Tyco Electronics Ltd.
Form 10-Q
May 05, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended March 28, 2008

or

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

001-33260
(Commission File Number)

TYCO ELECTRONICS LTD.

(Exact name of registrant as specified in its charter)

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

Second Floor, 96 Pitts Bay Road, Pembroke, HM 08, Bermuda
(Address of principal executive offices)

441-294-0607
(Registrant's telephone number)

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

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

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

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

The number of common shares outstanding as of April 30, 2008 was 478,024,480.

TYCO ELECTRONICS LTD.
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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

TYCO ELECTRONICS LTD.

CONDENSED CONSOLIDATED AND COMBINED STATEMENTS OF OPERATIONS

(UNAUDITED)

	For the Quarters Ended		For the Six Months Ended	
	March 28, 2008	March 30, 2007	March 28, 2008	March 30, 2007
	(in millions, except per share data)			
Net sales	$ 3,662	$ 3,204	$ 7,220	$ 6,179
Cost of sales	2,692	2,372	5,358	4,560
Gross income	970	832	1,862	1,619
Selling, general, and administrative expenses	421	405	820	795
Litigation settlement	23		23	
Restructuring and other charges, net	25	8	46	17
Income from operations	501	419	973	807
Interest income	9	14	19	29
Interest expense	(49)	(58)	(99)	(118)
Other income	13		605	
Income from continuing operations before income taxes and minority interest	474	375	1,498	718
Income taxes	(171)	(93)	(326)	(200)
Minority interest	(1)	(1)	(2)	(2)
Income from continuing operations	302	281	1,170	516
Income (loss) from discontinued operations, net of income taxes	(1)	(4)	80	42
Net income	$ 301	$ 277	$ 1,250	$ 558
Basic earnings per share:				
Income from continuing operations	$ 0.62	$ 0.57	$ 2.38	$ 1.04
Income (loss) from discontinued operations		(0.01)	0.17	0.08
Net income	$ 0.62	$ 0.56	$ 2.55	$ 1.12
Diluted earnings per share:				
Income from continuing operations	$ 0.62	$ 0.57	$ 2.37	$ 1.04
Income (loss) from discontinued operations		(0.01)	0.16	0.08
Net income	$ 0.62	$ 0.56	$ 2.53	$ 1.12
Weighted-average number of shares outstanding:				

	For the Quarters Ended		For the Six Months Ended	
Basic	486	497	491	497
Diluted	489	497	494	497

See Notes to Condensed Consolidated and Combined Financial Statements.

TYCO ELECTRONICS LTD.

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	March 28, 2008	September 28, 2007
	(in millions, except share data)	
Assets		
Current Assets:		
Cash and cash equivalents	$ 748	$ 942
Accounts receivable, net of allowance for doubtful accounts of $51 and $57, respectively	2,806	2,594
Inventories	2,427	2,049
Class action settlement escrow		928
Class action settlement receivable		2,064
Prepaid expenses and other current assets	779	589
Deferred income taxes	238	325
Assets held for sale	290	505
Total current assets	7,288	9,996
Property, plant, and equipment, net	3,618	3,412
Goodwill	7,209	7,177
Intangible assets, net	522	526
Deferred income taxes	2,085	1,397
Receivable from Tyco International Ltd. and Covidien Ltd.	1,390	844
Other assets	363	336
Total Assets	$ 22,475	$ 23,688
Liabilities and Shareholders' Equity		
Current Liabilities:		
Current maturities of long-term debt	$ 22	$ 5
Accounts payable	1,527	1,343
Class action settlement liability		2,992
Accrued and other current liabilities	1,672	1,417
Deferred revenue	325	181
Liabilities held for sale	102	266
Total current liabilities	3,648	6,204
Long-term debt	3,173	3,373
Long-term pension and postretirement liabilities	657	607
Deferred income taxes	271	271
Income taxes	2,535	1,242
Other liabilities	610	599
Total Liabilities	10,894	12,296
Commitments and contingencies (Note 12)		
Minority interest	11	15
Shareholders' Equity:		
Preferred shares, $0.20 par value, 125,000,000 shares authorized; none outstanding		
Common shares, $0.20 par value, 1,000,000,000 shares authorized; 499,131,506 and 497,467,930 issued, respectively	100	99
Capital in excess:		
Share premium	40	13
Contributed surplus	10,084	10,029

	March 28, 2008	September 28, 2007
Accumulated earnings	665	186
Treasury shares, at cost, 17,475,675 and 44,454 shares, respectively	(610)	(2)
Accumulated other comprehensive income	1,291	1,052
Total Shareholders' Equity	11,570	11,377
Total Liabilities and Shareholders' Equity	$ 22,475	$ 23,688

See Notes to Condensed Consolidated and Combined Financial Statements.

TYCO ELECTRONICS LTD.

CONDENSED CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	For the Six Months Ended	
	March 28, 2008	March 30, 2007
	(in millions)	
Cash Flows From Operating Activities:		
Net income	$ 1,250	$ 558
Income from discontinued operations, net of income taxes	(80)	(42)
Income from continuing operations	1,170	516
Adjustments to reconcile net cash (used in) provided by operating activities:		
Non-cash restructuring and other charges, net	20	
Depreciation and amortization	271	251
Deferred income taxes	127	57
Provision for losses on accounts receivable and inventory	15	49
Tax sharing income	(605)	
Class action settlement	(936)	
Other	5	(2)
Changes in assets and liabilities, net of the effects of acquisitions and divestitures:		
Accounts receivable, net	(71)	(13)
Inventories	(287)	(216)
Accounts payable	34	3
Accrued and other liabilities	(34)	(73)
Income taxes	17	
Deferred revenue	147	25
Long-term pension and postretirement liabilities	12	23
Other	45	(44)
Net cash (used in) provided by continuing operating activities	(70)	576
Net cash provided by discontinued operating activities	17	3
Net cash (used in) provided by operating activities	(53)	579
Cash Flows From Investing Activities:		
Capital expenditures	(283)	(597)
Proceeds from sale of property, plant, and equipment	31	31
Class action settlement escrow	936	
Proceeds from divestiture of discontinued operations, net of cash retained by businesses sold	102	227
Other	(17)	(2)
Net cash provided by (used in) continuing investing activities	769	(341)
Net cash used in discontinued investing activities	(4)	(11)
Net cash provided by (used in) investing activities	765	(352)
Cash Flows From Financing Activities:		
Change in short-term debt	(2)	10
Net increase in commercial paper	650	
Repayment of long-term debt	(951)	(7)
Proceeds from long-term debt	100	

	For the Six Months Ended	
Allocated debt activity		29
Net transactions with former parent		(240)
Repurchase of common shares	(592)	
Payment of common dividends	(136)	
Proceeds from exercise of share options	28	
Other	(7)	(4)
Net cash used in continuing financing activities	(910)	(212)
Net cash (used in) provided by discontinued financing activities	(15)	13
Net cash used in financing activities	(925)	(199)
Effect of currency translation on cash	17	12
Net (decrease) increase in cash and cash equivalents	(196)	40
Less: net decrease (increase) in cash and cash equivalents related to discontinued operations	2	(5)
Cash and cash equivalents at beginning of period	942	472
Cash and cash equivalents at end of period	$ 748	$ 507

See Notes to Condensed Consolidated and Combined Financial Statements.

