(1,816)	(2,030)	1,816	(2,030)
<b>Cash Flows From Financing Activities:</b>					
Changes in parent company equity <sup>(1)</sup>	357	1,439	(1,796)		
Net decrease in commercial paper		(92)			(92)
Proceeds from issuance of long-term debt		617			617
Repayment of long-term debt		(250)	(223)		(473)
Proceeds from exercise of share options			88		88
Repurchase of common shares	(285)				(285)
Payment of common share dividends to shareholders	(240)		4		(236)
Loan activity with parent	240		1,576	(1,816)	
Transfers from discontinued operations			124		124
Other		(4)	2		(2)
Net cash provided by (used in) continuing financing activities	72	1,710	(225)	(1,816)	(259)
Net cash used in discontinued financing activities			(124)		(124)
Net cash provided by (used in) financing activities	72	1,710	(349)	(1,816)	(383)

Edgar Filing: TE Connectivity Ltd. - Form 10-Q

Effect of currency translation on cash		(40)	(40)
<b>Net decrease in cash and cash equivalents</b>	(1)	(1,759)	(1,760)
<b>Cash and cash equivalents at beginning of period</b>	1	2,456	2,457
<b>Cash and cash equivalents at end of period</b>	\$	\$ 697	\$ 697

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

Table of Contents

## 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 28, 2014

	TE Connectivity Ltd.	TEGSA	Other Subsidiaries (in millions)	Consolidating Adjustments	Total
<b>Cash Flows From Operating Activities:</b>					
Net cash provided by (used in) continuing operating activities <sup>(1)</sup>	\$(62)	\$1,768	\$838	\$(1,804)	\$740
Net cash provided by discontinued operating activities			94		94
Net cash provided by (used in) operating activities	(62)	1,768	932	(1,804)	834
<b>Cash Flows From Investing Activities:</b>					
Capital expenditures			(281)		(281)
Proceeds from sale of property, plant, and equipment			21		21
Acquisition of businesses, net of cash acquired			(18)		(18)
Intercompany distribution receipts <sup>(1)</sup>		3		(3)	
Change in intercompany loans		(1,820)		1,820	
Net cash used in continuing investing activities		(1,817)	(278)	1,817	(278)
Net cash used in discontinued investing activities			(20)		(20)
Net cash used in investing activities		(1,817)	(298)	1,817	(298)
<b>Cash Flows From Financing Activities:</b>					
Changes in parent company equity <sup>(2)</sup>	33	6	(39)		
Net increase in commercial paper		25			25
Proceeds from issuance of long-term debt		323			323
Repayment of long-term debt		(303)	(57)		(360)
Proceeds from exercise of share options			109		109
Repurchase of common shares			(392)		(392)
Payment of common share dividends to shareholders	(210)		5		(205)
Intercompany distributions <sup>(1)</sup>			(1,807)	1,807	
Loan activity with parent	239		1,581	(1,820)	
Transfers from discontinued operations			74		74
Other		(2)	2		
Net cash provided by (used in) continuing financing activities	62	49	(524)	(13)	(426)
Net cash used in discontinued financing activities			(74)		(74)
Net cash provided by (used in) financing activities	62	49	(598)	(13)	(500)

Edgar Filing: TE Connectivity Ltd. - Form 10-Q

Effect of currency translation on cash			(10)		(10)
<b>Net increase in cash and cash equivalents</b>			26		26
<b>Cash and cash equivalents at beginning of period</b>			1,403		1,403
<b>Cash and cash equivalents at end of period</b>	\$	\$	\$1,429	\$	\$1,429

- 
- (1) During the first six months of fiscal 2014, other subsidiaries made distributions to TEGSA in the amount of \$1,807 million. Cash flows are presented based upon the nature of the distribution.
- (2) Changes in parent company equity includes cash flows related to certain intercompany equity and funding transactions, and other intercompany activity.



Table of Contents

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

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

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

The following discussion includes organic net sales growth and free cash flow which are non-GAAP financial measures. 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 global technology leader. We design and manufacture connectivity and sensor solutions essential in today's increasingly connected world. We help our customers solve the need for intelligent, efficient, and high-performing products and solutions.

As discussed in Note 1 to the Condensed Consolidated Financial Statements, effective for the second quarter of fiscal 2015, we reorganized our management and segments to better align the organization around our strategy. We now operate through three reportable segments: Transportation Solutions, Industrial Solutions, and Communications Solutions. Prior period segment results have been restated to conform to the new segment reporting structure.

