

EATON CORP
Form 10-K
February 26, 2010

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K**

**Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the year ended December 31, 2009
Commission file number 1-1396
EATON CORPORATION**

(Exact name of registrant as specified in its charter)

Ohio

34-0196300

(State or other jurisdiction of
incorporation or organization)

(IRS Employer Identification Number)

Eaton Center
Cleveland, Ohio

44114-2584

(Address of principal executive offices)

(Zip code)

(216) 523-5000

(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Share (\$.50 par value)	The New York Stock Exchange The Chicago Stock Exchange

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes No

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 and (2) has been subject to such filing requirements for the past ninety 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer, and smaller reporting

company in Rule
12b-2 of the Exchange Act (Check one):

Large accelerated filer 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 Act). Yes No

The aggregate market value of Common Stock held by non-affiliates of the registrant as of June 30, 2009 was \$7.4 billion.

As of January 31, 2010, there were 166.4 million Common Shares outstanding.

Documents Incorporated By Reference

Portions of the Proxy Statement for the 2010 annual shareholders meeting are incorporated by reference into Part III.

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Eaton Corporation is a diversified power management company with 2009 sales of \$11.9 billion. Eaton is a global technology leader in electrical components and systems for power quality, distribution and control; hydraulics components, systems and services for industrial and mobile equipment; aerospace fuel, hydraulics and pneumatic systems for commercial and military use; and truck and automotive drivetrain and powertrain systems for performance, fuel economy and safety. Eaton has approximately 70,000 employees in over 50 countries, and sells products to customers in more than 150 countries.

Eaton electronically files or furnishes reports pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (Exchange Act) to the United States Securities and Exchange Commission (SEC), including annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and proxy and information statements, as well as any amendments to those reports. As soon as reasonably practicable, these reports are available free of charge through the Company's Internet web site at <http://www.eaton.com>. These filings are also accessible on the SEC's Internet web site at <http://www.sec.gov>.

In 2009, Eaton acquired a business and entered into a joint venture for combined net cash purchase prices of \$10. The Statements of Consolidated Income include the results of these businesses from the dates of acquisition or formation. A summary of these transactions follows:

Acquired business	Date of acquisition	Business segment	Annual sales
Micro Innovation Holding AG <i>A Switzerland-based manufacturer of human machine interfaces, programmable logic controllers and input/output devices. Eaton acquired the remaining shares to increase its ownership from 50% to 100%.</i>	September 1, 2009	Electrical Rest of World	\$33 for 2008
SEG Middle East Power Solutions & Switchboard Manufacture LLC <i>A 49%-owned joint venture to manufacture low voltage switchboards and control panel assemblies for use in the Middle East power generation and industrial markets</i>	July 2, 2009	Electrical Rest of World	\$10 for 2008

Business Segment Information

Information by business segment and geographic region regarding principal products, principal markets, methods of distribution, net sales, operating profit and assets is presented in Business Segment & Geographic Region Information on pages 48 through 52. Additional information regarding Eaton's segments and business is presented below.

Electrical Americas and Electrical Rest of World

Seasonal Fluctuations In normal economic cycles, sales of these segments are historically lower in the first quarter and higher in the third and fourth quarters of a year.

Significant Customers Approximately 11% of the sales of the Electrical Americas segment in 2009 were made to one large distributor of electrical products.

Competition Principal methods of competition in these segments are performance of products and systems, technology, customer service and support, and price. Eaton has a strong competitive position in relation to the many competitors in this segment and, with respect to many products, is considered among the market leaders.

Hydraulics

Seasonal Fluctuations Sales of this segment are historically higher in the first and second quarters and lower in the third and fourth quarters of the year.

Competition Principal methods of competition in this segment are product performance, geographic coverage, service and price. Eaton has a strong competitive position in relation to the many competitors in this segment and, with

respect to many products, is considered among the market leaders.

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Aerospace

Significant Customers Approximately 13% of this segment's sales in 2009 were made to one large manufacturer of aircraft.

Competition Principal methods of competition in this segment are total cost of ownership, product and system performance, quality, design engineering capabilities and timely delivery. Eaton has a strong competitive position in relation to the many competitors in this segment and, with respect to many products and platforms, is considered among the market leaders.

Truck

Significant Customers Approximately 54% of this segment's sales in 2009 were made to four large manufacturers of heavy-, medium-, and light-duty trucks and off-highway vehicles.

Competition Principal methods of competition in this segment are product performance, service and price. Eaton has a strong competitive position in relation to the many competitors in this segment and, with respect to many products, is considered among the market leaders.

Automotive

Seasonal Fluctuations Sales of this segment historically are lower in the third quarter of the year as a result of the normal seasonal pattern of automotive industry production.

Significant Customers Approximately 29% of this segment's sales in 2009 were made to two large manufacturers of vehicles.

Competition Principal methods of competition in this segment are product performance, service and price. Eaton has a strong competitive position in relation to the many competitors in this segment and, with respect to many products, is considered among the market leaders.

Information Concerning Eaton's Business in General

Raw Materials - Eaton's major requirements for raw materials include iron, steel, copper, nickel, aluminum, brass, silver, molybdenum, titanium, vanadium, rubber, plastic and insulating materials. Materials are purchased in various forms, such as extrusions, castings, powder metal, metal sheets and strips, forging billets, bar stock and plastic pellets. Raw materials, as well as parts and other components, are purchased from many suppliers and, under normal circumstances, the Company had no difficulty obtaining them. In 2009, prices decreased for some basic metals purchased by Eaton through the second quarter, with some prices rising during the second half of 2009 due to optimism that the global economic slow down was over and recovery was beginning. The Company maintained appropriate levels of inventory to guard against basic metals shortages, and did not experience any general availability constraints in 2009.

Patents and Trademarks - Eaton views its name and mark as significant to its business as a whole. Eaton's products are marketed with a portfolio of patents, trademarks, licenses or other forms of intellectual property that expire at various dates in the future. Eaton develops and acquires new intellectual property on an ongoing basis and considers all of its intellectual property to be valuable. Based on the broad scope of Eaton's product lines, management believes that the loss or expiration of any single intellectual property right would not have a material effect on the results of operations or financial position of Eaton or its business segments. Eaton's policy is to file applications and obtain patents for its new products including product modifications and improvements.

Order Backlog - Since a significant portion of open orders placed with Eaton by original equipment manufacturers of trucks, off-highway vehicles and passenger cars are historically subject to month to month releases by customers during each model year, these orders are not considered firm. In measuring backlog of orders, the Company includes only the amount of those orders to which customers are firmly committed as of the dates listed. Using this criterion, total backlog at December 31, 2009 and 2008 was approximately \$2.7 billion and \$3.2 billion, respectively. Backlog should not be relied upon as being indicative of results of operations for future periods.

Research and Development - Research and development expenses (in millions) for new products and improvement of existing products in 2009, 2008 and 2007 were \$395, \$417 and \$335, respectively. Over the past five years, the Company has invested approximately \$1.7 billion in research and development.

Protection of the Environment - Operations of the Company involve the use and disposal of certain substances regulated under environmental protection laws. Eaton continues to modify certain processes on an ongoing, regular

basis in order to reduce the impact on the environment, including the reduction or elimination of certain chemicals used in, and wastes generated from, operations. Compliance with Federal, State and local provisions which have been enacted or adopted regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, are not expected to have a material adverse effect upon earnings or the competitive position of the Company. Eaton's estimated capital expenditures for environmental control facilities are not expected to be material for 2010 and 2011. Information regarding the Company's liabilities related to environmental matters is presented in Protection of the Environment & Sustainability on page 38.

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Foreign Operations - Financial information related to Eaton's foreign operations is presented in Geographic Region Information on page 50. Information regarding risks that may affect Eaton's foreign operations is presented in Item 1A of this Form 10-K Report.

Item 1A. Risk Factors.

Among the risks that could materially adversely affect Eaton's businesses, financial condition or results of operations are the following:

Uncertainty regarding the rate of recovery in the global end markets that Eaton serves.

As a result of the global economic downturn, Eaton's end markets significantly declined during the first half of 2009. While most of Eaton's markets have begun to recover, certain markets that are characterized as late cycle markets are still declining. While Eaton remains optimistic about a global economic recovery, there is still substantial uncertainty about the rate of that recovery.

Eaton's segment revenues, operating results and profitability have varied in the past and may vary from quarter to quarter in the future. Profitability can be negatively impacted by volatility in the end markets that Eaton serves. The Company has undertaken measures to reduce the impact of this volatility through diversification of markets it serves and expansion of geographic regions in which it operates. Future downturns in any of the markets that Eaton serves could adversely affect the Company's revenues, operating results and profitability.

Eaton's operating results depend in part on continued successful research, development and marketing of new and/or improved products and services, and there can be no assurance that Eaton will continue to successfully introduce new products and services.

The success of new and improved products and services depends on their initial and continued acceptance by Eaton's customers. The Company's businesses are affected, to varying degrees, by technological change and corresponding shifts in customer demand, which could result in unpredictable product transitions or shortened life cycles. Eaton may experience difficulties or delays in the research, development, production or marketing of new products and services which may prevent Eaton from recouping or realizing a return on the investments required to bring new products and services to market. The end result could be a negative impact on the Company's operating results.

Eaton's operations depend on production facilities throughout the world, many of which are located outside the United States and are subject to greater risks of disrupted production.

Eaton manages businesses with manufacturing facilities worldwide. In recent years, the Company's operations outside the United States have increased significantly in relative size in comparison to its total operations. The Company's manufacturing facilities and operations could be disrupted by a natural disaster, or labor strike, war, political unrest, terrorist activity or public health concerns. Some of Eaton's non-United States manufacturing facilities also may be more susceptible to economic and political upheaval than Eaton's United States facilities. Any such disruption could cause delays in shipments of products and the loss of sales and customers, and insurance proceeds may not adequately compensate the Company for the losses.

Eaton's substantial foreign sales subject it to economic risk as Eaton's results of operations may be adversely affected by changes in local government regulations and policies and foreign currency fluctuations.

As noted above in Item 1 Foreign Operations, a significant portion of Eaton's sales are to customers outside the United States, and the Company expects sales in foreign markets to continue to represent a significant portion of its total sales. Foreign sales and operations are subject to changes in local government regulations and policies, including those related to tariffs and trade barriers, investments, property ownership rights, taxation, exchange controls and repatriation of earnings. Changes in the relative values of currencies occur from time to time and could affect Eaton's operating results. While the Company monitors exchange rate exposures and attempts to reduce these exposures through hedging activities, these risks could adversely affect the Company's operating results.

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Eaton uses a variety of raw materials and components in its businesses, and significant shortages, price increases or suppliers insolvencies could increase operating costs and adversely impact the competitive positions of Eaton's products.

Eaton's major requirements for raw materials are described above in Item 1 "Raw Materials". Significant shortages could affect the prices Eaton's affected businesses are charged and the competitive position of their products and services, all of which could adversely affect Eaton's results of operations.

Further, Eaton's suppliers of component parts may increase their prices in response to increases in costs of raw materials that they use to manufacture component parts. As a result, the Company may not be able to increase its prices commensurately with its increased costs. Consequently, the Company's results of operations could be materially and adversely affected.

Finally, while Eaton carefully monitors the viability of each of its suppliers, the global economic downturn has, and may continue to have, an adverse impact on Eaton's suppliers' liquidity and solvency. Should one or more of Eaton's material suppliers become insolvent, Eaton could be required to pay increased prices for affected raw materials or components, or experience difficulty in replacing the insolvent supplier, either of which could adversely affect Eaton's results of operations.

Eaton engages in acquisitions and joint ventures, and may encounter unexpected difficulties identifying, pricing or integrating those businesses.

Eaton seeks to grow, in part, through strategic acquisitions and joint ventures, which are intended to complement or expand the Company's businesses, and expects to continue to do so in the future. The success of this strategy will depend on Eaton's ability to identify, price, finance and complete these transactions or arrangements. Success will also depend on the Company's ability to integrate the businesses acquired in these transactions and to develop satisfactory working arrangements with the Company's strategic partners in the joint ventures. Eaton may encounter unexpected difficulties in completing and integrating acquisitions with Eaton's existing operations, and in managing strategic investments. Furthermore, the Company may not realize the degree, or timing, of benefits Eaton anticipated when it first entered into a transaction. Any of the foregoing could adversely affect the Company's business and results of operations.

Eaton may be unable to adequately protect its intellectual property rights, which could affect the Company's ability to compete.

Protecting Eaton's intellectual property rights is critical to its ability to compete and succeed. The Company owns a large number of United States and foreign patents and patent applications, as well as trademark and copyright registrations that are necessary, and contribute significantly, to the preservation of Eaton's competitive position in various markets. Although management believes that the loss or expiration of any single intellectual property right would not have a material effect on the results of operations or financial position of Eaton or its business segments, there can be no assurance that any one, or more, of these patents and other intellectual property will not be challenged, invalidated or circumvented by third parties. Eaton enters into confidentiality and invention assignment agreements with the Company's employees, and into non-disclosure agreements with Eaton's suppliers and appropriate customers so as to limit access to and disclosure of the Company's proprietary information. These measures may not suffice to deter misappropriation or independent third party development of similar technologies. Moreover, the protection provided to Eaton's intellectual property by the laws and courts of foreign nations may not be as advantageous to Eaton as the remedies available under United States law.

Eaton is subject to litigation and environmental regulations that could adversely impact Eaton's businesses.

At any given time, Eaton may be subject to litigation, the disposition of which may have a material adverse effect on the Company's businesses, financial condition or results of operations. Information regarding the Company's current legal proceedings is presented in "Protection of the Environment & Sustainability", "Contingencies" and "Meritor Litigation" on pages 38 and 39.

Eaton participates in markets that are competitive and Eaton's results could be adversely impacted by competitors' actions.

Eaton's businesses operate in competitive markets. The Company competes against other global manufacturers and service providers on the basis of product performance, quality and price, in addition to other factors. While Eaton's

product development and quality initiatives have been competitive strengths in the past, actions by Eaton's competitors could lead to downward pressure on prices and/or a decline in the Company's market share, either of which could adversely affect Eaton's results.

Item 1B. Unresolved Staff Comments.

None.

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Item 2. Properties.

Eaton's world headquarters is located in Cleveland, Ohio. The Company maintains manufacturing facilities at 210 locations in 33 countries. The Company is a lessee under a number of operating leases for certain real properties and equipment, none of which is material to its operations. Management believes that the existing manufacturing facilities are adequate for operations, and these facilities are maintained in good condition.

Item 3. Legal Proceedings.

Information regarding the Company's current legal proceedings is presented in Protection of the Environment & Sustainability, Contingencies and Meritor Litigation on pages 38 and 39.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

Executive Officers of the Registrant

Information regarding executive officers of the Company is presented in Item 10 of this Form 10-K Report.

Part II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

The Company's common shares are listed for trading on the New York and Chicago stock exchanges. Information regarding cash dividends paid, and the high and low market price per common share for each quarter in 2009 and 2008, is presented in Quarterly Data on page 73. At December 31, 2009, there were 8,452 holders of record of the Company's common shares. Additionally, 17,960 current and former employees were shareholders through participation in the Eaton Savings Plan (ESP), Eaton Personal Investment Plan (EPIP), and the Eaton Electrical de Puerto Rico Inc. Retirement Savings Plan.

Information regarding equity compensation plans required by Regulation S-K Item 201(d) is provided in Item 12 of this Form 10-K Report.

Item 6. Selected Financial Data.

Information regarding selected financial data is presented in the Ten-Year Consolidated Financial Summary on page 74.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Management's Discussion & Analysis of Financial Condition & Results of Operations is presented on pages 53 through 72.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

Information regarding market risk is presented in Market Risk Disclosure on page 66.

Item 8. Financial Statements and Supplementary Data.

The report of the independent registered public accounting firm, consolidated financial statements, and notes to consolidated financial statements are presented on pages 14 through 52.

Information regarding selected quarterly financial information for 2009 and 2008 is presented in Quarterly Data on page 73.

Item 9. Change in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures Pursuant to SEC Rule 13a-15, an evaluation was performed under the supervision and with the participation of Eaton's management, including Alexander M. Cutler Chairman and Chief Executive Officer; President; and Richard H. Fearon Vice Chairman and Chief Financial and Planning Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, Eaton's management concluded that the Company's disclosure controls and procedures were effective as of December 31, 2009.

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Disclosure controls and procedures are designed to ensure that information required to be disclosed in Company reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in Company reports filed under the Exchange Act is accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Management's Report on Internal Control Over Financial Reporting as of December 31, 2009 is presented on page 16.

Report of Independent Registered Public Accounting Firm relating to internal control over financial reporting as of December 31, 2009 is presented on page 15.

During the fourth quarter of 2009, there was no change in Eaton's internal control over financial reporting that materially affected, or is reasonably likely to materially affect, Eaton's internal control over financial reporting.

Item 9B. Other Information.

None.

Part III**Item 10. Directors, Executive Officers and Corporate Governance.**

Information required with respect to the directors of the Company is set forth under the caption "Election of Directors" in the Company's definitive Proxy Statement to be filed on or about March 19, 2010, and is incorporated by reference. A listing of the Company's executive officers, their ages, positions and offices held over the past five years, as of February 1, 2010, follows:

Name	Age	Position (Date elected to position)
Alexander M. Cutler	58	Chairman and Chief Executive Officer; President (August 1, 2000 - present) Director (September 22, 1993 - present)
Richard H. Fearon	53	Vice Chairman and Chief Financial and Planning Officer (April 24, 2002 - present)
Craig Arnold	49	Vice Chairman and Chief Operating Officer Industrial Sector (February 1, 2009 - present) Chief Executive Officer - Fluid Power Group (October 25, 2000 - January 31, 2009)
Thomas S. Gross	55	Vice Chairman and Chief Operating Officer Electrical Sector (February 1, 2009 - present) President - Power Quality and Control Business (April 1, 2008 - January 31, 2009) Vice President and President - Power Quality Solutions Operations (May 16, 2005 - March 31, 2008) Vice President - Power Quality Solutions Operations (July 29, 2004 - May 15, 2005) Vice President - Eaton Business System (July 23, 2003 - July 28, 2004)
James W. McGill	54	

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Executive Vice President Chief Human Resources
Officer

(January 1, 2010 present)

President Asia-Pacific Region

(April 1, 2008 December 31, 2009)

Vice President Asia-Pacific

(April 1, 2006 March 31, 2008)

Vice President Eaton Business System

(July 29, 2004 March 31, 2006)

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Name	Age	Position (Date elected to position)
Mark M. McGuire	52	Executive Vice President and General Counsel (December 1, 2005 present) Vice President and Deputy General Counsel, International Paper Company (2003 2005)
Thomas E. Moran	45	Senior Vice President and Secretary (October 1, 2008 present) Assistant Secretary and Managing Counsel, The Dow Chemical Company (2002 2008)
Billie K. Rawot	58	Senior Vice President and Controller (March 1, 1991 present)
Kurt B. McMaken	40	Senior Vice President Corporate Development and Treasury (February 1, 2009 present) Vice President Corporate Development and Planning (January 1, 2008 January 31, 2009) Director Corporate Planning (April 1, 2006 December 31, 2007) Director Corporate Development (October 1, 2004 March 30, 2006)

There are no family relationships among the officers listed, and there are no arrangements or understandings pursuant to which any of them were elected as officers. All officers hold office for one year and until their successors are elected and qualified, unless otherwise specified by the Board of Directors; provided, however, that any officer is subject to removal with or without cause, at any time, by a vote of a majority of the Board of Directors.

Information required with respect to compliance with Section 16(a) of the Exchange Act is set forth under the caption Section 16(a) Beneficial Ownership Reporting Compliance in the Company's definitive Proxy Statement to be filed on or about March 19, 2010, and is incorporated by reference.

The Company has adopted a Code of Ethics, which applies to the Directors, officers and employees worldwide. This document is available on the Company's website at <http://www.eaton.com>.

There were no changes during fourth quarter 2009 to the procedures by which security holders may recommend nominees to the Company's Board of Directors.

Information related to the Company's Audit Committee, and members of the Committee that are financial experts, is set forth under the caption Board Committees Audit Committee in the Company's definitive Proxy Statement to be filed on or about March 19, 2010, and is incorporated by reference.

Item 11. Executive Compensation.

Information required with respect to executive compensation is set forth under the caption Executive Compensation in the Company's definitive Proxy Statement to be filed on or about March 19, 2010, and is incorporated by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Information required with respect to securities authorized for issuance under equity compensation plans is set forth under the caption Equity Compensation Plans in the Company's definitive Proxy Statement to be filed on or about March 19, 2010, and is incorporated by reference.

Information required with respect to security ownership of certain beneficial owners, is set forth under the caption Share Ownership Tables in the Company's definitive Proxy Statement to be filed on or about March 19, 2010, and is

incorporated by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

Information required with respect to certain relationships and related transactions is set forth under the caption "Review of Related Person Transactions" in the Company's definitive Proxy Statement to be filed on or about March 19, 2010, and is incorporated by reference.

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Information required with respect to director independence is set forth under the caption Director Independence in the Company's definitive Proxy Statement to be filed on or about March 19, 2010, and is incorporated by reference.

Item 14. Principal Accounting Fees and Services.

Information required with respect to principal accountant fees and services is set forth under the caption Audit Committee Report in the Company's definitive Proxy Statement to be filed on or about March 19, 2010, and is incorporated by reference.

Part IV

Item 15. Exhibits, Financial Statement Schedules.

- (a) (1) The report of the independent registered public accounting firm, consolidated financial statements and notes to consolidated financial statements are included in Item 8 above:

Report of Independent Registered Public Accounting Firm - Page 14

Statements of Consolidated Income - Years ended December 31, 2009, 2008 and 2007 - Page 17

Consolidated Balance Sheets - December 31, 2009 and 2008 - Page 18

Statements of Consolidated Cash Flows - Years ended December 31, 2009, 2008 and 2007 - Page 19

Statements of Consolidated Shareholders' Equity - Years ended December 31, 2009, 2008 and 2007 - Pages 20 through 22

Notes to Consolidated Financial Statements - Pages 23 through 52

All other schedules for which provision is made in Regulation S-X of the SEC are not required under the related instructions or are inapplicable and, therefore, have been omitted.

- (3) Exhibits

3(i) Amended Articles of Incorporation (amended and restated as of April 24, 2008) - Incorporated by reference to the Form 10-Q Report for the three months ended March 31, 2008

3(ii) Amended Regulations (amended and restated as of April 23, 2008) - Incorporated by reference to the Form 10-Q Report for the three months ended March 31, 2008

4(a) Pursuant to Regulation S-K Item 601(b) (4), the Company agrees to furnish to the SEC, upon request, a copy of the instruments defining the rights of holders of its other long-term debt

10 Material contracts

(a) Senior Executive Incentive Compensation Plan (effective January 1, 2008) - Incorporated by reference to the definitive Proxy Statement dated March 14, 2008

(b) Executive Incentive Compensation Plan (effective January 1, 2005) - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2005

(c) 2005 Non-Employee Director Fee Deferral Plan (2008 restatement) - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2007

(d) Deferred Incentive Compensation Plan II (2008 restatement) - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2007

- (e) Excess Benefits Plan II (2008 restatement) - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2007

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- (f) Incentive Compensation Deferral Plan II (2008 restatement) - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2007
- (g) Limited Eaton Service Supplemental Retirement Income Plan II (2008 restatement) - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2007
- (h) Supplemental Benefits Plan II (2008 restatement) - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2007
- (i) Form of Restricted Share Unit Agreement (2 year vesting) - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2007
- (j) Form of Restricted Share Unit Agreement (4 year vesting) - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2007
- (k) Form of Restricted Share Agreement (2 year vesting) - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2007
- (l) Form of Restricted Share Agreement (4 year vesting) - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2007
- (m) Form of Restricted Share Agreement (Non-Employee Directors) - Incorporated by reference to the Form 8-K Report filed February 1, 2010
- (n) Form of Stock Option Agreement for Executives (2008) - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2007
- (o) Form of Stock Option Agreement for Executives - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2006
- (p) Form of Stock Option Agreement for Non-Employee Directors (2008) - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2007
- (q) 2002 Stock Plan - Incorporated by reference to the definitive Proxy Statement dated March 15, 2002
- (r) 2004 Stock Plan - Incorporated by reference to the definitive Proxy Statement dated March 19, 2004
- (s) 2008 Stock Plan - Incorporated by reference to the definitive Proxy Statement dated March 14, 2008
- (t) 2009 Stock Plan - Incorporated by reference to the definitive Proxy Statement dated March 13, 2009
- (u) Plan for the Deferred Payment of Directors Fees (originally adopted in 1985 and amended effective September 24, 1996, January 28, 1998, January 23, 2002, February 24, 2004, December 8, 2004 and, in certain respects, January 1, 2005) - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2007
- (v) 1996 Non-Employee Director Fee Deferral Plan (amended and restated effective January 1, 2005) - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2006

(w) Form of Change of Control Agreement entered into with officers of Eaton Corporation - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2008

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- (x) Form of Indemnification Agreement entered into with officers of Eaton Corporation - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2002
- (y) Form of Indemnification Agreement entered into with directors of Eaton Corporation - Incorporated by reference to the Form 8-K Report filed January 26, 2007
- (z) Executive Strategic Incentive Plan (amended and restated January 1, 2008) - Incorporated by reference to the definitive Proxy Statement dated March 14, 2008
- (aa) Executive Strategic Incentive Plan II (effective January 1, 2001) - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2002
- (bb) Supplemental Executive Strategic Incentive Plan (effective as of June 25, 2008) - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2008
- (cc) Deferred Incentive Compensation Plan (amended and restated effective November 1, 2007) - Filed in conjunction with this Form 10-K Report*
- (dd) 1998 Stock Plan - Incorporated by reference to the definitive Proxy Statement dated March 13, 1998
- (ee) Incentive Compensation Deferral Plan (amended and restated October 1, 1997) - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2000
- (ff) Trust Agreement - Officers and Employees (dated December 6, 1996) - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2002
- (gg) Trust Agreement - Non-employee Directors (dated December 6, 1996) - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2002
- (hh) Group Replacement Insurance Plan (GRIP) (effective June 1, 1992) - Incorporated by reference to the Form 10-K Report for the year ended December 31, 1992
- (ii) 1991 Stock Option Plan - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2002
- (jj) Excess Benefits Plan (amended and restated effective January 1, 1989) - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2002
- (kk) Supplemental Benefits Plan (amended and restated January 1, 1989) - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2002
- (ll) Eaton Corporation Board of Directors Policy on Incentive Compensation, Stock Options and Other Equity Grants upon the Restatement of Financial Results - Incorporated by reference to the Form 10-K Report for the year ended December 31, 2007
- 12 Ratio of Earnings to Fixed Charges - Filed in conjunction with this Form 10-K Report *
- 14 Code of Ethics - Incorporated by reference to the definitive Proxy Statement filed on March 14, 2008
- 21 Subsidiaries of Eaton Corporation - Filed in conjunction with this Form 10-K Report *

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- 23 Consent of Independent Registered Public Accounting Firm - Filed in conjunction with this Form 10-K Report *
- 24 Power of Attorney - Filed in conjunction with this Form 10-K Report *
- 31.1 Certification of Form 10-K (Pursuant to the Sarbanes-Oxley Act of 2002, Section 302) - Filed in conjunction with this Form 10-K Report *
- 31.2 Certification of Form 10-K (Pursuant to the Sarbanes-Oxley Act of 2002, Section 302) - Filed in conjunction with this Form 10-K Report *
- 32.1 Certification of Form 10-K (Pursuant to the Sarbanes-Oxley Act of 2002, Section 906) - Filed in conjunction with this Form 10-K Report *
- 32.2 Certification of Form 10-K (Pursuant to the Sarbanes-Oxley Act of 2002, Section 906) - Filed in conjunction with this Form 10-K Report *
- 101.INS XBRL Instance Document *
- 101.SCH XBRL Taxonomy Extension Schema Document *
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document *
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document *
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document *
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document *

* Submitted electronically herewith.

Attached as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Statements of Income for the years ended December 31, 2009, 2008 and 2007, (ii) Consolidated Balance Sheets at December 31, 2009 and 2008, (iii) Statements of Consolidated Cash Flows for the years ended December 31, 2009, 2008 and 2007 (iv) Notes to Consolidated Financial Statements for the year ended December 31, 2009.

In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Annual Report on Form 10-K shall not be deemed to be filed for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be part of any registration statement or other document filed under the Securities Act or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

(b) Exhibits

Certain exhibits required by this portion of Item 15 are filed as a separate section of this Form 10-K Report.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Eaton Corporation
Registrant

Date: February 26, 2010

/s/ Richard H. Fearon
Richard H. Fearon
Vice Chairman and Chief Financial and
Planning Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Date: February 26, 2010

Signature	Title
*	
Alexander M. Cutler	Chairman and Chief Executive Officer; President; Principal Executive Officer; Director
*	
Billie K. Rawot	Senior Vice President and Controller; Principal Accounting Officer
*	
Todd M. Bluedorn	Director
*	
Michael J. Critelli	Director
*	
Ernie Green	Director
*	
Ned C. Lautenbach	Director
*	
John R. Miller	Director

*

Victor A. Pelson Director

*

Christopher M. Connor Director

*

Charles E. Golden Director

*

Arthur E. Johnson Director

*

Deborah L. McCoy Director

*

Gregory R. Page Director

Gary L. Tooker Director

*By /s/ Richard H. Fearon

Richard H. Fearon, Attorney-in-Fact
for the officers and directors signing in
the capacities indicated

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders

Eaton Corporation

We have audited the accompanying consolidated balance sheets of Eaton Corporation as of December 31, 2009 and 2008, and the related statements of consolidated income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Eaton Corporation at December 31, 2009 and 2008, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Eaton Corporation's internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 26, 2010 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Cleveland, Ohio

February 26, 2010

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders

Eaton Corporation

We have audited Eaton Corporation's internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Eaton Corporation's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Eaton Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Eaton Corporation as of December 31, 2009 and 2008, and the related statements of consolidated income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2009 and our report dated February 26, 2010 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Cleveland, Ohio

February 26, 2010

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MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Eaton Corporation is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Exchange Act rules 13a-15(f)).

Under the supervision and with the participation of Eaton's management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the Company's internal control over financial reporting as of December 31, 2009. In conducting this evaluation, we used the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control - Integrated Framework*. Based on this evaluation under the framework referred to above, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2009.

The independent registered public accounting firm Ernst & Young LLP has issued an audit report on the effectiveness of the Company's internal control over financial reporting as of December 31, 2009. This report is included herein.

/s/ Alexander M. Cutler

/s/ Richard H. Fearon

/s/ Billie K. Rawot

Chairman and Chief
Executive Officer;
President
February 26, 2010

Vice Chairman and
Chief Financial and Planning
Officer

Senior Vice President and
Controller

Table of Contents**STATEMENTS OF CONSOLIDATED INCOME**

(Millions except for per share data)	Year ended December 31		
	2009	2008	2007
Net sales	\$ 11,873	\$ 15,376	\$ 13,033
Cost of products sold	8,782	11,191	9,382
Selling & administrative expense	2,252	2,513	2,139
Research & development expense	395	417	335
Interest expense-net	150	157	147
Other (income) expense-net	(9 (483,601)		
Increase (decrease) in:			
Accounts payable	(1,521,635)	(1,064,746)	
Payables to related parties	496,861	719,089	
Income tax payable	2,593,727	2,228,963	
Accrued profit sharing to employees and bonus to directors	2,456,340	2,275,482	
Accrued expenses and other current liabilities	(2,177,677)	(5,270,419)	
Accrued pension cost	5,736	876	
Deferred credits		(23,937)	
 Net cash provided by operating activities	 53,905,307	 44,904,463	
 CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of:			
Property, plant and equipment	(77,193,490)	(45,824,671)	
Investments accounted for using equity method	(423,220)	(6,377,184)	
Financial assets carried at cost		(480)	
Proceeds from disposal or redemption of:			
Held-to-maturity financial assets		8,000,000	
Financial assets carried at cost		3,370	
Property, plant and equipment	553,698	11,224	

(Continued)

Taiwan Semiconductor Manufacturing Company Limited
STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2011 and 2010
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	2011	2010
Increase in deferred charges	\$ (181,158)	\$ (372,884)
Decrease in refundable deposits	3,845,196	172,254
Increase in other assets	(23,199)	
 Net cash used in investing activities	 (73,422,173)	 (44,388,371)
 CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term loans	3,267,731	
Decrease in guarantee deposits	(52,415)	(89,225)
Proceeds from exercise of employee stock options	127,288	36,791
 Net cash provided by (used in) financing activities	 3,342,604	 (52,434)
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	 (16,174,262)	 463,658
 CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	 109,511,130	 117,043,543
 CASH AND CASH EQUIVALENTS, END OF PERIOD	 \$ 93,336,868	 \$ 117,507,201
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	\$ 181,409	\$ 135,000
Income tax paid	\$ 213,963	\$ 8,891
 INVESTING ACTIVITIES AFFECTING BOTH CASH AND NON-CASH ITEMS		
Acquisition of property, plant and equipment	\$ 68,902,831	\$ 45,891,338
Decrease in payables to contractors and equipment suppliers	8,290,659	56,134
Nonmonetary exchange trade-out price		(122,801)
 Cash paid	 \$ 77,193,490	 \$ 45,824,671
 Disposal of property, plant and equipment	 \$ 1,037,746	 \$ 134,025
Increase in other receivables from related parties	(484,048)	

Nonmonetary exchange trade-out price			(122,801)
Cash received	\$	553,698	\$ 11,224
NON-CASH FINANCING ACTIVITIES			
Current portion of bonds payable	\$	4,500,000	\$
Current portion of other long-term payables (under accrued expenses and other current liabilities)	\$	912,591	\$ 737,350

The accompanying notes are an integral part of the financial statements. (Concluded)

Taiwan Semiconductor Manufacturing Company Limited

NOTES TO FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2011 and 2010

(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

(Reviewed, Not Audited)

1. GENERAL

Taiwan Semiconductor Manufacturing Company Limited (the Company or TSMC), a Republic of China (R.O.C.) corporation, was incorporated on February 21, 1987. The Company is a dedicated foundry in the semiconductor industry which engages mainly in the manufacturing, selling, packaging, testing and computer-aided design of integrated circuits and other semiconductor devices and the manufacturing of masks. Beginning in 2010, the Company also engages in the researching, developing, designing, manufacturing and selling of LED lighting devices and related applications products and systems, and renewable energy and efficiency related technologies and products. On September 5, 1994, its shares were listed on the Taiwan Stock Exchange (TSE). On October 8, 1997, TSMC listed some of its shares of stock on the New York Stock Exchange (NYSE) in the form of American Depositary Shares (ADSs).