TYCO ELECTRONICS LTD.

NOTES TO CONDENSED CONSOLIDATED AND

COMBINED FINANCIAL STATEMENTS (UNAUDITED)

1. Basis of Presentation

Tyco Electronics Ltd. ("Tyco Electronics" or the "Company"), a company organized under the laws of Bermuda, is a leading global provider of engineered electronic components, network solutions, undersea telecommunication systems, and wireless systems.

The Separation

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

Basis of Presentation

The accompanying Condensed Consolidated and Combined Financial Statements reflect the consolidated operations of Tyco Electronics Ltd. and its subsidiaries as an independent, publicly-traded company subsequent to the Separation and a combined reporting entity comprising the assets and liabilities used in managing and operating the electronics businesses of Tyco International, including Tyco Electronics Ltd., for periods prior to the Separation.

The unaudited Condensed Consolidated and Combined Financial Statements have been prepared in United States dollars, in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The preparation of the Condensed Consolidated and Combined Financial Statements in conformity with GAAP requires management to make use of estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. Actual results could differ materially from these estimates. In management's opinion, the unaudited Condensed Consolidated and Combined 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 Condensed Consolidated and Combined Financial Statements have been prepared in accordance with the instructions to Form 10-Q under the Securities Exchange Act of 1934, as amended. The year-end balance sheet data was derived from audited financial statements, but does not include all of the information and note disclosures required by GAAP. These financial statements should be read in conjunction with the Company's audited Consolidated and Combined Financial Statements contained in the Company's Annual Report on Form 10-K for the fiscal year ended September 28, 2007.

The Condensed Consolidated and Combined Financial Statements for periods prior to the Separation may not be indicative of the Company's future performance and do not necessarily reflect what its consolidated and combined results of operations, financial position, and cash flows would have been had it operated as an independent, publicly-traded company during the periods presented. To the extent that an asset, liability, revenue, or expense is directly associated with the Company, it is reflected in the accompanying Condensed Consolidated and Combined Financial Statements. Certain general corporate overhead and other expenses as well as debt and related net interest expense for periods prior to the Separation were allocated by Tyco International to the Company. During the quarter and

TYCO ELECTRONICS LTD.

NOTES TO CONDENSED CONSOLIDATED AND

COMBINED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

1. Basis of Presentation (Continued)

six months ended March 30, 2007, the Company was allocated $57 million and $107 million, respectively, of general corporate overhead expenses incurred by Tyco International, which are included within selling, general, and administrative expenses in the Condensed Consolidated and Combined Statements of Operations. In addition, during the quarter and six months ended March 30, 2007, Tyco International allocated to the Company interest expense of $55 million and $111 million, respectively, and interest income of $7 million and $16 million, respectively. (See Note 8 for additional information regarding allocated net interest expense.) Management believes such allocations were reasonable; however, they may not be indicative of the actual results of the Company had the Company been operating as an independent, publicly-traded company for the periods presented.

Unless otherwise indicated, references in the Condensed Consolidated and Combined Financial Statements to fiscal 2008 and fiscal 2007 are to the Company's fiscal years ending September 26, 2008 and September 28, 2007, respectively.

Reclassifications

Certain prior period amounts have been reclassified to conform with the current period presentation.

2. Recent Accounting Pronouncements

In April 2008, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position ("FSP") No. FAS 142-3, "*Determination of the Useful Life of Intangible Assets.*" FSP No. FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under Statement of Financial Accounting Standards ("SFAS") No. 142, "*Goodwill and Other Intangible Assets*." FSP No. FAS 142-3 is effective for the Company in the first quarter of fiscal 2010. The Company is currently assessing the impact that FSP No. FAS 142-3 will have on its results of operations, financial position, or cash flows.

In March 2008, the FASB issued SFAS No. 161, "*Disclosures About Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133*." SFAS No. 161 amends and expands the disclosure requirements of SFAS No. 133, "*Accounting for Derivative Instruments and Hedging Activities,*" to provide improved transparency into the uses and financial statement impact of derivative instruments and hedging activities. SFAS No. 161 is effective for the Company in the first quarter of fiscal 2010. The Company is currently assessing the impact that SFAS No. 161 will have on its Consolidated and Combined Financial Statements.

Effective September 29, 2007, the beginning of fiscal 2008, the Company adopted FASB Interpretation No. ("FIN") 48, "*Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109.*" This interpretation prescribes a comprehensive model for the financial statement recognition, measurement, presentation, and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. FIN 48 requires that an enterprise must determine whether it is more-likely-than-not that a tax position will be sustained upon examination by taxing authorities, including resolution of any appeals or litigation processes, based upon the technical merits of the position. A tax position that meets the more-likely-than-not threshold is then measured to determine the amount of tax benefit to recognize in the financial statements. As a result of adopting FIN 48, the

TYCO ELECTRONICS LTD.

NOTES TO CONDENSED CONSOLIDATED AND

COMBINED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

2. Recent Accounting Pronouncements (Continued)

Company recorded a net increase in contingent tax liabilities of $1,282 million, an increase in deferred tax assets of $647 million, and a corresponding decrease in the opening balance of accumulated earnings of $635 million. See Note 13 for additional information regarding income taxes and the adoption of FIN 48.

3. Restructuring and Other Charges, Net

Charges to operations by segment during the quarters and six months ended March 28, 2008 and March 30, 2007 were as follows:

	For the Quarters Ended		For the Six Months Ended	
	March 28, 2008	**March 30, 2007**	**March 28, 2008**	**March 30, 2007**
		(in millions)		
Electronic Components	$ 15	$ 8	$ 30	$ 16
Network Solutions	9		14	
Undersea Telecommunications	2		3	1
	$ 26	$ 8	$ 47	$ 17

Amounts recognized in the Condensed Consolidated and Combined Statements of Operations during the quarters and six months ended March 28, 2008 and March 30, 2007 were as follows:

	For the Quarters Ended		For the Six Months Ended	
	March 28, 2008	**March 30, 2007**	**March 28, 2008**	**March 30, 2007**
		(in millions)		
Restructuring and other charges, net:				
Cash charges	$ 13	$ 8	$ 27	$ 17
Non-cash charges	12		19	
Total restructuring and other charges, net	25	8	46	17
Cost of sales	1		1	
	$ 26	$ 8	$ 47	$ 17

TYCO ELECTRONICS LTD.