Overall, our net sales increased 4.0% and 5.2% in the second quarter and first six months of fiscal 2015, respectively, as compared to the same periods of fiscal 2014 due to increased net sales in all segments. The acquisition of Measurement Specialties, Inc. ("Measurement Specialties") in October 2014 contributed net sales of \$138 million and \$263 million during the second quarter and first six months of fiscal 2015, respectively, which benefited our sales in the sensors end market in the Transportation Solutions segment. On an organic basis, net sales increased 6.2% and 5.6% in the second quarter and first six months of fiscal 2015, respectively, as compared to the same periods of fiscal 2014. In the Communications Solutions segment, our organic net sales increased 15.9% and 8.2% in the second quarter and first six months of fiscal 2015, respectively, as compared to the same periods of fiscal 2014 due primarily to sales increases in the subsea communications end market and, to a lesser degree, the appliances end market, partially offset by sales decreases in the data and devices end market. In the Transportation Solutions segment, our organic net sales increased 3.0% and 5.3% in the second quarter and first six months of fiscal 2015, respectively, as compared to the second quarter and first six months of fiscal 2014 due primarily to sales increases in the automotive end market. In the Industrial Solutions segment, our organic net sales increased 5.2% and 4.0% during the second quarter and first six months of fiscal 2015, respectively, as compared to the second quarter and first six months of fiscal 2014 due primarily to sales increases in the aerospace, defense, oil, and gas and industrial equipment end markets and, to a lesser degree, the energy end market.

Table of Contents

**Outlook**

In the third quarter of fiscal 2015, we expect net sales to be between \$3.13 billion and \$3.23 billion. This reflects sales increases in the Communications Solutions and, to a lesser degree, Transportation Solutions segments, partially offset by a sales decrease in the Industrial Solutions segment relative to the third quarter of fiscal 2014. In the Communications Solutions segment, we expect continued strength in the subsea communications end market. In the Transportation Solutions segment, we expect our sales growth to outpace an anticipated 1% growth in global automotive production in the third quarter of fiscal 2015 as compared to the same period of fiscal 2014. In addition, the Transportation Solutions segment will benefit from the acquisition of Measurement Specialties. In the Industrial Solutions segment, we expect our sales to decrease slightly in the third quarter of fiscal 2015 as compared to the third quarter of fiscal 2014, with weakness in the oil and gas market, partially offset by sales increases in the commercial aerospace and industrial equipment markets. We expect diluted earnings per share from continuing operations to be in the range of \$0.80 to \$0.84 per share in the third quarter of fiscal 2015. This outlook reflects the negative impact of foreign currency exchange rates on net sales and earnings per share from continuing operations of approximately \$330 million and \$0.13 per share, respectively, in the third quarter of fiscal 2015.

For fiscal 2015, we expect net sales to be between \$12.35 billion and \$12.65 billion, primarily reflecting sales increases in the Communications Solutions and Transportation Solutions segments from fiscal 2014 levels. In the Communications Solutions segment, we expect our net sales in the subsea communications end market to be over \$700 million in fiscal 2015. In the Transportation Solutions segment, we expect our sales growth to outpace an anticipated 2% growth in global automotive production from fiscal 2014 levels. In addition, the Transportation Solutions segment will benefit from the acquisition of Measurement Specialties. In the Industrial Solutions segment, we expect our sales to be flat during fiscal 2015 as compared to fiscal 2014, with sales increases in the aerospace and industrial equipment markets offset by weakness in the oil and gas market. We expect diluted earnings per share from continuing operations to be in the range of \$3.51 to \$3.65 per share in fiscal 2015. This outlook reflects the negative impact of foreign currency exchange rates on net sales and earnings per share from continuing operations of approximately \$1.01 billion and \$0.38 per share, respectively, in fiscal 2015.

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

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

**Acquisition**

On October 9, 2014, we acquired 100% of the outstanding shares of Measurement Specialties, a leading global designer and manufacturer of sensors and sensor-based systems, for \$86.00 in cash per share. The total value paid was approximately \$1.7 billion, net of cash acquired, and included \$225 million for the repayment of Measurement Specialties' debt and accrued interest. This business has been reported as part of our Transportation Solutions segment from the date of acquisition.