As of March 31, 2011 and 2010, the Company had 30,283 and 23,636 employees, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements are presented in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, Business Accounting Law, Guidelines Governing Business Accounting, and accounting principles generally accepted in the R.O.C.

For the convenience of readers, the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the R.O.C. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language financial statements shall prevail.

Significant accounting policies are summarized as follows:

Use of Estimates

The preparation of financial statements in conformity with the aforementioned guidelines, law and principles requires management to make reasonable assumptions and estimates of matters that are inherently uncertain. The actual results may differ from management's estimates.

Classification of Current and Noncurrent Assets and Liabilities

Current assets are assets held for trading purposes and assets expected to be converted to cash, sold or consumed within one year from the balance sheet date. Current liabilities are obligations incurred for trading purposes and obligations expected to be settled within one year from the balance sheet date. Assets and liabilities that are not classified as current are noncurrent assets and liabilities, respectively.

Cash Equivalents

Repurchase agreements collateralized by government bonds acquired with maturities of less than three months from the date of purchase are classified as cash equivalents. The carrying amount approximates fair value due to their short term nature.

Financial Assets/Liabilities at Fair Value Through Profit or Loss

Derivatives that do not meet the criteria for hedge accounting are initially recognized at fair value, with transaction costs expensed as incurred. The derivatives are remeasured at fair value subsequently with changes in fair value recognized in earnings. A regular way purchase or sale of financial assets is accounted for using settlement date accounting.

Fair value is estimated using valuation techniques incorporating estimates and assumptions that are consistent with prevailing market conditions. When the fair value is positive, the derivative is recognized as a financial asset; when the fair value is negative, the derivative is recognized as a financial liability.

Available-for-sale Financial Assets

Available-for-sale financial assets are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition. Changes in fair value from subsequent remeasurement are reported as a separate component of shareholders' equity. The corresponding accumulated gains or losses are recognized in earnings when the financial asset is derecognized from the balance sheet. A regular way purchase or sale of financial assets is accounted for using settlement date accounting.

The fair value of overseas publicly traded stock is determined using the closing prices at the end of the period. The fair value of debt securities is determined using the average of bid and asked prices at the end of the period.

Any difference between the initial carrying amount of a debt security and the amount due at maturity is amortized using the effective interest method, with the amortization recognized in earnings.

If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized. If, in a subsequent period, the amount of the impairment loss decreases, for equity securities, the previously recognized impairment loss is reversed to the extent of the decrease and recorded as an adjustment to shareholders' equity; for debt securities, the amount of the decrease is recognized in earnings, provided that the decrease is clearly attributable to an event which occurred after the impairment loss was recognized.

Held-to-maturity Financial Assets

Debt securities for which the Company has a positive intention and ability to hold to maturity are categorized as held-to-maturity financial assets and are carried at amortized cost. Those financial assets are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition. Gains or losses are recognized at the time of derecognition, impairment or amortization. A regular way purchase or sale of financial assets is accounted for using settlement date accounting.

If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized. If, in a subsequent period, the amount of the impairment loss decreases and the decrease is clearly attributable to an event which occurred after the impairment loss was recognized, the previously recognized impairment loss is reversed to the extent of the decrease. The reversal may not result in a carrying amount that exceeds the amortized cost that would have been determined as if no impairment loss had been recognized.

Allowance for Doubtful Receivables

An allowance for doubtful receivables is provided based on a review of the collectability of receivables. The Company assesses the collectability of receivables by performing the account aging analysis and examining current trends in the credit quality of its customers.

The Company's provision was originally set at 1% of the amount of outstanding receivables. On January 1, 2011, the Company adopted the third revision of Statement of Financial Accounting Standards (SFAS) No. 34, Financial Instruments: Recognition and Measurement. One of the main revisions is that the impairment of receivables originated by the Company is subject to the provisions of SFAS No. 34. Companies are required to evaluate for indication of impairment of accounts receivable based on an individual and collective basis at the end of each reporting period. When objective evidence indicates that the estimated future cash flow of accounts receivable decreases as a result of one or more events that occurred after the initial recognition of the accounts receivable, such accounts receivable are deemed to be impaired.

Because of the Company's short average collection period, the amount of the impairment loss recognized is the difference between the carrying amount of accounts receivable and estimated future cash flows without considering the discounting effect. Changes in the carrying amount of the allowance account are recognized as bad debt in loss which is recorded in the operating expenses—general and administrative. When accounts receivable are considered uncollectable, the amount is written off against the allowance account.

Revenue Recognition and Allowance for Sales Returns and Others

The Company recognizes revenue when evidence of an arrangement exists, the rewards of ownership and significant risk of the goods has been transferred to the buyer, price is fixed or determinable, and collectability is reasonably assured. Provisions for estimated sales returns and other allowances are recorded in the period the related revenue is recognized, based on historical experience, management's judgment, and any known factors that would significantly affect the allowance.

Sales prices are determined using fair value taking into account related sales discounts agreed to by the Company and its customers. Sales agreements typically provide that payment is due 30 days from invoice date for a majority of the customers and 30 to 45 days after the end of the month in which sales occur for some customers. Since the receivables from sales are collectible within one year and such transactions are frequent, fair value of the receivables is equivalent to the nominal amount of the cash to be received.

Inventories

Inventories are recorded at standard cost and adjusted to approximate weighted-average cost on the balance sheet date.

Inventories are stated at the lower of cost or net realizable value. Inventory write-downs are made on an item-by-item basis, except where it may be appropriate to group similar or related items. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and necessary selling costs.

Investments Accounted for Using Equity Method

Investments in companies wherein the Company exercises significant influence over the operating and financial policy decisions are accounted for using the equity method. The Company's share of the net income or net loss of an investee is recognized in the equity in earnings/losses of equity method investees, net account. The cost of an investment shall be analyzed and the cost of investment in excess of the fair value of identifiable net assets acquired, representing goodwill, shall not be amortized. If the fair value of identifiable net assets acquired exceeds the cost of investment, the excess shall be proportionately allocated as reductions to fair values of non-current assets (except for financial assets other than investments accounted for using the equity method and deferred income tax assets). When an indication of impairment is identified, the carrying amount of the investment is reduced, with the related impairment loss recognized in earnings.

When the Company subscribes for additional investee's shares at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment in the investee differs from the amount of the Company's share of the investee's equity. The Company records such a difference as an adjustment to long-term investments with the corresponding amount charged or credited to capital surplus.

Gains or losses on sales from the Company to equity method investees are deferred in proportion to the Company's ownership percentages in the investees until such gains or losses are realized through transactions with third parties. The entire amount of the gains or losses on sales to investees over which the Company has a controlling interest is deferred until such gains or losses are realized through subsequent sales of the related products to third parties.

Gains or losses on sales from equity method investees to the Company are deferred in proportion to the Company's ownership percentages in the investees until they are realized through transactions with third parties. Gains or losses on sales between equity method investees over each of which the Company has control are deferred in proportion to the Company's weighted-average ownership percentage in the investee which records gains or losses. In transactions between equity method investees over either or both of which the Company has no control, gains or losses on sales are deferred in proportion to the multiplication of the Company's weighted-average ownership percentages in the investees. Such gains or losses are deferred until they are realized through transactions with third parties.

If an investee's functional currency is a foreign currency, differences will result from the translation of the investee's financial statements into the reporting currency of the Company. Such differences are charged or credited to cumulative translation adjustments, a separate component of shareholders' equity.

Financial Assets Carried at Cost

Investments for which the Company does not exercise significant influence and that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, such as non-publicly traded stocks and mutual funds, are carried at their original cost. The costs of non-publicly traded stocks and mutual funds are determined using the weighted-average method. If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized. A subsequent reversal of such impairment loss is not allowed.

Cash dividends are recognized as investment income upon resolution of shareholders of an investee but are accounted for as a reduction to the original cost of investment if such dividends are declared on the earnings of the investee attributable to the period prior to the purchase of the investment. Stock dividends are recorded as an increase in the number of shares held and do not affect investment income. The cost per share is recalculated based on the new total number of shares.

Property, Plant and Equipment and Assets Leased to Others

Property, plant and equipment and assets leased to others are stated at cost less accumulated depreciation. When an indication of impairment is identified, any excess of the carrying amount of an asset over its recoverable amount is recognized as a loss. If the recoverable amount increases in a subsequent period, the amount previously recognized as impairment would be reversed and recognized as a gain. However, the adjusted amount may not exceed the carrying amount that would have been determined, net of depreciation, as if no impairment loss had been recognized. Significant additions, renewals and betterments incurred during the construction period are capitalized. Maintenance and repairs are expensed as incurred.

Depreciation is computed using the straight-line method over the following estimated service lives: buildings 10 to 20 years; machinery and equipment 5 years; and office equipment 3 to 5 years.

Upon sale or disposal of property, plant and equipment and assets leased to others, the related cost and accumulated depreciation are deducted from the corresponding accounts, with any gain or loss recorded as non-operating gains

or losses in the period of sale or disposal.

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Intangible Assets

Goodwill represents the excess of the consideration paid for acquisition over the fair value of identifiable net assets acquired. Goodwill is no longer amortized and instead is tested for impairment annually, or more frequently if events or changes in circumstances suggest that the carrying amount may not be recoverable. If an event occurs or circumstances change which indicate that the fair value of goodwill is more likely than not below its carrying amount, an impairment loss is recognized. A subsequent reversal of such impairment loss is not allowed.

Deferred charges consist of technology license fees, software and system design costs and patent and others. The amounts are amortized over the following periods: Technology license fees the estimated life of the technology or the term of the technology transfer contract; software and system design costs 3 years; patent and others the economic life or contract period. When an indication of impairment is identified, any excess of the carrying amount of an asset over its recoverable amount is recognized as a loss. If the recoverable amount increases in a subsequent period, the previously recognized impairment loss would be reversed and recognized as a gain. However, the adjusted amount may not exceed the carrying amount that would have been determined, net of amortization, as if no impairment loss had been recognized.

Expenditures related to research activities and those related to development activities that do not meet the criteria for capitalization are charged to expense when incurred.

Pension Costs

For employees who participate in defined contribution pension plans, pension costs are recorded based on the actual contributions made to employees individual pension accounts during their service periods. For employees who participate in defined benefit pension plans, pension costs are recorded based on actuarial calculations.

Income Tax

The Company applies an inter-period allocation for its income tax whereby deferred income tax assets and liabilities are recognized for the tax effects of temporary differences and unused tax credits. Valuation allowances are provided to the extent, if any, that it is more likely than not that deferred income tax assets will not be realized. A deferred tax asset or liability is classified as current or noncurrent in accordance with the classification of its related asset or liability. However, if a deferred tax asset or liability does not relate to an asset or liability in the financial statements, then it is classified as either current or noncurrent based on the expected length of time before it is realized or settled.

Any tax credits arising from purchases of machinery and equipment, research and development expenditures and personnel training expenditures are recognized using the flow-through method.

Adjustments of prior years tax liabilities are added to or deducted from the current period s tax provision.

Income tax on unappropriated earnings at a rate of 10% is expensed in the year of shareholder approval which is the year subsequent to the year the earnings are generated.

Stock-based Compensation

Employee stock options that were granted or modified in the period from January 1, 2004 to December 31, 2007 are accounted for by the interpretations issued by the Accounting Research and Development Foundation of the Republic of China. The Company adopted the intrinsic value method and any compensation cost determined using this method is recognized in earnings over the employee vesting period. Employee stock option plans that were granted or modified after December 31, 2007 are accounted for using fair value method in accordance with Statement of Financial Accounting Standards No. 39, Accounting for Share-based Payment. The Company did not grant or modify any employee stock options since January 1, 2008.

Foreign-currency Transactions

Foreign-currency transactions other than derivative contracts are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Exchange gains or losses derived from foreign-currency transactions or monetary assets and liabilities denominated in foreign currencies are recognized in earnings.

At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are revalued at prevailing exchange rates with the resulting gains or losses recognized in earnings.

3. ACCOUNTING CHANGES

On January 1, 2011, the Company prospectively adopted the newly revised Statement of Financial Accounting Standards (SFAS) No. 34, Financial Instruments: Recognition and Measurement. The main revisions include (1) finance lease receivables are now covered by SFAS No. 34; (2) the scope of the applicability of SFAS No. 34 to insurance contracts is amended; (3) loans and receivables originated by the Company are now covered by SFAS No. 34; (4) additional guidelines on impairment testing of financial assets carried at amortized cost when the debtor has financial difficulties and the terms of obligations have been modified; and (5) accounting treatment by a debtor for modifications in the terms of obligations. This accounting change did not have a significant effect on the Company's financial statements as of and for the period ended March 31, 2011.

On January 1, 2011, the Company adopted the newly issued SFAS No. 41, Operating Segments. The statement requires identification and disclosure of operating segments on the basis of how the Company's chief operating decision maker regularly reviews information in order to allocate resources and assess performance. This statement supersedes SFAS No. 20, Segment Reporting. The Company conformed to the disclosure requirements as of and for the period ended March 31, 2011. The information for the period ended March 31, 2010 has been recast to reflect the new segment reporting requirement.

4. CASH AND CASH EQUIVALENTS

	March 31	
	2011	2010
Cash and deposits in banks	\$ 91,709,652	\$ 116,704,752
Repurchase agreements collateralized by government bonds	1,627,216	802,449
	\$ 93,336,868	\$ 117,507,201

5. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	March 31	
	2011	2010
Trading financial assets		
Forward exchange contracts	\$ 11,605	\$ 2,397
Cross currency swap contracts		79,306
	\$ 11,605	\$ 81,703
Trading financial liabilities		
Forward exchange contracts	\$ 15,028	\$ 1,640
Cross currency swap contracts		9,770
	\$ 15,028	\$ 11,410

The Company entered into derivative contracts during the three months ended March 31, 2011 and 2010 to manage exposures due to fluctuations of foreign exchange rates. The derivative contracts entered into by the Company did not meet the criteria for hedge accounting. Therefore, the Company did not apply hedge accounting treatment for its derivative contracts.

Outstanding forward exchange contracts consisted of the following:

	Maturity Date	Contract Amount (In Thousands)
March 31, 2011		
Sell NT\$/Buy JPY	April 2011	NT\$1,173,256/JPY3,268,300
Sell NT\$/Buy EUR	April 2011	NT\$83,800/EUR2,000
Sell EUR/Buy NT\$	April 2011	EUR59,550/NT\$2,494,130
March 31, 2010		
Sell EUR/Buy NT\$	April 2010	EUR7,500/NT\$323,205
Sell EUR/Buy US\$	April 2010	EUR4,500/US\$5,998

Outstanding cross currency swap contracts consisted of the following:

Maturity Date	Contract Amount (In Thousands)	Range of Interest Rates Paid	Range of Interest Rates Received
March 31, 2010			
April 2010 to May 2010	US\$930,000/NT \$29,662,580	0.21%-0.45%	0.00%-0.09%

For the three months ended March 31, 2011 and 2010, changes in fair value related to derivative financial instruments recognized in earnings was a net loss of NT\$256,988 thousand and a net gain of NT \$304,292 thousand, respectively.

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6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	March 31	
	2011	2010
Overseas publicly traded stock	\$ 4,069,307	\$
Corporate bonds	1,036,044	1,043,306
	5,105,351	1,043,306
Current portion	(4,069,307)	
	\$ 1,036,044	\$ 1,043,306

7. HELD-TO-MATURITY FINANCIAL ASSETS

	March 31	
	2011	2010
Corporate bonds	\$ 6,198,107	\$ 12,260,803
Structured time deposits		1,000,000
Government bonds		898,801
	6,198,107	14,159,604
Current portion	(4,792,967)	(7,944,656)
	\$ 1,405,140	\$ 6,214,948

Structured time deposits categorized as held-to-maturity financial assets consisted of the following:

	Principal Amount	Interest Receivable	Range of Interest Rates	Maturity Date
March 31, 2010				
Callable domestic deposits	\$ 1,000,000	\$ 809	0.36%	July 2010

8. ALLOWANCES FOR DOUBTFUL RECEIVABLES, SALES RETURNS AND OTHERS

Movements of the allowance for doubtful receivables were as follows:

	Three Months Ended March 31	
	2011	2010
Balance, beginning of period	\$ 488,000	\$ 431,000
Provision		22,000
Balance, end of period	\$ 488,000	\$ 453,000

Movements of the allowance for sales returns and others were as follows:

	Three Months Ended March 31	
	2011	2010
Balance, beginning of period	\$ 7,341,444	\$ 8,583,632
Provision	1,391,829	2,747,878
Write-off	(1,961,618)	(4,328,306)
Balance, end of period	\$ 6,771,655	\$ 7,003,204

9. INVENTORIES

	March 31	
	2011	2010
Finished goods	\$ 6,988,136	\$ 1,975,182
Work in process	18,111,238	15,914,041
Raw materials	2,566,796	1,484,633
Supplies and spare parts	1,227,358	935,397
	\$ 28,893,528	\$ 20,309,253

Write-down of inventories to net realizable value in the amount of NT\$650,892 thousand and NT\$228,550 thousand, respectively, were included in the cost of sales for the three months ended March 31, 2011 and 2010. Inventories losses related to earthquake damage in the amount of NT\$194,137 thousand were classified under non-operating expenses and losses for the three months ended March 31, 2010.

10. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	March 31			
	2011		2010	
	Carrying Amount	% of Owner- ship	Carrying Amount	% of Owner- ship
TSMC Global Ltd. (TSMC Global)	\$ 42,523,518	100	\$ 45,245,474	100
TSMC Partners, Ltd. (TSMC Partners)	32,779,954	100	32,637,828	100
Vanguard International Semiconductor Corporation (VIS)	9,456,221	38	9,359,350	37
Systems on Silicon Manufacturing Company Pte Ltd. (SSMC)	7,256,841	39	6,308,810	39
Motech Industries Inc. (Motech)	6,770,069	20	6,210,916	20
TSMC China Company Limited (TSMC China)	4,721,701	100	2,787,558	100
TSMC North America	2,843,416	100	2,726,868	100
VentureTech Alliance Fund III, L.P. (VTAF III)	2,672,382	99	1,351,399	98
Xintec Inc. (Xintec)	1,678,379	41	1,532,384	41
Global UniChip Corporation (GUC)	1,164,288	35	1,039,348	35
VentureTech Alliance Fund II, L.P. (VTAF II)	1,041,270	98	1,140,879	98

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TSMC Solar Europe B.V. (TSMC Solar Europe)	406,305	100		
Emerging Alliance Fund, L.P. (Emerging Alliance)	290,203	99	303,768	99

(Continued)

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	March 31			
	2011	% of	2010	% of
	Carrying	Owner-	Carrying	Owner-
	Amount	ship	Amount	ship
TSMC Europe B.V. (TSMC Europe)	\$ 192,329	100	\$ 158,190	100
TSMC Japan Limited (TSMC Japan)	144,224	100	133,420	100
TSMC Korea Limited (TSMC Korea)	21,093	100	19,460	100
TSMC Solar North America, Inc. (TSMC Solar NA)	7,945	100		
TSMC Lighting North America, Inc. (TSMC Lighting NA)	2,942	100		
	\$ 113,973,080		\$ 110,955,652	

(Concluded)

For the renewable energy and efficiency related businesses development, the Company established wholly-owned subsidiaries, TSMC Solar NA, TSMC Solar Europe and TSMC Lighting NA, in the third quarter of 2010. In addition, the Company is also considering the formation of another two wholly-owned subsidiaries for solar and solid state lighting businesses as part of the strategic planning.

For the year ended December 31, 2010, the Company increased its investment in VTAF III for the amount of NT\$1,862,278 thousand, and the Company's percentage of ownership in VTAF III increased from 98% to 99%.

In February 2010, the Company subscribed to 75,316 thousand shares of Motech through a private placement for NT\$6,228,661 thousand; after the subscription, the Company's percentage of ownership in Motech was 20%. Transfer of the aforementioned common shares within three years is prohibited according to the related regulations.

For the three months ended March 31, 2011 and 2010, equity in earnings of equity method investees was a net gain of NT\$1,577,135 thousand and NT\$559,908 thousand, respectively. Related equity in earnings/losses of equity method investees were determined based on the reviewed financial statements, except those of TSMC Solar Europe, Emerging Alliance, TSMC Europe, TSMC Japan, TSMC Korea, TSMC Solar NA and TSMC Lighting NA for the three months ended March 31, 2011 and those of VTAF II, Emerging Alliance, TSMC Europe, TSMC Japan and TSMC Korea for the three months ended March 31, 2010. The Company believes that, had the aforementioned equity method investees' financial statements been reviewed, any adjustments arising would have no material effect on the Company's financial statements.

As of March 31, 2011 and 2010, the quoted market price of publicly traded stocks in unrestricted investments accounted for using the equity method (VIS and GUC) were NT\$13,160,444 thousand and NT\$16,963,095 thousand, respectively.

Movements of the difference between the cost of investments and the Company's share in investees' net assets allocated to depreciable assets were as follows:

Three Months Ended March	
31	
2011	2010

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Balance, beginning of period	\$ 2,504,496	\$ 1,429,118
Additions		2,055,660
Amortization	(238,356)	(218,611)
Balance, end of period	\$ 2,266,140	\$ 3,266,167

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Movements of the difference allocated to goodwill were as follows:

	Three Months Ended March 31	
	2011	2010
Balance, beginning of period	\$ 1,415,565	\$ 1,061,885
Additions		353,680
Balance, end of period	\$ 1,415,565	\$ 1,415,565

11. FINANCIAL ASSETS CARRIED AT COST

	March 31	
	2011	2010
Non-publicly traded stocks	\$ 338,584	\$ 338,584
Mutual funds	159,251	159,251
	\$ 497,835	\$ 497,835

12. PROPERTY, PLANT AND EQUIPMENT

	Three Months Ended March 31, 2011				
	Balance, Beginning of Period	Additions (Deductions)	Disposals	Reclassification	Balance, End of Period
Cost					
Buildings	\$ 128,646,942	\$ 15,465,320	\$ (9,707)	\$	\$ 144,102,555
Machinery and equipment	852,733,592	66,496,059	(198,589)		919,031,062
Office equipment	11,730,537	805,809	(138,838)		12,397,508
	993,111,071	\$ 82,767,188	\$ (347,134)	\$	1,075,531,125
Accumulated depreciation					
Buildings	81,347,877	\$ 2,112,051	\$ (9,707)	\$	83,450,221
Machinery and equipment	616,495,207	20,975,058	(196,951)		637,273,314
Office equipment	8,762,361	263,217	(138,838)		8,886,740
	706,605,445	\$ 23,350,326	\$ (345,496)	\$	729,610,275
Advance payments and construction in progress	80,348,673	\$ (13,864,357)	\$ (1,083,807)	\$	65,400,509
	\$ 366,854,299				\$ 411,321,359

Three Months Ended March 31, 2010

	Balance, Beginning of Period	Additions	Disposals	Reclassification	Balance, End of Period
Cost					
Buildings	\$ 124,522,047	\$ 1,350,855	\$	\$	\$ 125,872,902
Machinery and equipment	713,426,126	43,804,758	(191,945)	443	757,039,382
Office equipment	10,781,099	515,324	(20,129)	(443)	11,275,851
	848,729,272	\$ 45,670,937	\$ (212,074)	\$	894,188,135
Accumulated depreciation					
Buildings	73,525,160	\$ 2,077,831	\$	\$	75,602,991
Machinery and equipment	545,693,910	16,918,504	(191,945)	443	562,420,912
Office equipment	8,545,253	214,931	(20,129)	(443)	8,739,612
	627,764,323	\$ 19,211,266	\$ (212,074)	\$	646,763,515
Advance payments and construction in progress	33,786,577	\$ 220,401	\$	\$	34,006,978
	\$ 254,751,526				\$ 281,431,598

No interest was capitalized during the three months ended March 31, 2011 and 2010.

13. DEFERRED CHARGES, NET**Three Months Ended March 31, 2011**

	Balance, Beginning of Period	Additions	Amortization	Balance, End of Period
Technology license fees	\$ 2,277,832	\$	\$ (167,493)	\$ 2,110,339
Software and system design costs	2,075,935	36,691	(252,004)	1,860,622
Patent and others	1,102,660	144,467	(101,349)	1,145,778
	\$ 5,456,427	\$ 181,158	\$ (520,846)	\$ 5,116,739

Three Months Ended March 31, 2010

	Balance, Beginning of Period	Additions	Amortization	Balance, End of Period
Technology license fees	\$ 2,979,801	\$	\$ (191,491)	\$ 2,788,310
Software and system design costs	1,646,973	372,884	(203,007)	1,816,850
Patent and others	1,264,911		(90,229)	1,174,682
	\$ 5,891,685	\$ 372,884	\$ (484,727)	\$ 5,779,842

14. SHORT-TERM LOANS

	March 31, 2011
Unsecured loans: US\$1,086,000 thousand and EUR52,000 thousand, due in April 2011, and annual interest at 0.40%-0.87%	\$ 34,176,368

15. BONDS PAYABLE

	March 31	
	2011	2010
Domestic unsecured bonds: Issued in January 2002 and repayable in January 2012, 3.00% interest payable annually	\$ 4,500,000	\$ 4,500,000
Current portion	(4,500,000)	
	\$	\$ 4,500,000

16. OTHER LONG-TERM PAYABLES

The Company's other long-term payables mainly resulted from license agreements for certain semiconductor-related patents.

As of March 31, 2011, future payments for other long-term payables (classified under accrued expenses and other current liabilities) due in 2011 amounted to NT\$912,591 thousand.

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17. PENSION PLANS

The pension mechanism under the Labor Pension Act (the Act) is deemed a defined contribution plan. Pursuant to the Act, the Company has made monthly contributions equal to 6% of each employee's monthly salary to employees' pension accounts and recognized pension cost of NT\$281,631 thousand and NT\$191,296 thousand for the three months ended March 31, 2011 and 2010, respectively.

The Company has a defined benefit plan under the Labor Standards Law that provides benefits based on an employee's length of service and average monthly salary for the six-month period prior to retirement. The Company contributes an amount equal to 2% of salaries paid each month to a pension fund (the Fund), which is administered by the Labor Pension Fund Supervisory Committee (the Committee) and deposited in the Committee's name in the Bank of Taiwan. The Company recognized pension costs of NT\$75,423 thousand and NT\$59,245 thousand for the three months ended March 31, 2011 and 2010, respectively.

Movements of the Fund and accrued pension cost under the defined benefit plan were summarized as follows:

	Three Months Ended March	
	31	
	2011	2010
The Fund		
Balance, beginning of period	\$ 2,835,231	\$ 2,595,717
Contributions	71,165	68,265
Interest	27,083	41,105
Payments	(3,495)	
Balance, end of period	\$ 2,929,984	\$ 2,705,087
Accrued pension cost		
Balance, beginning of period	\$ 3,824,601	\$ 3,807,176
Accruals	5,736	876
Balance, end of period	\$ 3,830,337	\$ 3,808,052

18. INCOME TAX

a. A reconciliation of income tax expense based on income before income tax at the statutory rates and income tax currently payable was as follows:

	Three Months Ended March	
	31	
	2011	2010
Income tax expense based on income before income tax at statutory rate (17% and 20% for 2011 and 2010, respectively)	\$ 6,814,147	\$ 7,018,217
Tax effect of the following:		
Tax-exempt income	(3,478,506)	(3,881,271)
Temporary and permanent differences	(561,554)	26,692
Income tax credits used		(1,581,819)
Income tax currently payable	\$ 2,774,087	\$ 1,581,819

b. Income tax expense consisted of the following:

	Three Months Ended March 31	
	2011	2010
Income tax currently payable	\$ 2,774,087	\$ 1,581,819
Income tax adjustments on prior years		647,144
Other income tax adjustments	20,131	
Net change in deferred income tax assets		
Investment tax credits	(486,686)	(1,056,341)
Temporary differences	166,629	(601,364)
Valuation allowance	1,331,282	856,708
Income tax expense	\$ 3,805,443	\$ 1,427,966

c. Net deferred income tax assets consisted of the following:

	March 31	
	2011	2010
Current deferred income tax assets		
Investment tax credits	\$ 4,182,893	\$ 5,172,000
Temporary differences		
Allowance for sales returns and others	575,591	717,828
Unrealized gain/loss on financial instruments	62,060	
Others	44,359	182,261
	\$ 4,864,903	\$ 6,072,089
Noncurrent deferred income tax assets		
Investment tax credits	\$ 18,279,007	\$ 10,616,082
Temporary differences		
Depreciation	1,891,415	2,412,634
Others	199,860	183,285
Valuation allowance	(13,984,044)	(6,656,040)
	\$ 6,386,238	\$ 6,555,961

Effective in June 2010, the Article 5 of the Income Tax Law of the Republic of China was amended, in which the income tax rate of profit-seeking enterprises would be reduced from 20% to 17%. The last amended income tax rate of 17% is retroactively applied on January 1, 2010. The Company recalculated its deferred tax assets in accordance with the new amended Article and adjusted the resulting difference as an income tax expense in 2010. Furthermore, due to the reduced corporate income tax rate, the Company anticipated a decrease in future tax credits allowed for deduction, therefore resulting in higher adjustment to the valuation allowance balance.

Under Article 10 of the Statute for Industrial Innovation (SII) legislated and effective in May 2010, a profit-seeking enterprise may deduct up to 15% of its research and development expenditures from its income tax payable for the

period in which these expenditures are incurred, but this deduction should not exceed 30% of the income tax payable for that period. This incentive is retroactive to January 1, 2010 and effective until December 31, 2019.

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d. Integrated income tax information:

The balance of the imputation credit account as of March 31, 2011 and 2010 was NT\$1,669,533 thousand and NT\$369,265 thousand, respectively.

The estimated and actual creditable ratios for distribution of earnings of 2010 and 2009 were 4.70% and 9.85%, respectively.

The imputation credit allocated to shareholders is based on its balance as of the date of dividend distribution. The estimated creditable ratio may change when the actual distribution of the imputation credit is made.

e. All earnings generated prior to December 31, 1997 have been appropriated.

f. As of March 31, 2011, investment tax credits consisted of the following:

Law/Statute	Item	Total Creditable Amount	Remaining Creditable Amount	Expiry Year
Statute for Upgrading Industries	Purchase of machinery and equipment	\$ 2,512,408	\$ 2,512,408	2012
		6,021,335	6,021,335	2013
		6,361,790	6,361,790	2014
		\$ 14,895,533	\$ 14,895,533	
Statute for Upgrading Industries	Research and development expenditures	\$ 2,691,517	\$ 2,691,517	2012
		4,328,009	4,328,009	2013
		\$ 7,019,526	\$ 7,019,526	
Statute for Upgrading Industries	Personnel training expenditures	\$ 30,624	\$ 30,624	2012
		17,121	17,121	2013
		\$ 47,745	\$ 47,745	
Statute for Industrial Innovation	Research and development expenditures	\$ 499,096	\$ 499,096	2011

g. The profits generated from the following projects are exempt from income tax for a five-year period:

	Tax-Exemption Period
Construction and expansion of 2003	2007 to 2011
Construction and expansion of 2004	2008 to 2012
Construction and expansion of 2005	2010 to 2014

h. The tax authorities have examined income tax returns of the Company through 2007. All investment tax credit adjustments assessed by the tax authorities have been recognized accordingly.