NOTES TO CONDENSED CONSOLIDATED AND

COMBINED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

3. Restructuring and Other Charges, Net (Continued)

Cash Charges

Activity in the Company's restructuring reserves during the first six months of fiscal 2008 is summarized as follows:

	Balance at September 28, 2007	Charges	Utilization	Currency Translation	Balance at March 28, 2008
			(in millions)		
Fiscal 2008 Actions:					
Employee severance	$	$ 17	$ (3)	$	$ 14
Fiscal 2007 Actions:					
Employee severance	62		(20)	4	46
Facilities exit costs	1	3	(2)		2
Other	1	4	(4)		1
Total	64	7	(26)	4	49
Pre-Fiscal 2007 Actions:					
Facilities exit costs	64	3	(6)	4	65
Total Activity	$ 128	$ 27	$ (35)	$ 8	$ 128

Fiscal 2008 Actions

The Company initiated restructuring actions during the first six months of fiscal 2008 relating to the migration of product lines to low cost countries and the exit of certain manufacturing operations in the Electronic Components and Network Solutions segments. In connection with these actions, during the first six months of fiscal 2008, the Company recorded restructuring charges of $17 million primarily related to employee severance and benefits. The Company expects to complete all restructuring activities commenced in fiscal 2008 by the end of fiscal 2009 and to incur additional charges of approximately $6 million relating to these initiated actions by completion.

Fiscal 2007 Actions

Fiscal 2007 actions included the migration of product lines to low cost countries and the exit of certain manufacturing operations in the Electronic Components and Network Solutions segments. During the first six months of fiscal 2008 and the first six months of fiscal 2007, the Company recorded restructuring charges of $7 million and $16 million, respectively, related to these initiatives. The Company expects to complete all restructuring activities commenced in fiscal 2007 by the end of fiscal 2009 and to incur additional charges of approximately $24 million relating to these actions by completion.

Pre-Fiscal 2007 Actions

During the first six months of fiscal 2008 and the first six months of fiscal 2007, the Company recorded restructuring charges of $3 million and $1 million, respectively, related to interest accretion on restructuring reserves for activities announced in prior fiscal years.

TYCO ELECTRONICS LTD.

NOTES TO CONDENSED CONSOLIDATED AND

COMBINED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

3. Restructuring and Other Charges, Net (Continued)

Non-Cash Charges

During the first six months of fiscal 2008, the Company recorded non-cash charges of $20 million primarily related to fixed assets and intangibles in connection with exited manufacturing facilities and product lines. No such charges were recorded in the first six months of fiscal 2007.

Total Restructuring Reserves

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

	March 28, 2008	September 28, 2007
	(in millions)	
Electronic Components	$ 29	$ 29
Network Solutions	39	34
Undersea Telecommunications	58	63
Wireless Systems	2	2
Restructuring reserves	$ 128	$ 128

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

	March 28, 2008	September 28, 2007
	(in millions)	
Accrued and other current liabilities	$ 76	$ 66
Other liabilities	52	62
Restructuring reserves	$ 128	$ 128

4. Discontinued Operations

In March 2008, the Company was authorized by its board of directors to pursue the divestiture of its Radio Frequency Components and Subsystem business.

In the first quarter of fiscal 2008, the Company completed the sale of its Power Systems business for $102 million in net cash proceeds and recorded a $56 million pre-tax gain on the sale. The proceeds received are subject to a final working capital adjustment.

During the first quarter of fiscal 2007, the Company completed the sale of the Printed Circuit Group business for $227 million in net cash proceeds and recorded a $45 million pre-tax gain on the sale.

The Radio Frequency Components and Subsystem, Power Systems, and Printed Circuit Group businesses met the held for sale and discontinued operations criteria and have been included in discontinued operations in all periods presented. Prior to reclassification to held for sale, the Radio Frequency Components and Subsystem business was a component of the Wireless Systems segment.

TYCO ELECTRONICS LTD.

NOTES TO CONDENSED CONSOLIDATED AND

COMBINED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

4. Discontinued Operations (Continued)

Both the Power Systems and Printed Circuit Group businesses were components of the Other segment, which was subsequently renamed the Undersea Telecommunications segment.

The following table reflects net sales, pre-tax income (loss) from discontinued operations, pre-tax gain on sale of discontinued operations, and income taxes during the quarters and six months ended March 28, 2008 and March 30, 2007:

	For the Quarters Ended		For the Six Months Ended	
	March 28, 2008	March 30, 2007	March 28, 2008	March 30, 2007
	(in millions)			
Net sales	$ 114	$ 238	$ 348	$ 513
Pre-tax income (loss) from discontinued operations	$ 3	$ (12)	$ (4)	$ (21)
Pre-tax gain on sale of discontinued operations			56	45
Income tax (provision) benefit	(4)	8	28	18
Income (loss) from discontinued operations, net of income taxes	$ (1)	$ (4)	$ 80	$ 42

The following table presents balance sheet information for discontinued operations and other businesses and assets held for sale at March 28, 2008 and September 28, 2007:

	March 28, 2008	September 28, 2007
	(in millions)	
Accounts receivable, net	$ 78	$ 188
Inventories	96	193
Intangible assets, net	29	29
Property, plant, and equipment, net	87	94
Other assets		1
Total assets	$ 290	$ 505
Accounts payable	$ 42	$ 78
Accrued and other current liabilities	41	67
Other liabilities	19	121
Total liabilities	$ 102	$ 266

TYCO ELECTRONICS LTD.

NOTES TO CONDENSED CONSOLIDATED AND

COMBINED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

5. Inventories

Inventories consisted of the following:

	March 28, 2008	September 28, 2007
	(in millions)	
Raw materials	$ 412	$ 349
Work in progress	991	837
Finished goods	1,024	863
Inventories	$ 2,427	$ 2,049

6. Goodwill

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

	Electronic Components	Network Solutions	Wireless Systems	Total
		(in millions)		
Balance at September 28, 2007	$ 6,008	$ 850	$ 319	$ 7,177
Purchase accounting adjustments	3			3
Currency translation	26	3		29
Balance at March 28, 2008	$ 6,037	$ 853	$ 319	$ 7,209

7. Intangible Assets, Net

The Company's intangible assets were as follows:

	March 28, 2008				September 28, 2007			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Amortization Period
				($ in millions)				
Intellectual property	$ 830	$ (321)	$ 509	24 years	$ 809	$ (294)	$ 515	24 years
Other	16	(3)	13	49 years	14	(3)	11	50 years
Total	$ 846	$ (324)	$ 522	24 years	$ 823	$ (297)	$ 526	24 years

TYCO ELECTRONICS LTD.

NOTES TO CONDENSED CONSOLIDATED AND

COMBINED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

7. Intangible Assets, Net (Continued)

Intangible asset amortization expense, which is recorded in selling, general, and administrative expenses, was $9 million and $8 million for the quarters ended March 28, 2008 and March 30, 2007, respectively, and $18 million and $17 million for the six months ended March 28, 2008 and March 30, 2007, respectively. The estimated aggregate amortization expense on intangible assets currently owned by the Company is expected to be as follows:

	(in millions)
Remainder of fiscal 2008	$ 19
Fiscal 2009	35
Fiscal 2010	35
Fiscal 2011	34
Fiscal 2012	33
Fiscal 2013	33
Thereafter	333
	$ 522

8. Debt

Debt was as follows:

	March 28, 2008	September 28, 2007
	(in millions)	
6.00% senior notes due 2012	$ 800	$ 800
6.55% senior notes due 2017	751	747
7.125% senior notes due 2037	498	498
Unsecured senior bridge loan facility	400	550
Unsecured senior revolving credit facility		700
Commercial paper	657	
Other	89	83
Total debt	3,195	3,378
Less current portion[1]	22	5
Long-term debt	$ 3,173	$ 3,373

(1) The current portion of long-term debt at March 28, 2008 and September 28, 2007 was comprised of amounts shown as other.