See additional information regarding the Measurement Specialties acquisition in Note 4 to the Condensed Consolidated Financial Statements.

Table of Contents**Discontinued Operations**

On January 27, 2015, we entered into a definitive agreement to sell our Broadband Network Solutions ("BNS") business for \$3.0 billion in cash, subject to a final working capital adjustment. The transaction is expected to close during calendar 2015 pending customary closing conditions and regulatory approvals.

The BNS business met the held for sale and discontinued operations criteria and has been included as such in all periods presented in our Condensed Consolidated Financial Statements. Prior to reclassification to discontinued operations, the BNS business was a component of the former Network Solutions segment.

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

**Restructuring**

We are committed to continuous productivity improvements and consistently evaluate opportunities to simplify our global manufacturing footprint, migrate facilities to lower-cost regions, reduce fixed costs, and eliminate excess capacity. These initiatives are designed to help us maintain our competitiveness in the industry, improve our operating leverage, and position us for future growth. In connection with these initiatives and in response to market conditions, we incurred net restructuring charges of \$61 million during the first six months of fiscal 2015. We expect to incur net restructuring charges of approximately \$75 million during fiscal 2015. Cash spending related to restructuring was \$52 million during the first six months of fiscal 2015, and we expect total spending, which will be funded with cash from operations, to be approximately \$105 million in fiscal 2015. Annualized cost savings related to these actions are expected to be approximately \$60 million and are expected to be realized by the end of fiscal 2016. Cost savings will be reflected primarily in cost of sales and selling, general, and administrative expenses.

**Results of Operations**

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

**Raw material prices.** We expect to purchase approximately 163 million pounds of copper, 134,000 troy ounces of gold, and 2.6 million troy ounces of silver in fiscal 2015. Prices continue to fluctuate. The following table sets forth the average prices incurred related to copper, gold, and silver.

	Measure	For the Quarters Ended		For the Six Months Ended	
		March 27, 2015	March 28, 2014	March 27, 2015	March 28, 2014
Copper	Lb.	\$3.08	\$3.33	\$3.12	\$3.38
Gold	Troy oz.	\$1,279	\$1,425	\$1,282	\$1,445
Silver	Troy oz.	\$19.29	\$24.14	\$19.25	\$24.72

**Foreign exchange.** Approximately 55% of our net sales are invoiced in currencies other than the U.S. dollar. Our results of operations are influenced by changes in foreign currency exchange rates. Increases or decreases in the value of the U.S. dollar, compared to other currencies, will directly affect our reported results as we translate those currencies into U.S. dollars at the end of each fiscal period.

Table of Contents

**Consolidated Operations**

**Net Sales.** Net sales increased \$118 million, or 4.0%, to \$3,082 million in the second quarter of fiscal 2015 from \$2,964 million in the second quarter of fiscal 2014. Measurement Specialties, which was acquired on October 9, 2014, contributed net sales of \$138 million in the second quarter of fiscal 2015. On an organic basis, net sales increased \$184 million, or 6.2%, in the second quarter of fiscal 2015 from the second quarter of fiscal 2014 due to sales increases in the Communications Solutions segment and, to a lesser degree, the Transportation Solutions and Industrial Solutions segments. Price erosion adversely affected organic sales by \$44 million in the second quarter of fiscal 2015. Foreign currency exchange rates negatively impacted net sales by \$246 million in the second quarter of fiscal 2015.

In the first six months of fiscal 2015, net sales increased \$305 million, or 5.2%, to \$6,131 million from \$5,826 million in the first six months of fiscal 2014. Measurement Specialties contributed net sales of \$263 million in the first six months of fiscal 2015. On an organic basis, net sales increased \$326 million, or 5.6%, in the first six months of fiscal 2015 as compared to the same period of fiscal 2014 as a result of sales increases in the Transportation Solutions and Communications Solutions segments and, to a lesser degree, the Industrial Solutions segment. Price erosion adversely affected organic sales by \$91 million in the first six months of fiscal 2015 as compared to the same period of fiscal 2014. Foreign currency exchange rates negatively impacted net sales by \$367 million in the first six months of fiscal 2015.

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

The following table sets forth the percentage of our total net sales by geographic region<sup>(1)</sup>:

	For the Quarters Ended		For the Six Months Ended	
	March 27, 2015	March 28, 2014	March 27, 2015	March 28, 2014
Europe/Middle East/Africa ("EMEA")	33%	37%	33%	36%
Asia Pacific	33	35	34	36
Americas <sup>(2)</sup>	34	28	33	28
Total	100%	100%	100%	100%

(1) Net sales to external customers are attributed to individual countries based on the legal entity that records the sale.