19. LABOR COST, DEPRECIATION AND AMORTIZATION

	Three Months Ended March 31, 2011		
	Classified		
	as		
	Classified as Cost of Sales	Operating Expenses	Total
Labor cost			
Salary and bonus	\$ 6,117,303	\$ 4,260,569	\$ 10,377,872
Labor and health insurance	307,843	168,284	476,127
Pension	230,885	126,169	357,054
Meal	165,359	65,669	231,028
Welfare	58,360	32,769	91,129
Others	14,252	7,681	21,933
	\$ 6,894,002	\$ 4,661,141	\$ 11,555,143
Depreciation	\$ 21,800,953	\$ 1,545,577	\$ 23,346,530
Amortization	\$ 324,635	\$ 196,211	\$ 520,846
Three Months Ended March 31, 2010			
Classified			
as			
	Classified as Cost of Sales	Operating Expenses	Total
Labor cost			
Salary and bonus	\$ 5,083,162	\$ 3,791,508	\$ 8,874,670
Labor and health insurance	182,508	107,582	290,090
Pension	157,629	92,912	250,541
Meal	122,966	52,290	175,256
Welfare	47,194	29,069	76,263
Others	13,360	3,502	16,862
	\$ 5,606,819	\$ 4,076,863	\$ 9,683,682
Depreciation	\$ 18,051,574	\$ 1,155,626	\$ 19,207,200
Amortization	\$ 318,383	\$ 166,344	\$ 484,727

20. SHAREHOLDERS EQUITY

As of March 31, 2011, 1,096,414 thousand ADSs of the Company were traded on the NYSE. The number of common shares represented by the ADSs was 5,482,071 thousand (one ADS represents five common shares).

Capital surplus can only be used to offset a deficit under the Company Law. However, the capital surplus generated from donations and the excess of the issuance price over the par value of capital stock (including the stock issued for new capital, mergers, convertible bonds and the surplus from treasury stock transactions) may be appropriated as stock dividends, which are limited to a certain percentage of the Company's paid-in capital. In addition, the capital surplus from long-term investments may not be used for any purpose.

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Capital surplus consisted of the following:

	March 31	
	2011	2010
Additional paid-in capital	\$ 23,715,050	\$ 23,483,970
From merger	22,805,390	22,805,390
From convertible bonds	8,893,190	8,893,190
From long-term investments	367,797	348,240
Donations	55	55
	\$ 55,781,482	\$ 55,530,845

The Company's Articles of Incorporation provide that, when allocating the net profits for each fiscal year, the Company shall first offset its losses in previous years and then set aside the following items accordingly:

- a. Legal capital reserve at 10% of the profits left over, until the accumulated legal capital reserve equals the Company's paid-in capital;
- b. Special capital reserve in accordance with relevant laws or regulations or as requested by the authorities in charge;
- c. Bonus to directors and profit sharing to employees of the Company of not more than 0.3% and not less than 1% of the remainder, respectively. Directors who also serve as executive officers of the Company are not entitled to receive the bonus to directors. The Company may issue profit sharing to employees in stock of an affiliated company meeting the conditions set by the Board of Directors or, by the person duly authorized by the Board of Directors;
- d. Any balance left over shall be allocated according to the resolution of the shareholders' meeting.

The Company's Articles of Incorporation also provide that profits of the Company may be distributed by way of cash dividend and/or stock dividend. However, distribution of profits shall be made preferably by way of cash dividend. Distribution of profits may also be made by way of stock dividend; provided that the ratio for stock dividend shall not exceed 50% of the total distribution.

Any appropriations of the profits are subject to shareholders' approval in the following year.

The Company accrued profit sharing to employees based on certain percentage of net income during the period, which amounted to NT\$2,443,687 thousand and NT\$2,272,790 thousand for the three months ended March 2011 and 2010, respectively. Bonuses to directors were accrued based on estimated amount of payment. If the actual amounts subsequently resolved by the shareholders differ from the estimated amounts, the differences are recorded in the year of shareholders' resolution as a change in accounting estimate. If profit sharing is resolved to be distributed to employees in stock, the number of shares is determined by dividing the amount of profit sharing by the closing price (after considering the effect of dividends) of the shares on the day preceding the shareholders' meeting.

The Company no longer has supervisors since January 1, 2007. The required duties of supervisors are being fulfilled by the Audit Committee.

The appropriation for legal capital reserve shall be made until the reserve equals the Company's paid-in capital. The reserve may be used to offset a deficit, or be distributed as dividends and bonuses for the portion in excess of 50% of the paid-in capital if the Company has no unappropriated earnings and the reserve balance has exceeded 50% of the Company's paid-in capital. The Company Law also prescribes that, when the reserve has reached 50% of the Company's paid-in capital, up to 50% of the reserve may be transferred to capital.

A special capital reserve equivalent to the net debit balance of the other components of shareholders' equity (for example, cumulative translation adjustments and unrealized loss on financial instruments, but excluding treasury stock) shall be made from unappropriated earnings pursuant to existing regulations promulgated by the Securities and Futures Bureau (SFB). Any special reserve appropriated may be reversed to the extent that the net debit balance reverses.

The appropriations of earnings for 2010 and 2009 had been approved in a Board of Directors' meeting held on February 15, 2011 and a shareholders' meeting held on June 15, 2010, respectively. The appropriations and dividends per share were as follows:

	Appropriation of Earnings		Dividends Per Share (NT\$)	
	For Fiscal Year 2010	For Fiscal Year 2009	For Fiscal Year 2010	For Fiscal Year 2009
Legal capital reserve	\$ 16,160,501	\$ 8,921,784		
Special capital reserve	5,120,827	1,313,047		
Cash dividends to shareholders	77,730,236	77,708,120	\$ 3.00	\$ 3.00
	\$ 99,011,564	\$ 87,942,951		

TSMC's profit sharing to employees and bonus to directors that will be paid in cash in the amounts of NT\$10,908,338 thousand and NT\$51,131 thousand for the year ended December 31, 2010, respectively, were resolved in the meeting of the Board of Directors held on February 15, 2011. Such amounts were not different from the amounts that have been charged against earnings for the year ended December 31, 2010.

The 2010 earnings appropriations related to profit sharing to employees and bonus to directors will be resolved by the shareholders. TSMC's annual shareholders' meeting is scheduled for June 9, 2011.

TSMC's profit sharing to employees to be paid in cash and bonus to directors in the amounts of NT\$6,691,338 thousand and NT\$67,692 thousand for 2009, respectively, had been approved in the shareholders' meeting held on June 15, 2010. The resolved amounts of the profit sharing to employees and bonus to directors were consistent with the resolutions of meeting of the Board of Directors held on February 9, 2010 and same amount had been charged against earnings of 2009.

The information about the appropriations of profit sharing to employees and bonus to directors is available at the Market Observation Post System website.

Under the Integrated Income Tax System that became effective on January 1, 1998, R.O.C. resident shareholders are allowed a tax credit for their proportionate share of the income tax paid by the Company on earnings generated since January 1, 1998.

21. STOCK-BASED COMPENSATION PLANS

The Company's Employee Stock Option Plans, consisting of the 2004 Plan, 2003 Plan and 2002 Plan were approved by the SFB on January 6, 2005, October 29, 2003 and June 25, 2002, respectively. The maximum number of options authorized to be granted under the 2004 Plan, 2003 Plan and 2002 Plan was 11,000 thousand, 120,000 thousand and 100,000 thousand, respectively, with each option eligible to subscribe for one common share when exercised. The options may be granted to qualified employees of the Company or any of its domestic or foreign subsidiaries, in which the Company's shareholding with voting rights, directly or indirectly, is more than fifty percent (50%). The options of all the plans are valid for ten years and exercisable at certain percentages subsequent to the second anniversary of the grant date. Under the terms of the plans, the options are granted at an exercise price equal to the closing price of the Company's common shares listed on the TSE on the grant date.

Options of the plans that had never been granted or had been granted but subsequently canceled had expired as of March 31, 2011.

Information about outstanding options for the three months ended March 31, 2011 and 2010 was as follows:

	Number of Options (In Thousands)	Weighted- average Exercise Price (NT\$)
Three months ended March 31, 2011		
Balance, beginning of period	21,437	\$ 32.3
Options exercised	(4,115)	30.9
Balance, end of period	17,322	32.6
Three months ended March 31, 2010		
Balance, beginning of period	28,810	33.5
Options exercised	(1,063)	34.6
Balance, end of period	27,747	33.4

The number of outstanding options and exercise prices have been adjusted to reflect the distribution of earnings in accordance with the plans.

As of March 31, 2011, information about outstanding options was as follows:

Range of Exercise Price (NT\$)	Number of Options (In Thousands)	Options Outstanding	
		Weighted-average Remaining Contractual Life (Years)	Weighted-average Exercise Price (NT\$)
\$21.7-\$30.5	13,193	1.98	\$ 28.5
38.0-50.1	4,129	3.69	45.7
	17,322	2.39	32.6

As of March 31, 2011, all of the above outstanding options were exercisable.

No compensation cost was recognized under the intrinsic value method for the three months ended March 31, 2011 and 2010. Had the Company used the fair value based method to evaluate the options using the Black-Scholes model, the assumptions at the various grant dates and pro forma results of the Company for the three months ended March 31,

2011 and 2010 would have been as follows:

Assumptions:

Expected dividend yield	1.00%-3.44%
Expected volatility	43.77%-46.15%
Risk free interest rate	3.07%-3.85%
Expected life	5 years

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	Three Months Ended March 31	
	2011	2010
Net income:		
Net income as reported	\$ 36,277,773	\$ 33,663,117
Pro forma net income	36,273,711	33,700,273
Earnings per share (EPS) after income tax (NT\$):		
Basic EPS as reported	\$ 1.40	\$ 1.30
Pro forma basic EPS	1.40	1.30
Diluted EPS as reported	1.40	1.30
Pro forma diluted EPS	1.40	1.30

22. EARNINGS PER SHARE

EPS is computed as follows:

	Amounts (Numerator)		Number of Shares (Denominator) (In Thousands)	EPS (NT\$)	
	Before Income Tax	After Income Tax		Before Income Tax	After Income Tax
Three months ended March 31, 2011					
Basic EPS					
Earnings available to common shareholders	\$ 40,083,216	\$ 36,277,773	25,912,506	\$ 1.55	\$ 1.40
Effect of dilutive potential common shares			11,187		
Diluted EPS					
Earnings available to common shareholders (including effect of dilutive potential common shares)	\$ 40,083,216	\$ 36,277,773	25,923,693	\$ 1.55	\$ 1.40
Three months ended March 31, 2010					
Basic EPS					
Earnings available to common shareholders	\$ 35,091,083	\$ 33,663,117	25,903,465	\$ 1.35	\$ 1.30
Effect of dilutive potential common shares			12,521		
Diluted EPS	\$ 35,091,083	\$ 33,663,117	25,915,986	\$ 1.35	\$ 1.30

Earnings available to common
shareholders (including effect of
dilutive potential common shares)

If the Company may settle the obligation by cash, by issuing shares, or in combination of both cash and shares, profit sharing to employees which will be settled in shares should be included in the weighted average number of shares outstanding in calculation of diluted EPS, if the shares have a dilutive effect. The number of shares is estimated by dividing the amount of profit sharing to employees in stock by the closing price (after considering the dilutive effect of dividends) of the common shares on the balance sheet date. Such dilutive effect of the potential shares needs to be included in the calculation of diluted EPS until the shares of profit sharing to employees are resolved in the shareholders meeting in the following year.

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The average number of shares outstanding for EPS calculation has been considered for the effect of retrospective adjustments. This adjustment caused each of the basic and diluted after income tax EPS for the three months ended March 31, 2010 to remain at NT\$1.30.

23. DISCLOSURES FOR FINANCIAL INSTRUMENTS

a. Fair values of financial instruments were as follows:

	2011		March 31		2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets						
Financial assets at fair value through profit or loss	\$ 11,605	\$ 11,605	\$ 81,703	\$ 81,703	\$ 81,703	\$ 81,703
Available-for-sale financial assets	5,105,351	5,105,351	1,043,306	1,043,306	1,043,306	1,043,306
Held-to-maturity financial assets	6,198,107	6,253,752	14,159,604	14,238,897	14,159,604	14,238,897
Financial assets carried at cost	497,835		497,835		497,835	
Liabilities						
Financial liabilities at fair value through profit or loss	15,028	15,028	11,410	11,410	11,410	11,410
Bonds payable (including current portion)	4,500,000	4,542,890	4,500,000	4,565,957	4,500,000	4,565,957
Other long-term payables (including current portion)	912,591	912,591	1,150,997	1,150,997	1,150,997	1,150,997

b. Methods and assumptions used in the estimation of fair values of financial instruments

- 1) The aforementioned financial instruments do not include cash and cash equivalents, receivables, other financial assets, refundable deposits, short-term loans, payables and guarantee deposits. The carrying amounts of these financial instruments approximate their fair values due to their short maturities.
- 2) Except for derivatives and structured time deposits, available-for-sale and held-to-maturity financial assets were based on their quoted market prices.
- 3) The fair values of those derivatives and structured time deposits are determined using valuation techniques incorporating estimates and assumptions that were consistent with prevailing market conditions.
- 4) Financial assets carried at cost have no quoted prices in an active market and entail an unreasonably high cost to obtain verifiable fair values. Therefore, no fair value is presented.
- 5) Fair value of bonds payable was based on their quoted market price.
- 6) Fair value of other long-term payables was based on the present value of expected cash flows, which approximates their carrying amount.

c. The changes in fair value of derivatives contracts for the three months ended March 31, 2011 and 2010 estimated using valuation techniques were recognized as net loss of NT\$3,423 thousand and a net gain of NT\$70,293 thousand, respectively.

d. As of March 31, 2011 and 2010, financial assets exposed to fair value interest rate risk were NT\$7,245,756 thousand and NT\$15,284,613 thousand, respectively, financial liabilities exposed to fair value interest rate risk

were NT\$38,691,396 thousand and NT\$4,511,410 thousand, respectively.

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- e. Movements of the unrealized gains or losses on financial instruments for the three months ended March 31, 2011 and 2010 were as follows:

	Three Months Ended March 31, 2011		
	From Available-for-sale Financial Assets	Equity-method Investments	Total
Balance, beginning of period	\$ (395,306)	\$ 504,595	\$ 109,289
Recognized directly in shareholders' equity	128,353	(192,769)	(64,416)
Balance, end of period	\$ (266,953)	\$ 311,826	\$ 44,873

	Three Months Ended March 31, 2010		
	From Available-for-sale Financial Assets	Equity-method Investments	Total
Balance, beginning of period	\$ 46,672	\$ 406,949	\$ 453,621
Recognized directly in shareholders' equity	(3,366)	(48,865)	(52,231)
Balance, end of period	\$ 43,306	\$ 358,084	\$ 401,390

f. Information about financial risks

- 1) Market risk. The derivative financial instruments categorized as financial assets/liabilities at fair value through profit or loss are mainly used to hedge the market exchange rate fluctuations of foreign-currency assets and liabilities; therefore, the market exchange rate risk of derivatives will be offset by the foreign exchange risk of these hedged items. Available-for-sale financial assets and held-to-maturity financial assets held by the Company are mainly fixed-interest-rate debt securities and overseas publicly traded stock; therefore, the fluctuations in market interest rates and market price will result in changes in fair values of these debt securities.
- 2) Credit risk. Credit risk represents the potential loss that would be incurred by the Company if the counter-parties or third-parties breached contracts. Financial instruments with positive fair values at the balance sheet date are evaluated for credit risk. The Company evaluated whether the financial instruments for any possible counter-party or third-parties are reputable financial institutions, business enterprises, and government agencies and accordingly, the Company believed that the Company's exposure to credit risk was not significant.
- 3) Liquidity risk. The Company has sufficient operating capital to meet cash needs upon settlement of derivative financial instruments and bonds payable. Therefore, the liquidity risk is low.
- 4) Cash flow interest rate risk. The Company mainly invests in fixed-interest-rate debt securities. Therefore, cash flows are not expected to fluctuate significantly due to changes in market interest rates.

24. RELATED PARTY TRANSACTIONS

The Company engages in business transactions with the following related parties:

a. Subsidiaries

TSMC North America
TSMC China
TSMC Europe
TSMC Japan

b. Investees

GUC (with a controlling financial interest)
Xintec (with a controlling financial interest)
VIS (accounted for using equity method)
SSMC (accounted for using equity method)

c. Indirect subsidiaries

WaferTech, LLC (WaferTech)
TSMC Technology, Inc. (TSMC Technology)
TSMC Design Technology Canada, Inc. (TSMC Canada)

d. Indirect investee

VisEra Technology Company, Ltd. (VisEra), an indirect investee accounted for using equity method.

e. Others

Related parties over which the Company has control or exercises significant influence but with which the Company had no material transactions.

Transactions with the aforementioned parties, other than those disclosed in other notes, are summarized as follows:

	2011		2010	
	Amount	%	Amount	%
For the three months ended March 31				
Sales				
TSMC North America	\$ 57,007,986	55	\$ 48,676,679	53
Others	567,051		373,853	
	\$ 57,575,037	55	\$ 49,050,532	53
Purchases				
TSMC China	\$ 2,419,959	19	\$ 1,577,962	16
WaferTech	1,770,429	14	1,636,493	17
VIS	1,325,127	10	960,978	10
SSMC	955,937	7	1,041,954	10
Others	65,792	1		
	\$ 6,537,244	51	\$ 5,217,387	53

	2011		2010	
	Amount	%	Amount	%
Manufacturing expenses				
Xintec (rent and outsourcing)	\$ 84,600		\$ 45,546	
VIS (rent)	7,104			
VisEra (outsourcing)	5,937		4,460	
Others	770			
	\$ 98,411		\$ 50,006	
Marketing expenses commission				
TSMC Europe	\$ 90,915	14	\$ 98,913	16
TSMC Japan	66,614	10	59,644	9
TSMC China	16,320	2	11,446	2
Others	5,375	1	4,285	1
	\$ 179,224	27	\$ 174,288	28
Research and development expenses				
TSMC Technology (primarily consulting fee)	\$ 113,013	2	\$ 131,169	2
TSMC Canada (primarily consulting fee)	42,489		45,209	1
VIS (primarily rent)	1,999		2,274	
Others	22,250		7,989	
	\$ 179,751	2	\$ 186,641	3
Sales of property, plant and equipment				
TSMC China	\$ 592,339	57	\$ 11,224	8
WaferTech	64,255	6		
VIS	35,208	4	15,940	12
	\$ 691,802	67	\$ 27,164	20
Purchase of property, plant and equipment				
VIS	\$		\$ 15,865	
TSMC China			14,498	
WaferTech			9,624	
	\$		\$ 39,987	

Non-operating income and gains				
VIS (primarily technical service income)	\$ 68,905	3	\$ 86,868	5
SSMC (primarily technical service income)	44,817	2	44,503	2
TSMC China	6,801		25,426	1
	\$ 120,523	5	\$ 156,797	8

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	2011		2010	
	Amount	%	Amount	%
As of March 31				
Receivables				
TSMC North America	\$ 27,517,143	99	\$ 22,055,122	99
Others	261,098	1	205,627	1
	\$ 27,778,241	100	\$ 22,260,749	100
Other receivables				
TSMC China	\$ 1,593,520	86	\$ 123,354	42
VIS	153,680	8	113,100	38
SSMC	45,415	3	45,687	15
Others	60,061	3	13,513	5
	\$ 1,852,676	100	\$ 295,654	100
Payables				
VIS	\$ 953,003	31	\$ 695,640	25
TSMC China	855,485	28	762,578	28
WaferTech	550,219	18	647,205	23
SSMC	395,820	13	408,809	15
TSMC Technology	76,694	2	129,058	5
Others	240,090	8	115,141	4
	\$ 3,071,311	100	\$ 2,758,431	100
Other assets				
TSMC China	\$ 33,833	2	\$ 4,672	

The sales prices and payment terms to related parties were not significantly different from those of sales to third parties. For other related party transactions, prices and terms were determined in accordance with mutual agreements.

The Company leased certain buildings, facilities, and machinery and equipment from Xintec. The lease terms and prices were determined in accordance with mutual agreements. The rental expense was paid monthly and the related expenses were classified under manufacturing expenses.

The Company leased certain office space and facilities from VIS. The lease terms and prices were determined in accordance with mutual agreements. The rental expense was paid monthly and the related expenses were classified under research and development expenses and manufacturing expenses.

The Company deferred the disposal losses (classified under other assets) derived from sales of property, plant and equipment to TSMC China, and then recognized such losses (classified under non-operating gains and losses) over

the depreciable lives of the disposed assets.

25. PLEDGED OR MORTGAGED ASSETS

As of March 31, 2011, the Company had no assets set aside as collateral. As of March 31, 2010, the Company had pledged time deposits of NT\$737,109 thousand (classified as other financial assets) as collateral for land lease agreements and customs duty guarantee.

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26 SIGNIFICANT LONG-TERM LEASES

The Company leases several parcels of land from the Science Park Administration. These operating leases expire on various dates from April 2011 to July 2030 and can be renewed upon expiration.

As of March 31, 2011, future lease payments were as follows:

Year	Amount
2011 (2 nd to 4 th quarter)	\$ 310,833
2012	412,977
2013	388,729
2014	375,171
2015	365,007
2016 and thereafter	3,078,295
	\$ 4,931,012

27. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

Significant commitments and contingencies of the Company as of March 31, 2011, excluding those disclosed in other notes, were as follows:

- a. Under a technical cooperation agreement with ITRI, the R.O.C. Government or its designee approved by the Company can use up to 35% of the Company's capacity if the Company's outstanding commitments to its customers are not prejudiced. The term of this agreement is for five years beginning from January 1, 1987 and is automatically renewed for successive periods of five years unless otherwise terminated by either party with one year prior notice.
- b. Under several foundry agreements, the Company shall reserve a portion of its production capacity for certain major customers that have guarantee deposits with the Company. As of March 31, 2011, the Company had a total of US\$21,583 thousand of guarantee deposits.
- c. Under a Shareholders Agreement entered into with Philips and EDB Investments Pte Ltd. on March 30, 1999, the parties formed a joint venture company, SSMC, which is an integrated circuit foundry in Singapore. The Company's equity interest in SSMC was 32%. Nevertheless, Philips parted with its semiconductor company which was renamed as NXP B.V. in September 2006. The Company and NXP B.V. purchased all the SSMC shares owned by EDB Investments Pte Ltd. pro rata according to the Shareholders Agreement on November 15, 2006. After the purchase, the Company and NXP B.V. currently own approximately 39% and 61% of the SSMC shares respectively. The Company and Philips (now NXP B.V.) are required, in the aggregate, to purchase at least 70% of SSMC's capacity, but the Company alone is not required to purchase more than 28% of the capacity. If any party defaults on the commitment and the capacity utilization of SSMC fall below a specific percentage of its capacity, the defaulting party is required to compensate SSMC for all related unavoidable costs.
- d. In August 2006, TSMC filed a lawsuit against Semiconductor Manufacturing International Corporation, SMIC (Shanghai) and SMIC Americas (aggregately referred to as SMIC) in the Superior Court of California for Alameda County for breach of a 2005 agreement that settled an earlier trade secret misappropriation and patent infringement litigation between the parties, as well as for trade secret misappropriation, seeking injunctive relief and monetary damages. In September 2006, SMIC filed a cross-complaint against TSMC in the same court alleging breach of settlement agreement, implied covenant of good faith and fair dealing. SMIC also filed a civil action against TSMC in November 2006 with the Beijing People's High Court alleging defamation and breach of good faith. On June 10, 2009, the Beijing People's High Court ruled in favor of TSMC and dismissed SMIC's lawsuit. On November 4, 2009, after a

two-month trial, a jury in the California action found SMIC to have both breached the 2005 settlement agreement and misappropriated TSMC's trade secrets. TSMC has subsequently settled both lawsuits with SMIC. Pursuant to the new settlement agreement, the parties have agreed to the entry of a stipulated judgment in favor of TSMC in the California action, and to the dismissal of SMIC's appeal against the Beijing High Court's finding in favor of TSMC. Under the new settlement agreement and the related stipulated judgment, SMIC has agreed to make cash payments by installments to TSMC totaling US\$200 million, which are in addition to the US\$135 million previously paid to TSMC under the 2005 settlement agreement, and, conditional upon relevant government regulatory approvals, to issue to TSMC a total of 1,789,493,218 common shares of Semiconductor Manufacturing International Corporation and a three-year warrant to purchase 695,914,030 common shares (subject to adjustment) of Semiconductor Manufacturing International Corporation at HK\$1.30 per share (subject to adjustment). TSMC has received the approval from the Investment Commission of Ministry of Economic Affairs and acquired the above mentioned common shares on July 5, 2010, representing approximately 7.37% of Semiconductor Manufacturing International Corporation's total shares outstanding, and recognized settlement income amounting to NT\$4,434,364 thousand.

- e. In June 2010, Keranos, LLC. filed a lawsuit in the U.S. District Court for the Eastern District of Texas alleging that TSMC, TSMC North America, and several other leading technology companies infringe three expired U.S. patents. In response, TSMC, TSMC North America, and several co-defendants in the Texas case filed a lawsuit against Keranos in the U.S. District Court for the Northern District of California in November 2010, seeking a judgment declaring that they did not infringe the asserted patents, and that those patents are invalid. The outcome of these two litigations cannot be determined at this time.
- f. In December 2010, Ziptronix, Inc. filed a complaint in the U.S. District Court for the Northern District of California accusing TSMC, TSMC North America and one other company of allegedly infringing six U.S. patents. This litigation is in its very early stages and therefore the outcome of the case cannot be determined at this time.

28. OTHERS

The significant financial assets and liabilities denominated in foreign currencies were as follows:

	March 31			
	2011		2010	
	Foreign	Exchange	Foreign	Exchange
	Currencies	Rate	Currencies	Rate
	(In		(In	
	Thousands)	(Note)	Thousands)	(Note)
Financial assets				
Monetary items				
USD	\$ 1,919,150	29.468	\$ 1,481,960	31.819
EUR	127,036	41.81	55,447	42.80
JPY	29,399,539	0.3541	29,995,717	0.3430
Non-monetary items				
HKD	1,073,696	3.79		
Investments accounted for using equity method				
USD	3,022,391	29.468	2,802,271	31.819
EUR	14,318	41.81	3,696	42.80
JPY	407,297	0.3541	388,979	0.3430

RMB

1,049,606

4.50

599,071

4.66

(Continued)

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	March 31			
	2011		2010	
	Foreign	Exchange	Foreign	Exchange
	Currencies	Rate	Currencies	Rate
	(In		(In	
	Thousands)	(Note)	Thousands)	(Note)
Financial liabilities				
Monetary items				
USD	\$ 1,915,005	29.468	\$ 738,649	31.819
EUR	163,964	41.81	107,390	42.80
JPY	32,211,580	0.3541	28,747,758	0.3430
				(Concluded)

Note: Exchange rate represents the number of N.T. dollars for which one foreign currency could be exchanged.

29. ADDITIONAL DISCLOSURES

Following are the additional disclosures required by the SFB for the Company and its investees:

- a. Financing provided: Please see Table 1 attached;
- b. Endorsement/guarantee provided: None;
- c. Marketable securities held: Please see Table 2 attached;
- d. Marketable securities acquired or disposed of at costs or prices of at least NT\$100 million or 20% of the paid-in capital: Please see Table 3 attached;
- e. Acquisition of individual real estate properties at costs of at least NT\$100 million or 20% of the paid-in capital: Please see Table 4 attached;
- f. Disposal of individual real estate properties at prices of at least NT\$100 million or 20% of the paid-in capital: None;
- g. Total purchases from or sales to related parties of at least NT\$100 million or 20% of the paid-in capital: Please see Table 5 attached;
- h. Receivable from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Please see Table 6 attached;
- i. Names, locations, and related information of investees over which the Company exercises significant influence: Please see Table 7 attached;

- j. Information about derivatives of investees over which the Company has a controlling interest:

Not meet the criteria for hedge accounting

TSMC China entered into forward exchange contracts during the three months ended March 31, 2011 to manage exposures due to foreign exchange rate fluctuations. Outstanding forward exchange contract as of March 31, 2011 consisted of the following:

	Maturity Date	Contract Amount (In Thousands)
Sell RMB/Buy US\$	May 2011 to June 2011	RMB581,698/US \$88,000
Sell US\$/Buy JPY	April 2011	US\$1,531/JPY124,092

For the three months ended March 31, 2011, net losses arising from forward exchange contracts of TSMC China amounted to NT\$29,524 thousand.

Xintec entered into forward exchange contracts during the three months ended March 31, 2011 to manage exposures due to foreign exchange rate fluctuations. Outstanding forward exchange contracts as of March 31, 2011 consisted of the following:

	Maturity Date	Contract Amount (In Thousands)
Sell US\$/Buy NT\$	April 2011 to May 2011	US\$9,000/NT \$ 265,008
Sell NT\$/Buy US\$	April 2011	NT\$53,267/US \$ 1,800

For the three months ended March 31, 2011, net gains arising from forward exchange contracts of Xintec amounted to NT\$8,050 thousand.

TSMC Partners entered into forward exchange contracts during the three months ended March 31, 2011 to manage exposures due to foreign exchange rate fluctuations. Outstanding forward exchange contracts as of March 31, 2011 consisted of the following:

	Maturity Date	Contract Amount (In Thousands)
Sell RMB/Buy US\$	April 2011 to May 2011	RMB344,167/US \$52,500

For the three months ended March 31, 2011, net losses arising from forward exchange contracts of TSMC Partners amounted to NT\$3,775 thousand.

Meet the criteria for hedge accounting

Xintec monitors and manages the financial risk through the analysis of business environment and evaluation of entity's financial risks. Further, Xintec seeks to reduce the effects of future cash flow related interest rate exposures by primarily using derivative financial instruments.

Xintec is exposed to interest rate risk because its long-term bank loans bear floating interest rates. Accordingly, Xintec enters into interest rate swap contract to hedge such a cash flow interest rate risk. As of March 31, 2011, the outstanding interest rate swap contract of Xintec consisted of the following:

Hedged Item	Hedging Financial Instrument	Fair Value March 31, 2011	Expected Cash Flow Generated Period	Expected Timing for the Recognition of Gains or Losses from Hedge
Long-term bank loans	Interest rate swap contract	\$(676)	2010 to 2012	2010 to 2012

The adjustment to shareholders' equity and the amount removed from shareholders' equity and recognized as a loss of Xintec from the above interest rate swap contract amounted to NT\$676 thousand and NT\$226 thousand for the three months period ended March 31, 2011, respectively.

k. Information on investment in Mainland China

- 1) The name of the investee in Mainland China, the main businesses and products, its issued capital, method of investment, information on inflow or outflow of capital, percentage of ownership, equity in the net gain or net loss, ending balance, amount received as dividends from the investee, and the limitation on investee: Please see Table 8 attached.
- 2) Significant direct or indirect transactions with the investee, its prices and terms of payment, unrealized gain or loss, and other related information which is helpful to understand the impact of investment in Mainland China on financial reports: Please see Note 24.

30. OPERATING SEGMENTS INFORMATION

The Company has provided the operating segments disclosure in the consolidated financial statements.

TABLE 1

**Taiwan Semiconductor Manufacturing Company Limited and Investees
FINANCINGS PROVIDED
FOR THE THREE MONTHS ENDED MARCH 31, 2011
(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)**

Financial statement	Financing Maximum Limit for Each Borrowing Period (US\$ in Thousands)	Balance for the Period (US\$ in Thousands)	Ending Balance (US\$ in Thousands)	Interest Rate	Readily Available for Financing Debt	Collateral Items	Transaction Amounts (Note 2)	Financing Company's	Financing Amount Limits (Note 2)
1 TSMC Partnership from related parties	TSMC Note (US\$250,000)	\$ 7,367,000	\$ 7,367,000	0.25%-0.26%	Purchase equipment	\$ \$ \$	\$ 32,779,954		

Note 1: The total amount for lending to a company for funding for a short-term period shall not exceed ten percent (10%) of the net worth of TSMC Partners. In addition, the total amount lendable to any one borrower shall be no more than thirty percent (30%) of the borrower's net worth. While offshore subsidiaries whose voting shares are 100% owned, directly or indirectly, by TSMC will not be subjected to this restriction.