In connection with the issuance by Tyco Electronics Group S.A. ("TEGSA"), a wholly owned subsidiary of the Company, of 6.00% senior notes, 6.55% senior notes, and 7.125% senior notes in September 2007, TEGSA and the Company entered into an exchange and registration rights agreement with the initial purchasers under which TEGSA and the Company agreed, for the benefit of the holders of the senior notes, to file with the Securities and Exchange Commission ("SEC") an exchange offer registration statement within 210 days after the date of the original issue of the notes. The registration statement became effective April 15, 2008. If certain additional registration requirements are not met

TYCO ELECTRONICS LTD.

NOTES TO CONDENSED CONSOLIDATED AND

COMBINED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

8. Debt (Continued)

by the required time or registration is withdrawn or is subject to an effective stop order, there may be a registration default, requiring payment by the Company of liquidated damages in the form of special interest at a rate of 0.25% per annum for the first 90 days of such registration default, and at a rate of 0.50% thereafter, until such registration default is cured. As of March 28, 2008, the Company has determined that the likelihood of a registration default is remote and has not accrued any special interest.

As of September 28, 2007, TEGSA had $700 million of indebtedness outstanding under the five-year unsecured senior revolving credit facility, which bore interest at the rate of 5.38%. As of March 28, 2008, there was no balance outstanding under the five-year unsecured senior revolving credit facility. Also, as of March 28, 2008 and September 28, 2007, TEGSA had $400 million and $550 million, respectively, of indebtedness outstanding under the unsecured senior bridge loan facility, which bore interest at the rate of 3.09% and 5.47%, respectively.

In November 2007, TEGSA commenced issuing commercial paper to U.S. institutional accredited investors and qualified institutional buyers in accordance with available exemptions from the registration requirements of the Securities Act of 1933, as part of the Company's ongoing effort to enhance financial flexibility and to potentially decrease the cost of borrowings. As of March 28, 2008, TEGSA had $657 million of commercial paper outstanding at an average interest rate of 3.26%. Borrowings under the commercial paper program are backed by the five-year unsecured senior revolving credit facility.

TEGSA's payment obligations under its senior notes, five-year unsecured senior revolving credit facility, unsecured senior bridge loan facility, and commercial paper are fully and unconditionally guaranteed by Tyco Electronics Ltd.

The Company's debt agreements contain financial and other customary covenants. As of March 28, 2008, the Company was in compliance with all of its debt covenants.

During the second quarter of fiscal 2008, the Company entered into an interest rate swap to effectively convert fixed-rate debt into variable-rate debt on $100 million of the 6.55% senior notes due 2017. The maturity date of the interest rate swap coincides with the maturity date of the underlying debt. Under this agreement, the Company receives a fixed rate of interest applicable to the underlying debt and pays a floating rate of interest based on the six month London Interbank offered rate ("LIBOR"). The fair value of the interest rate swap was $3 million at March 28, 2008 and was recorded in other assets with a corresponding increase in the debt obligation. The changes in fair value of both the interest rate swap agreement and the underlying debt obligation were recorded in interest expense and were directly offsetting. See additional information on interest rate swaps in Note 11.

For the quarter ended March 30, 2007, Tyco International allocated to the Company interest expense of $55 million and interest income of $7 million. For the six months ended March 30, 2007, Tyco International allocated to the Company interest expense of $111 million and interest income of $16 million. Net interest expense was allocated in the same proportions as debt through June 1, 2007 and includes the impact of interest rate swap agreements designated as fair value hedges. Management believes the allocation basis for debt and net interest expense was reasonable based on the historical financing needs of the Company. However, these amounts may not be indicative of the actual amounts

TYCO ELECTRONICS LTD.

NOTES TO CONDENSED CONSOLIDATED AND

COMBINED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

8. Debt (Continued)

that the Company would have incurred had it been operating as an independent, publicly-traded company for the periods presented.

The fair value of the Company's debt was approximately $3,251 million and $3,413 million at March 28, 2008 and September 28, 2007, respectively.

Certain of the Company's operating subsidiaries have overdraft and similar types of facilities, which total $48 million, of which $47 million was undrawn and available at March 28, 2008. These facilities, most of which are renewable, expire at various dates through the year 2010 and were established primarily within the Company's international operations.

9. Guarantees

Pursuant to the Separation and Distribution Agreement and Tax Sharing Agreement, upon Separation, the Company entered into certain guarantee commitments and indemnifications with Tyco International and Covidien. Under these agreements, principally the Tax Sharing Agreement, Tyco International, Covidien, and Tyco Electronics share 27%, 42%, and 31%, respectively, of certain contingent liabilities relating to unresolved tax matters of legacy Tyco International. The effect of the Tax Sharing Agreement is to indemnify the Company for 69% of certain liabilities settled by the Company with respect to unresolved legacy tax matters. Pursuant to that indemnification, the Company has made similar indemnifications to Tyco International and Covidien with respect to 31% of certain liabilities settled by the companies with respect to unresolved legacy tax matters. If any of the companies responsible for all or a portion of such liabilities were to default in its payment of costs or expenses related to any such liability, the Company would be responsible for a portion of the defaulting party or parties' obligation. The Company's indemnification created under the Tax Sharing Agreement qualifies as a guarantee of a third party entity's debt under FIN 45, "*Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*."

At September 28, 2007, the probability-weighted cash flows and risk premium of certain unresolved legacy tax matters for which the Company has made indemnifications to Tyco International and Covidien resulted in a fair value of the FIN 45 liability of $296 million. During the first quarter of fiscal 2008, the Company, while assessing its income tax positions under FIN 48, decreased this liability by $14 million to $282 million and recorded the adjustment to other income on the Condensed Consolidated and Combined Statement of Operations. This liability under FIN 45 consists of two components. The first component is a SFAS No. 5, "*Accounting for Contingencies*," liability that represents the asserted liabilities that either Tyco International or Covidien have determined to be probable and estimable totaling $184 million. The remaining $98 million represents the fair value of the 31% indemnification made to Tyco International and Covidien under the Tax Sharing Agreement.

In disposing of assets or businesses, the Company often provides representations, warranties, and/or indemnities to cover various risks including unknown damage to the assets, environmental risks involved in the sale of real estate, liability for investigation and remediation of environmental contamination at waste disposal sites and manufacturing facilities, and unidentified tax liabilities and legal fees related to periods prior to disposition. The Company does not have the ability to estimate the potential liability from such indemnities because they relate to unknown conditions. However, the Company has no reason to believe that these uncertainties would have a material adverse effect on the Company's results of operations, financial position, or cash flows.