(2) The Americas includes our subsea communications business.

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 27, 2015 versus Net Sales for the Quarter Ended March 28, 2014				Change in Net Sales for the Six Months Ended March 27, 2015 versus Net Sales for the Six Months Ended March 28, 2014							
	Organic	Translation	Acquisitions	Total	Organic	Translation	Acquisitions	Total				
	(\$ in millions)											
EMEA	\$33	3.0%	\$(189)	\$73	\$(83)	(7.6)%	\$60	2.9%	\$(268)	\$141	\$(67)	(3.2)%
Asia Pacific	4	0.4	(42)	23	(15)	(1.4)	58	2.8	(75)	43	26	1.2
Americas	147	17.6	(15)	84	216	25.9	208	12.5	(24)	162	346	20.8
Total	\$184	6.2%	\$(246)	\$180	\$118	4.0%	\$326	5.6%	\$(367)	\$346	\$305	5.2%



## Edgar Filing: TE Connectivity Ltd. - Form 10-Q

### Table of Contents

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

	For the Quarters Ended		For the Six Months Ended	
	March 27, 2015	March 28, 2014	March 27, 2015	March 28, 2014
Transportation Solutions	52%	53%	52%	52%
Industrial Solutions	26	27	26	26
Communications Solutions	22	20	22	22
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 27, 2015 versus Net Sales for the Quarter Ended March 28, 2014				Change in Net Sales for the Six Months Ended March 27, 2015 versus Net Sales for the Six Months Ended March 28, 2014							
	Organic	Translation	Acquisitions	Total	Organic	Translation	Acquisitions	Total				
	(\$ in millions)											
Transportation Solutions	\$47	3.0%	\$(151)	\$143	\$39	2.5%	\$160	5.3%	\$(223)	\$274	\$211	7.0%
Industrial Solutions	41	5.2	(70)	37	8	1.0	62	4.0	(105)	72	29	1.9
Communications Solutions	96	15.9	(25)	71	11.8	104	8.2	(39)	65	5.1		
Total	\$184	6.2%	\$(246)	\$180	\$118	4.0%	\$326	5.6%	\$(367)	\$346	\$305	5.2%

**Gross Margin.** In the second quarter of fiscal 2015, gross margin was \$1,051 million, reflecting a \$56 million increase from gross margin of \$995 million in the second quarter of fiscal 2014. Gross margin as a percentage of net sales increased to 34.1% in the second quarter of fiscal 2015 from 33.6% in the second quarter of fiscal 2014. In the second quarter of fiscal 2015, gross margin included charges of \$6 million associated with the amortization of acquisition-related fair value adjustments to acquired inventories and customer order backlog primarily associated with Measurement Specialties. Excluding these charges, gross margin increased in the second quarter of fiscal 2015 as compared to the same period of fiscal 2014 due primarily to higher volume and improved manufacturing productivity, partially offset by price erosion.

In the first six months of fiscal 2015, gross margin increased \$131 million to \$2,071 million as compared to \$1,940 million in the first six months of fiscal 2014. In the first six months of fiscal 2015, gross margin as a percentage of net sales increased to 33.8% from 33.3% in the same period of fiscal 2014. In the first six months of fiscal 2015, gross margin included charges of \$33 million associated with the amortization of acquisition-related fair value adjustments to acquired inventories and customer order backlog primarily associated with Measurement Specialties. Excluding these charges, gross margin increased in the first six months of fiscal 2015 as compared to the same period of fiscal 2014 primarily as a result of higher volume and, to a lesser degree, improved manufacturing productivity, partially offset by price erosion.

**Selling, General, and Administrative Expenses.** Selling, general, and administrative expenses increased \$12 million to \$391 million in the second quarter of fiscal 2015 from \$379 million in the second quarter of fiscal 2014. Selling, general, and administrative expenses increased \$19 million to \$777 million in the first six months of fiscal 2015 as compared to \$758 million in the same period of fiscal 2014. The increase resulted primarily from the additional selling, general, and administrative expenses of Measurement Specialties, partially offset by cost control measures and savings attributable to restructuring actions. Selling, general, and administrative expenses as a percentage of net sales decreased to 12.7% in the second quarter of fiscal 2015 from 12.8% in the same period of fiscal 2014. In the first six months of fiscal 2015, selling, general, and administrative expenses as a percentage of net sales decreased to 12.7% from 13.0% in the same period of fiscal 2014.