Note 2: The total amount available for lending purpose shall not exceed the net worth of TSMC Partners.

TABLE 2

Taiwan Semiconductor Manufacturing Company Limited and Investees
MARKETABLE SECURITIES HELD
MARCH 31, 2011
(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

			March 31, 2011		
Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	Shares/Units (In Thousands)	Carrying Value (Foreign Currencies in Thousands)	Percentage Owned
Government bond					
Mobile Co., Ltd.		Available-for-sale financial assets		\$ 1,036,044	
Intel Corporation		Held-to-maturity financial assets		1,506,225	
Petrochemical Corporation				1,463,363	
Power Company				1,349,634	
Plastics Corporation				1,303,390	
Plastics Corporation				575,495	
Semiconductor Manufacturing Corporation		Available-for-sale financial assets	1,789,493	4,069,307	
Global	Subsidiary	Investments accounted for using equity method	1	42,523,518	
Partners	Subsidiary		988,268	32,779,954	
	Investee accounted for using equity method		628,223	9,456,221	
	Investee accounted for using equity method		314	7,256,841	
	Investee accounted for using equity method		76,069	6,770,069	
North America	Subsidiary		11,000	2,843,416	
	Investee with a controlling financial interest		93,081	1,678,379	
	Investee with a controlling financial interest		46,688	1,164,288	
Latin America	Subsidiary			406,305	
Europe	Subsidiary			192,329	
Japan	Subsidiary		6	144,224	
China	Subsidiary		80	21,093	
Latin America	Subsidiary		1	7,945	
Lighting NA	Subsidiary		1	2,942	

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Industrial Gases Co., Ltd.		Financial assets carried at cost	16,783	193,584
Handotai Taiwan Co., Ltd.			10,500	105,000
Technology Fund IV			4,000	40,000
ventures Fund		Financial assets carried at cost		103,992
Asia Capital				55,259
ina	Subsidiary	Investments accounted for using equity method		4,721,701
	Subsidiary			2,672,382
	Subsidiary			1,041,270
Alliance	Subsidiary			290,203
bond				
lec Cap Corp. Mtn		Held-to-maturity financial assets	US\$	20,218
lec Cap Corp. Mtn			US\$	20,121

(Continued)

March 31

Marketable Securities	Type and Name	Relationship with the Company	Financial Statement Account	Carrying Value (Foreign)		Per
				Shares/Units (In Thousands)	Currencies (Thousands)	
Common stock						
TSMC Development, Inc. (TSMC Development)	Subsidiary		Investments accounted for using equity method	1	US\$ 417,397	
Tera Holding Company	Investee accounted for using equity method			43,000	US\$ 85,259	
Star Semiconductor Development, Inc. (ISDF)	Subsidiary			4,088	US\$ 19,707	
Star Semiconductor Development, Inc. (II) LDC. (ISDF II)	Subsidiary			16,532	US\$ 13,253	
TIC Technology	Subsidiary			1	US\$ 10,083	
TIC Canada	Subsidiary			2,300	US\$ 3,892	
Trustee Inc.	Investee accounted for using equity method			5,333		
Preferred stock						
Trustee Inc.	Investee accounted for using equity method		Investments accounted for using equity method	1,000		
Corporate bond						
Capital Corp.			Held-to-maturity financial assets		US\$ 20,185	
Morgan Chase & Co.					US\$ 15,000	
Trustee						
erTech	Subsidiary		Investments accounted for using equity method	293,640	US\$ 179,027	
Corporate bond						
Bk			Available-for-sale financial assets	249	US\$ 249	
Bk Ssb				249	US\$ 249	
ally Bank				249	US\$ 249	
anco Popular De P R				249	US\$ 249	
R Block Bank				249	US\$ 249	
Common stock						
Wave Technology Corp.			Financial assets carried at cost	4,074	US\$ 1,545	
al Investment Holding Inc.				11,124	US\$ 3,065	
Preferred stock						
ence, Inc.			Financial assets carried at cost	1,654	US\$ 250	
IO, Inc.				800	US\$ 500	

Chron, Inc.			1,276	US\$	1,145
n, Inc.			4,641	US\$	1,137
Holdings, LLC				US\$	142
tal					
ureTech Alliance Holdings, LLC	Subsidiary	Investments accounted for using equity method			
A Holdings)					
orate bond					
R Block Bank		Available-for-sale financial assets	249	US\$	249
mon stock					
er Systems, Inc.		Financial assets carried at cost	1,600	US\$	1,503
Wave Technology Corp.			1,267	US\$	1,036
elic			1,806	US\$	2,607
					Continued

Securities Type and Name	Relationship with the Company	Financial Statement Account	March 31, 2018	
			Shares/Units (In Thousands)	Carrying Value (Foreign Currencies in Thousands)
Common stock				
Technologies, Inc.		Financial assets carried at cost	2,890	US\$ 2,168
			3,974	US\$ 3,816
Inc.			12,378	US\$ 2,378
Inc.			475	US\$ 1,000
Inc.			3,795	US\$ 953
, Inc.			2,847	US\$ 2,825
Inc.			33,347	US\$ 1,878
analog Microelectronics			7,027	US\$ 3,383
ings, LLC				US\$ 593
			4,615	US\$ 1,611
Buildings	Subsidiary	Investments accounted for using equity method		
Common stock				
Bank Technology Co., Ltd.	Subsidiary	Investments accounted for using equity method	11,868	US\$ 1,862
Wireless Broadband Corp.		Financial assets carried at cost	2,249	US\$ 315
Common stock				
, Inc.		Financial assets carried at cost	4,694	US\$ 422
, Inc.			6,113	US\$ 7,781
Inc.			59,695	US\$ 5,897
Inc.			1,154	US\$ 1,500
, Inc.			816	US\$ 1,000
Lighting Corp.			1,600	US\$ 800
, Inc.			3,686	US\$ 4,717
, Ltd.			380	US\$ 5,790
Inc.			3,106	US\$ 369
Technical Services, LLC			1,055	US\$ 1,208
, Inc.			7,347	US\$ 50,000
, Inc.			3,890	US\$ 3,025
sensors, Inc.			9,340	US\$ 3,456
Fund Limited (Growth Fund)	Subsidiary	Investments accounted for using equity method		US\$ 854
Buildings	Subsidiary			
Common stock				
Technologies, Inc.		Financial assets carried at cost	5,107	US\$ 762

stock		10	US\$ 25
Memory Logic, Inc.	Available-for-sale financial assets	2,989	US\$ 8,287
nc.		1,286	US\$ 4,692
stock	Financial assets carried at cost	230	US\$ 497
c.			
stock	Available-for-sale financial assets	1,072	US\$ 3,913
nc.			
Technologies Limited	Financial assets carried at cost	7,520	US\$ 3,664
c.		278	US\$ 10

(Continued)

		March 31,		
		Carrying Value (Foreign Per Shares/UnitsCurrencies (In Thousands)Thousands)		
Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	(In Thousands)	in Own (Thousands)
oyatek Technology, Corp.		Financial assets carried at cost	932 US\$	361
uden Technology MFG. Co., Ltd.			1,049 US\$	223
ferred stock				
ngTek, Inc.		Financial assets carried at cost	1,032 US\$	148
onics, Inc.			264 US\$	455
pen-end mutual fund				
ni Sun Money Market Fund		Available-for-sale financial assets	9,875	\$ 140,097
mega Diamond Money Market Fund			10,009	120,110
CA Well Pool Money Market Fund			6,141	80,088
uh Hwa Money Market Fund			3,606	50,056
ommon stock				
UC-NA	Subsidiary	Investments accounted for using equity method	800	60,915
UC-Japan	Subsidiary		1	14,881
UC-BVI	Subsidiary		550	8,846
UC-Europe	Subsidiary			3,916
apital				
lobal Unichip (Shanghai) Company, Limited	Subsidiary	Investments accounted for using equity method		7,551
GUC-Shanghai)				
apital				
ompositech Ltd.		Financial assets carried at cost	587	
ock				
SMC Solar Europe GmbH	Subsidiary	Investments accounted for using equity method	1 EUR	9,618
orporate bond				
frican Development Bank		Available-for-sale financial assets	2,600 US\$	2,620
llstate Life Gbl Fdg Secd			4,430 US\$	4,779
lltel Corp.			100 US\$	107
rcher Daniels Midland Co.			7,000 US\$	7,010
strazeneca Plc			3,150 US\$	3,357
T+T Wireless			3,500 US\$	3,767
anco Bilbao Vizcaya P R			3,250 US\$	3,249
ank of America Corp.			2,000 US\$	2,033

Bank of America Corp.	2,100	US\$	2,148
Bank of New York Mellon	2,200	US\$	2,203
Barclays Bank Plc NY	400	US\$	400
Barclays Bk Plc UK Govt Cr	5,000	US\$	5,101
Black+T Corporation	3,840	US\$	3,976
Blackstone US Senior SA Uniper	2,645	US\$	2,645
Blackstone Stearns Cos Inc.	3,500	US\$	3,514
Blackstone Stearns Cos Inc. Med Term	2,400	US\$	2,584
Blackstone Hathaway Inc. Del	3,500	US\$	3,522
Blackstone Billiton Fin USA Ltd.	2,000	US\$	2,090
Blackstone Billiton Fin USA Ltd.	3,500	US\$	3,881
Blackstone Tokyo Mitsubishi Ufj	2,000	US\$	2,033
Blackstone US Capital LLC	1,600	US\$	1,601
Blackstone Paribas SA	3,810	US\$	3,838
Blackstone Co.	1,000	US\$	1,017
Blackstone Co.	2,200	US\$	2,362

(Continued)

		March 31, 2011				Market Value
		Carrying Value			Asset Value	
Marketable Securities	Relationship with	Financial	Shares/Units	(Foreign Currencies)	Percentage of	(Foreign Currencies)
Name	Type and Name	Statement Account	(In thousands)	in Thousands)	Ownership (%)	in Thousands
	Bp Capital Markets Plc	Available-for-sale financial assets	7,160	US \$7,191	N/A	
	Caterpillar Financial Se		100	US \$100	N/A	
	Caterpillar Financial Se		900	US \$902	N/A	
	Cellco Part/Veri Wireless		1,000	US \$1,141	N/A	
	Cellco Part/Veri Wirelss		1,100	US \$1,208	N/A	
	Cello Part/Veri Wirelss		2,000	US \$2,007	N/A	
	Chevron Corp.		4,000	US \$4,278	N/A	
	Cie Financement Foncier		200	US \$200	N/A	
	Cie Financement Foncier		4,000	US \$4,009	N/A	
	Cisco Systems Inc.		7,050	US \$7,073	N/A	
	Citigroup Funding Inc.		6,000	US \$6,114	N/A	
	Citigroup Funding Inc.		7,300	US \$7,438	N/A	
	Citigroup Inc.		600	US \$609	N/A	
	Citigroup Inc.		800	US \$824	N/A	
	Citigroup Inc.		2,000	US \$2,110	N/A	
	Citigroup Inc.		400	US \$428	N/A	
	Citigroup Inc.		2,550	US \$2,773	N/A	
	Citigroup Inc.		5,000	US \$5,467	N/A	
	Citigroup Inc. Fdic Gtd Tlgp		2,000	US \$2,012	N/A	
	Coca Cola Co.		4,000	US \$4,029	N/A	
	Commonwealth Bank Aust		2,000	US \$1,997	N/A	
	Commonwealth Bank Aust		2,800	US \$2,805	N/A	
	Conocophillips		2,000	US \$2,129	N/A	
	Credit Suisse New York		3,200	US \$3,239	N/A	
	Credit Suisse New York		3,945	US \$4,065	N/A	
	Deutsche Bank AG NY		2,500	US \$2,497	N/A	
	Dexia Credit Local		6,000	US \$5,971	N/A	
	Dexia Credit Local		4,000	US \$3,977	N/A	
	Dexia Credit Local S.A		4,000	US \$3,994	N/A	
	Dexia Credit Local SA NY		5,000	US \$4,966	N/A	
			2,850	US \$2,856	N/A	

Du Pont E I De Nemours + Co.			
Du Pont E I De Nemours + Co.	825	US \$882	N/A
Ebay Inc.	1,375	US \$1,360	N/A
Eog Res Inc.	2,200	US \$2,436	N/A
Eog Resources Inc.	1,500	US \$1,513	N/A
Finance for Danish Ind	3,800	US \$3,799	N/A
General Elec Cap Corp.	5,000	US \$5,041	N/A
General Elec Cap Corp.	7,000	US \$7,005	N/A
General Elec Cap Corp.	1,000	US \$1,000	N/A
General Elec Cap Corp.	4,000	US \$4,094	N/A
General Electric Capital Corp.	2,000	US \$2,012	N/A
Georgia Pwr Co.	1,000	US \$1,001	N/A
Georgia Pwr Co.	4,000	US \$4,000	N/A
Gmac LLC	4,600	US \$4,712	N/A
Goldman Sachs Group Inc.	3,400	US \$3,425	N/A
Goldman Sachs Group Inc.	2,000	US \$1,987	N/A
Groupe Bpce	1,150	US \$1,149	N/A
Hewlett Packard Co.	3,000	US \$3,004	N/A
Hewlett Packard Co.	2,030	US \$2,032	N/A
Household Fin Corp.	4,330	US \$4,660	N/A
HSBC Bank Plc	1,315	US \$1,315	N/A
HSBC Bank Plc	3,400	US \$3,397	N/A
HSBC Fin Corp.	2,900	US \$2,857	N/A

(Continued)

							March 31, 2011
							Market Value
							Asset
							(Foreign Currencies)
							Percentage of
							Ownership (%)
							in Thousands
Marketable Securities	Relationship with	Financial	Shares/Units	Carrying Value	Foreign Currencies	Percentage of	Market Value
Name	Type and Name	the Company	Statement Account	(In	in Thousands)	Ownership (%)	in Thousands
			Thousands)	(In	in Thousands)	Ownership (%)	in Thousands
	Hutchison Whampoa Intl 03 13 L		Available-for-sale financial assets	1,900	US \$2,066	N/A	
	IBM Corp.			2,300	US \$2,301	N/A	
	IBM Corp.			6,800	US \$6,759	N/A	
	IBM Corp.			1,500	US \$1,501	N/A	
	Intl Bk Nv Neth St Cr Gtee			8,500	US \$8,643	N/A	
	Intl Bk Recon + Develop			2,000	US \$2,035	N/A	
	John Deer Capital Corp. Fdic GT			3,500	US \$3,601	N/A	
	JP Morgan Chase + Co.			2,500	US \$2,514	N/A	
	JP Morgan Chase + Co.			5,000	US \$5,033	N/A	
	JP Morgan Chase + Co. Fdic Gtd Tlg			1,625	US \$1,634	N/A	
	Kreditanstalt Fur Wiederaufbau			650	US \$660	N/A	
	Lilly Eli + Co.			1,531	US \$1,641	N/A	
	Lloyds Tsb Bank Plc Ser 144A			4,850	US \$4,850	N/A	
	Lloyds Tsb Bank Plc Ser 144A			2,950	US \$2,976	N/A	
	Macquarie Bk Ltd. Sr			13,200	US \$13,423	N/A	
	Massmutual Global Fdg II Mediu			4,000	US \$3,959	N/A	
	Mellon Fdg Corp.			3,500	US \$3,481	N/A	
	Merck + Co. Inc.			4,000	US \$4,015	N/A	
	Merck + Co. Inc.			2,000	US \$2,058	N/A	
	Merrill Lynch + Co. Inc.			4,691	US \$4,671	N/A	
	Merrill Lynch + Co. Inc.			4,000	US \$4,309	N/A	
	Met Life Glob Funding I			3,000	US \$3,016	N/A	
	Metlife Inc.			6,500	US \$6,570	N/A	
	Metlife Inc.			2,000	US \$2,010	N/A	
	Monsanto Co. New			250	US \$271	N/A	
	Monumental Global Fdg II			1,500	US \$1,450	N/A	
	Monumental Global Fdg III			750	US \$741	N/A	
	Morgan Stanley			9,000	US \$9,178	N/A	

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Morgan Stanley for Equity	2,000	US \$2,001	N/A
National Australia Bank	3,000	US \$3,030	N/A
National Australia Bank	1,000	US \$1,015	N/A
National Bank of Canada	600	US \$601	N/A
New York Life Global Fdg	2,000	US \$2,041	N/A
Occidental Petroleum Cor	1,000	US \$1,000	N/A
Pacific Gas + Electric	2,000	US \$1,999	N/A
Pepsiamericas Inc.	4,000	US \$4,290	N/A
Philip Morris Intl Inc.	130	US \$139	N/A
Philip Morris Intl Inc.	4,000	US \$4,591	N/A
Pnc Funding Corp.	2,000	US \$2,001	N/A
Pricoa Global Fdg I Med Term	1,750	US \$1,726	N/A
Principal Life Income Fundings	2,250	US \$2,229	N/A
Princoa Global Fdg I Medium	2,200	US \$2,186	N/A
Public Svc Co. Colo	1,380	US \$1,515	N/A
Rabobank Nederland	5,000	US \$5,000	N/A
Royal Bk of Scotland Plc	4,000	US \$4,000	N/A
Royal Bk of Scotland Plc	5,000	US \$5,044	N/A
Royal Bk Scotland Plc	2,550	US \$2,619	N/A
Royal Bk Scotland Plc	2,825	US \$2,876	N/A
Royal Bk Scotlnd Grp Plc 144A	9,450	US \$9,504	N/A
Sanofi Aventis	4,000	US \$3,999	N/A
Sanofi Aventis	3,870	US \$3,880	N/A
Sbc Communications Inc.	2,000	US \$2,085	N/A
Shell International Fin	4,515	US \$4,533	N/A

(Continued)

							March 31, 2011
					Carrying Value		
Marketable Securities	Relationship with	Financial	Shares/Units	Foreign Currencies	Percentage of	Market Value	
Name	Type and Name	the Company	(In	in Thousands)	Ownership (%)	Asset	
		Statement Account	Thousands)			(Foreign C	
		financial assets				in Thous	
	Shell International Fin	Available-for-sale	3,200	US \$3,257	N/A		
	Sovereign Bancorp		2,200	US \$2,248	N/A		
	Fdic Gtd Tlg						
	Standard Chartered BK		3,000	US \$2,998	N/A		
	NY						
	Sun Life Finl Global		4,400	US \$4,362	N/A		
	Sun Life Finl Global		1,500	US \$1,500	N/A		
	Fdg II Lp						
	Suncorp Metway Ltd.		8,800	US \$8,964	N/A		
	Svenska		2,200	US \$2,253	N/A		
	Handelsbanken AB						
	Swedbank AB		2,000	US \$1,998	N/A		
	Swedbank		1,500	US \$1,527	N/A		
	Foreningssparbanken A						
	Swedbank Hypotek AB		4,000	US \$4,000	N/A		
	Swedbank Hypotek AB		4,100	US \$4,101	N/A		
	Teva Pharm Fin III		4,000	US \$4,014	N/A		
	Teva Pharma Fin III		4,000	US \$4,011	N/A		
	LLC						
	Thermo Fisher		2,050	US \$2,072	N/A		
	Scientific						
	Tiaa Global Mkts Inc.		2,000	US \$2,118	N/A		
	Tiaa Global Mkts Inc.		1,500	US \$1,610	N/A		
	Mtn						
	Total Capital Canada		4,000	US \$4,012	N/A		
	Ltd.						
	Transcanada Pipelines		1,000	US \$1,084	N/A		
	Ltd.						
	Ubs Ag Stamford CT		2,200	US \$2,198	N/A		
	Ubs Ag Stamford CT		800	US \$807	N/A		
	Unilever Cap Corp.		1,000	US \$1,054	N/A		
	United Technologies		4,000	US \$4,247	N/A		
	Corp.						
	US Central Federal		8,500	US \$8,661	N/A		
	Cred						
	Verizon		7,725	US \$7,766	N/A		
	Communications						
	Virginia Elec + Pwr		3,250	US \$3,460	N/A		
	Co.						
	Volkswagen Intl Fin		4,000	US \$4,001	N/A		
	NV						

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Wachovia Corp.		550	US \$547	N/A
Wachovia Corp. Global Medium		5,000	US \$5,147	N/A
Wal Mart Stores Inc.		4,000	US \$3,966	N/A
Wal Mart Stores Inc.		3,770	US \$4,256	N/A
Wells Fargo + Company		2,000	US \$2,007	N/A
Westpac Banking Corp.		3,500	US \$3,508	N/A
Westpac Banking Corp.		2,100	US \$2,109	N/A
Westpac Banking Corp.		4,000	US \$4,004	N/A
Wyeth		3,983	US \$4,317	N/A
Aust + Nz Banking Group	Held-to-maturity financial assets	20,000	US \$20,000	N/A
Commonwealth Bank of Australia		25,000	US \$25,000	N/A
Commonwealth Bank of Australia		25,000	US \$25,000	N/A
JP Morgan Chase + Co.		35,000	US \$35,059	N/A
Nationwide Building Society-UK		8,000	US \$8,000	N/A
Government Guarantee Westpac Banking Corp.		25,000	US \$25,000	N/A
Westpac Banking Corp. 12/12 Frn Agency bond		5,000	US \$5,000	N/A
Emirate of Abu Dhabi 144A	Available-for-sale financial assets	1,800	US \$1,967	N/A
Fannie Mae		11,100	US \$11,106	N/A
Fannie Mae		3,900	US \$3,852	N/A
Fannie Mae		16,104	US \$16,114	N/A
Fannie Mae		6,100	US \$6,092	N/A
Fannie Mae		7,500	US \$7,501	N/A
Fannie Mae		20,265	US \$20,275	N/A
Fannie Mae		4,600	US \$4,597	N/A
Fannie Mae		3,000	US \$2,985	N/A

(Continued)

							March 31, 2011
					Carrying Value		
Marketable Securities		Relationship with	Financial	Shares/Units	Foreign Currencies	Percentage of	Market Value
Name	Type and Name	the Company	Statement Account	(In Thousands)	in Thousands)	Ownership (%)	(Foreign C Asset in Thous
	Fed Hm Ln Pc Pool 1b2830		Available-for-sale financial assets	1,750	US \$1,833	N/A	
	Fed Hm Ln Pc Pool 1g0115			1,548	US \$1,599	N/A	
	Fed Hm Ln Pc Pool 1g1114			762	US \$800	N/A	
	Fed Hm Ln Pc Pool 1k1210			1,470	US \$1,543	N/A	
	Fed Hm Ln Pc Pool 780741			1,740	US \$1,819	N/A	
	Federal Farm Credit Bank			4,000	US \$3,982	N/A	
	Federal Farm Credit Bank			4,000	US \$3,999	N/A	
	Federal Farm Credit Bank			4,000	US \$4,002	N/A	
	Federal Home Ln Mtg Assn			1,492	US \$1,507	N/A	
	Federal Home Ln Mtg Corp.			3,417	US \$3,411	N/A	
	Federal Home Ln Mtg Corp.			2,054	US \$2,047	N/A	
	Federal Home Ln Mtg Corp.			1,284	US \$1,336	N/A	
	Federal Home Ln Mtg Corp.			2,355	US \$2,463	N/A	
	Federal Home Ln Mtg Corp.			1,488	US \$1,522	N/A	
	Federal Home Ln Mtg Corp.			1,565	US \$1,622	N/A	
	Federal Home Ln Mtg Corp.			1,027	US \$1,056	N/A	
	Federal Home Ln Mtg Corp.			3,202	US \$3,321	N/A	
	Federal Home Ln Mtg Corp.			1,632	US \$1,652	N/A	
	Federal Home Loan Bank			3,350	US \$3,364	N/A	
	Federal Home Loan Bank			8,400	US \$8,400	N/A	
	Federal Home Loan Mtg Corp.			4,760	US \$4,732	N/A	

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Federal Home Loan Mtg Corp.	218	US \$218	N/A
Federal National Mort Assoc	155	US \$155	N/A
Federal Natl Mtg Assn Gtd	2,093	US \$2,160	N/A
Federal Natl Mtg Assn Gtd Remi	1,640	US \$1,696	N/A
Federal Natl Mtg Assn Mtn	903	US \$921	N/A
Federal Natl Mtg Assn Remic	699	US \$704	N/A
Federal Natl Mtge Assn Fhr 2647 Pb	1,273	US \$1,338	N/A
Fhr 2953 Da	967	US \$973	N/A
Fhr 3087 Jb	2,912	US \$3,074	N/A
Fhr 3184 Fa	1,299	US \$1,366	N/A
Fhr 3184 Fa	3,881	US \$3,865	N/A
Fnma Pool 467196	1,995	US \$1,989	N/A
Fnma Pool 745131	1,659	US \$1,724	N/A
Fnma Pool 745688	1,218	US \$1,271	N/A
Fnma Pool 775852	323	US \$329	N/A
Fnma Pool 790772	1,153	US \$1,212	N/A
Fnma Pool 819649	1,843	US \$1,921	N/A
Fnma Pool 829989	1,549	US \$1,627	N/A
Fnma Pool 841068	462	US \$487	N/A
Fnma Pool 846233	1,728	US \$1,805	N/A
Fnma Pool 870884	1,380	US \$1,446	N/A
Fnma Pool 879908	1,259	US \$1,323	N/A
Fnma Tba May 15 Single Fam	3,000	US \$3,136	N/A
Fnr 2005 47 HA	1,527	US \$1,600	N/A
Fnr 2006 60 CO	3,274	US \$3,259	N/A
Fnr 2006 60 CO	87	US \$87	N/A
Fnr 2009 116 A	3,927	US \$4,238	N/A
Fnr 2009 70 NT	1,723	US \$1,787	N/A
Freddie Mac	2,500	US \$2,502	N/A
Freddie Mac	19,000	US \$18,982	N/A
Freddie Mac	3,550	US \$3,552	N/A
Freddie Mac	5,750	US \$5,743	N/A

(Continued)

							March 31, 2011
							Market Value
							Asset
							(Foreign Currencies)
							Percentage of
							Ownership (%)
							in Thousands
Marketable Securities	Relationship with	Financial	Shares/Units	Carrying Value	Foreign Currencies	Percentage of	Market Value
Name	Type and Name	the Company	Statement Accounts	(In	in Thousands)	Ownership (%)	Asset
			Thousands)	Thousands)			(Foreign Currencies)
	Freddie Mac		Available-for-sale financial assets	4,300	US \$4,306	N/A	
	Gnma II Pool 082431			1,871	US \$1,913	N/A	
	Gnr 2008 9 SA			2,096	US \$2,098	N/A	
	Gnr 2009 45 AB			3,431	US \$3,476	N/A	
	Government Natl Mtg Assn			3,050	US \$3,217	N/A	
	Government Natl Mtg Assn Gtd			1,442	US \$1,508	N/A	
	Ngn 2010 R2 1A			3,540	US \$3,541	N/A	
	Ngn 2011 R4 1A			4,000	US \$3,998	N/A	
	Ontario(Province of)			2,000	US \$2,034	N/A	
	State of Qatar			2,000	US \$2,143	N/A	
	Government bond						
	US Treasury N/B		Available-for-sale financial assets	10,000	US \$10,026	N/A	
	US Treasury N/B			10,000	US \$9,983	N/A	
	US Treasury N/B			10,000	US \$10,069	N/A	
	US Treasury N/B			1,000	US \$1,012	N/A	
	Societe De Financement De Lec		Held-to-maturity financial assets	15,000	US \$15,000	N/A	
	Money market fund						
	Ssga Cash Mgmt Global Offshore		Available-for-sale financial assets	4,921	US \$4,921	N/A	

(Concluded)

TABLE 3

Taiwan Semiconductor Manufacturing Company Limited and Investees
MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST
NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE THREE MONTHS ENDED MARCH 31, 2011
(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

Name	Financial Statement	Account	Counter-party	Relationship	Beginning Balance		Acquisition		Disposition	
					Shares/Units (In Thousands)	Amount (Foreign Currencies in Thousands)	Shares/Units (In Thousands)	Amount (Foreign Currencies in Thousands)	Shares/Units (In Thousands)	Amount (Foreign Currencies in Thousands)
				Subsidiary		\$ 23,971		\$ 385,682		\$
				Subsidiary	1	EUR 90		EUR 9,800		
	Available-for-sale financial assets	Jih Sun Investment Trust Co., Ltd.					9,875	140,000		
		Mega Investment International Trust Co., Ltd.					10,009	120,000		
	Available-for-sale financial assets				4,000	US\$ 3,995			4,000	US\$4,000
					3,500	US\$ 3,554			3,500	US\$3,554
							7,000	US\$ 7,000		
					5,000	US\$ 5,000			5,000	US\$5,000
					12,000	US\$ 11,997			12,000	US\$12,000
							5,000	US\$ 5,109		
							3,840	US\$ 3,990		
							4,000	US\$ 4,443	500	US\$500
					2,925	US\$ 3,192			2,925	US\$3,192
							7,160	US\$ 7,160		
					3,900	US\$ 3,988			3,900	US\$3,988

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			4,000	US\$		4,305		
			7,050	US\$		7,050		
16,000	US\$	16,323					10,000	US\$10,22
4,000	US\$	4,208					4,000	US\$4,22
			3,200	US\$		3,200		
			5,000	US\$		5,000		
			3,400	US\$		3,400		
2,900	US\$	3,074					2,900	US\$3,07
			8,500	US\$		8,668		
5,950	US\$	6,009					3,000	US\$3,03
3,900	US\$	3,975	9,300	US\$		9,472		
			4,000	US\$		4,335		
			3,000	US\$		3,000		
3,250	US\$	3,232					3,250	US\$3,22
			9,000	US\$		9,000		

(Continued)

Name	Financial Statement	Account	Counter-party	Relationship	Beginning Balance		Acquisition		Disposal	
					Amount (Foreign Shares/Units (In Thousands)	Currencies in Thousands)	Amount (Foreign Shares/Units (In Thousands)	Currencies in Thousands)	Amount (Foreign Shares/Units (In Thousands)	Currencies in Thousands)
		Available-for-sale financial assets			8,000	US\$8,524			8,000	US\$8,524
							3,000	US\$3,035		
							4,000	US\$4,329		
							4,000	US\$4,640		
							4,000	US\$4,000		
							3,870	US\$3,870		
							3,000	US\$3,000		
					6,420	US \$6,417			6,420	US\$6,417
							4,100	US\$4,100		
							4,000	US\$4,000		
							4,000	US\$4,000		
							4,000	US\$4,265		
					4,000	US \$4,084	4,500	US\$4,599		
							7,725	US\$7,725		
							3,250	US\$3,489		
							4,000	US\$4,000		
		Available-for-sale financial assets					20,300	US\$20,269	14,200	US\$14,200
							7,500	US\$7,500		
					8,765	US \$8,763	11,500	US\$11,503		
							11,045	US\$12,104	11,045	US\$12,104
							4,000	US\$4,002		
					5,000	US \$5,046			5,000	US\$5,046
					5,000	US \$5,007			5,000	US\$5,007
					6,800	US \$6,817			6,800	US\$6,817
					8,000	US \$8,040			4,650	US\$4,650
					10,000	US \$9,998			10,000	US\$10,000
							3,000	US\$3,147	3,000	US\$3,147
							3,000	US\$3,138	3,000	US\$3,138
							3,000	US\$3,110	3,000	US\$3,110
							3,000	US\$3,131	3,000	US\$3,131
							3,000	US\$3,156	3,000	US\$3,156
					10,420	US \$10,411			10,420	US\$10,411
							19,000	US\$18,981		

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			3,550	US\$3,549		
			14,200	US\$14,196	14,200	US\$14,200
			4,000	US\$4,000		
Available-for-sale financial assets			10,000	US\$10,024		
			10,000	US\$9,988		
			10,000	US\$10,042	10,000	US\$10,000
			3,300	US\$3,301	3,300	US\$3,300
			10,000	US\$10,084		
	41,700	US \$42,042			41,700	US\$42,000
	7,000	US \$7,079			7,000	US\$7,000
	5,250	US \$5,212	30,175	US\$29,906	35,425	US\$35,100
	11,100	US\$10,976			11,100	US\$10,900

(Continued)

Financial Statement Account	Counter-party	Relationship	Beginning Balance		Acquisition		Disposal	
			Amount (Foreign Shares/Units (In Thousands)	Currencies in Thousands)	Amount (Foreign Shares/Units (In Thousands)	Currencies in Thousands)	Amount (Foreign Shares/Units (In Thousands)	Currencies in Thousands)

Available-for-sale financial assets			12,387	US \$12,387	77,883	US \$77,883	85,349	US\$85,349
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Note 1: The shares/units and amount of marketable securities acquired do not include stock dividends from investees.