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NOTES TO CONDENSED CONSOLIDATED AND

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9. Guarantees (Continued)

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

The Company generally records estimated product warranty costs at the time of sale. The changes in the Company's warranty liability for the quarters and six months ended March 28, 2008 and March 30, 2007 were as follows:

	For the Quarters Ended		For the Six Months Ended	
	March 28, 2008	March 30, 2007	March 28, 2008	March 30, 2007
	(in millions)			
Balance at beginning of period	$ 24	$ 21	$ 23	$ 25
Warranties issued	2	1	3	2
Warranty expirations and changes in estimate	1		2	(4)
Settlements	(1)	(1)	(2)	(2)
Balance at end of period	$ 26	$ 21	$ 26	$ 21

10. Retirement Plans

The net periodic benefit cost (credit) for all U.S. and non-U.S. defined benefit pension plans and postretirement benefit plans in the quarters ended March 28, 2008 and March 30, 2007 was as follows:

	Defined Benefit Pension Plans				Postretirement Benefit Plans	
	U.S. Plans		Non-U.S. Plans			
	For the Quarters Ended		For the Quarters Ended		For the Quarters Ended	
	March 28, 2008	March 30, 2007	March 28, 2008	March 30, 2007	March 28, 2008	March 30, 2007
	(in millions)					
Service cost	$ 2	$ 1	$ 15	$ 14	$	$
Interest cost	14	14	20	17	1	1
Expected return on plan assets	(18)	(19)	(18)	(14)		
Amortization of net actuarial loss	1	4	2	4		
Settlement gain			(1)			
Net periodic benefit cost (credit)	$ (1)	$	$ 18	$ 21	$ 1	$ 1

TYCO ELECTRONICS LTD.

NOTES TO CONDENSED CONSOLIDATED AND

COMBINED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

10. Retirement Plans (Continued)

The net periodic benefit cost (credit) for all U.S. and non-U.S. defined benefit pension plans and postretirement benefit plans in the six months ended March 28, 2008 and March 30, 2007 was as follows:

	Defined Benefit Pension Plans				Postretirement Benefit Plans	
	U.S. Plans		Non-U.S. Plans			
	For the Six Months Ended		For the Six Months Ended		For the Six Months Ended	
	March 28, 2008	March 30, 2007	March 28, 2008	March 30, 2007	March 28, 2008	March 30, 2007
	(in millions)					
Service cost	$ 3	$ 2	$ 30	$ 29	$	$
Interest cost	28	28	40	34	2	2
Expected return on plan assets	(37)	(37)	(36)	(29)		
Amortization of net actuarial loss	3	6	4	9		
Settlement gain			(2)			
Net periodic benefit cost (credit)	$ (3)	$ (1)	$ 36	$ 43	$ 2	$ 2

The Company anticipates that, at a minimum, it will make the minimum required contributions to its pension plans in fiscal 2008 of $4 million for U.S. plans and $66 million for non-U.S. plans. During the six months ended March 28, 2008, the Company contributed $35 million to its U.S. and non-U.S. plans.

The Company expects to make contributions to its postretirement benefit plans of $3 million in fiscal 2008. During the six months ended March 28, 2008, the Company contributed $2 million to its postretirement benefit plans.

11. Financial Instruments

Foreign Exchange Risks

As part of managing the exposure to changes in foreign currency exchange rates, the Company utilizes foreign exchange forwards and swaps. The objective of these contracts is to minimize impacts to cash flows and profitability due to changes in foreign currency exchange rates on intercompany transactions, accounts receivable, accounts payable, and forecasted cash transactions. These contracts are recorded at fair value with changes in the derivatives' fair value recognized currently in earnings as selling, general, and administrative expenses in the Condensed Consolidated and Combined Statements of Operations. At March 28, 2008, the Company had net liabilities of $1 million on the Condensed Consolidated Balance Sheet related to these transactions.

Interest Rate Risk Management

The Company issues debt, from time to time, in capital markets to fund its operations. Such borrowings can result in interest rate and/or currency exposure. To manage these exposures and to minimize overall interest cost, the Company has used, and may use in the future, interest rate swaps to convert a portion of its fixed-rate debt into variable rate debt (fair value hedges) and/or convert a

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NOTES TO CONDENSED CONSOLIDATED AND

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11. Financial Instruments (Continued)

portion of its variable rate debt into fixed-rate debt (cash flow hedges). As of and during the six months ended March 28, 2008, the Company had one outstanding interest rate swap designated as a fair value hedge with an expiration date in 2017. Under this agreement, the Company receives fixed rates of interest of 6.55% and pays floating rates of interest based on six month LIBOR. As of March, 28, 2008, the Company's interest rate swap was in a net gain position of an insignificant amount. The changes in fair value of both the interest rate swap agreement and the underlying debt obligation were recorded in interest expense and were directly offsetting.

During fiscal 2007, in anticipation of issuing new fixed rate debt, the Company entered into, and concurrent with the Company's fixed-rate debt issuance, terminated, forward starting interest rate swaps to hedge the variability in interest expense that would result from changes in interest rates between the date of the swap and the Company's anticipated date of issuing fixed-rate debt. These forward starting interest rate swaps were designated as effective hedges of the probable interest payments under SFAS No. 133, "*Accounting for Derivative Financial Instruments and Hedging Activities*." Upon the issuance of the Company's senior notes in September 2007, these swaps were terminated for a cash payment of $54 million. The effective portion of these swaps of $53 million was recorded in accumulated other comprehensive income and is recognized in earnings as interest expense over the remaining term of the related debt instruments. In the quarter and six months ended March 28, 2008, the Company recognized $1 million and $3 million, respectively, of interest expense relating to the swaps in the Condensed Consolidated and Combined Statement of Operations.

Hedge of Net Investment

The Company hedges its net investments in certain foreign operations using intercompany non-derivative financial instruments denominated in the same currencies. The aggregate notional value of these hedges was $2.5 billion at March 28, 2008. As a result of the hedges of net investments, $228 million and $337 million of foreign exchange loss was recorded as currency translation, a component of accumulated other comprehensive income, in the quarter and six months ended March 28, 2008, respectively. The Company did not hedge net investments in foreign operations during the quarter and six months ended March 30, 2007.

12. Commitments and Contingencies

General Matters

At March 28, 2008, the Company had a contingent purchase price commitment of $80 million related to the fiscal 2001 acquisition of Com-Net by the Wireless Systems segment. This represents the maximum amount payable to the former shareholders of Com-Net only after the construction and installation of a communications system for the State of Florida is finished and the State has approved the system based on the guidelines set forth in the contract. A liability for this contingency has not been recorded in the Company's Condensed Consolidated and Combined Financial Statements as the outcome of this contingency currently is not estimable.

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

12. Commitments and Contingencies (Continued)

Environmental Matters

The Company is involved in various stages of investigation and cleanup related to environmental remediation matters at a number of sites. The ultimate cost of site cleanup is difficult to predict given the uncertainties regarding the extent of the required cleanup, the interpretation of applicable laws and regulations, and alternative cleanup methods. As of March 28, 2008, the Company concluded that it was probable that it would incur remedial costs in the range of approximately $12 million to $24 million. As of March 28, 2008, the Company concluded that the best estimate within this range is approximately $16 million, of which $3 million is included in accrued and other current liabilities and $13 million is included in other liabilities on the Condensed Consolidated Balance Sheet. In view of the Company's financial position and reserves for environmental matters of $16 million, the Company believes that any potential payment of such estimated amounts will not have a material adverse effect on its results of operations, financial position, or cash flows.