Table of Contents

**Research, Development, and Engineering Expenses.** Research, development, and engineering expenses increased \$15 million to \$160 million in the second quarter of fiscal 2015 from \$145 million in the second quarter of fiscal 2014. In the first six months of fiscal 2015, research, development, and engineering expenses increased \$34 million to \$320 million as compared to \$286 million in the same period of fiscal 2014. The increases resulted from additional expenses related to acquisitions and growth initiatives, primarily in the Transportation Solutions segment.

**Restructuring and Other Charges (Credits), Net.** In the second quarters of fiscal 2015 and 2014, we recorded net restructuring and other charges of \$38 million and credits of \$1 million, respectively. Net restructuring and other charges were \$63 million and \$5 million in the first six months of fiscal 2015 and 2014, respectively. During fiscal 2015, we initiated a restructuring program associated with headcount reductions and product line closures, primarily impacting the Communications Solutions segment. During fiscal 2014, we initiated a restructuring program primarily associated with headcount reductions and manufacturing site and product line closures in the Communications Solutions segment. See Note 2 to the Condensed Consolidated Financial Statements for additional information regarding net restructuring and other charges.

**Operating Income.** In the second quarter of fiscal 2015, operating income was \$448 million compared to \$471 million in the second quarter of fiscal 2014. Results for the second quarter of fiscal 2015 included \$22 million of acquisition related charges, including \$14 million of acquisition and integration costs, \$6 million of charges associated with the amortization of acquisition-related fair value adjustments, and \$2 million of net restructuring and other charges. Results for the second quarter of fiscal 2015 also included \$36 million of additional restructuring and other charges. Results for the second quarter of fiscal 2014 included \$1 million of acquisition and integration costs and \$1 million of net restructuring and other credits.

Operating income was \$873 million and \$890 million in the first six months of fiscal 2015 and 2014, respectively. Results for the first six months of fiscal 2015 included \$73 million of acquisition related charges, including \$38 million of acquisition and integration costs, \$33 million of charges associated with the amortization of acquisition-related fair value adjustments, and \$2 million of net restructuring and other charges. Results for the first six months of fiscal 2015 also included \$61 million of additional restructuring and other charges. Results for the first six months of fiscal 2014 included \$5 million of net restructuring and other charges and \$1 million of acquisition and integration costs.

See further discussion of operating income below under "Results of Operations by Segment."

**Non-Operating Items**

**Interest Expense.** Interest expense was \$37 million and \$31 million in the second quarters of fiscal 2015 and 2014, respectively. In the first six months of fiscal 2015 and 2014, interest expense was \$71 million and \$65 million, respectively. The increases were due to higher average debt levels.

**Other Income (Expense), Net.** During the quarters ended March 27, 2015 and March 28, 2014, we recorded net other expense of \$5 million and net other income of \$16 million, respectively, primarily pursuant to the Tax Sharing Agreement with Tyco International plc ("Tyco International") and Covidien plc ("Covidien"). See Note 9 to the Condensed Consolidated Financial Statements for further information regarding the Tax Sharing Agreement.

During the six months ended March 27, 2015 and March 28, 2014, we recorded net other expense of \$75 million and net other income of \$48 million, respectively, primarily pursuant to the Tax Sharing Agreement with Tyco International and Covidien. The net other expense for the six months ended March 27, 2015 included \$94 million related to the effective settlement of undisputed tax matters for the years 2001 through 2007. See Note 10 to the Condensed Consolidated Financial Statements for additional information. The net other income for the six months ended March 28, 2014 included

## Edgar Filing: TE Connectivity Ltd. - Form 10-Q

### Table of Contents

\$18 million of income related to our share of a settlement agreement entered into by Tyco International with a former subsidiary, CIT Group Inc., which arose from a pre-separation claim for which we were entitled to 31% once resolved.