Note 2: The data for marketable securities disposed exclude bonds maturities and redemption by the issuer.

Note 3: The ending balance includes the amortization of premium/discount on bonds investments, unrealized valuation gains/losses on financial assets, translation adjustments, equity in earnings/losses of equity method investees and other adjustments to long-term investment using equity method.

(Concluded)

TABLE 4

Taiwan Semiconductor Manufacturing Company Limited and Investees
ACQUISITION OF INDIVIDUAL REAL ESTATE PROPERTIES AT COSTS OF AT LEAST NT\$100
MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE THREE MONTHS ENDED MARCH 31, 2011
(Amounts in Thousands of New Taiwan Dollars)

Company Name	Types of Property	Transaction Date	Transaction Amount	Nature of Transaction	Prior Transaction of Counter-party	Related Party Relationships	Date	Amount	Reference	Purpose of Other					
										Payment Terms	Ownership	Acquisition	Terms		
TSMC	Fab	January 5, 2011 to February 24, 2011	\$ 260,171	By the construction progress	China Steel Structure Construction Ltd.			N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None	
		January 27, 2011 to March 27, 2011	842,036	By the construction progress	Da Cin Construction Ltd.			N/A	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
		January 27, 2011 to March 27, 2011	702,998	By the construction progress	Fu Tsu Construction Ltd.			N/A	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
		January 27, 2011 to February 25, 2011	188,744	By the construction progress	Tasa Construction Corporation			N/A	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
Xintec	Fab	February 17, 2011	1,050,000	Based on the agreement	Vertex Precision Electronics Int.			N/A	N/A	N/A	N/A	Pricing report	Manufacturing purpose	None	

TABLE 5

Taiwan Semiconductor Manufacturing Company Limited and Investees
TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES OF AT LEAST NT\$100 MILLION OR
20% OF THE PAID-IN CAPITAL
FOR THE THREE MONTHS ENDED MARCH 31, 2011
(Amounts in Thousands of New Taiwan Dollars)

Related Party	Nature of Relationships	Purchases/ Sales	Transaction Details		Abnormal Transaction		Notes/A Paya Rece Endin Balanc
			Amount	% to	Unit Price (Note)	Payment Terms (Note)	
TSMC North America	Subsidiary	Sales	\$ 57,007,986	55	Net 30 days after invoice date		\$ 27,517,000
GUC	Investee with a controlling financial interest	Sales	455,936		Net 30 days after monthly closing		260,000
TSMC China	Subsidiary	Purchases	2,419,959	19	Net 30 days after monthly closing		(855,000)
WaferTech	Indirect subsidiary	Purchases	1,770,429	14	Net 30 days after monthly closing		(550,000)
VIS	Investee accounted for using equity method	Purchases	1,325,127	10	Net 30 days after monthly closing		(953,000)
SSMC	Investee accounted for using equity method	Purchases	955,937	7	Net 30 days after monthly closing		(395,000)
TSMC North America	Same parent company	Purchases	142,690	21	Net 30 days after invoice date/net 30 days after monthly closing		(87,000)
OmniVision	Parent company of director (represented for Xintec)	Sales	362,314	37	Net 30 days after monthly closing		211,000

Note: The sales prices and payment terms to related parties were not significantly different from those of sales to third parties. For other related party transactions, prices and terms were determined in accordance with mutual agreements.

TABLE 6

Taiwan Semiconductor Manufacturing Company Limited and Investees
RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20%
OF THE PAID-IN CAPITAL
MARCH 31, 2011

(Amounts in Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationships	Ending Balance	Turnover Days (Note 1)	Overdue Amounts	Action Taken	Period	Amounts Received in Subsequent Period	Allowance for Bad Debts
TSMC	TSMC North America	Subsidiary	\$ 27,523,796	42	\$ 7,617			\$ 12,065	\$
	TSMC China	Subsidiary	1,593,520	(Note 2)	277				
	GUC	Investee with a controlling financial interest	260,981	42	2		92		
	VIS	Investee accounted for using equity method	153,680	(Note 2)	29		35		
Xintec	OmniVision	Parent company of director (represented for Xintec)	211,809	42					

Note 1: The calculation of turnover days excludes other receivables from related parties.

Note 2: The ending balance primarily consisted of other receivables, which is not applicable for the calculation of turnover days.

TABLE 7

**Taiwan Semiconductor Manufacturing Company Limited and Investees
 NAMES, LOCATIONS, AND RELATED INFORMATION OF INVESTEES OVER WHICH THE
 COMPANY EXERCISES SIGNIFICANT INFLUENCE
 MARCH 31, 2011**

(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of March 31, 2011			Net Income (Losses) the Investee (Foreign Currencies in Thousands)
			March 31, 2011 (Foreign Currencies in Thousands)	December 31, 2010 (Foreign Currencies in Thousands)	Shareholders (In Thousands)	Percentage of Ownership	Carrying Value (Foreign Currencies in Thousands)	
Global	Tortola, British Virgin Islands	Investment activities	\$ 42,327,245	\$ 42,327,245	1	100	\$ 42,523,518	\$ 109,4
Partners	Tortola, British Virgin Islands	Investing in companies involved in the design, manufacture, and other related business in the semiconductor industry	31,456,130	31,456,130	988,268	100	32,779,954	306,9
	Hsin-Chu, Taiwan	Research, design, development, manufacture, packaging, testing and sale of memory integrated circuits, LSI, VLSI and related parts	13,232,288	13,232,288	628,223	38	9,456,221	396,7
	Singapore	Fabrication and supply of integrated circuits	5,120,028	5,120,028	314	39	7,256,841	986,9
n	Taipei, Taiwan	Manufacturing and sales of solar cells, crystalline silicon solar cell, and test and measurement instruments and design and construction of solar power systems	6,228,661	6,228,661	76,069	20	6,770,069	685,4
China	Shanghai, China	Manufacturing and selling of integrated circuits at the order of and pursuant to product design specifications provided by customers	12,180,367	12,180,367		100	4,721,701	541,6
			333,718	333,718	11,000	100	2,843,416	54,3

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North America	San Jose, California, U.S.A.	Selling and marketing of integrated circuits and semiconductor devices							
III	Cayman Islands	Investing in new start-up technology companies	3,602,979	3,565,441		99	2,672,382	(56,1	
	Taoyuan, Taiwan	Wafer level chip size packaging service	1,357,890	1,357,890	93,081	41	1,678,379	98,9	
	Hsin-Chu, Taiwan	Researching, developing, manufacturing, testing and marketing of integrated circuits	386,568	386,568	46,688	35	1,164,288	150,1	
II	Cayman Islands	Investing in new start-up technology companies	1,166,470	1,166,470		98	1,041,270	93,2	
Solar	Amsterdam, the Netherlands	Engaged in investing activities of solar related business	411,032	25,350		100	406,305	(10,9	
ing Alliance	Cayman Islands	Investing in new start-up technology companies	971,785	971,785		99	290,203	(5,1	
Europe	Amsterdam, the Netherlands	Marketing and engineering supporting activities	15,749	15,749		100	192,329	9,0	
Japan	Yokohama, Japan	Marketing activities	83,760	83,760	6	100	144,224	1,7	
Korea	Seoul, Korea	Customer service and technical supporting activities	13,656	13,656	80	100	21,093	3	
Solar NA	Delaware, U.S.A.	Engaged in selling and marketing of solar related products	60,962	60,962	1	100	7,945	(17,6	
Lighting	Delaware, U.S.A.	Engaged in selling and marketing of LED related products	3,133	3,133	1	100	2,942		
Equipment Holding Company	Delaware, U.S.A.	Investment activities	US\$0.001	US\$0.001	1	100	US\$417,397	US\$14,1	
	Cayman Islands	Investing in companies involved in the design, manufacturing, and other related businesses in the semiconductor industry	US\$43,000	US\$43,000	43,000	49	US\$85,259	US\$5,9	
I	Cayman Islands	Investing in new start-up technology companies	US\$4,088	US\$4,088	4,088	97	US\$19,707	US\$1,2	
	Cayman Islands	Investing in new start-up technology companies	US\$16,532	US\$16,532	16,532	97	US\$13,253	US\$(6	
Technology	Delaware, U.S.A.	Engineering support activities	US\$0.001	US\$0.001	1	100	US\$10,083	US\$2	
Canada	Ontario, Canada	Engineering support activities	US\$2,300	US\$2,300	2,300	100	US\$3,892	US\$	

Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of March 31, 2011		Carrying Value (Foreign Currencies in Thousands)	Net Income (Losses) of Investee (Foreign Currencies in Thousands)
			March 31, 2011 (Foreign Currencies in Thousands)	December 31, 2010 (Foreign Currencies in Thousands)	Shares (In Thousands)	Percentage of Ownership		
(Stock)	Delaware, U.S.A.	Research, development, and sale of micro-semiconductor device	US \$800	US \$800	5,333	84	US\$	US\$(3,
(Stock)	Delaware, U.S.A.	Research, development, and sale of micro-semiconductor device	US \$1,000	US \$1,000	1,000	6		US\$(3,
	Washington, U.S.A.	Manufacturing, selling, testing and computer-aided designing of integrated circuits and other semiconductor devices	US \$280,000	US \$280,000	293,640	100	US \$179,027	US \$13
ky Co.,	Taipei, Taiwan	Manufacturing and selling of electronic parts and researching, developing, and testing of RFID	US \$3,937	US \$3,937	11,868	57	US \$1,862	US\$(
nd	Cayman Islands	Investing in new start-up technology companies	US \$1,740	US \$1,700		100	US \$854	US\$
ings	Delaware, U.S.A.	Investing in new start-up technology companies				62		
ings	Delaware, U.S.A.	Investing in new start-up technology companies				31		
	U.S.A.	Consulting services in main products	US \$1,253	US \$1,249	800	100	\$60,915	\$2
n	Japan		JPY 30,000	JPY 30,000	1	100	14,881	

		Consulting services in main products						
pe	British Virgin Islands	Investment activities	US \$550	US \$550	550	100		8,846
	The Netherlands	Consulting services in main products	EUR 100	EUR 100		100		3,916
ghai	Shanghai, China	Consulting services in main products	US \$500	US \$500		100		7,551
ings	Delaware, U.S.A.	Investing in new start-up technology companies				7		
ar bH	Hamburg, Germany	Engaged in the selling and customer service of solar cell modules and related products	EUR 9,900	EUR 100	1	100		EUR 9,618
								EUR (

Note 1: Equity in earnings/losses of investees include the effect of unrealized gross profit from affiliates.

Note 2: The equity in the earnings/losses of the investee company is not reflected herein as such amount is already included in the equity in the earnings/losses of the investor company.

Note 3: Equity in earnings/losses was determined based on the unreviewed financial statements.

(Concluded)

TABLE 8

Taiwan Semiconductor Manufacturing Company Limited and Investees
INFORMATION OF INVESTMENT IN MAINLAND CHINA
FOR THE THREE MONTHS ENDED MARCH 31, 2011
(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

Businesses and Products	Total Amount of		Accumulated Outflow of Investment from Taiwan as of January 1, 2011	Investment Flows		Accumulated Outflow of Investment from Taiwan as of March 31, 2011	Percentage of Ownership	Equity in the Earnings (Losses)
	Paid-in Capital (Thousand)	Method of Investment	(US\$ in Thousand)	Outflow	Inflow	(US\$ in Thousand)		(Losses)
Manufacturing and of integrated at the order of suant to design ations d by customers	\$12,180,367 (RMB 3,070,623)	(Note 1)	\$12,180,367 (US\$371,000)	\$	\$	\$12,180,367 (US\$371,000)	100%	\$564,819 (Note 3)
ing services in oducts	16,160 (US\$ 500)	(Note 2)	16,160 (US\$ 500)			16,160 (US\$ 500)	100%	(61) (Note 4)

Investor Company	Accumulated Investment in	Investment Amounts Authorized by Investment Commission, MOEA		Upper Limit on Investment
	Mainland China as of March 31, 2011 (US\$ in Thousand)	(US\$ in Thousand)		(US\$ in Thousand)
TSMC	\$ 12,180,367 (US\$371,000)	\$	12,180,367 (US\$371,000)	\$ 12,180,367 (US\$371,000)
GUC	16,160 (US\$ 500)		16,160 (US\$ 500)	2,004,316 (Note 5)

Note 1: TSMC directly invested US\$371,000 thousand in TSMC China.

Note 2: GUC, TSMC's investee with a controlling financial interest, indirectly invested in GUC-Shanghai through GUC-BVI.

Note 3: Amount was recognized based on the reviewed financial statements.

Note 4: Amount was determined based on the unreviewed financial statements.

Note 5: Subject to 60% of net asset value of GUC according to the revised Guidelines Governing the Approval of Investment or Technical Cooperation in Mainland China issued by the Investment Commission.

**Taiwan Semiconductor Manufacturing
Company Limited and Subsidiaries
Consolidated Financial Statements for the
Three Months Ended March 31, 2011 and 2010 and
Independent Accountants' Review Report**

INDEPENDENT ACCOUNTANTS REVIEW REPORT

The Board of Directors and Shareholders

Taiwan Semiconductor Manufacturing Company Limited

We have reviewed the accompanying consolidated balance sheets of Taiwan Semiconductor Manufacturing Company Limited and subsidiaries as of March 31, 2011 and 2010, and the related consolidated statements of income and cash flows for the three months then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these consolidated financial statements based on our reviews. We conducted our reviews in accordance with Statement on Auditing Standards No. 36, Review of Financial Statements, issued by the Auditing Standards Committee of the Accounting Research and Development Foundation of the Republic of China. A review consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the Republic of China, the objective of which is the expression of an opinion regarding the consolidated financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.
April 22, 2011

Notice to Readers

The accompanying consolidated financial statements are intended only to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdiction. The standards, procedures and practices to review such consolidated financial statements are those generally accepted and applied in the Republic of China.

For the convenience of readers, the accountants' review report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language accountants' review report and consolidated financial statements shall prevail.

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries
CONSOLIDATED BALANCE SHEETS
MARCH 31, 2011 AND 2010
(In Thousands of New Taiwan Dollars, Except Par Value)
(Reviewed, Not Audited)

	2011		2010	
	Amount	%	Amount	%
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 4)	\$ 129,445,000	17	\$ 159,799,703	25
Financial assets at fair value through profit or loss (Notes 2, 5 and 25)	12,283		83,280	
Available-for-sale financial assets (Notes 2, 6 and 25)	28,564,518	4	24,182,017	4
Held-to-maturity financial assets (Notes 2, 7 and 25)	5,388,732	1	7,944,656	1
Receivables from related parties	1,301		24,673	
Notes and accounts receivable	54,283,659	7	47,459,954	8
Allowance for doubtful receivables (Notes 2, 3 and 8)	(503,093)		(547,908)	
Allowance for sales returns and others (Notes 2 and 8)	(6,955,928)	(1)	(7,165,663)	(1)
Other receivables from related parties (Notes 3 and 26)	199,095		158,787	
Other financial assets (Note 27)	1,248,098		2,597,698	
Inventories (Notes 2 and 9)	31,787,239	4	22,694,233	4
Deferred income tax assets (Notes 2 and 20)	5,099,667	1	6,305,602	1
Prepaid expenses and other current assets	1,962,700		2,079,007	
Total current assets	250,533,271	33	265,616,039	42
LONG-TERM INVESTMENTS (Notes 2, 6, 7, 10, 12 and 25)				
Investments accounted for using equity method	25,995,552	3	24,246,735	4
Available-for-sale financial assets	1,036,044		1,267,029	
Held-to-maturity financial assets	7,692,591	1	11,114,601	2
Financial assets carried at cost	4,209,597	1	3,134,539	1
Total long-term investments	38,933,784	5	39,762,904	7
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 13, 26 and 27)				
Cost				
Land and land improvements	1,519,805		928,605	

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Buildings	161,757,008	21	143,535,804	23
Machinery and equipment	979,510,419	131	818,778,607	131
Office equipment	15,531,932	2	14,243,723	2
Leased assets	684,775		709,705	
	1,159,003,939	154	978,196,444	156
Accumulated depreciation	(795,326,356)	(106)	(713,352,491)	(114)
Advance payments and construction in progress	72,911,797	10	34,785,266	6
Net property, plant and equipment	436,589,380	58	299,629,219	48
INTANGIBLE ASSETS				
Goodwill (Note 2)	5,582,287	1	5,902,572	1
Deferred charges, net (Notes 2 and 14)	5,628,037	1	6,290,817	1
Total intangible assets	11,210,324	2	12,193,389	2
OTHER ASSETS				
Deferred income tax assets (Notes 2 and 20)	6,599,175	1	6,770,699	1
Refundable deposits	4,831,356	1	2,563,884	
Others (Notes 2 and 27)	1,428,676		293,004	
Total other assets	12,859,207	2	9,627,587	1
TOTAL	\$ 750,125,966	100	\$ 626,829,138	100

**LIABILITIES AND SHAREHOLDERS
EQUITY**

CURRENT LIABILITIES

Short-term loans (Note 15)	\$ 34,176,368	5	\$ 318,242	
Financial liabilities at fair value through profit or loss (Notes 2, 5 and 25)	48,850		11,810	
Hedging derivative financial liabilities (Notes 2, 11 and 25)	676		238	
Accounts payable	11,923,131	2	10,511,246	2
Payables to related parties (Note 26)	1,427,800		1,114,589	
Income tax payable (Notes 2 and 20)	9,844,973	1	11,057,936	2
Accrued profit sharing to employees and bonus to directors and supervisors (Notes 2 and 22)	13,586,113	2	9,128,889	1
Payables to contractors and equipment suppliers	33,906,105	4	28,784,713	4
Accrued expenses and other current liabilities (Notes 18, 25 and 29)	17,602,638	2	16,302,457	3
	4,740,759	1	944,736	

Current portion of bonds payable and long-term bank loans (Notes 16, 17, 25 and 27)

Total current liabilities	127,257,413	17	78,174,856	12
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LONG-TERM LIABILITIES

Bonds payable (Notes 16 and 25)			4,500,000	1
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Long-term bank loans (Notes 17, 25 and 27)	1,040,562		517,781	
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Other long-term payables (Notes 18, 25 and 29)	3,849,674	1	5,565,465	1
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Obligations under capital leases (Notes 2, 13, and 25)	678,403		702,826	
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Total long-term liabilities	5,568,639	1	11,286,072	2
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OTHER LIABILITIES

Accrued pension cost (Notes 2 and 19)	3,817,717		3,797,319	1
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Guarantee deposits (Note 29)	714,643		932,370	
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Deferred credits	120,686		157,610	
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Others	254,909		176,209	
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Total other liabilities	4,907,955		5,063,508	1
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Total liabilities	137,734,007	18	94,524,436	15
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EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT

Capital stock NT\$10 par value (Note 22) Authorized: 28,050,000 thousand shares Issued: 25,914,193 thousand shares in 2011 25,903,769 thousand shares in 2010	259,141,933	35	259,037,692	41
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Capital surplus (Notes 2 and 22)	55,781,482	7	55,530,845	9
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Retained earnings (Note 22) Appropriated as legal capital reserve	86,239,494	11	77,317,710	12
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Appropriated as special capital reserve	1,313,047			
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Unappropriated earnings	214,504,803	29	138,228,089	22
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	302,057,344	40	215,545,799	34
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Others (Notes 2, 11 and 25)	(9,351,749)	(1)	(2,378,010)	
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Cumulative translation adjustments	44,873		401,390	
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Unrealized gain on financial instruments	(9,306,876)	(1)	(1,976,620)	
Equity attributable to shareholders of the parent	607,673,883	81	528,137,716	84
MINORITY INTERESTS (Note 2)	4,718,076	1	4,166,986	1
Total shareholders' equity	612,391,959	82	532,304,702	85
TOTAL	\$ 750,125,966	100	\$ 626,829,138	100

The accompanying notes are an integral part of the consolidated financial statements.

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Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries
CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)
(Reviewed, Not Audited)

	2011		2010	
	Amount	%	Amount	%
GROSS SALES (Notes 2 and 26)	\$ 106,835,757		\$ 95,020,306	
SALES RETURNS AND ALLOWANCES (Notes 2 and 8)	1,458,262		2,833,620	
NET SALES	105,377,495	100	92,186,686	100
COST OF SALES (Notes 9, 21 and 26)	53,706,783	51	48,001,195	52
GROSS PROFIT	51,670,712	49	44,185,491	48
OPERATING EXPENSES (Notes 21 and 26)				
Research and development	7,963,628	8	6,409,840	7
General and administrative	3,342,828	3	2,471,979	3
Marketing	1,201,276	1	1,176,010	1
Total operating expenses	12,507,732	12	10,057,829	11
INCOME FROM OPERATIONS	39,162,980	37	34,127,662	37
NON-OPERATING INCOME AND GAINS				
Equity in earnings of equity method investees, net (Notes 2 and 10)	520,109	1	177,080	
Foreign exchange gain, net (Note 2)	403,081	1		
Interest income	373,284		403,215	1
Gain on settlement and disposal of financial assets, net (Notes 2 and 25)	124,926		22,016	
Technical service income (Notes 26 and 29)	114,949		116,834	
Gain on disposal of property, plant and equipment (Note 2)	96,311		56,344	
Settlement income (Note 29)			637,580	1
Valuation gain on financial instruments, net (Notes 2, 5 and 25)			304,829	
Others (Note 2)	200,121		113,696	

Total non-operating income and gains	1,832,781	2	1,831,594	2
NON-OPERATING EXPENSES AND LOSSES				
Valuation loss on financial instruments, net (Notes 2, 5 and 25)	282,237	1		
Loss on disposal of property, plant and equipment (Note 2)	145,476		196	
Interest expense	119,922		87,446	

(Continued)

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries
CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)
(Reviewed, Not Audited)

	2011		2010	
	Amount	%	Amount	%
Impairment of financial assets (Notes 2, 12 and 25)	\$ 58,537		\$ 8,709	
Foreign exchange loss, net (Note 2)			286,919	1
Casualty loss (Note 9)			194,137	
Others (Note 2)	77,147		79,073	
Total non-operating expenses and losses	683,319	1	656,480	1
INCOME BEFORE INCOME TAX	40,312,442	38	35,302,776	38
INCOME TAX EXPENSE (Notes 2 and 20)	3,885,350	3	1,477,461	1
NET INCOME	\$ 36,427,092	35	\$ 33,825,315	37
ATTRIBUTABLE TO:				
Shareholders of the parent	\$ 36,277,773	35	\$ 33,663,117	37
Minority interests	149,319		162,198	
	\$ 36,427,092	35	\$ 33,825,315	37
	2011		2010	
	Income Attributable to Shareholders of the Parent		Income Attributable to Shareholders of the Parent	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE (NT\$, Note 24)				
Basic earnings per share	\$ 1.55	\$ 1.40	\$ 1.36	\$ 1.30
Diluted earnings per share	\$ 1.55	\$ 1.40	\$ 1.36	\$ 1.30

The accompanying notes are an integral part of the consolidated financial statements.

(Concluded)

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income attributable to shareholders of the parent	\$ 36,277,773	\$ 33,663,117
Net income attributable to minority interests	149,319	162,198
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	24,816,388	21,002,670
Amortization of premium/discount of financial assets	7,797	7,828
Impairment of financial assets	58,537	8,709
Gain on disposal of available-for-sale financial assets, net	(111,511)	(10,114)
Gain on disposal of financial assets carried at cost, net	(13,415)	(11,902)
Equity in earnings of equity method investees, net	(520,109)	(177,080)
Loss (gain) on disposal of property, plant and equipment, net	49,165	(56,148)
Deferred income tax	1,037,018	(717,689)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Financial assets and liabilities at fair value through profit or loss	24,451	114,586
Receivables from related parties	1,421	(12,149)
Notes and accounts receivable	(3,253,774)	(2,822,312)
Allowance for doubtful receivables	(936)	4,583
Allowance for sales returns and others	(590,336)	(1,558,818)
Other receivables from related parties	(74,509)	(37,495)
Other financial assets	(39,472)	(61,077)
Inventories	(3,381,255)	(1,780,482)
Prepaid expenses and other current assets	74,947	(796,236)
Increase (decrease) in:		
Accounts payable	(1,476,564)	(700,830)
Payables to related parties	560,715	331,582
Income tax payable	2,660,276	2,257,687
Accrued profit sharing to employees and bonus to directors and supervisors	2,489,966	2,310,546
Accrued expenses and other current liabilities	(2,267,326)	(5,059,113)
Accrued pension cost	5,366	287
Deferred credits	(5,853)	(28,079)
Net cash provided by operating activities	56,478,079	46,034,269
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Property, plant and equipment	(81,262,394)	(46,135,779)
Available-for-sale financial assets	(13,865,070)	(24,259,847)

Held-to-maturity financial assets		(1,597,750)
Investments accounted for using equity method		(6,228,661)
Financial assets carried at cost	(1,670)	(111,409)
		(Continued)

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	2011	2010
Proceeds from disposal or redemption of:		
Property, plant and equipment	\$ 381,310	\$ 35,632
Available-for-sale financial assets	13,459,391	14,219,695
Held-to-maturity financial assets		8,000,000
Financial assets carried at cost	63,254	25,800
Increase in deferred charges	(188,183)	(383,034)
Decrease in refundable deposits	3,846,614	169,259
Increase in other assets	(5,992)	(23,080)
 Net cash used in investing activities	 (77,572,740)	 (56,289,174)
 CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term loans	2,962,424	318,242
Proceed from long-term bank loans	800,000	
Repayment of long-term bank loans	(61,943)	(60,932)
Decrease in other long-term payables		(1,112,323)
Decrease in guarantee deposits	(74,455)	(89,653)
Proceeds from donation		49,021
Proceeds from exercise of employee stock options	127,288	36,791
Increase in minority interests	15,840	15,187
 Net cash provided by (used in) financing activities	 3,769,154	 (843,667)
 NET DECREASE IN CASH AND CASH EQUIVALENTS	 (17,325,507)	 (11,098,572)
 EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	 (1,116,448)	 (378,066)
 CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	 147,886,955	 171,276,341
 CASH AND CASH EQUIVALENTS, END OF PERIOD	 \$ 129,445,000	 \$ 159,799,703
 SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid	\$ 221,837	\$ 184,499
Income tax paid	\$ 218,178	\$ 17,732

INVESTING ACTIVITIES AFFECTING BOTH CASH AND NON-CASH
ITEMS

Acquisition of property, plant and equipment	\$ 73,205,035	\$ 46,449,760
Increase in other liabilities		(24,540)
Decrease (increase) in payables to contractors and equipment suppliers	8,058,230	(166,640)
Nonmonetary exchange trade-out price	(871)	(122,801)
Cash paid	\$ 81,262,394	\$ 46,135,779

(Continued)

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	2011	2010
Disposal of property, plant and equipment	\$ 382,181	\$ 158,433
Nonmonetary exchange trade-out price	(871)	(122,801)
Cash received	\$ 381,310	\$ 35,632
Acquisition of available-for-sale financial assets	\$ 13,989,666	\$ 24,799,258
Increase in accrued expenses and other current liabilities	(124,596)	(539,411)
Cash paid	\$ 13,865,070	\$ 24,259,847
Disposal of available-for-sale financial assets	\$ 13,646,465	\$ 14,906,329
Increase in other financial assets	(187,074)	(686,634)
Cash received	\$ 13,459,391	\$ 14,219,695
NON-CASH FINANCING ACTIVITIES		
Current portion of bonds payable	\$ 4,500,000	\$
Current portion of long-term bank loans	\$ 240,759	\$ 944,736
Current portion of other long-term payables (under accrued expenses and other current liabilities)	\$ 4,134,622	\$ 2,837,536

The accompanying notes are an integral part of the consolidated financial statements.

(Concluded)

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010
(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)
(Reviewed, Not Audited)

1. GENERAL

Taiwan Semiconductor Manufacturing Company Limited (TSMC), a Republic of China (R.O.C.) corporation, was incorporated on February 21, 1987. TSMC is a dedicated foundry in the semiconductor industry which engages mainly in the manufacturing, selling, packaging, testing and computer-aided design of integrated circuits and other semiconductor devices and the manufacturing of masks. Beginning in 2010, TSMC also engages in the researching, developing, designing, manufacturing and selling of LED lighting devices and related applications products and systems, and renewable energy and efficiency related technologies and products. On September 5, 1994, its shares were listed on the Taiwan Stock Exchange (TSE). On October 8, 1997, TSMC listed some of its shares of stock on the New York Stock Exchange (NYSE) in the form of American Depositary Shares (ADSs).

As of March 31, 2011 and 2010, TSMC and its subsidiaries had 35,665 and 27,960 employees, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements are presented in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the R.O.C.

For the convenience of readers, the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the R.O.C. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language consolidated financial statements shall prevail.

Significant accounting policies are summarized as follows:

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of all directly and indirectly majority owned subsidiaries of TSMC, and the accounts of investees in which TSMC's ownership percentage is less than 50% but over which TSMC has a controlling interest. All significant intercompany balances and transactions are eliminated upon consolidation.

The consolidated entities were as follows:

Name of Investor	Name of Investee	Percentage of Ownership March 31		Remark
		2011	2010	
TSMC	TSMC North America	100%	100%	
	TSMC Japan Limited (TSMC Japan)	100%	100%	
	TSMC Partners, Ltd. (TSMC Partners)	100%	100%	
	TSMC Korea Limited (TSMC Korea)	100%	100%	
	TSMC Europe B.V. (TSMC Europe)	100%	100%	
	TSMC Global Ltd. (TSMC Global)	100%	100%	
	TSMC China Company Limited (TSMC China)	100%	100%	
	VentureTech Alliance Fund III, L.P. (VTAF III)	99%	98%	
	VentureTech Alliance Fund II, L.P. (VTAF II)	98%	98%	
	Emerging Alliance Fund, L.P. (Emerging Alliance)	99.5%	99.5%	
	Global Unichip Corporation (GUC)	35%	35%	TSMC has a controlling interest over the financial, operating and personnel hiring decisions of GUC.
	Xintec Inc. (Xintec)	41%	41%	TSMC obtained three out of five director positions and has a controlling interest in Xintec.
	TSMC Solar North America, Inc. (TSMC Solar NA)	100%		Established in September 2010
	TSMC Lighting North America, Inc. (TSMC Lighting NA)	100%		Established in September 2010
TSMC Solar Europe B.V. (TSMC Solar Europe)	100%		Established in September 2010	
TSMC Partners	TSMC Design Technology Canada Inc. (TSMC Canada)	100%	100%	
	TSMC Technology, Inc. (TSMC Technology)	100%	100%	
	TSMC Development, Inc. (TSMC Development)	100%	100%	
	InveStar Semiconductor Development Fund, Inc. (ISDF)	97%	97%	
	InveStar Semiconductor Development Fund, Inc. (II) LDC. (ISDF II)	97%	97%	
	TSMC Development	WaferTech, LLC (WaferTech)	100%	100%
VTAF III		57%	59%	

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	Mutual-Pak Technology Co., Ltd. (Mutual-Pak) Growth Fund Limited (Growth Fund)	100%	100%	
VTAF III, VTAF II and Emerging Alliance	VentureTech Alliance Holdings, LLC (VTA Holdings)	100%	100%	
GUC	Global Unichip Corp.-NA (GUC-NA)	100%	100%	
	Global Unichip Japan Co., Ltd. (GUC-Japan)	100%	100%	
	Global Unichip Europe B.V. (GUC-Europe)	100%	100%	
	Global Unichip (BVI) Corp. (GUC-BVI)	100%	100%	
GUC-BVI	Global Unichip (Shanghai) Company, Limited (GUC-Shanghai)	100%	100%	Established in January 2010
TSMC Solar Europe	TSMC Solar Europe GmbH	100%		Established in December 2010

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The following diagram presents information regarding the relationship and ownership percentages between TSMC and its consolidated investees as of March 31, 2011:

TSMC North America is engaged in selling and marketing of integrated circuits and semiconductor devices. TSMC Japan, TSMC Korea and TSMC Europe are engaged mainly in marketing or customer service, engineering and technical supporting activities. TSMC Partners is engaged in investment in companies involved in the design, manufacture, and other related business in the semiconductor industry. TSMC Global and TSMC Development are engaged in investing activities. TSMC China is engaged in the manufacturing and selling of integrated circuits pursuant to the orders from and product design specifications provided by customers. Emerging Alliance, VTAF II, VTAF III, VTA Holdings, ISDF, ISDF II, and Growth Fund are engaged in investing in new start-up technology companies. TSMC Canada and TSMC Technology are engaged mainly in engineering support activities. WaferTech is engaged in the manufacturing, selling, testing and computer-aided designing of integrated circuits and other semiconductor devices. GUC is engaged in researching, developing, manufacturing, testing and marketing of integrated circuits. GUC-NA, GUC-Japan, GUC-Europe, and GUC-Shanghai are engaged in providing products consulting in North America, Japan, Europe, and China, respectively. GUC-BVI is engaged in investing activities. Xintec is engaged in the provision of wafer packaging service. TSMC Solar NA is engaged in selling and marketing of solar related products. TSMC Lighting NA is engaged in selling and marketing of LED related products. TSMC Solar Europe is engaged in investing activities of solar related business. TSMC Solar Europe GmbH is engaged in the selling and customer service of solar cell modules and related products. Mutual-Pak is engaged in the manufacturing and selling of electronic parts, and researching, developing and testing of RFID.