Tyco Electronics Legal Proceedings

Intellectual Property and Antitrust Litigation

The Company is a party to a number of patent infringement and antitrust actions that may require the Company to pay damage awards. The Company has assessed the status of these matters and has recorded liabilities related to certain of these matters where appropriate.

Other Matters

The Company is a defendant in a number of other pending legal proceedings incidental to present and former operations, acquisitions, and dispositions. The Company does not expect the outcome of these proceedings, either individually or in the aggregate, to have a material adverse effect on its results of operations, financial position, or cash flows.

Tyco International Legal Proceedings

As a part of the Separation and Distribution Agreement entered into upon Separation, any existing or potential liabilities related to Tyco International's outstanding litigation were assigned to the Company if Tyco Electronics was specifically identified in the lawsuit. However, any existing or potential liabilities that could not be associated with Tyco Electronics were allocated appropriately and post-separation sharing agreements were established. See "Part I. Item 3. Legal Proceedings" of the Company's Annual Report on Form 10-K for the fiscal year ended September 28, 2007, as supplemented by "Part II. Item 1. Legal Proceedings" of the Company's Quarterly Report on Form 10-Q for the quarterly period ended December 28, 2007 and in this report for a description of Tyco International's various significant outstanding litigation proceedings. Tyco Electronics will be responsible for certain potential liabilities that may arise upon the settlement of the pending litigation based on the Separation and Distribution Agreement. If Tyco International or Covidien were to default on their obligation to pay their allocated share of these liabilities, however, the Company would be required to pay additional amounts.

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NOTES TO CONDENSED CONSOLIDATED AND

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12. Commitments and Contingencies (Continued)

Securities Class Actions and Class Action Settlement

As a result of actions taken by certain of Tyco International's former senior corporate management, Tyco International, some members of Tyco International's former senior corporate management, former members of Tyco International's board of directors, Tyco International's former General Counsels and former Chief Financial Officer, and Tyco International's current Chief Executive Officer are named as defendants in a number of purported class actions alleging violations of the disclosure provisions of the federal securities laws. In addition, Tyco International, certain of its current and former employees, some members of its former senior corporate management, and some former members of its board of directors also are named as defendants in several Employee Retirement Income Security Act ("ERISA") class actions. Tyco International is generally obligated to indemnify its directors and officers and its former directors and officers who are named as defendants in some or all of these matters to the extent required by Bermuda law. In addition, Tyco International's insurance carriers may decline coverage, or Tyco International's coverage may be insufficient to cover its expenses and liability, in some or all of these matters.

On December 19, 2007, the United States District Court for the District of New Hampshire entered a final order approving the settlement of 32 purported securities class action lawsuits. All legal contingencies that could have affected the final order approving the settlement expired on February 21, 2008.

The settlement did not resolve all securities cases, and several remain outstanding. In addition, the proposed settlement did not resolve claims arising under ERISA and the lawsuits arising thereunder. If the unresolved securities proceedings, including the opt-out cases described below, were to be determined adversely to Tyco International, the Company's share of any additional potential losses, which are not presently estimable, may have a material adverse effect on the Company's results of operations, financial position, or cash flows.

Under the terms of the settlement, the plaintiffs agreed to release all claims against Tyco International, the other settling defendants, and ten other individuals in consideration for the payment of $2,975 million from Tyco International to the certified class.

The deadline for deciding not to participate in the class settlement was September 28, 2007. As of such date, Tyco International received opt-out notices from individuals and entities totaling approximately 4% of the shares owned by class members. A number of these individuals and entities have filed claims separately against Tyco International and/or Tyco International, Covidien, and the Company. Any judgments resulting from such claims, or from claims that are filed in the future, would not reduce the settlement amount. Generally, the claims asserted by these plaintiffs include claims similar to those asserted by the settling plaintiffs; namely, violations of the disclosure provisions of federal securities laws. Tyco International has advised the Company that it intends to vigorously defend any litigation resulting from opt-out claims. It is not possible at this time to predict the final outcome or to estimate the amount of loss or range of possible loss, if any, that might result from an adverse resolution of the asserted or unasserted claims from individuals that have opted out.

Under the terms of the Separation and Distribution Agreement entered into in connection with the Separation, each of Tyco International, Covidien, and the Company are jointly and severally liable for the full amount of the class action settlement and any judgments resulting from opt-out claims.

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NOTES TO CONDENSED CONSOLIDATED AND

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12. Commitments and Contingencies (Continued)

Additionally, under the Separation and Distribution Agreement, the companies share in the liability and related escrow account, with Tyco International assuming 27%, Covidien 42%, and Tyco Electronics 31% of the settlement amount.

In the third quarter of fiscal 2007, the Company was allocated a charge from Tyco International of $922 million, for which no tax benefit was available. The portion allocated to the Company was consistent with the sharing percentage included in the Separation and Distribution Agreement. Tyco International placed funds in escrow for the benefit of the class. The escrow account earned interest that is payable to the class. In addition, interest was accrued on the class action settlement liability. At September 28, 2007, the Company reflected $928 million on the Condensed Consolidated Balance Sheet for its portion of the escrow. In addition, the Company reflected a $2,992 million liability and a $2,064 million receivable from Tyco International and Covidien for their portion of the liability at September 28, 2007.

Since all legal contingencies that could have affected the settlement were exhausted on February 21, 2008, the administration and distribution of the settlement funds in escrow are now managed by the counsel of the certified class and the Company, Tyco International, and Covidien are not subject to any further liability related to the class action settlement. The finalization of the settlement in February 2008 resulted in the extinguishment of the Company's class action settlement liability of $3,020 million, interest in the escrow of $936 million, and class action settlement receivable of $2,084 million from the Condensed Consolidated Balance Sheet in the second quarter of fiscal 2008. The finalization of the class action settlement resulted in a decrease to cash flows from operating activities and an increase to cash flows from investing activities during the second quarter of fiscal 2008. It did not affect the cash balance on the Condensed Consolidated Balance Sheet because the Company had previously fully funded its portion of the class action settlement into an escrow account intended to be used to settle the liability, as mentioned above.

Settlement of Securities Proceeding Not Covered by the Class Action Settlement

On April 29, 2008, Tyco International signed a definitive agreement with the State of New Jersey, on behalf of several of the State's pension funds, to settle the action captioned *New Jersey v. Tyco International Ltd., et al.*, brought by the State in 2002 in the United States District Court for the District of New Jersey against Tyco International, its former auditors, and certain of its former officers and directors, alleging that the defendants had, among other things, violated federal and state securities and other laws through the unauthorized and improper actions of Tyco International's former management. This is one of the lawsuits not covered by the securities class action settlement discussed above.