**Income Taxes.** We recorded income tax provisions of \$94 million and \$120 million for the quarters ended March 27, 2015 and March 28, 2014, respectively. The tax provision for the quarter ended March 27, 2015 reflects an income tax charge for the estimated tax impacts of certain intercompany dividends related to the restructuring and anticipated sale of the BNS business, partially offset by an income tax benefit related to the effective settlement of undisputed tax matters for the years 2001 through 2007. The tax provision for the quarter ended March 28, 2014 reflects income tax charges related to adjustments to prior year income tax returns, partially offset by 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.

We recorded an income tax benefit of \$15 million and an income tax provision of \$229 million for the six months ended March 27, 2015 and March 28, 2014, respectively. The tax benefit for the six months ended March 27, 2015 reflects a \$202 million income tax benefit related to the effective settlement of undisputed tax matters for the years 2001 through 2007, and an income tax benefit related to the impacts of certain non-U.S. tax law changes and the associated reduction in the valuation allowance for tax loss carryforwards. The tax provision for the six months ended March 28, 2014 reflects income tax charges related to adjustments to prior year income tax returns, as well as an income tax charge related to the impact of certain non-U.S. tax law changes and the associated increase in the valuation allowance for tax loss carryforwards.

### Results of Operations by Segment

#### Transportation Solutions

The Transportation Solutions segment's net sales, operating income, and operating margin were as follows:

	For the Quarters Ended		For the Six Months Ended	
	March 27, 2015	March 28, 2014	March 27, 2015	March 28, 2014
	(\$ in millions)			
Net sales	\$1,610	\$1,571	\$3,222	\$3,011
Operating income	\$323	\$338	\$618	\$623
Operating margin	20.1%	21.5%	19.2%	20.7%

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

	For the Quarters Ended		For the Six Months Ended	
	March 27, 2015	March 28, 2014	March 27, 2015	March 28, 2014
Automotive	75%	82%	76%	83%
Commercial Transportation	13	15	13	14
Sensors	12	3	11	3
Total	100%	100%	100%	100%

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



## Edgar Filing: TE Connectivity Ltd. - Form 10-Q

### Table of Contents

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

	Change in Net Sales for the Quarter Ended March 27, 2015 versus Net Sales for the Quarter Ended March 28, 2014						Change in Net Sales for the Six Months Ended March 27, 2015 versus Net Sales for the Six Months Ended March 28, 2014					
	Organic	Translation	Acquisitions	Total			Organic	Translation	Acquisitions	Total		
	(\$ in millions)											
Automotive	\$49	3.8%	\$(127)	\$	\$(78)	(6.0)%	\$144	5.8%	\$(188)	\$	\$(44)	(1.8)%
Commercial												
Transportation	(3)	(1.3)	(18)		(21)	(9.2)	12	2.7	(26)		(14)	(3.3)
Sensors	1	1.7	(6)	143	138	281.6	4	4.5	(9)	274	269	277.3
Total	\$47	3.0%	\$(151)	\$143	\$39	2.5%	\$160	5.3%	\$(223)	\$274	\$211	7.0%

### *Quarter Ended March 27, 2015 Compared to Quarter Ended March 28, 2014*

Net sales in the Transportation Solutions segment increased \$39 million, or 2.5%, to \$1,610 million in the second quarter of fiscal 2015 from \$1,571 million in the second quarter of fiscal 2014. Measurement Specialties contributed net sales of \$138 million in the second quarter of fiscal 2015. The weakening of certain foreign currencies negatively affected net sales by \$151 million in the second quarter of fiscal 2015. Organic net sales increased \$47 million, or 3.0%, during the second quarter of fiscal 2015 as compared to the same period of fiscal 2014.

In the automotive end market, our organic net sales increased 3.8% in the second quarter of fiscal 2015 as compared to the second quarter of fiscal 2014. The increase resulted from growth in the North America, Asia Pacific, and EMEA regions due to increased consumer demand, partially offset by weakness in South America. In the commercial transportation end market, our organic net sales decreased 1.3% in the second quarter of fiscal 2015 as compared to the second quarter of fiscal 2014 as a result of weakness in the agriculture and construction markets. In the sensors end market, our organic net sales increased 1.7% in the second quarter of fiscal 2015 as compared to the second quarter of fiscal 2014 due primarily to strength in the Americas region and China.