The Company is also considering the formation of another two wholly-owned subsidiaries for solar and solid state lighting businesses as part of the strategic planning.

TSMC together with its subsidiaries are hereinafter referred to collectively as the Company.

Minority interests in the aforementioned subsidiaries are presented as a separate component of shareholders' equity.

Use of Estimates

The preparation of consolidated financial statements in conformity with the aforementioned guidelines and principles requires management to make reasonable assumptions and estimates of matters that are inherently uncertain. The actual results may differ from management's estimates.

Classification of Current and Noncurrent Assets and Liabilities

Current assets are assets held for trading purposes and assets expected to be converted to cash, sold or consumed within one year from the balance sheet date. Current liabilities are obligations incurred for trading purposes and obligations expected to be settled within one year from the balance sheet date. Assets and liabilities that are not classified as current are noncurrent assets and liabilities, respectively.

Cash Equivalents

Repurchase agreements collateralized by government bonds, corporate bonds, agency bonds, treasury bills and commercial papers acquired with maturities of less than three months from the date of purchase are classified as cash equivalents. The carrying amount approximates fair value due to their short term nature.

Financial Assets/Liabilities at Fair Value Through Profit or Loss

Derivatives that do not meet the criteria for hedge accounting are initially recognized at fair value, with transaction costs expensed as incurred. The derivatives are remeasured at fair value subsequently with changes in fair value recognized in earnings. A regular way purchase or sale of financial assets is accounted for using settlement date accounting.

Fair value is estimated using valuation techniques incorporating estimates and assumptions that are consistent with prevailing market conditions. When the fair value is positive, the derivative is recognized as a financial asset; when the fair value is negative, the derivative is recognized as a financial liability.

Hedging Derivative Financial Instruments

Hedge derivatives are mainly derivatives instruments that are for cash flow hedge purposes and determined to be an effective hedge. The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized in shareholders' equity. The amount recognized in shareholders' equity is recognized in profit or loss in the same period or period during which the hedged forecast transaction or an asset or liability arising from the hedged forecast transaction affects profit or loss. However, if all or a portion of a loss recognized in shareholders' equity is not expected to be recovered in the future, the amount that is not expected to be recovered is reclassified into profit or loss.

Available-for-sale Financial Assets

Investments designated as available-for-sale financial assets include debt securities and equity securities.

Available-for-sale financial assets are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition. Changes in fair value from subsequent remeasurement are reported as a separate component of shareholders' equity. The corresponding accumulated gains or losses are recognized in earnings when the financial asset is derecognized from the balance sheet. A regular way purchase or sale of financial assets is accounted for using settlement date accounting.

Fair value is determined as follows: Open-end mutual funds and money market funds' net asset values at the end of the period; publicly traded stocks' closing prices at the end of the period; and other debt securities' average of bid and asked prices at the end of the period.

Cash dividends are recognized as investment income upon resolution of shareholders of an investee but are accounted for as a reduction to the original cost of investment if such dividends are declared on the earnings of the investee attributable to the period prior to the purchase of the investment. Stock dividends are recorded as an increase in the number of shares held and do not affect investment income. The cost per share is recalculated based on the new total number of shares.

Any difference between the initial carrying amount of a debt security and the amount due at maturity is amortized using the effective interest method, with the amortization recognized in earnings.

If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized. If, in a subsequent period, the amount of the impairment loss decreases, for equity securities, the previously recognized impairment loss is reversed to the extent of the decrease and recorded as an adjustment to shareholders' equity; for debt securities, the amount of the decrease is recognized in earnings, provided that the decrease is clearly attributable to an event which occurred after the impairment loss was recognized.

Held-to-maturity Financial Assets

Debt securities for which the Company has a positive intention and ability to hold to maturity are categorized as held-to-maturity financial assets and are carried at amortized cost. Those financial assets are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition. Gains or losses are recognized at the time of derecognition, impairment or amortization. A regular way purchase or sale of financial assets is accounted for using settlement date accounting.

If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized. If, in a subsequent period, the amount of the impairment loss decreases and the decrease is clearly attributable to an event which occurred after the impairment loss was recognized, the previously recognized impairment loss is reversed to the extent of the decrease. The reversal may not result in a carrying amount that exceeds the amortized cost that would have been determined as if no impairment loss had been recognized.

Allowance for Doubtful Receivables

An allowance for doubtful receivables is provided based on a review of the collectability of receivables. The Company assesses the collectability of receivables by performing the account aging analysis and examining current trends in the credit quality of its customers.

TSMC's provision was originally set at 1% of the amount of outstanding receivables. On January 1, 2011, the Company adopted the third revision of Statement of Financial Accounting Standards (SFAS) No. 34, Financial Instruments: Recognition and Measurement. One of the main revisions is that the impairment of receivables originated by the Company is subject to the provisions of SFAS No. 34. Companies are required to evaluate for indication of impairment of accounts receivable based on an individual and collective basis at the end of each reporting period. When objective evidence indicates that the estimated future cash flow of accounts receivable decreases as a result of one or more events that occurred after the initial recognition of the accounts receivable, such accounts receivable are deemed to be impaired.

Because of the Company's short average collection period, the amount of the impairment loss recognized is the difference between the carrying amount of accounts receivable and estimated future cash flows without considering the discounting effect. Changes in the carrying amount of the allowance account are recognized as bad debt in loss which is recorded in the operating expenses—general and administrative. When accounts receivable are considered uncollectable, the amount is written off against the allowance account.

Revenue Recognition and Allowance for Sales Returns and Others

The Company recognizes revenue when evidence of an arrangement exists, the rewards of ownership and significant risk of the goods has been transferred to the buyer; price is fixed or determinable, and collectability is reasonably assured. Provisions for estimated sales returns and other allowances are recorded in the period the related revenue is recognized, based on historical experience, management's judgment, and any known factors that would significantly affect the allowance.

Sales prices are determined using fair value taking into account related sales discounts agreed to by the Company and its customers. Sales agreements typically provide that payment is due 30 days from invoice date for a majority of the customers and 30 to 45 days after the end of the month in which sales occur for some customers. Since the receivables from sales are collectible within one year and such transactions are frequent, fair value of the receivables is equivalent to the nominal amount of the cash to be received.

Inventories

Inventories are recorded at standard cost and adjusted to approximate weighted-average cost on the balance sheet date.

Inventories are stated at the lower of cost or net realizable value. Inventory write-downs are made on an item-by-item basis, except where it may be appropriate to group similar or related items. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and necessary selling costs.

Investments Accounted for Using Equity Method

Investments in companies wherein the Company exercises significant influence over the operating and financial policy decisions are accounted for using the equity method. The Company's share of the net income or net loss of an investee is recognized in the equity in earnings/losses of equity method investees, net account. The cost of an investment shall be analyzed and the cost of investment in excess of the fair value of identifiable net assets acquired, representing goodwill, shall not be amortized. If the fair value of identifiable net assets acquired exceeds the cost of investment, the excess shall be proportionately allocated as reductions to fair values of non-current assets (except for financial assets other than investments accounted for using the equity method and deferred income tax assets). When an indication of impairment is identified, the carrying amount of the investment is reduced, with the related impairment loss recognized in earnings.

When the Company subscribes for additional investee's shares at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment in the investee differs from the amount of the Company's share of the investee's equity. The Company records such a difference as an adjustment to long-term investments with the corresponding amount charged or credited to capital surplus.

Gains or losses on sales from the Company to equity method investees or from equity method investees to the Company are deferred in proportion to the Company's ownership percentages in the investees until such gains or losses are realized through transactions with third parties.

If an investee's functional currency is a foreign currency, differences will result from the translation of the investee's financial statements into the reporting currency of the Company. Such differences are charged or credited to cumulative translation adjustments, a separate component of shareholders' equity.

Financial Assets Carried at Cost

Investments for which the Company does not exercise significant influence and that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, such as non-publicly traded stocks and mutual funds, are carried at their original cost. The costs of non-publicly traded stocks and mutual funds are determined using the weighted-average method. If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized. A subsequent reversal of such impairment loss is not allowed.

The accounting treatment for cash dividends and stock dividends arising from financial assets carried at cost is the same as that for cash and stock dividends arising from available-for-sale financial assets.

Property, Plant and Equipment and Assets Leased to Others

Property, plant and equipment and assets leased to others are stated at cost less accumulated depreciation. Properties covered by agreements qualifying as capital leases are carried at the lower of the leased equipment's market value or the present value of the minimum lease payments at the inception date of the lease, with the corresponding amount recorded as obligations under capital leases. When an indication of impairment is identified, any excess of the carrying amount of an asset over its recoverable amount is recognized as a loss. If the recoverable amount increases in a subsequent period, the amount previously recognized as impairment would be reversed and recognized as a gain. However, the adjusted amount may not exceed the carrying amount that would have been determined, net of depreciation, as if no impairment loss had been recognized. Significant additions, renewals and betterments incurred during the construction period are capitalized. Maintenance and repairs are expensed as incurred.

Depreciation is computed using the straight-line method over the following estimated service lives: land improvements 20 years; buildings 10 to 20 years; machinery and equipment 3 to 5 years; office equipment 3 to 15 years; and leased assets 20 years.

Upon sale or disposal of property, plant and equipment and assets leased to others, the related cost and accumulated depreciation are deducted from the corresponding accounts, with any gain or loss recorded as non-operating gains or losses in the period of sale or disposal.

Intangible Assets

Goodwill represents the excess of the consideration paid for acquisition over the fair value of identifiable net assets acquired. Goodwill is no longer amortized and instead is tested for impairment annually, or more frequently if events or changes in circumstances suggest that the carrying amount may not be recoverable. If an event occurs or circumstances change which indicate that the fair value of goodwill is more likely than not below its carrying amount, an impairment loss is recognized. A subsequent reversal of such impairment loss is not allowed.

Deferred charges consist of technology license fees, software and system design costs and patent and others. The amounts are amortized over the following periods: Technology license fees the estimated life of the technology or the term of the technology transfer contract; software and system design costs 2 to 5 years; patent and others the economic life or contract period. When an indication of impairment is identified, any excess of the carrying amount of an asset over its recoverable amount is recognized as a loss. If the recoverable amount increases in a subsequent period, the previously recognized impairment loss would be reversed and recognized as a gain. However, the adjusted amount may not exceed the carrying amount that would have been determined, net of amortization, as if no impairment loss had been recognized.

Expenditures related to research activities and those related to development activities that do not meet the criteria for capitalization are charged to expense when incurred.

Pension Costs

For employees who participate in defined contribution pension plans, pension costs are recorded based on the actual contributions made to employees' individual pension accounts during their service periods. For employees who participate in defined benefit pension plans, pension costs are recorded based on actuarial calculations.

Income Tax

The Company applies an inter-period allocation for its income tax whereby deferred income tax assets and liabilities are recognized for the tax effects of temporary differences, net operating loss carryforwards and unused tax credits. Valuation allowances are provided to the extent, if any, that it is more likely than not that deferred income tax assets will not be realized. A deferred tax asset or liability is classified as current or noncurrent in accordance with the classification of its related asset or liability. However, if a deferred tax asset or liability does not relate to an asset or liability in the financial statements, then it is classified as either current or noncurrent based on the expected length of time before it is realized or settled.

Any tax credits arising from purchases of machinery and equipment, research and development expenditures and personnel training expenditures are recognized using the flow-through method.

Adjustments of prior years' tax liabilities are added to or deducted from the current period's tax provision.

Income tax on unappropriated earnings (excluding earnings from foreign consolidated subsidiaries) at a rate of 10% is expensed in the year of shareholder approval which is the year subsequent to the year the earnings are generated.

Stock-based Compensation

Employee stock options that were granted or modified in the period from January 1, 2004 to December 31, 2007 are accounted for by the interpretations issued by the Accounting Research and Development Foundation of the Republic of China. The Company adopted the intrinsic value method and any compensation cost determined using this method is recognized in earnings over the employee vesting period. Employee stock option plans that were granted or modified after December 31, 2007 are accounted for using fair value method in accordance with Statement of Financial Accounting Standards No. 39, Accounting for Share-based Payment. The Company did not grant or modify any employee stock options since January 1, 2008.

Foreign-currency Transactions

Foreign-currency transactions other than derivative contracts are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Exchange gains or losses derived from foreign-currency transactions or monetary assets and liabilities denominated in foreign currencies are recognized in earnings.

At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are revalued at prevailing exchange rates with the resulting gains or losses recognized in earnings.

Translation of Foreign-currency Financial Statements

The financial statements of foreign subsidiaries are translated into New Taiwan dollars at the following exchange rates: Assets and liabilities spot rates at period-end; shareholders equity historical rates; income and expenses average rates during the period. The resulting translation adjustments are recorded as a separate component of shareholders equity.

3. ACCOUNTING CHANGES

On January 1, 2011, the Company prospectively adopted the newly revised Statement of Financial Accounting Standards (SFAS) No. 34, Financial Instruments: Recognition and Measurement. The main revisions include (1) finance lease receivables are now covered by SFAS No. 34; (2) the scope of the applicability of SFAS No. 34 to insurance contracts is amended; (3) loans and receivables originated by the Company are now covered by SFAS No. 34; (4) additional guidelines on impairment testing of financial assets carried at amortized cost when the debtor has financial difficulties and the terms of obligations have been modified; and (5) accounting treatment by a debtor for modifications in the terms of obligations. This accounting change did not have a significant effect on the Company's consolidated financial statements as of and for the period ended March 31, 2011.

On January 1, 2011, the Company adopted the newly issued SFAS No. 41, Operating Segments. The statement requires identification and disclosure of operating segments on the basis of how the Company's chief operating decision maker regularly reviews information in order to allocate resources and assess performance. This statement supersedes SFAS No. 20, Segment Reporting. The Company conformed to the disclosure requirements as of and for the period ended March 31, 2011. The information for the period ended March 31, 2010 has been recast to reflect the new segment reporting requirement.

4. CASH AND CASH EQUIVALENTS

	March 31	
	2011	2010
Cash and deposits in banks	\$ 127,349,258	\$ 157,826,361
Repurchase agreements collateralized by government bonds	1,627,216	1,241,551
Corporate bonds	383,092	159,077
Agency bonds	85,434	
Treasury bills		540,900
Commercial papers		31,814
	\$ 129,445,000	\$ 159,799,703

5. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	March 31	
	2011	2010
Trading financial assets		
Forward exchange contracts	\$ 12,283	\$ 3,974
Cross currency swap contracts		79,306
	\$ 12,283	\$ 83,280
Trading financial liabilities		
Forward exchange contracts	\$ 48,850	\$ 2,040
Cross currency swap contracts		9,770
	\$ 48,850	\$ 11,810

The Company entered into derivative contracts during the three months ended March 31, 2011 and 2010 to manage exposures due to fluctuations of foreign exchange rates. The derivative contracts entered into by the Company did not meet the criteria for hedge accounting. Therefore, the Company did not apply hedge accounting treatment for derivative contracts.

Outstanding forward exchange contracts consisted of the following:

	Maturity Date	Contract Amount (In Thousands)
March 31, 2011		
Sell NT\$/Buy JPY	April 2011	NT\$1,173,256/JPY3,268,300
Sell NT\$/Buy EUR	April 2011	NT\$83,800/EUR2,000
Sell EUR/Buy NT\$	April 2011	EUR59,550/NT\$2,494,130
Sell NT\$/Buy US\$	April 2011	NT\$53,267/US\$1,800
Sell RMB/Buy US\$	April 2011 to June 2011	RMB925,865/US\$140,500
Sell US\$/Buy JPY	April 2011	US\$1,531/JPY124,092
Sell US\$/Buy NT\$	April 2011 to May 2011	US\$9,000/NT\$265,008

(Continued)

	Maturity Date	Contract Amount (In Thousands)
March 31, 2010		
Sell EUR/Buy NT\$	April 2010	EUR7,500/NT\$323,205
Sell EUR/Buy US\$	April 2010	EUR4,500/US\$5,998
Sell US\$/Buy RMB	April 2010	US\$1,000/RMB6,827
Sell US\$/Buy NT\$	April 2010 to May 2010	US\$ 13,750/NT\$438,590 (Concluded)

Outstanding cross currency swap contracts consisted of the following:

Maturity Date	Contract Amount (In Thousands)	Range of Interest Rates Paid	Range of Interest Rates Received
March 31, 2010			
April 2010 to May 2010	US\$ 930,000/NT\$29,662,580	0.21%-0.45%	0.00%-0.09%

For the three months ended March 31, 2011 and 2010, changes in fair value related to derivative financial instruments recognized in earnings was a net loss of NT\$282,237 thousand and a net gain of NT\$304,829 thousand, respectively.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	March 31	
	2011	2010
Corporate bonds	\$ 16,650,404	\$ 13,026,082
Agency bonds	6,931,552	7,557,888
Publicly traded stocks	4,567,080	478,293
Government bonds	916,160	4,047,337
Open-end mutual funds	390,351	170,090
Money market funds	145,015	86,827
Corporate issued notes		82,529
	29,600,562	25,449,046
Current portion	(28,564,518)	(24,182,017)
	\$ 1,036,044	\$ 1,267,029

7. HELD-TO-MATURITY FINANCIAL ASSETS

	March 31	
	2011	2010
Corporate bonds	\$ 12,639,303	\$ 16,683,171
Government bonds	442,020	1,376,086
Structured time deposits		1,000,000
	13,081,323	19,059,257
Current portion	(5,388,732)	(7,944,656)

\$ 7,692,591 \$ 11,114,601

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Structured time deposits categorized as held-to-maturity financial assets consisted of the following:

	Principal Amount	Interest Receivable	Range of Interest Rates	Maturity Date
March 31, 2010				
Callable domestic deposits	\$ 1,000,000	\$ 809	0.36%	July 2010

8. ALLOWANCES FOR DOUBTFUL RECEIVABLES, SALES RETURNS AND OTHERS

Movements of the allowance for doubtful receivables were as follows:

	Three Months Ended March 31	
	2011	2010
Balance, beginning of period	\$ 504,029	\$ 543,325
Provision (reversal)	(936)	4,583
Balance, end of period	\$ 503,093	\$ 547,908

Movements of the allowance for sales returns and others were as follows:

	Three Months Ended March 31	
	2011	2010
Balance, beginning of period	\$ 7,546,264	\$ 8,724,481
Provision	1,458,262	2,833,620
Write-off	(2,048,598)	(4,392,438)
Balance, end of period	\$ 6,955,928	\$ 7,165,663

9. INVENTORIES

	March 31	
	2011	2010
Finished goods	\$ 7,600,064	\$ 2,278,534
Work in process	19,320,917	17,265,051
Raw materials	2,853,159	1,708,680
Supplies and spare parts	2,013,099	1,441,968
	\$ 31,787,239	\$ 22,694,233

Write-downs of inventories to net realizable value in the amount of NT\$672,567 thousand and NT\$201,653 thousand, respectively, were included in the cost of sales for the three months ended March 31, 2011 and 2010. Inventory losses related to earthquake damage in the amount of NT\$194,137 thousand were classified under non-operating expenses and losses for the three months ended March 31, 2010.

10. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	March 31			
	2011	% of	2010	% of
	Carrying	Owner-	Carrying	Owner-
	Amount	ship	Amount	ship
Common stock				
Vanguard International Semiconductor Corporation (VIS)	\$ 9,456,221	38	\$ 9,359,350	37
Systems on Silicon Manufacturing Company Pte Ltd. (SSMC)	7,256,841	39	6,308,810	39
Motech Industries Inc. (Motech)	6,770,069	20	6,210,916	20
VisEra Holding Company (VisEra Holding)	2,512,421	49	2,305,135	49
Mcube Inc. (Mcube)		84	16,817	70
Aiconn Technology Corporation (Aiconn)			15,508	42
Preferred stock				
Mcube		6	30,199	10
	\$ 25,995,552		\$ 24,246,735	

The Company originally owned 43% of Aiconn, which was merged with Accton Wireless Broadband Corp. (Accton) in March 2011. As a result of the merger, the Company's equity investment in Aiconn was exchanged for equity of Accton and the Company did not exercise significant influence over Accton. Therefore, the aforementioned investment was reclassified to financial assets carried at cost.

In February 2010, the Company subscribed to 75,316 thousand shares of Motech through a private placement for NT\$6,228,661 thousand; after the subscription, the Company's percentage of ownership in Motech was 20%. Transfer of the aforementioned common shares within three years is prohibited according to the related regulations.

For the three months ended March 31, 2011 and 2010, equity in earnings/losses of equity method investees was a net gain of NT\$520,109 thousand and NT\$177,080 thousand, respectively. Related equity in earnings/losses of equity method investees were determined based on the reviewed financial statements, except for Aiconn and Mcube. The Company believes that, had the aforementioned equity method investees' financial statements been reviewed, any adjustments arising would have had no material effect on the Company's consolidated financial statements.

As of March 31, 2011 and 2010, the quoted market price of publicly traded stocks in unrestricted investments accounted for using the equity method (VIS) was NT\$8,795,129 thousand and NT\$10,240,043 thousand, respectively. Movements of the difference between the cost of investments and the Company's share in investees' net assets allocated to depreciable assets were as follows:

	Three Months Ended March	
	31	
	2011	2010
Balance, beginning of period	\$ 2,491,891	\$ 1,391,500
Additions		2,055,660
Deductions	(244,977)	(212,358)
Balance, end of period	\$ 2,246,914	\$ 3,234,802

Movements of the difference allocated to goodwill were as follows:

	Three Months Ended March 31	
	2011	2010
Balance, beginning of period	\$ 1,415,565	\$ 1,061,885
Additions		353,680
Balance, end of period	\$ 1,415,565	\$ 1,415,565

11. HEDGING DERIVATIVE FINANCIAL INSTRUMENTS

	March 31	
	2011	2010
Hedging derivative financial liabilities		
Interest rate swap contract	\$ 676	\$ 238

The Company's long-term bank loans bear floating interest rates; therefore, changes in the market interest rate may cause future cash flows to be volatile. Accordingly, the Company entered into an interest rate swap contract in order to hedge cash flow risk caused by floating interest rates. The outstanding interest rate swap contract consisted of the following:

Contract Amount (In Thousands)	Maturity Date	Range of Interest Rates Paid	Range of Interest Rates Received
March 31, 2011			
NT\$116,000	August 31, 2012	1.38%	0.66%-0.68%
March 31, 2010			
NT\$140,000	August 31, 2012	1.38%	0.55%-0.57%

For the three months ended March 31, 2011 and 2010, the adjustment to shareholders' equity amounted to NT\$676 thousand and NT\$238 thousand, respectively; and the amount removed from shareholders' equity and recognized as a loss from the above interest rate swap contract amounted to NT\$226 thousand and nil, respectively.

12. FINANCIAL ASSETS CARRIED AT COST

	March 31	
	2011	2010
Non-publicly traded stocks	\$ 4,050,346	\$ 2,975,288
Mutual funds	159,251	159,251
	\$ 4,209,597	\$ 3,134,539

In June 2010, the Company invested in Stion Corporation (Stion, a United States corporation) for US\$50,000 thousand and obtained Stion's preferred stock of 7,347 thousand shares with 23.4% of ownership. Stion is engaged in the manufacturing of high-efficiency thin-film solar photovoltaic modules. Due to certain restrictions contained in the investment agreements, the Company does not have the ability to exert significant influence over Stion's operating and financial policies. Therefore, the investment was classified under financial assets carried at cost.

The common stock of Capella Microsystems (Taiwan), Inc. and Integrated Memory Logic Limited was listed on the Taiwan GreTai Securities Market and Taiwan Stock Exchange in June 2010 and May 2010, respectively. Thus, the Company reclassified the aforementioned investments from financial assets carried at cost to available-for-sale financial assets.

For the three months ended March 31, 2011 and 2010, the Company recognized impairment on financial assets carried at cost of NT\$58,537 thousand and NT\$8,709 thousand, respectively.

13. PROPERTY, PLANT AND EQUIPMENT

	Three Months Ended March 31, 2011					Balance, End of Period
	Balance, Beginning of Period	Additions (Deductions)	Disposals	Reclassification	Effect of Exchange Rate Changes	
Cost						
Land and land improvements	\$ 891,197	\$ 652,011	\$	\$	\$ (23,403)	\$ 1,519,805
Buildings	145,966,024	16,229,827	(9,707)		(429,136)	161,757,008
Machinery and equipment	913,155,252	68,138,372	(248,904)		(1,534,301)	979,510,419
Office equipment	14,856,582	875,855	(145,803)		(54,702)	15,531,932
Leased asset	701,552				(16,777)	684,775
	1,075,570,607	\$ 85,896,065	\$ (404,414)	\$	\$ (2,058,319)	1,159,003,939
Accumulated depreciation						
Land and land improvements	328,792	\$ 6,682	\$	\$	\$ (9,706)	325,768
Buildings	90,472,703	2,392,872	(9,707)		(238,029)	92,617,839
Machinery and equipment	671,268,636	21,494,836	(247,266)		(1,478,448)	691,037,758
Office equipment	10,957,676	327,377	(145,786)		(47,085)	11,092,182
Leased asset	250,350	8,376			(5,917)	252,809
	773,278,157	\$ 24,230,143	\$ (402,759)	\$	\$ (1,779,185)	795,326,356
Advance payments and construction in progress	86,151,573	\$ (12,691,030)	\$ (429,691)	\$ (199)	\$ (118,856)	72,911,797

\$ 388,444,023

\$ 436,589,380

Three Months Ended March 31, 2010

	Balance, Beginning of Period	Additions	Disposals	Reclassification	Effect of Exchange Rate Changes	Balance, End of Period
Cost						
Land and land improvements	\$ 934,090	\$	\$	\$	\$ (5,485)	\$ 928,605
Buildings	142,294,558	1,351,012		4,422	(114,188)	143,535,804
Machinery and equipment	775,653,489	43,807,043	(352,530)	40,643	(370,038)	818,778,607
Office equipment	13,667,747	560,945	(22,804)	52,685	(14,850)	14,243,723
Leased asset	714,424				(4,719)	709,705
	933,264,308	\$ 45,719,000	\$ (375,334)	\$ 97,750	\$ (509,280)	978,196,444
Accumulated depreciation						
Land and land improvements	317,580	\$ 7,283	\$	\$	\$ (2,123)	322,740
Buildings	81,821,718	2,366,466			(55,562)	84,132,622
Machinery and equipment	600,795,474	17,787,671	(352,334)	443	(394,503)	617,836,751
Office equipment	10,589,349	280,027	(22,782)	(443)	(12,862)	10,833,289
Leased asset	219,765	8,811			(1,487)	227,089
	693,743,886	\$ 20,450,258	\$ (375,116)	\$	\$ (466,537)	713,352,491
Advance payments and construction in progress	34,154,365	\$ 730,760	\$	\$ (97,750)	\$ (2,109)	34,785,266
	\$ 273,674,787					\$ 299,629,219

The Company entered into agreements to lease buildings that qualify as capital leases. The term of the leases is from December 2003 to December 2013. The future minimum lease payments as of March 31, 2011 were NT\$754,723 thousand.

14. DEFERRED CHARGES, NET

	Three Months Ended March 31, 2011					Balance, End of Period
	Balance, Beginning of Period	Additions	Amortization	Reclassification	Effect of Exchange Rate Changes	
Technology license fee	\$ 2,455,348	\$	\$ (185,338)	\$	\$ (108)	\$ 2,269,902
Software and system design costs	2,333,271	38,065	(291,150)	199	(151)	2,080,234
Patent and others	1,238,466	150,118	(108,322)		(2,361)	1,277,901
	\$ 6,027,085	\$ 188,183	\$ (584,810)	\$ 199	\$ (2,620)	\$ 5,628,037

	Three Months Ended March 31, 2010					Balance, End of Period
	Balance, Beginning of Period	Additions	Amortization	Reclassification	Effect of Exchange Rate Changes	
Technology license fee	\$ 3,230,624	\$	\$ (214,183)	\$	\$ 910	\$ 3,017,351
Software and system design costs	1,834,528	377,852	(240,858)		(28)	1,971,494
Patent and others	1,393,402	5,182	(95,936)		(676)	1,301,972
	\$ 6,458,554	\$ 383,034	\$ (550,977)	\$	\$ 206	\$ 6,290,817

15. SHORT-TERM LOANS

	March 31 2011	March 31 2010
Unsecured loans: US\$1,086,000 thousand and EUR52,000 thousand, due in April 2011, and annual interest at 0.40%-0.87% ; US\$10,000 thousand, due in April 2010, and annual interest at 1.07%	\$ 34,176,368	\$ 318,242

16. BONDS PAYABLE

	March 31 2011	March 31 2010

Domestic unsecured bonds:

Issued in January 2002 and repayable in January 2012, 3.00% interest payable annually	\$ 4,500,000	\$ 4,500,000
Current portion	(4,500,000)	
	\$	\$ 4,500,000

17. LONG-TERM BANK LOANS

	March 31	
	2011	2010
Unsecured loans:		
Repayable in full in one lump sum payment in March 2013, annual interest at 1.02%-1.04%	\$ 500,000	\$
Repayable from September 2012 in 6 installments before March 31, 2015, annual interest at 1.14%	300,000	
Secured loans:		
Repayable from August 2009 in 17 quarterly installments, annual interest at 0.69%-1.30% in 2011 and 0.66%-1.11% in 2010	481,321	727,157
US\$20,000 thousand, repayable in full in one lump sum payment in November 2010, annual interest at 0.83%		636,485
Repayable from December 2007 in 8 semi-annual installments, fully repaid in June 2010, annual interest at 1.10% in 2010		98,875
	1,281,321	1,462,517
Current portion	(240,759)	(944,736)
	\$ 1,040,562	\$ 517,781

Pursuant to the loan agreements, financial ratios calculated based on semi-annual and annual financial statements of Xintec must comply with predetermined financial covenants.

As of March 31, 2011, future principal repayments for the long-term bank loans were as follows:

Year of Repayment	Amount
2011 (2 nd to 4 th quarter)	\$ 180,569
2012	290,759
2013	659,993
2014	100,000
2015	50,000
	\$ 1,281,321

18. OTHER LONG-TERM PAYABLES

	March 31	
	2011	2010
Payables for acquisition of property, plant and equipment (Note 29g)	\$ 6,942,466	\$ 7,192,395
Payables for royalties	1,041,830	1,210,606
	7,984,296	8,403,001
Current portion (classified under accrued expenses and other current liabilities)	(4,134,622)	(2,837,536)

\$ 3,849,674 \$ 5,565,465

The payables for royalties were primarily attributable to several license arrangements that the Company entered into for certain semiconductor-related patents.