The agreement with the State of New Jersey provides for Tyco International to make a payment of $73 million to the plaintiffs in exchange for the plaintiffs' agreement to dismiss the case and release all claims asserted or which might have been asserted therein. In the second quarter of fiscal 2008, the Company recorded a charge of $23 million, for which no tax benefit was available. The charge represents the Company's share of the settlement costs in accordance with the sharing percentages included in the Separation and Distribution Agreement. At March 28, 2008, the Company's Condensed Consolidated Balance Sheet reflected a $73 million liability in accrued and other current liabilities and a $50 million receivable in prepaid expenses and other current assets from Tyco International and

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NOTES TO CONDENSED CONSOLIDATED AND

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12. Commitments and Contingencies (Continued)

Covidien for their portion of the liability. Payment of the settlement amount is to be made on or before June 2, 2008. Upon the full execution of the definitive agreement by each of the other defendants party thereto, the parties will file the agreed upon order of dismissal with the court, the entry of which will dismiss the litigation with prejudice. The Company expects that Tyco International will pay the full amount of the settlement to the State and that the Company and Covidien will concurrently submit payment to Tyco International.

Investigations

Tyco International and others have received various subpoenas and requests from the SEC's Division of Enforcement, the U.S. Department of Labor, the General Service Administration, and others seeking the production of voluminous documents in connection with various investigations into Tyco International's governance, management, operations, accounting, and related controls. The Department of Labor is investigating Tyco International and the administrators of certain of its benefit plans. Tyco International has advised the Company that it cannot predict when these investigations will be completed, nor can it predict what the results of these investigations may be. It is possible that Tyco International will be required to pay material fines or suffer other penalties and pursuant to the liability sharing provisions of the Separation and Distribution Agreement, a portion of such payments may be allocated to the Company. It is not possible to estimate the amount of loss, or range of possible loss, if any, that might result from an adverse resolution of these matters. As a result, Tyco Electronics share of such potential losses also is not estimable and may have a material adverse effect on its results of operations, financial position, or cash flows.

Compliance Matters

Tyco International has received and responded to various allegations that certain improper payments were made by Tyco International subsidiaries, including Tyco Electronics subsidiaries, in recent years. Tyco International has reported to the U.S. Department of Justice ("DOJ") and the SEC the investigative steps and remedial measures that it had taken in response to the allegations. Tyco International also informed the DOJ and the SEC that it retained outside counsel to perform a company-wide baseline review of its policies, controls, and practices with respect to compliance with the Foreign Corrupt Practices Act ("FCPA"), that it would continue to make periodic progress reports to these agencies, and that it would present its factual findings upon conclusion of the baseline review. Tyco International and Tyco Electronics have had communications with the DOJ and SEC to provide updates on the baseline review being conducted by outside counsel, including, as appropriate, briefings concerning additional instances of potential improper payments identified by Tyco International and the Company in the course of the Company's ongoing compliance activities. To date, the baseline review by the Company has revealed that some business practices may not comply with FCPA requirements. At this time, the Company cannot predict the outcome of these matters and other allegations reported to regulatory and law enforcement authorities and therefore cannot estimate the range of potential loss or extent of risk, if any, that may result from an adverse resolution of these matters. However, it is possible that the Company may be required to pay judgments, suffer penalties, or incur settlements in amounts that may have a material adverse effect on its results of operations, financial position, or cash flows. Any judgment, settlement, or other cost incurred by Tyco International in connection with these matters would be subject to the liability sharing provisions of the Separation and Distribution

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NOTES TO CONDENSED CONSOLIDATED AND

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12. Commitments and Contingencies (Continued)

Agreement, which provides that any liabilities not primarily related to any of the businesses of Tyco International, Covidien, or Tyco Electronics will be shared equally among the companies.

Income Taxes

The Company and its subsidiaries' income tax returns are periodically examined by various tax authorities. In connection with these examinations, tax authorities, including the Internal Revenue Service ("IRS"), have raised issues and proposed tax adjustments. The Company and Tyco International are reviewing and contesting certain of the proposed tax adjustments. Amounts related to these tax adjustments and other tax contingencies and related interest that management has assessed under the provisions of FIN 48, which relate specifically to Tyco Electronics entities, have been recorded in the Company's Condensed Consolidated and Combined Financial Statements. In addition, the Company may be required to pay additional taxes for contingencies not related to the Company's businesses as a result of the Tax Sharing Agreement with Tyco International and Covidien entered into upon Separation.

During fiscal 2007, the IRS concluded its field examination of certain of Tyco International's U.S. federal income tax returns for the years 1997 through 2000 and issued anticipated Revenue Agent Reports which reflect the IRS' determination of proposed tax adjustments for the periods under audit. Tyco International has agreed with the IRS on adjustments totaling $498 million. It is the Company's understanding that Tyco International has appealed other proposed adjustments totaling approximately $1 billion and is vigorously defending its prior filed tax return positions. Additionally, the IRS proposed civil fraud penalties against Tyco International arising from alleged actions of former executives in connection with certain intercompany transfers of stock in 1998 and 1999. Any penalty imposed would be subject to sharing with Tyco International and Covidien under the Tax Sharing Agreement. It is the Company's understanding that Tyco International is vigorously opposing the assertion of any such penalties. The Company continues to believe that the amounts recorded on its Condensed Consolidated Financial Statements relating to these matters are sufficient. However, the ultimate resolution is uncertain and, should Tyco International lose its appeal, it could result in a material impact to the Company's results of operations, financial position, or cash flows.

In prior years, in connection with the IRS audit of the fiscal 1997 through 2000 years, Tyco International submitted to the IRS proposed adjustments to these prior period U.S. federal income tax returns. During fiscal 2006, the IRS accepted substantially all of the proposed adjustments. Also during fiscal 2006, Tyco International developed proposed amendments to U.S. federal income tax returns for additional periods through fiscal 2002. Tyco International continues to complete proposed adjustments to the remainder of its U.S. federal income tax returns. In the second quarter of fiscal 2008, certain proposed adjustments to U.S. federal income tax returns were completed by Tyco International and presented to the IRS. The Company recorded the tax impacts of these adjustments in the second quarter of fiscal 2008 which resulted in an $85 million net decrease in income tax liabilities, a $17 million net decrease in deferred tax assets, a $47 million decrease in the receivable from Tyco International and Covidien recorded in connection with the Tax Sharing Agreement, and a $21 million net increase in contributed surplus. As the Company's tax return positions continue to be updated, additional adjustments may be identified and recorded in the Consolidated Financial Statements. While the final adjustments cannot be determined until the income tax return amendment process is completed, the Company believes that any resulting adjustments will not have a material impact on its

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NOTES TO CONDENSED CONSOLIDATED AND

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12. Commitments and Contingencies (Continued)

results of operations, financial condition, or cash flows. Additionally, adjustments may be recorded to shareholders' equity in the future for the impact of filing final or amended income tax returns in certain jurisdictions where those returns include a combination of Tyco International, Covidien, and/or the Company's legal entities for the periods prior to the Separation.