In the second quarter of fiscal 2015, operating income in the Transportation Solutions segment decreased \$15 million to \$323 million from \$338 million in the second quarter of fiscal 2014. Segment results for the second quarter of fiscal 2015 included \$10 million of acquisition related charges, including \$4 million of charges associated with the amortization of acquisition-related fair value adjustments, \$4 million of acquisition and integration costs, and \$2 million of net restructuring and other charges. Segment results for the second quarter of fiscal 2014 included \$1 million of net restructuring and other credits. Excluding these items, operating income decreased in the second quarter of fiscal 2015 as compared to the second quarter of fiscal 2014 due primarily to the negative impact of changes in foreign exchange rates and price erosion, partially offset by higher volume and, to a lesser degree, improved manufacturing productivity.

### *Six Months Ended March 27, 2015 Compared to Six Months Ended March 28, 2014*

In the first six months of fiscal 2015, net sales in our Transportation Solutions segment increased \$211 million, or 7.0%, to \$3,222 million from \$3,011 million in the first six months of fiscal 2014. Measurement Specialties contributed net sales of \$263 million in the first six months of fiscal 2015. The weakening of certain foreign currencies negatively affected net sales by \$223 million in the first six months of fiscal 2015. Organic net sales increased by \$160 million, or 5.3%, in the first six months of fiscal 2015 as compared to the first six months of fiscal 2014.

In the automotive end market, our organic net sales increased 5.8% in the first six months of fiscal 2015 as compared to the first six months of fiscal 2014. The increase was due to increased exports out of Europe and stronger consumer demand in China and North America. In the commercial transportation end market, our organic net sales increased 2.7% in the first six months of fiscal 2015 as

Table of Contents

compared to the first six months of fiscal 2014 primarily as a result of increased demand in China driven by the acceleration of purchases related to emission standard changes, partially offset by lower demand in the agriculture and construction markets. In the sensors end market, our organic net sales increased 4.5% in the first six months of fiscal 2015 as compared to the first six months of fiscal 2014 due to growth in all regions.

Operating income in our Transportation Solutions segment decreased \$5 million to \$618 million in the first six months of fiscal 2015 from \$623 million in the same period of fiscal 2014. Segment results for the first six months of fiscal 2015 included \$51 million of acquisition related charges, including \$30 million of charges associated with the amortization of acquisition-related fair value adjustments, \$19 million of acquisition and integration costs, and \$2 million of net restructuring and other charges. Segment results for the first six months of fiscal 2015 also included an additional \$1 million of net restructuring and other charges. Excluding these items, operating income increased in the first six months of fiscal 2015 over the same period of fiscal 2014 primarily as a result of higher volume and, to a lesser degree, improved manufacturing productivity, partially offset by price erosion.

**Industrial Solutions**

The Industrial Solutions segment's net sales, operating income, and operating margin were as follows:

	For the Quarters Ended		For the Six Months Ended	
	March 27, 2015	March 28, 2014	March 27, 2015	March 28, 2014
	(\$ in millions)			
Net sales	\$797	\$789	\$1,581	\$1,552
Operating income	\$84	\$102	\$170	\$197
Operating margin	10.5%	12.9%	10.8%	12.7%

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

	For the Quarters Ended		For the Six Months Ended	
	March 27, 2015	March 28, 2014	March 27, 2015	March 28, 2014
Industrial Equipment	41%	42%	40%	42%
Aerospace, Defense, Oil, and Gas	38	35	38	34
Energy	21	23	22	24
Total	100%	100%	100%	100%

(1) Industry end market information is presented consistently with our internal management reporting and may be revised periodically 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 27, 2015 versus Net Sales for the Quarter Ended March 28, 2014					Change in Net Sales for the Six Months Ended March 27, 2015 versus Net Sales for the Six Months Ended March 28, 2014						
	Organic	Translation	Acquisitions	Total		Organic	Translation	Acquisitions	Total			
	(\$ in millions)											
Industrial Equipment	\$19	5.8%	\$(27)	\$2	\$(6)	1.8%	\$20	3.1%	\$(40)	\$3	\$(17)	(2.6)%
Aerospace, Defense, Oil, and Gas	15	5.5	(20)	35	30	11.0	34	6.5	(29)	69	74	14.2
Energy	7	3.5	(23)	(16)	(8.6)	8	2.1	(36)	(28)	(7.4)		

Edgar Filing: TE Connectivity Ltd. - Form 10-Q

Total	\$41	5.2%	\$(70)	\$37	\$8	1.0%	\$62	4.0%	\$(105)	\$72	\$29	1.9%
-------	------	------	--------	------	-----	------	------	------	---------	------	------	------