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20. INCOME TAX

- a. A reconciliation of income tax expense based on income before income tax at the statutory rates and income tax currently payable was as follows:

	Three Months Ended March 31	
	2011	2010
Income tax expense based on income before income tax at statutory rates	\$ 7,186,305	\$ 7,338,355
Tax effect of the following:		
Tax-exempt income	(3,634,868)	(3,999,921)
Temporary and permanent differences	(565,085)	(93,665)
Net operating loss carryforwards used	(118,323)	(81,389)
Income tax credits used	(12,061)	(1,604,378)
Income tax currently payable	\$ 2,855,968	\$ 1,559,002

- b. Income tax expense consisted of the following:

	Three Months Ended March 31	
	2011	2010
Income tax currently payable	\$ 2,855,968	\$ 1,559,002
Income tax adjustments on prior years	2,669	647,144
Other income tax adjustments	23,669	(9,164)
Net change in deferred income tax assets		
Investment tax credits	(484,374)	(1,039,371)
Net operating loss carryforwards	116,494	84,051
Temporary differences	101,136	(562,476)
Valuation allowance	1,269,788	798,275
Income tax expense	\$ 3,885,350	\$ 1,477,461

- c. Net deferred income tax assets consisted of the following:

	March 31	
	2011	2010
Current deferred income tax assets		
Investment tax credits	\$ 4,257,923	\$ 5,265,061
Temporary differences		
Allowance for sales returns and others	597,393	739,785
Unrealized gain/loss on financial instruments	62,060	
Others	332,930	446,489
Valuation allowances	(150,639)	(145,733)
	\$ 5,099,667	\$ 6,305,602

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Noncurrent deferred income tax assets		
Investment tax credits	\$ 18,844,684	\$ 11,263,026
Net operating loss carryforwards	2,537,753	3,331,918
Temporary differences		
Depreciation	2,087,167	2,521,058
Others	574,518	530,685
Valuation allowance	(17,444,947)	(10,875,988)
	\$ 6,599,175	\$ 6,770,699

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Effective in June 2010, the Article 5 of the Income Tax Law of the Republic of China was amended, in which the income tax rate of profit-seeking enterprises would be reduced from 20% to 17%. The last amended income tax rate of 17% is retroactively applied on January 1, 2010. TSMC and its domestic subsidiaries which are subject to the Income Tax Law of the Republic of China recalculated their deferred tax assets in accordance with the new amended Article and adjusted the resulting difference as an income tax expense in 2010. Furthermore, due to the reduced corporate income tax rate, the Company anticipated a decrease in future tax credits allowed for deduction, therefore resulting in higher adjustment to the valuation allowance balance.

Under Article 10 of the Statute for Industrial Innovation (SII) legislated and effective in May 2010, a profit-seeking enterprise may deduct up to 15% of its research and development expenditures from its income tax payable for the period in which these expenditures are incurred, but this deduction should not exceed 30% of the income tax payable for that period. This incentive is retroactive to January 1, 2010 and effective until December 31, 2019.

As of March 31, 2010, the net operating loss carryforwards generated by WaferTech, TSMC Development and Mutual-Pak would expire on various dates through 2026.

d. Integrated income tax information:

The balance of the imputation credit account of TSMC as of March 31, 2011 and 2010 was NT\$1,669,533 thousand and NT\$369,265 thousand, respectively.

The estimated and actual creditable ratios for distribution of TSMC's earnings of 2010 and 2009 were 4.70% and 9.85%, respectively.

The imputation credit allocated to the shareholders is based on its balance as of the date of dividend distribution. The estimated creditable ratio may change when the actual distribution of imputation credit is made.

e. All of TSMC's earnings generated prior to December 31, 1997 have been appropriated.

f. As of March 31, 2011, investment tax credits of TSMC, GUC, Xintec and Mutual-Pak consisted of the following:

Law/Statute	Item	Total Creditable Amount	Remaining Creditable Amount	Expiry Year
Statute for Upgrading Industries	Purchase of machinery and equipment	\$ 67,436	\$ 66,600	2011
		2,519,887	2,519,887	2012
		6,040,347	6,040,347	2013
		6,378,194	6,378,194	2014
		\$ 15,005,864	\$ 15,005,028	
Statute for Upgrading Industries	Research and development expenditures	\$ 114,431	\$ 103,508	2011

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2,921,041	2,921,041	2012
4,523,367	4,523,367	2013

\$ 7,558,839	\$ 7,547,916
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(Continued)

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Law/Statute	Item	Total Creditable Amount	Remaining Creditable Amount	Expiry Year
Statute for Upgrading Industries	Personnel training expenditures	\$ 788	\$ 486	2011
		32,286	32,286	2012
		17,795	17,795	2013
		\$ 50,869	\$ 50,567	
Statute for Industrial Innovation	Research and development expenditures	\$ 499,096	\$ 499,096	2011

(Concluded)

- g. The profits generated from the following projects of TSMC, GUC and Xintec are exempt from income tax for a five-year period:

	Tax-Exemption Period
Construction and expansion of 2003 by TSMC	2007 to 2011
Construction and expansion of 2004 by TSMC	2008 to 2012
Construction and expansion of 2005 by TSMC	2010 to 2014
Construction and expansion of 2003 by GUC	2007 to 2011
Construction and expansion of 2005 and 2006 by GUC	2013 to 2017
Construction and expansion of 2003 by Xintec	2007 to 2011
Construction and expansion of 2002, 2003 and 2006 by Xintec	2010 to 2014

- h. The tax authorities have examined income tax returns of TSMC through 2007. All investment tax credit adjustments assessed by the tax authorities have been recognized accordingly.

21. LABOR COST, DEPRECIATION AND AMORTIZATION

	Three Months Ended March 31, 2011		
	Classified		
	as		
	Classified as Cost of Sales	Operating Expenses	Total
Labor cost			
Salary and bonus	\$ 6,891,851	\$ 5,199,990	\$ 12,091,841
Labor and health insurance	330,938	222,319	553,257
Pension	245,467	154,518	399,985
Meal	181,445	70,146	251,591
Welfare	177,414	65,708	243,122
Others	24,039	75,221	99,260
	\$ 7,851,154	\$ 5,787,902	\$ 13,639,056

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Depreciation	\$ 22,615,937	\$ 1,610,410	\$ 24,226,347
Amortization	\$ 342,059	\$ 242,751	\$ 584,810

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	Three Months Ended March 31, 2010		
	Classified		
	as		
	Classified	as	
	as	Operating	
	Cost of	Expenses	Total
	Sales		
Labor cost			
Salary and bonus	\$ 5,731,160	\$ 4,706,686	\$ 10,437,846
Labor and health insurance	199,239	166,519	365,758
Pension	169,499	118,342	287,841
Meal	131,445	56,286	187,731
Welfare	150,950	62,137	213,087
Others	23,797	72,265	96,062
	\$ 6,406,090	\$ 5,182,235	\$ 11,588,325
Depreciation	\$ 19,218,310	\$ 1,225,382	\$ 20,443,692
Amortization	\$ 334,090	\$ 216,887	\$ 550,977

22. SHAREHOLDERS EQUITY

As of March 31, 2011, 1,096,414 thousand ADSs of TSMC were traded on the NYSE. The number of common shares represented by the ADSs was 5,482,071 thousand (one ADS represents five common shares).

Capital surplus can only be used to offset a deficit under the Company Law. However, the capital surplus generated from donations and the excess of the issuance price over the par value of capital stock (including the stock issued for new capital, mergers, convertible bonds and the surplus from treasury stock transactions) may be appropriated as stock dividends, which are limited to a certain percentage of TSMC's paid-in capital. In addition, the capital surplus from long-term investment may not be used for any purpose.

Capital surplus consisted of the following:

	March 31	
	2011	2010
Additional paid-in capital	\$ 23,715,050	\$ 23,483,970
From merger	22,805,390	22,805,390
From convertible bonds	8,893,190	8,893,190
From long-term investments	367,797	348,240
Donations	55	55
	\$ 55,781,482	\$ 55,530,845

TSMC's Articles of Incorporation provide that, when allocating the net profits for each fiscal year, TSMC shall first offset its losses in previous years and then set aside the following items accordingly:

- a. Legal capital reserve at 10% of the profits left over, until the accumulated legal capital reserve equals TSMC's paid-in capital;
- b. Special capital reserve in accordance with relevant laws or regulations or as requested by the authorities in charge;

c. Bonus to directors and profit sharing to employees of TSMC of not more than 0.3% and not less than 1% of the remainder, respectively. Directors who also serve as executive officers of TSMC are not entitled to receive the bonus to directors. TSMC may issue profit sharing to employees in stock of an affiliated company meeting the conditions set by the Board of Directors or, by the person duly authorized by the Board of Directors;

d. Any balance left over shall be allocated according to the resolution of the shareholders' meeting. TSMC's Articles of Incorporation also provide that profits of TSMC may be distributed by way of cash dividend and/or stock dividend. However, distribution of profits shall be made preferably by way of cash dividend. Distribution of profits may also be made by way of stock dividend; provided that the ratio for stock dividend shall not exceed 50% of the total distribution.

Any appropriations of the profits are subject to shareholders' approval in the following year.

TSMC accrued profit sharing to employees based on certain percentage of net income during the period, which amounted to NT\$2,443,687 thousand and NT\$2,272,790 thousand for the three months ended March 31, 2011 and 2010, respectively. Bonuses to directors were accrued based on estimated amount of payment. If the actual amounts subsequently resolved by the shareholders differ from the estimated amounts, the differences are recorded in the year of shareholders' resolution as a change in accounting estimate. If profit sharing is resolved to be distributed to employees in stock, the number of shares is determined by dividing the amount of profit sharing by the closing price (after considering the effect of dividends) of the shares on the day preceding the shareholders' meeting.

TSMC no longer has supervisors since January 1, 2007. The required duties of supervisors are being fulfilled by the Audit Committee.

The appropriation for legal capital reserve shall be made until the reserve equals TSMC's paid-in capital. The reserve may be used to offset a deficit, or be distributed as dividends and bonuses for the portion in excess of 50% of the paid-in capital if TSMC has no unappropriated earnings and the reserve balance has exceeded 50% of TSMC's paid-in capital. The Company Law also prescribes that, when the reserve has reached 50% of TSMC's paid-in capital, up to 50% of the reserve may be transferred to capital.

A special capital reserve equivalent to the net debit balance of the other components of shareholders' equity (for example, cumulative translation adjustments and unrealized loss on financial instruments, but excluding treasury stock) shall be made from unappropriated earnings pursuant to existing regulations promulgated by the Securities and Futures Bureau (SFB). Any special reserve appropriated may be reversed to the extent that the net debit balance reverses.

The appropriations of earnings for 2010 and 2009 had been approved in the TSMC's Board of Directors' meeting held on February 15, 2011 and a shareholders' meeting held on June 15, 2010, respectively. The appropriations and dividends per share were as follows:

	Appropriation of Earnings		Dividends Per Share (NT\$)	
	For Fiscal	For Fiscal	For	For
	Year 2010	Year 2009	Fiscal Year 2010	Fiscal Year 2009
Legal capital reserve	\$ 16,160,501	\$ 8,921,784		
Special capital reserve	5,120,827	1,313,047		
Cash dividends to shareholders	77,730,236	77,708,120	\$ 3.00	\$ 3.00

\$ 99,011,564 \$ 87,942,951

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TSMC's profit sharing to employees and bonus to directors that will be paid in cash in the amounts of NT\$10,908,338 thousand and NT\$51,131 thousand for the year ended December 31, 2010, respectively, were resolved in the meeting of the Board of Directors held on February 15, 2011. Such amounts were not different from the amounts that have been charged against earnings for the year ended December 31, 2010.

The 2010 earnings appropriations related to profit sharing to employees and bonus to directors will be resolved by the shareholders. TSMC's annual shareholders' meeting is scheduled for June 9, 2011.

TSMC's profit sharing to employees to be paid in cash and bonus to directors in the amounts of NT\$6,691,338 thousand and NT\$67,692 thousand for 2009, respectively, had been approved in the shareholders' meeting held on June 15, 2010. The resolved amounts of the profit sharing to employees and bonus to directors were consistent with the resolutions of meeting of the Board of Directors held on February 9, 2010 and same amount had been charged against earnings of 2009.

The information about the appropriations of TSMC's profit sharing to employees and bonus to directors is available at the Market Observation Post System website.

Under the Integrated Income Tax System that became effective on January 1, 1998, the R.O.C. resident shareholders are allowed a tax credit for their proportionate share of the income tax paid by TSMC on earnings generated since January 1, 1998.

23. STOCK-BASED COMPENSATION PLANS

TSMC's Employee Stock Option Plans, consisting of the TSMC 2004 Plan, TSMC 2003 Plan and TSMC 2002 Plan were approved by the SFB on January 6, 2005, October 29, 2003 and June 25, 2002, respectively. The maximum number of options authorized to be granted under the TSMC 2004 Plan, TSMC 2003 Plan and TSMC 2002 Plan was 11,000 thousand, 120,000 thousand and 100,000 thousand, respectively, with each option eligible to subscribe for one common share of TSMC when exercised. The options may be granted to qualified employees of TSMC or any of its domestic or foreign subsidiaries, in which TSMC's shareholding with voting rights, directly or indirectly, is more than fifty percent (50%). The options of all the plans are valid for ten years and exercisable at certain percentages subsequent to the second anniversary of the grant date. Under the terms of the plans, the options are granted at an exercise price equal to the closing price of TSMC's common shares listed on the TSE on the grant date.

Options of the plans that had never been granted or had been granted but subsequently canceled had expired as of March 31, 2011.

Information about TSMC's outstanding options for the three months ended March 31, 2011 and 2010 was as follows:

	Number of Options (In Thousands)	Weighted- average Exercise price (NT\$)
Three months ended March 31, 2011		
Balance, beginning of period	21,437	\$ 32.3

Options exercised	(4,115)	30.9
Balance, end of period	17,322	32.6

(Continued)

	Number of Options (In Thousands)	Weighted- average Exercise price (NT\$)
Three months ended March 31, 2010		
Balance, beginning of period	28,810	\$ 33.5
Options exercised	(1,063)	34.6
Balance, end of period	27,747	33.4

(Concluded)

The number of outstanding options and exercise prices have been adjusted to reflect the distribution of earnings by TSMC in accordance with the plans.

As of March 31, 2011, information about TSMC's outstanding options was as follows:

Range of Exercise Price (NT\$)	Number of Options (In Thousands)	Options Outstanding Weighted-average Remaining	Weighted-average
		Contractual Life (Year)	Exercise Price (NT\$)
\$21.7-\$30.5	13,193	1.98	\$28.5
38.0-50.1	4,129	3.69	45.7
	17,322	2.39	32.6

As of March 31, 2011, all of the above outstanding options were exercisable.

GUC's Employee Stock Option Plans, consisting of the GUC 2003 Plan and GUC 2002 Plan, were approved by its Board of Directors on January 23, 2003 and July 1, 2002, respectively. The maximum number of options authorized to be granted under the GUC 2003 Plan and GUC 2002 Plan was 7,535 and 5,000, respectively, with each option eligible to subscribe for one thousand common shares of GUC when exercised. The options may be granted to qualified employees of GUC. The options of all the plans are valid for six years and exercisable at certain percentages subsequent to the second anniversary of the grant date.

Moreover, the GUC 2007 Plan, GUC 2006 Plan, and GUC 2004 Plan were approved by the SFB on November 28, 2007, July 3, 2006, and August 16, 2004 to grant a maximum of 1,999 options, 3,665 options and 2,500 options, respectively, with each option eligible to subscribe for one thousand common shares of GUC when exercised. The options may be granted to qualified employees of GUC or any of its subsidiaries. Except for the options of the GUC 2006 Plan which are valid until August 15, 2011, the options of the other two GUC option plans are valid for six

years. Options of all three plans are exercisable at certain percentages subsequent to the second anniversary of the grant date.

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Information about GUC's outstanding options for the three months ended March 31, 2011 and 2010 was as follows:

	Number of Options	Weighted- average Exercise Price (NT\$)
Three months ended March 31, 2011		
Balance, beginning of period	1,787	\$ 130.9
Options exercised	(388)	15.3
Options canceled	(63)	175.0
Balance, end of period	1,336	162.5
Three months ended March 31, 2010		
Balance, beginning of period	3,810	83.4
Options exercised	(170)	10.0
Options canceled	(140)	90.6
Balance, end of period	3,500	86.6

The number of outstanding options and exercise prices have been adjusted to reflect the distribution of earnings by GUC in accordance with the plans.

As of March 31, 2011, information about GUC's outstanding and exercisable options was as follows:

Range of Exercise Price (NT\$)	Number of Options	Options Outstanding		Options Exercisable	
		Weighted- average Remaining Contractual Life (Years)	Weighted- average Exercise Price (NT\$)	Number of Options	Weighted- average Exercise Price (NT\$)
\$ 15.3	105	0.42	\$ 15.3	105	\$ 15.3
175.0	1,231	2.75	175.0	615	175.0
	1,336	2.57	162.5	720	151.7

Xintec's Employee Stock Option Plans, consisting of the Xintec 2007 Plan and Xintec 2006 Plan, were approved by the SFB on June 26, 2007 and July 3, 2006, respectively. The maximum number of options authorized to be granted under the Xintec 2007 Plan and Xintec 2006 Plan was 6,000 thousand each, with each option eligible to subscribe for one common share of Xintec when exercised. The options may be granted to qualified employees of Xintec or any of its subsidiaries. The options of all the plans are valid for ten years and exercisable at certain percentages

subsequent to the second anniversary of the grant date.

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Information about Xintec's outstanding options for the three months ended March 31, 2011 and 2010 was as follows:

	Number of Options (In Thousands)	Weighted- average Exercise Price (NT\$)
Three months ended March 31, 2011		
Balance, beginning of period	1,832	\$ 15.1
Options exercised	(642)	14.3
Options canceled	(18)	17.7
Balance, end of period	1,172	15.6
Three months ended March 31, 2010		
Balance, beginning of period	3,960	14.7
Options exercised	(746)	14.2
Options canceled	(170)	17.1
Balance, end of period	3,044	14.7

The exercise prices have been adjusted to reflect the distribution of earnings by Xintec in accordance with the plans. As of March 31, 2011, information about Xintec's outstanding and exercisable options was as follows:

Range of Exercise Price (NT\$)	Options Outstanding			Options Exercisable	
	Number of Options (In Thousands)	Weighted- average Remaining Contractual Life (Years)	Weighted- average Exercise Price (NT\$)	Number of Options (In Thousands)	Weighted- average Exercise Price (NT\$)
\$12.1-\$14.0	365	5.55	\$ 12.4	348	\$ 12.4
15.2-19.1	807	6.43	16.8	275	16.8
	1,172	6.15	15.4	623	14.3

No compensation cost was recognized under the intrinsic value method for the three months ended March 31, 2011 and 2010. Had the Company used the fair value based method to evaluate the options using the Black-Scholes model, the assumptions at the various grant dates and pro forma results of the Company for the three months ended March 31, 2011 and 2010 would have been as follows:

Assumptions:

TSMC	Expected dividend yield	1.00%-3.44%
	Expected volatility	43.77%-46.15%
	Risk free interest rate	3.07%-3.85%
	Expected life	5 years
GUC	Expected dividend yield	0.00%-0.60%
	Expected volatility	22.65%-45.47%
	Risk free interest rate	2.12%-2.56%
	Expected life	3-6 years

Xintec	Expected dividend yield	0.80%
	Expected volatility	31.79%-47.42%
	Risk free interest rate	1.88%-2.45%
	Expected life	3 years

	Three Months Ended March 31	
	2011	2010
Net income attributable to shareholders of the parent:		
As reported	\$ 36,277,773	\$ 33,663,117
Pro forma	36,273,711	33,700,273
Earnings per share (EPS) after income tax (NT\$):		
Basic EPS as reported	\$ 1.40	\$ 1.30
Pro forma basic EPS	1.40	1.30
Diluted EPS as reported	1.40	1.30
Pro forma diluted EPS	1.40	1.30

24. EARNINGS PER SHARE

EPS is computed as follows:

	Amounts (Numerator)		Number of Shares (Denominator) (In Thousands)	EPS (NT\$)	
	Before Income Tax	After Income Tax		Before Income Tax	After Income Tax
Three months ended March 31, 2011					
Basic EPS					
Earnings available to common shareholders of the parent	\$ 40,139,062	\$ 36,277,773	25,912,506	\$ 1.55	\$ 1.40
Effect of dilutive potential common shares			11,187		
Diluted EPS					
Earnings available to common shareholders of the parent (including effect of dilutive potential common shares)	\$ 40,139,062	\$ 36,277,773	25,923,693	\$ 1.55	\$ 1.40
Three months ended March 31, 2010					
Basic EPS					
Earnings available to common shareholders of the parent	\$ 35,123,919	\$ 33,663,117	25,903,465	\$ 1.36	\$ 1.30

Effect of dilutive potential common shares						12,521
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Diluted EPS

Earnings available to common shareholders of the parent (including effect of dilutive potential common shares)	\$ 35,123,919	\$ 33,663,117	25,915,986	\$ 1.36	\$ 1.30
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If the Company may settle the obligation by cash, by issuing shares, or in combination of both cash and shares, profit sharing to employees which will be settled in shares should be included in the weighted average number of shares outstanding in calculation of diluted EPS, if the shares have a dilutive effect. The number of shares is estimated by dividing the amount of profit sharing to employees in stock by the closing price (after considering the dilutive effect of dividends) of the common shares on the balance sheet date. Such dilutive effect of the potential shares needs to be included in the calculation of diluted EPS until the shares of profit sharing to employees are resolved in the shareholders meeting in the following year.

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The average number of shares outstanding for EPS calculation has been considered for the effect of retrospective adjustments. This adjustment caused each the basic and diluted after income tax EPS for the three months ended March 31, 2010 to remain at NT\$1.30.

25. DISCLOSURES FOR FINANCIAL INSTRUMENTS

a. Fair values of financial instruments were as follows:

	March 31			
	2011		2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets				
Financial assets at fair value through profit or loss	\$ 12,283	\$ 12,283	\$ 83,280	\$ 83,280
Available-for-sale financial assets	29,600,562	29,600,562	25,449,046	25,449,046
Held-to-maturity financial assets	13,081,323	13,206,182	19,059,257	19,275,147
Financial assets carried at cost	4,209,597		3,134,539	
Liabilities				
Financial liabilities at fair value through profit or loss	48,850	48,850	11,810	11,810
Hedging derivative financial liabilities	676	676	238	238
Bonds payable (including current portion)	4,500,000	4,542,890	4,500,000	4,565,957
Long-term bank loans (including current portion)	1,281,321	1,281,321	1,462,517	1,462,517
Other long-term payables (including current portion)	7,984,296	7,984,296	8,403,001	8,403,001
Obligations under capital leases	678,403	678,403	702,826	702,826

b. Methods and assumptions used in estimating fair values of financial instruments

- 1) The aforementioned financial instruments do not include cash and cash equivalents, receivables, other financial assets, refundable deposits, short-term loans, payables and guarantee deposits. The carrying amounts of these financial instruments approximate their fair values due to their short maturities.
- 2) Except for derivatives and structured time deposits, available-for-sale and held-to-maturity financial assets were based on their quoted market prices.
- 3) The fair values of those derivatives and structured time deposits are determined using valuation techniques incorporating estimates and assumptions that were consistent with prevailing market conditions.
- 4) Financial assets carried at cost have no quoted prices in an active market and entail an unreasonably high cost to obtain verifiable fair values. Therefore, no fair value is presented.
- 5) Fair value of bonds payable was based on their quoted market price.
- 6) Fair values of long-term bank loans, other long-term payables and obligations under capital leases were based on the present value of expected cash flows, which approximate their carrying amounts.

c.

The changes in fair value of derivatives contracts for the three months ended March 31, 2011 and 2010 estimated using valuation techniques were recognized as net loss of NT\$36,567 thousand and net gain NT\$71,470 thousand, respectively.

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- d. As of March 31, 2011 and 2010, financial assets exposed to fair value interest rate risk were NT\$38,127,088 thousand and NT\$44,113,290 thousand, respectively; financial liabilities exposed to fair value interest rate risk were NT\$46,346,763 thousand and NT\$12,725,511 thousand, respectively; and financial liabilities exposed to cash flow interest rate risk were NT\$1,281,321 thousand and NT\$1,462,517 thousand, respectively.
- e. Movements of the unrealized gains or losses on financial instruments for the three months ended March 31, 2011 and 2010 were as follows:

Three Months Ended March 31, 2011

	From		Gain (Loss)	
	Available-	Equity	on	
	for-sale	Method	Cash Flow	
	Financial	Investments	Hedges	Total
	Assets			
Balance, beginning of period	\$ 86,158	\$ 23,462	\$ (331)	\$ 109,289
Recognized directly in shareholders' equity	56,915	(13,204)	57	43,768
Removed from shareholders' equity and recognized in earnings	(108,184)			(108,184)
Balance, end of period	\$ 34,889	\$ 10,258	\$ (274)	\$ 44,873

Three Months Ended March 31, 2010

	From		Gain (Loss)	
	Available-	Equity	on	
	for-sale	Method	Cash Flow	
	Financial	Investments	Hedges	Total
	Assets			
Balance, beginning of period	\$ 424,128	\$ 29,493	\$	\$ 453,621
Recognized directly in shareholders' equity	(55,489)	12,662	(97)	(42,924)
Removed from shareholders' equity and recognized in earnings	(9,307)			(9,307)
Balance, end of period	\$ 359,332	\$ 42,155	\$ (97)	\$ 401,390

- f. Information about financial risk

1) Market risk. The derivative financial instruments categorized as financial assets/liabilities at fair value through profit or loss are mainly used to hedge market the exchange rate fluctuations of foreign-currency assets and liabilities; therefore, the market exchange rate risk of derivatives will be offset by the foreign exchange risk of these hedged items. Available-for-sale financial assets and held-to-maturity financial assets held by the Company are mainly fixed-interest-rate debt securities and publicly traded stock; therefore, the fluctuations in market interest rates and market prices will result in changes in fair values of these debt securities.

- 2) Credit risk. Credit risk represents the potential loss that would be incurred by the Company if the counter-parties or third-parties breached contracts. Financial instruments with positive fair values at the balance sheet date are evaluated for credit risk. The Company evaluated whether the financial instruments for any possible counter-parties or third-parties are reputable financial institutions, business enterprises and government agencies and accordingly, the Company believed that the Company's exposure to credit risk was not significant.
- 3) Liquidity risk. The Company has sufficient operating capital to meet cash needs upon settlement of derivative financial instruments, bonds payable and bank loans. Therefore, the liquidity risk is low.
- 4) Cash flow interest rate risk. The Company mainly invests in fixed-interest-rate debt securities. Therefore, cash flows are not expected to fluctuate significantly due to changes in market interest rates. The long-term bank loans were floating-rate loans. Therefore, changes in the market interest rates will result in changes in the interest rate of the long-term bank loans, which will affect future cash flows.
- g. The Company seeks to reduce the effects of future cash flow related interest rate changes by primarily using derivative financial instruments.

The Company's long-term bank loans bear floating interest rates; therefore, changes in the market interest rate may cause future cash flows to be volatile. Accordingly, the Company entered into an interest rate swap contract in order to hedge cash flow risk caused by floating interest rates. Information about outstanding interest rate swap contract consisted of the following:

Hedged Item	Hedging Financial Instrument	Fair Value	Expected Cash Flow Generated Period	Expected Timing for the Recognition of Gains or Losses from Hedge
March 31, 2011				
Long-term bank loans	Interest rate swap contract	\$ (676)	2010 to 2012	2010 to 2012
March 31, 2010				
Long-term bank loans	Interest rate swap contract	(238)	2010 to 2012	2010 to 2012

26. RELATED PARTY TRANSACTIONS

Except as disclosed in the consolidated financial statements and other notes, the following is a summary of significant related party transactions:

- a. Investees of TSMC

VIS (accounted for using equity method)

SSMC (accounted for using equity method)

- b. VisEra Technology Company, Ltd. (VisEra), an indirect investee accounted for using equity method by TSMC.
- c. Others

Related parties over which the Company has significant influence but with which the Company had no material transactions.

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	2011		2010	
	Amount	%	Amount	%
For the three months ended March 31				
Sales				
VIS	\$ 48,962		\$ 49,345	
VisEra	1,151		24,064	
Others	2,171		956	
	\$ 52,284		\$ 74,365	
Purchases				
VIS	\$ 1,333,377	2	\$ 965,783	2
SSMC	955,937	2	1,041,954	2
Others	65,792			
	\$ 2,355,106	4	\$ 2,007,737	4
Manufacturing expenses				
VisEra (outsourcing and rent)	\$ 21,173		\$ 18,567	
VIS (rent)	7,104			
	\$ 28,277		\$ 18,567	
Research and development expense				
VisEra	\$ 5,366		\$ 1,663	
VIS (primarily rent)	1,999		2,274	
	\$ 7,365		\$ 3,937	
Sales of property, plant and equipment				
VIS	\$ 35,208	9	\$ 15,940	10
Purchase of property, plant and equipment				
VisEra	\$ 11,110		\$	
VIS			15,865	
	\$ 11,110		\$ 15,865	

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Non-operating income and gains				
VIS (primarily technical service income)	\$ 68,905	4	\$ 86,868	5
SSMC (primarily technical service income)	44,817	2	44,503	2
	\$ 113,722	6	\$ 131,371	7

As of March 31

Other receivables				
VIS	\$ 153,680	77	\$ 113,100	71
SSMC	45,415	23	45,687	29
	\$ 199,095	100	\$ 158,787	100

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	2011		2010	
	Amount	%	Amount	%
Payables				
VIS	\$ 954,914	67	\$ 697,992	63
SSMC	395,820	28	408,809	37
Others	77,066	5	7,788	
	\$ 1,427,800	100	\$ 1,114,589	100

The sales prices and payment terms to related parties were not significantly different from those of sales to third parties. For other related party transactions, prices and terms were determined in accordance with mutual agreements.

The Company leased certain office space and facilities from VIS. The lease terms and prices were determined in accordance with mutual agreements. The rental expense was paid monthly and the related expenses were classified under research and development expenses and manufacturing expenses.

The Company leased certain factory building from VisEra. The lease terms and prices were determined in accordance with mutual agreements. The rental expense was paid monthly and classified under manufacturing expenses.

27. PLEDGED OR MORTGAGED ASSETS

The Company provided certain assets as collateral mainly for long-term bank loans, land lease agreements and customs duty guarantee, which were as follows:

	March 31	
	2011	2010
Other financial assets	\$ 118,418	\$ 880,700
Property, plant and equipment, net	1,048,102	2,636,977
Other assets	20,000	20,000
	\$ 1,186,520	\$ 3,537,677

28. SIGNIFICANT LONG-TERM LEASES

The Company leases several parcels of land, factory and office premises from the Science Park Administration and Jhongli Industrial Park Service Center. These operating leases expire on various dates from April 2011 to July 2030 and can be renewed upon expiration.

The Company entered into lease agreements for its office premises and certain equipment located in the United States, Europe, Japan, Shanghai and Taiwan. These operating leases expire between 2011 and 2018 and can be renewed upon expiration.

As of March 31, 2011, future lease payments were as follows:

Year	Amount
2011 (2 nd to 4 th quarter)	\$ 460,039
2012	589,759
2013	559,739
2014	536,476
2015	504,272
2016 and thereafter	3,463,988
	\$ 6,114,273

29. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

Significant commitments and contingencies of the Company as of March 31, 2011, excluding those disclosed in other notes, were as follows:

- a. Under a technical cooperation agreement with ITRI, the R.O.C. Government or its designee approved by TSMC can use up to 35% of TSMC's capacity if TSMC's outstanding commitments to its customers are not prejudiced. The term of this agreement is for five years beginning from January 1, 1987 and is automatically renewed for successive periods of five years unless otherwise terminated by either party with one year prior notice.
- b. Under several foundry agreements, TSMC shall reserve a portion of its production capacity for certain major customers that have guarantee deposits with TSMC. As of March 31, 2011 TSMC had a total of US\$21,583 thousand of guarantee deposits.
- c. Under a Shareholders Agreement entered into with Philips and EDB Investments Pte Ltd. on March 30, 1999, the parties formed a joint venture company, SSMC, which is an integrated circuit foundry in Singapore. TSMC's equity interest in SSMC was 32%. Nevertheless, Philips parted with its semiconductor company which was renamed as NXP B.V. in September 2006. TSMC and NXP B.V. purchased all the SSMC shares owned by EDB Investments Pte Ltd. pro rata according to the Shareholders Agreement on November 15, 2006. After the purchase, TSMC and NXP B.V. currently own approximately 39% and 61% of the SSMC shares respectively. TSMC and Philips (now NXP B.V.) are required, in the aggregate, to purchase at least 70% of SSMC's capacity, but TSMC alone is not required to purchase more than 28% of the capacity. If any party defaults on the commitment and the capacity utilization of SSMC fall below a specific percentage of its capacity, the defaulting party is required to compensate SSMC for all related unavoidable costs.
- d. In August 2006, TSMC filed a lawsuit against Semiconductor Manufacturing International Corporation, SMIC (Shanghai) and SMIC Americas (aggregately referred to as SMIC) in the Superior Court of California for Alameda County for breach of a 2005 agreement that settled an earlier trade secret misappropriation and patent infringement litigation between the parties, as well as for trade secret misappropriation, seeking injunctive relief and monetary damages. In September 2006, SMIC filed a cross-complaint against TSMC in the same court alleging breach of settlement agreement, implied covenant of good faith and fair dealing. SMIC also filed a civil action against TSMC in November 2006 with the Beijing People's High Court alleging defamation and breach of good faith. On June 10, 2009, the Beijing People's High Court ruled in favor of TSMC and dismissed SMIC's lawsuit. On November 4, 2009, after a two-month trial, a jury in the California action found SMIC to have both breached the 2005 settlement agreement and misappropriated TSMC's trade secrets. TSMC has subsequently settled both lawsuits with SMIC. Pursuant to the new settlement agreement, the parties have agreed to the entry of a stipulated judgment in favor of TSMC in the California action, and to the dismissal of

SMIC's appeal against the Beijing High Court's finding in favor of TSMC. Under the new settlement agreement and the related stipulated judgment, SMIC has agreed to make cash payments by installments to TSMC totaling US\$200 million, which are in addition to the

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US\$135 million previously paid to TSMC under the 2005 settlement agreement, and, conditional upon relevant government regulatory approvals, to issue to TSMC a total of 1,789,493,218 common shares of Semiconductor Manufacturing International Corporation and a three-year warrant to purchase 695,914,030 common shares (subject to adjustment) of Semiconductor Manufacturing International Corporation at HK\$1.30 per share (subject to adjustment). TSMC has received the approval from the Investment Commission of Ministry of Economic Affairs and acquired the above mentioned common shares on July 5, 2010, representing approximately 7.37% of Semiconductor Manufacturing International Corporation's total shares outstanding, and recognized settlement income amounting to NT\$4,434,364 thousand.