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

Pursuant to the Separation and Distribution Agreement and Tax Sharing Agreement, upon Separation, the Company has entered into certain guarantee commitments and indemnifications with Tyco International and Covidien. Under these agreements, principally the Tax Sharing Agreement, Tyco International, Covidien, and Tyco Electronics share 27%, 42%, and 31%, respectively, of certain contingent liabilities relating to unresolved tax matters of legacy Tyco International. The effect of the Tax Sharing Agreement is to indemnify the Company for 69% of certain liabilities settled by the Company with respect to unresolved legacy tax matters. Pursuant to that indemnification, the Company has made similar indemnifications to Tyco International and Covidien with respect to 31% of certain liabilities settled by the companies with respect to unresolved legacy tax matters. If any of the companies responsible for all or a portion of such liabilities were to default in its payment of costs or expenses related to any such liability, the Company would be responsible for a portion of the defaulting party or parties' obligation.

See Note 13 for additional information regarding income taxes and the adoption of FIN 48.

13. Income Taxes

Effective September 29, 2007, the beginning of fiscal 2008, the Company adopted FIN 48. As a result of adopting FIN 48, the Company recorded a net increase in contingent tax liabilities of $1,282 million, an increase in deferred tax assets of $647 million, and a corresponding decrease in the opening balance of accumulated earnings of $635 million. Furthermore, pursuant to the Tax Sharing Agreement, certain contingent tax liabilities related to unresolved tax matters are subject to sharing between Tyco International, Covidien, and the Company. See Note 12 for additional information regarding responsibilities for unresolved legacy tax matters. Tyco International and Covidien would be contractually obligated for $558 million of the Company's net increase in contingent tax liabilities recorded in connection with its adoption of FIN 48. Accordingly, the Company recorded this amount in the first quarter of fiscal 2008 as other income and recorded the related increase in the receivable from Tyco International and Covidien for shared contingent tax liabilities. In addition, as a result of the adoption of FIN 48, the Company reassessed and decreased its FIN 45 liability to Tyco International and Covidien and recorded $14 million of other income. See Note 9 for additional information

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13. Income Taxes (Continued)

regarding the Company's indemnifications under the Tax Sharing Agreement. These adjustments are summarized in the following table:

Adoption of FIN 48 and Related Tax Sharing Agreement Income:

	Adjustment to Opening Balance of Accumulated Earnings	Tax Sharing Income
	(in millions)	
Contingent tax liabilities	$ (1,282)	$ 558
Deferred tax assets	647	
FIN 45		14
	$ (635)	$ 572

As of September 29, 2007, the Company had total unrecognized tax benefits of $1,906 million. If recognized in future periods, $1,860 million of these currently unrecognized tax benefits would impact the income tax provision and effective tax rate. The remaining $46 million is associated with discontinued operations.

The Company records accrued interest as well as penalties related to uncertain tax positions as part of the provision for income taxes. As of September 29, 2007, the Company had recorded $1,092 million of accrued interest and penalties related to uncertain tax positions on the Condensed Consolidated Balance Sheet. During the quarter and six months ended March 28, 2008, the Company recognized $30 million and $80 million, respectively, of interest and penalties on the Condensed Consolidated and Combined Statement of Operations. As of March 28, 2008, the balance of accrued interest and penalties is $1,116 million, which is recorded in income taxes in the Condensed Consolidated Balance Sheet.

In fiscal 2007, the IRS concluded its field examination of certain of Tyco International's U.S. federal income tax returns for the years 1997 through 2000. Tyco International is in the process of appealing certain tax adjustments proposed by the IRS related to this period. In the second quarter of fiscal 2008, the IRS commenced its field examination of certain Tyco International U.S. federal income tax returns for the years 2001 through 2004. Tyco International's U.S. federal tax filings for years subsequent to 2004 also remain open to examination by the IRS. See Note 12 for additional information regarding the status of IRS examinations.

The Company files income tax returns on a combined, unitary, or stand-alone basis in multiple state and local jurisdictions, which generally have statutes of limitations ranging from 3 to 5 years. Various state and local income tax returns are currently in the process of examination or administrative appeal.

The Company's non-U.S. subsidiaries file income tax returns in the countries in which they have operations. Generally, these countries have statutes of limitations ranging from 3 to 7 years.

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13. Income Taxes (Continued)

As of September 29, 2007, under applicable statutes, the following tax years remained subject to examination in the major tax jurisdictions indicated:

Jurisdiction	Open Years
Belgium	2005 through 2007
Brazil	2003 through 2007
Canada	2001 through 2007
China	2002 through 2007
Czech Republic	2003 through 2007
France	2002 through 2007
Germany	2003 through 2007
Hong Kong	2001 through 2007
India	2001 through 2007
Italy	2002 through 2007
Japan	2001 through 2007
Korea	2002 through 2007
Luxembourg	2007
Netherlands	2006 through 2007
Portugal	2004 through 2007
Singapore	1996 through 2007
Spain	2003 through 2007
Switzerland	2006 through 2007
United Kingdom	2001 through 2007
United States, federal, and state and local	1991 through 2007

In most jurisdictions, taxing authorities retain the ability to review prior tax years and to adjust any net operating loss and tax credit carryforwards from these years that are utilized in a subsequent period.

Although it is not possible to predict the timing or results of these pending examinations, the Company currently does not anticipate there will be significant changes in the next twelve months to the amount of unrecognized tax benefits inherent in the Company's Condensed Consolidated Balance Sheet as of March 28, 2008.

14. Other Income

In the quarter and six months ended March 28, 2008, the Company recorded other income of $13 million and $605 million, respectively, pursuant to the Tax Sharing Agreement with Tyco International and Covidien. In the first quarter of fiscal 2008, $572 million ($1.16 for both basic and diluted earnings per share in the six months ended March 28, 2008) of the amount recorded in other income related to certain incremental tax liabilities recorded by the Company upon the adoption of FIN 48. See Notes 2 and 13 for additional information regarding the adoption of FIN 48. See Note 12 for further information regarding the Tax Sharing Agreement.

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15. Shareholders' Equity

Dividends

In March 2008, the Company's board of directors declared a regular quarterly cash dividend of $0.14 per common share to be paid on May 6, 2008. The declared but unpaid dividend is recorded in accrued and other current liabilities on the Condensed Consolidated Balance Sheet at March 28, 2008.

Share Repurchase Program

In September 2007, the Company's board of directors authorized a share repurchase program of $750 million to purchase a portion of the Company's outstanding common shares. In March 2008, the Company's board of directors authorized an increase in the share repurchase program from $750 million to $1.25 billion. In the first six months of fiscal 2008, the Company repurchased approximately 17 million common shares for $607 million under this program, of which $592 million was paid as of March 28, 2008.

16. Comprehensive Income

Comprehensive income consisted of the following:

	For the Quarters Ended		For the Six Months Ended	
	March 28, 2008	March 30, 2007	March 28, 2008	March 30, 2007
	(in millions)			
Net income	$ 301	$ 277	$ 1,250	$ 558
Currency translation	210	38	233	258
Unrealized loss on marketable securities, net of income taxes		(1)		(1)
Gain on cash flow hedge	1		3	
Amortization of unrecognized pension and postretirement benefit costs, net of income taxes	2	(34)	3	(34)
Total comprehensive income	$ 514	$ 280	$ 1,489	$ 781