- e. In June 2010, Keranos, LLC. filed a lawsuit in the U.S. District Court for the Eastern District of Texas alleging that TSMC, TSMC North America, and several other leading technology companies infringe three expired U.S. patents. In response, TSMC, TSMC North America, and several co-defendants in the Texas case filed a lawsuit against Keranos in the U.S. District Court for the Northern District of California in November 2010, seeking a judgment declaring that they did not infringe the asserted patents, and that those patents are invalid. The outcome of these two litigations cannot be determined at this time.
- f. In December 2010, Ziptronix, Inc. filed a complaint in the U.S. District Court for the Northern District of California accusing TSMC, TSMC North America and one other company of allegedly infringing six U.S. patents. This litigation is in its very early stages and therefore the outcome of the case cannot be determined at this time.
- g. TSMC entered into an agreement with a counterparty in 2003 whereby TSMC China is obligated to purchase certain property, plant and equipment at the agreed-upon price within the contract period. If the purchase is not completed, TSMC China is obligated to compensate the counterparty for the loss incurred. The property, plant and equipment have been in use by TSMC China since 2004 and are being depreciated over their estimated service lives. The related obligation totaled NT\$6,942,466 thousand and NT\$7,192,395 thousand as of March 31, 2011 and 2010, respectively, which is included in other long-term payables.
- h. Amounts available under unused letters of credit as of March 31, 2011 were NT\$93,266 thousand.

30. OTHERS

The significant financial assets and liabilities denominated in foreign currencies were as follows:

	2011		March 31		2010
	Foreign Currencies (In Thousands)	Exchange Rate (Note)	Foreign Currencies (In Thousands)	Exchange Rate (Note)	
Financial assets					
Monetary items					
USD	\$ 4,105,193	29.40-29.468	\$ 3,762,723	31.80-31.819	
EUR	142,865	41.71-41.81	62,534	42.72-42.80	
JPY	30,343,009	0.3550-0.3541	30,736,239	0.341-0.343	
RMB	196,111	4.5-4.511	31,074	4.66	
Non-monetary items					
USD	142,851	29.40-29.468	97,897	31.80-31.819	
HKD	1,073,696	3.79			

(Continued)

	2011		March 31		2010	
	Foreign Currencies (In Thousands)	Exchange Rate (Note)	Foreign Currencies (In Thousands)	Exchange Rate (Note)		
Investments accounted for using equity method						
USD	\$ 320,411	29.468	\$ 257,645	31.819		
Financial liabilities						
Monetary items						
USD	2,130,487	29.40-29.468	940,851	31.80-31.819		
EUR	169,447	41.71-41.81	112,667	42.72-42.80		
JPY	32,939,519	0.3550-0.3541	28,974,325	0.341-0.343		
RMB	583,750	4.5-4.511	618,014	4.66		

(Concluded)

Note: Exchange rate represents the number of N.T. dollars for which one foreign currency could be exchanged.

31. ADDITIONAL DISCLOSURES

Following are the additional disclosures required by the SFB for TSMC and its investees in which all significant intercompany balances and transactions are eliminated upon consolidation:

- a. Financing provided: Please see Table 1 attached;
- b. Endorsement/guarantee provided: None
- c. Marketable securities held: Please see Table 2 attached;
- d. Marketable securities acquired and disposed of at costs or prices of at least NT\$100 million or 20% of the paid-in capital: Please see Table 3 attached;
- e. Acquisition of individual real estate properties at costs of at least NT\$100 million or 20% of the paid-in capital: Please see Table 4 attached;
- f. Disposal of individual real estate properties at prices of at least NT\$100 million or 20% of the paid-in capital: None;
- g. Total purchases from or sales to related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Please see Table 5 attached;
- h. Receivable from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Please see Table 6 attached;
- i. Names, locations, and related information of investees over which TSMC exercises significant influence: Please see Table 7 attached;

j. Information on investment in Mainland China

- 1) The name of the investee in Mainland China, the main businesses and products, its issued capital, method of investment, information on inflow or outflow of capital, percentage of ownership, equity in the net gain or net loss, ending balance, amount received as dividends from the investee, and the limitation on investee: Please see Table 8 attached.
- 2) Significant direct or indirect transactions with the investee, its prices and terms of payment, unrealized gain or loss, and other related information which is helpful to understand the impact of investment in Mainland China on financial reports: Please see Table 9 attached.

k. Intercompany relationships and significant intercompany transactions: Please see Table 9 attached.

32. OPERATING SEGMENTS INFORMATION

The Company's only reportable segment is the wafer fabrication segment. The wafer fabrication segment engages mainly in the manufacturing, selling, packaging, testing and computer-aided design of integrated circuits and other semiconductor devices and the manufacturing of masks. The Company also had other operating segments that did not exceed the quantitative threshold. These segments mainly engage in the researching, developing, and providing SoC (System on chip) design and also engage in the researching, developing, designing, manufacturing and selling of LED lighting devices and renewable energy and efficiency related technologies and products.

The Company uses the operating profit as the measurement for segment profit and the basis of performance assessment. There was no material inconsistency between the accounting policies of the operating segment and the accounting policies described in Note 2.

The Company's operating segments information was as follows:

	Wafer Fabrication	Others	Elimination	Total
Three months ended March 31, 2011				
Sales from external customers	\$ 103,290,219	\$ 2,087,276	\$	\$ 105,377,495
Sales among intersegments	703,023	6,224	(709,247)	
Operating profit	39,370,261	(207,281)		39,162,980
Three months ended March 31, 2010				
Sales from external customers	90,029,635	2,157,051		92,186,686
Sales among intersegments	568,798	54	(568,852)	
Operating profit	34,159,079	(31,417)		34,127,662
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TABLE 1

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries
FINANCINGS PROVIDED
FOR THE THREE MONTHS ENDED MARCH 31, 2011
(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

No.	Name of Counterparty	Relationship	Financing Limit for Each Borrowing (US\$ in Thousands)	Maximum Ending Balance for the Period (US\$ in Thousands)	Interest Rate	Reason for Financing	Allowance for Collateral Bad Debt	Transaction Amounts	Financing Company's Financing Amount Limits (Note 2)
1	Partners	China	\$ 7,367,000 (US\$ 250,000)	\$ 7,367,000 (US\$ 250,000)	0.25%-0.26%	Purchase of equipment		\$ \$ \$ 32,779,954	

Note 1: The total amount for lending to a company for funding for a short-term period shall not exceed ten percent (10%) of the net worth of TSMC Partners. In addition, the total amount lendable to any one borrower shall be no more than thirty percent (30%) of the borrower's net worth. While offshore subsidiaries whose voting shares are 100% owned, directly or indirectly, by TSMC will not be subjected to this restriction.

Note 2: The total amount available for lending purpose shall not exceed the net worth of TSMC Partners.

TABLE 2

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries
MARKETABLE SECURITIES HELD
MARCH 31, 2011
(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

			March 31,	
			Carrying Value	
			(Foreign Pe	
			Currencies	
			Shares/Units	
			(In	
			Thousands)	
			in Thousands)	
Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	Thousands)	O
Corporate bond				
China Mobile Co., Ltd.		Available-for-sale financial assets		\$ 1,036,044
Steel Corporation		Held-to-maturity financial assets		1,506,225
Toshiba Petrochemical Corporation				1,463,363
Toshiba Power Company				1,349,634
Toshiba Plastics Corporation				1,303,390
Toshiba Plastics Corporation				575,495
Taiwan Semiconductor Manufacturing International Corporation		Available-for-sale financial assets	1,789,493	4,069,307
TSMC Global	Subsidiary	Investments accounted for using equity method	1	42,523,518
TSMC Partners	Subsidiary	Investee accounted for using equity method	988,268	32,779,954
		Investee accounted for using equity method	628,223	9,456,221
		Investee accounted for using equity method	314	7,256,841
		Investee accounted for using equity method	76,069	6,770,069
TSMC North America	Subsidiary	Investee with a controlling financial interest	11,000	2,843,416
		Investee with a controlling financial interest	93,081	1,678,379
		Investee with a controlling financial interest	46,688	1,164,288
TSMC Solar Europe	Subsidiary			406,305
TSMC Europe	Subsidiary			192,329
TSMC Japan	Subsidiary		6	144,224
TSMC Korea	Subsidiary		80	21,093
TSMC Solar NA	Subsidiary		1	7,945
TSMC Lighting NA	Subsidiary		1	2,942
Toshiba Industrial Gases Co., Ltd.		Financial assets carried at cost	16,783	193,584

Etsu Handotai Taiwan Co., Ltd.			10,500	105,000
Technology Fund IV			4,000	40,000
on Ventures Fund		Financial assets carried at cost		103,992
on Asia Capital				55,259
al				
C China	Subsidiary	Investments accounted for using equity method		4,721,701
F III	Subsidiary			2,672,382
F II	Subsidiary			1,041,270
ging Alliance	Subsidiary			290,203
orate bond				
al Elec Cap Corp. Mtn		Held-to-maturity financial assets	US\$	20,218
al Elec Cap Corp. Mtn			US\$	20,121

(Continued)

			March 31,			
			Carrying			
			Value			
			(Foreign Per			
			Shares/Units Currencies			
			(In in Ow			
			Thousands) Thousands)			
Marketable Securities	Type and Name	Relationship with the Company	Financial Statement Account	Thousands)	Thousands)	Thousands)
Common stock						
TSMC Development, Inc. (TSMC Development)		Subsidiary	Investments accounted for using equity method	1	US\$	417,397
VisEra Holding Company		Investee accounted for using equity method		43,000	US\$	85,259
InveStar Semiconductor Development Fund, Inc. (ISDF)		Subsidiary		4,088	US\$	19,707
InveStar Semiconductor Development Fund, Inc. (II) LDC. (ISDF II)		Subsidiary		16,532	US\$	13,253
TSMC Technology		Subsidiary		1	US\$	10,083
TSMC Canada		Subsidiary		2,300	US\$	3,892
Mcube Inc.		Investee accounted for using equity method		5,333		
Preferred stock						
Mcube Inc.		Investee accounted for using equity method	Investments accounted for using equity method	1,000		
Corporate bond						
GE Capital Corp.			Held-to-maturity financial assets		US\$	20,185
P Morgan Chase & Co.					US\$	15,000
Common stock						
WaferTech		Subsidiary	Investments accounted for using equity method	293,640	US\$	179,027
Corporate bond						
Beal Bk			Available-for-sale financial assets	249	US\$	249
Beal Bk Ssb				249	US\$	249
Ed Ally Bank				249	US\$	249
Ed Banco Popular De P R				249	US\$	249
W&R Block Bank				249	US\$	249
Common stock						
RichWave Technology Corp.			Financial assets carried at cost	4,074	US\$	1,545

Global Investment Holding Inc.			11,124	US\$	3,065
Preferred stock					
Audience, Inc.		Financial assets carried at cost	1,654	US\$	250
Next IO, Inc.			800	US\$	500
Optichron, Inc.			1,276	US\$	1,145
Pixim, Inc.			4,641	US\$	1,137
QST Holdings, LLC				US\$	142
Capital					
VentureTech Alliance Holdings, LLC	Subsidiary	Investments accounted for using equity method			
(VTA Holdings)					
Corporate bond					
H&R Block Bank		Available-for-sale financial assets	249	US\$	249
Common stock					
Weather Systems, Inc.		Financial assets carried at cost	1,600	US\$	1,503
RichWave Technology Corp.			1,267	US\$	1,036
Sentelic			1,806	US\$	2,607

(Continued)

			March 31,		
			Carrying Value (Foreign Per Shares/UnitsCurrencies (In in Ow Thousands)Thousands)		
Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	(In Thousands)	Currencies	(in Thousands)
Preferred stock					
AV Technologies, Inc.		Financial assets carried at cost	2,890	US\$	2,168
Quantia			3,974	US\$	3,816
Audience, Inc.			12,378	US\$	2,378
Empinj, Inc.			475	US\$	1,000
Next IO, Inc.			3,795	US\$	953
Optichron, Inc.			2,847	US\$	2,825
Maxim, Inc.			33,347	US\$	1,878
Power Analog Microelectronics			7,027	US\$	3,383
ST Holdings, LLC				US\$	593
Perceive			4,615	US\$	1,611
Capital					
TA Holdings	Subsidiary	Investments accounted for using equity method			
Common stock					
Mutual-Pak Technology Co., Ltd.	Subsidiary	Investments accounted for using equity method	11,868	US\$	1,862
Accton Wireless Broadband Corp.		Financial assets carried at cost	2,249	US\$	315
Preferred stock					
Suramicro, Inc.		Financial assets carried at cost	4,694	US\$	422
BridgeLux, Inc.			6,113	US\$	7,781
Exclara, Inc.			59,695	US\$	5,897
TBF, Inc.			1,154	US\$	1,500
SevenSense, Inc.			816	US\$	1,000
LiquidLeds Lighting Corp.			1,600	US\$	800
Neoconix, Inc.			3,686	US\$	4,717
Powervation, Ltd.			380	US\$	5,790
Quellan, Inc.			3,106	US\$	369
Silicon Technical Services, LLC			1,055	US\$	1,208
tion Corp.			7,347	US\$	50,000
tilera, Inc.			3,890	US\$	3,025
Validity Sensors, Inc.			9,340	US\$	3,456
Capital					
Growth Fund Limited (Growth Fund)	Subsidiary	Investments accounted for using equity method		US\$	854
TA Holdings	Subsidiary				

Common stock SiliconBlue Technologies, Inc. Freebeam	Financial assets carried at cost	5,107	US\$	762
		10	US\$	25
Common stock Integrated Memory Logic, Inc.	Available-for-sale financial assets	2,989	US\$	8,287
Memsic, Inc.		1,286	US\$	4,692
Preferred stock Ionics, Inc.	Financial assets carried at cost	230	US\$	497
Common stock Memsic, Inc.	Available-for-sale financial assets	1,072	US\$	3,913
Chip Technologies Limited Ionics, Inc.	Financial assets carried at cost	7,520	US\$	3,664
		278	US\$	10

(Continued)

March 31, 2017

Investment Securities Type and Name	Relationship with the Company	Financial Statement Account	Carrying Value (Foreign and Domestic)	
			Shares/Units (In Thousands)	Currencies (In Thousands)
Intel Technology, Corp.		Financial assets carried at cost	932	US\$ 361
Intel Technology MFG. Co., Ltd.			1,049	US\$ 223
Preferred stock				
Intel, Inc.		Financial assets carried at cost	1,032	US\$ 148
Intel, Inc.			264	US\$ 455
Investment fund				
Investment Money Market Fund		Available-for-sale financial assets	9,875	\$ 140,097
Investment Diamond Money Market Fund			10,009	120,110
Investment Well Pool Money Market Fund			6,141	80,088
Investment Hwa Money Market Fund			3,606	50,056
Common stock				
Intel-NA	Subsidiary	Investments accounted for using equity method	800	60,915
Intel-Japan	Subsidiary		1	14,881
Intel-BVI	Subsidiary		550	8,846
Intel-Europe	Subsidiary			3,916
Intel				
Intel Unichip (Shanghai) Company, Ltd. (GUC-Shanghai)	Subsidiary	Investments accounted for using equity method		7,551
Intel				
Intelpositech Ltd.		Financial assets carried at cost	587	
Intel				
Intel Solar Europe GmbH	Subsidiary	Investments accounted for using equity method	1	EUR 9,618
Corporate bond				
Intel Development Bank		Available-for-sale financial assets	2,600	US\$ 2,620
Intel Life Gbl Fdg Secd			4,430	US\$ 4,779
Intel Corp.			100	US\$ 107
Intel Daniels Midland Co.			7,000	US\$ 7,010
Intel Zeneca Plc			3,150	US\$ 3,357

T Wireless	3,500	US\$	3,767
o Bilbao Vizcaya P R	3,250	US\$	3,249
of America Corp.	2,000	US\$	2,033
of America Corp.	2,100	US\$	2,148
of New York Mellon	2,200	US\$	2,203
ays Bank Plc NY	400	US\$	400
ays Bk Plc UK Govt Cr	5,000	US\$	5,101
T Corporation	3,840	US\$	3,976
US Senior SA Uniper	2,645	US\$	2,645
Stearns Cos Inc.	3,500	US\$	3,514
Stearns Cos Inc. Med Term	2,400	US\$	2,584
shire Hathaway Inc. Del	3,500	US\$	3,522
Billiton Fin USA Ltd.	2,000	US\$	2,090
Billiton Fin USA Ltd.	3,500	US\$	3,881
okyo Mitsubishi Ufj	2,000	US\$	2,033
US Capital LLC	1,600	US\$	1,601
Paribas SA	3,810	US\$	3,838
ng Co.	1,000	US\$	1,017
ng Co.	2,200	US\$	2,362

(Continued)

March 31, 2011

Investable Securities Type and Name	Relationship with the Company	Financial Statement Account	Shares/Units (In Thousands)	Currencies (in Thousands)	Carrying Value (Foreign) Thousands	Percentage Owned
Capital Markets Plc		Available-for-sale financial assets	7,160	US\$	7,191	
Millar Financial Se			100	US\$	100	
Millar Financial Se			900	US\$	902	
Part/Veri Wireless			1,000	US\$	1,141	
Part/Veri Wirelss			1,100	US\$	1,208	
Part/Veri Wirelss			2,000	US\$	2,007	
on Corp.			4,000	US\$	4,278	
ancement Foncier			200	US\$	200	
ancement Foncier			4,000	US\$	4,009	
Systems Inc.			7,050	US\$	7,073	
up Funding Inc.			6,000	US\$	6,114	
up Funding Inc.			7,300	US\$	7,438	
up Inc.			600	US\$	609	
up Inc.			800	US\$	824	
up Inc.			2,000	US\$	2,110	
up Inc.			400	US\$	428	
up Inc.			2,550	US\$	2,773	
up Inc.			5,000	US\$	5,467	
up Inc. Fdic Gtd Tlgp			2,000	US\$	2,012	
Cola Co.			4,000	US\$	4,029	
onwealth Bank Aust			2,000	US\$	1,997	
onwealth Bank Aust			2,800	US\$	2,805	
pphillips			2,000	US\$	2,129	
Suisse New York			3,200	US\$	3,239	
Suisse New York			3,945	US\$	4,065	
he Bank AG NY			2,500	US\$	2,497	
Credit Local			6,000	US\$	5,971	
Credit Local			4,000	US\$	3,977	
Credit Local S.A			4,000	US\$	3,994	
Credit Local SA NY			5,000	US\$	4,966	
nt E I De Nemours + Co.			2,850	US\$	2,856	
nt E I De Nemours + Co.			825	US\$	882	
nc.			1,375	US\$	1,360	
es Inc.			2,200	US\$	2,436	
esources Inc.			1,500	US\$	1,513	
e for Danish Ind			3,800	US\$	3,799	
l Elec Cap Corp.			5,000	US\$	5,041	

l Elec Cap Corp.	7,000	US\$	7,005
l Elec Cap Corp.	1,000	US\$	1,000
l Elec Cap Corp.	4,000	US\$	4,094
l Electric Capital Corp.	2,000	US\$	2,012
a Pwr Co.	1,000	US\$	1,001
a Pwr Co.	4,000	US\$	4,000
LLC	4,600	US\$	4,712
an Sachs Group Inc.	3,400	US\$	3,425
an Sachs Group Inc.	2,000	US\$	1,987
e Bpce	1,150	US\$	1,149
it Packard Co.	3,000	US\$	3,004
it Packard Co.	2,030	US\$	2,032
old Fin Corp.	4,330	US\$	4,660
Bank Plc	1,315	US\$	1,315
Bank Plc	3,400	US\$	3,397
Fin Corp.	2,900	US\$	2,857
			(Continued)

March 31, 2017

Available Securities Type and Name	Relationship with the Company	Financial Statement Account	Carrying Value (Foreign)		Percentage Owned
			Shares/Units (In Thousands)	Currencies (in Thousands)	
Whampoa Intl 03 13 L		Available-for-sale financial assets	1,900	US\$ 2,066	
Corp.			2,300	US\$ 2,301	
Corp.			6,800	US\$ 6,759	
Corp.			1,500	US\$ 1,501	
Nv Neth St Cr Gtee			8,500	US\$ 8,643	
Recon + Develop			2,000	US\$ 2,035	
er Capital Corp. Fdic GT			3,500	US\$ 3,601	
an Chase + Co.			2,500	US\$ 2,514	
an Chase + Co.			5,000	US\$ 5,033	
an Chase + Co. Fdic Gtd Tlg			1,625	US\$ 1,634	
stalt Fur Wiederaufbau			650	US\$ 660	
+ Co.			1,531	US\$ 1,641	
sb Bank Plc Ser 144A			4,850	US\$ 4,850	
sb Bank Plc Ser 144A			2,950	US\$ 2,976	
ie Bk Ltd. Sr			13,200	US\$ 13,423	
tual Global Fdg II Mediu			4,000	US\$ 3,959	
Fdg Corp.			3,500	US\$ 3,481	
Co. Inc.			4,000	US\$ 4,015	
Co. Inc.			2,000	US\$ 2,058	
lynch + Co. Inc.			4,691	US\$ 4,671	
lynch + Co. Inc.			4,000	US\$ 4,309	
Glob Funding I			3,000	US\$ 3,016	
nc.			6,500	US\$ 6,570	
nc.			2,000	US\$ 2,010	
o Co. New			250	US\$ 271	
ental Global Fdg II			1,500	US\$ 1,450	
ental Global Fdg III			750	US\$ 741	
Stanley			9,000	US\$ 9,178	
Stanley for Equity			2,000	US\$ 2,001	
Australia Bank			3,000	US\$ 3,030	
Australia Bank			1,000	US\$ 1,015	
Bank of Canada			600	US\$ 601	
rk Life Global Fdg			2,000	US\$ 2,041	
al Petroleum Cor			1,000	US\$ 1,000	
Gas + Electric			2,000	US\$ 1,999	
ericas Inc.			4,000	US\$ 4,290	
orris Intl Inc.			130	US\$ 139	
orris Intl Inc.			4,000	US\$ 4,591	

ing Corp.	2,000	US\$	2,001
lobal Fdg I Med Term	1,750	US\$	1,726
Life Income Fundings	2,250	US\$	2,229
Global Fdg I Medium	2,200	US\$	2,186
vc Co. Colo	1,380	US\$	1,515
nk Nederland	5,000	US\$	5,000
nk of Scotland Plc	4,000	US\$	4,000
nk of Scotland Plc	5,000	US\$	5,044
nk Scotland Plc	2,550	US\$	2,619
nk Scotland Plc	2,825	US\$	2,876
nk Scotlnd Grp Plc 144A	9,450	US\$	9,504
ventis	4,000	US\$	3,999
ventis	3,870	US\$	3,880
munications Inc.	2,000	US\$	2,085
ernational Fin	4,515	US\$	4,533

(Continued)

March 31, 2017

Available Securities Type and Name	Relationship with the Company	Financial Statement Account	Carrying Value (Foreign)		Percentage Owned
			Shares/Units (In Thousands)	Currencies (in Thousands)	
International Fin		Available-for-sale financial assets	3,200	US\$ 3,257	
Bank of America Corp Fdic Gtd Tlg			2,200	US\$ 2,248	
Bank of America Chartered BK NY			3,000	US\$ 2,998	
Bank of America Finl Global			4,400	US\$ 4,362	
Bank of America Finl Global Fdg II Lp			1,500	US\$ 1,500	
Bank of America Metway Ltd.			8,800	US\$ 8,964	
Bank of America Handelsbanken AB			2,200	US\$ 2,253	
Bank of America k AB			2,000	US\$ 1,998	
Bank of America k Foreningssparbanken A			1,500	US\$ 1,527	
Bank of America k Hypotek AB			4,000	US\$ 4,000	
Bank of America k Hypotek AB			4,100	US\$ 4,101	
Bank of America arm Fin III			4,000	US\$ 4,014	
Bank of America arma Fin III LLC			4,000	US\$ 4,011	
Bank of America Fisher Scientific			2,050	US\$ 2,072	
Bank of America bal Mkts Inc.			2,000	US\$ 2,118	
Bank of America bal Mkts Inc. Mtn			1,500	US\$ 1,610	
Bank of America pital Canada Ltd.			4,000	US\$ 4,012	
Bank of America ada Pipelines Ltd.			1,000	US\$ 1,084	
Bank of America Stamford CT			2,200	US\$ 2,198	
Bank of America Stamford CT			800	US\$ 807	
Bank of America Cap Corp.			1,000	US\$ 1,054	
Bank of America echnologies Corp.			4,000	US\$ 4,247	
Bank of America ral Federal Cred			8,500	US\$ 8,661	
Bank of America Communications			7,725	US\$ 7,766	
Bank of America Elec + Pwr Co.			3,250	US\$ 3,460	
Bank of America gen Intl Fin NV			4,000	US\$ 4,001	
Bank of America a Corp.			550	US\$ 547	
Bank of America a Corp. Global Medium			5,000	US\$ 5,147	
Bank of America t Stores Inc.			4,000	US\$ 3,966	
Bank of America t Stores Inc.			3,770	US\$ 4,256	
Bank of America rgo + Company			2,000	US\$ 2,007	
Bank of America Banking Corp.			3,500	US\$ 3,508	
Bank of America Banking Corp.			2,100	US\$ 2,109	
Bank of America Banking Corp.			4,000	US\$ 4,004	
			3,983	US\$ 4,317	
Bank of America z Banking Group		Held-to-maturity financial assets	20,000	US\$ 20,000	
Bank of America nwealth Bank of Australia			25,000	US\$ 25,000	
Bank of America nwealth Bank of Australia			25,000	US\$ 25,000	

an Chase + Co.		35,000	US\$	35,059
ide Building Society-UK				
ment Guarantee		8,000	US\$	8,000
Banking Corp.		25,000	US\$	25,000
Banking Corp. 12/12 Frn		5,000	US\$	5,000
bond				
of Abu Dhabi 144A	Available-for-sale financial assets	1,800	US\$	1,967
Mae		11,100	US\$	11,106
Mae		3,900	US\$	3,852
Mae		16,104	US\$	16,114
Mae		6,100	US\$	6,092
Mae		7,500	US\$	7,501
Mae		20,265	US\$	20,275
Mae		4,600	US\$	4,597
Mae		3,000	US\$	2,985

(Continued)

March 31, 2017

Available Securities Type and Name	Relationship with the Company	Financial Statement Account	Carrying Value (Foreign)		Percentage Owned
			Shares/Units (In Thousands)	Currencies (in Thousands)	
Ln Pc Pool 1b2830		Available-for-sale financial assets	1,750	US\$ 1,833	
Ln Pc Pool 1g0115			1,548	US\$ 1,599	
Ln Pc Pool 1g1114			762	US\$ 800	
Ln Pc Pool 1k1210			1,470	US\$ 1,543	
Ln Pc Pool 780741			1,740	US\$ 1,819	
Farm Credit Bank			4,000	US\$ 3,982	
Farm Credit Bank			4,000	US\$ 3,999	
Farm Credit Bank			4,000	US\$ 4,002	
Home Ln Mtg Assn			1,492	US\$ 1,507	
Home Ln Mtg Corp.			3,417	US\$ 3,411	
Home Ln Mtg Corp.			2,054	US\$ 2,047	
Home Ln Mtg Corp.			1,284	US\$ 1,336	
Home Ln Mtg Corp.			2,355	US\$ 2,463	
Home Ln Mtg Corp.			1,488	US\$ 1,522	
Home Ln Mtg Corp.			1,565	US\$ 1,622	
Home Ln Mtg Corp.			1,027	US\$ 1,056	
Home Ln Mtg Corp.			3,202	US\$ 3,321	
Home Ln Mtg Corp.			1,632	US\$ 1,652	
Home Loan Bank			3,350	US\$ 3,364	
Home Loan Bank			8,400	US\$ 8,400	
Home Loan Mtg Corp.			4,760	US\$ 4,732	
Home Loan Mtg Corp.			218	US\$ 218	
National Mort Assoc			155	US\$ 155	
Natl Mtg Assn Gtd			2,093	US\$ 2,160	
Natl Mtg Assn Gtd Remi			1,640	US\$ 1,696	
Natl Mtg Assn Mtn			903	US\$ 921	
Natl Mtg Assn Remic			699	US\$ 704	
Natl Mtge Assn			1,273	US\$ 1,338	
7 Pb			967	US\$ 973	
3 Da			2,912	US\$ 3,074	
7 Jb			1,299	US\$ 1,366	
4 Fa			3,881	US\$ 3,865	
Pool 467196			1,995	US\$ 1,989	
Pool 745131			1,659	US\$ 1,724	
Pool 745688			1,218	US\$ 1,271	
Pool 775852			323	US\$ 329	
Pool 790772			1,153	US\$ 1,212	
Pool 819649			1,843	US\$ 1,921	

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ol 829989	1,549	US\$	1,627
ol 841068	462	US\$	487
ol 846233	1,728	US\$	1,805
ol 870884	1,380	US\$	1,446
ol 879908	1,259	US\$	1,323
na May 15 Single Fam	3,000	US\$	3,136
5 47 HA	1,527	US\$	1,600
5 60 CO	3,274	US\$	3,259
5 60 CO	87	US\$	87
9 116 A	3,927	US\$	4,238
9 70 NT	1,723	US\$	1,787
Mac	2,500	US\$	2,502
Mac	19,000	US\$	18,982
Mac	3,550	US\$	3,552
Mac	5,750	US\$	5,743

(Continued)

March 31, 2017

Available Securities Type and Name	Relationship with the Company	Financial Statement Account	Carrying Value		Percentage Owned
			Shares/Units (In Thousands)	Currencies (Foreign in Thousands)	
Mac		Available-for-sale financial assets	4,300	US\$	4,306
Pool 082431			1,871	US\$	1,913
8 9 SA			2,096	US\$	2,098
9 45 AB			3,431	US\$	3,476
ment Natl Mtg Assn			3,050	US\$	3,217
ment Natl Mtg Assn Gtd			1,442	US\$	1,508
0 R2 1A			3,540	US\$	3,541
1 R4 1A			4,000	US\$	3,998
Province of)			2,000	US\$	2,034
Qatar			2,000	US\$	2,143
ment bond					
surety N/B		Available-for-sale financial assets	10,000	US\$	10,026
surety N/B			10,000	US\$	9,983
surety N/B			10,000	US\$	10,069
surety N/B			1,000	US\$	1,012
De Financement De Lec		Held-to-maturity financial assets	15,000	US\$	15,000
market fund					
sh Mgmt Global Offshore		Available-for-sale financial assets	4,921	US\$	4,921

(Concluded)

TABLE 3

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries
MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST
NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE THREE MONTHS ENDED MARCH 31, 2011
(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal	
			Shares/Units (In Thousands)	Amount (Foreign Currencies in Thousands)	Shares/Units (In Thousands) (Note 1)	Amount (Foreign Currencies in Thousands)	Shares/Units (In Thousands)	Amount (Foreign Currencies in Thousands)
Investments accounted for using equity method		Subsidiary		\$ 23,971		\$ 385,682		\$
Investments accounted for using equity method		Subsidiary	1	EUR 90		EUR 9,800		
Available-for-sale financial assets	Jih Sun Investment Trust Co., Ltd.				9,875	140,000		
	Mega Investment International Trust Co., Ltd.				10,009	120,000		
Available-for-sale financial assets			4,000	US\$ 3,995			4,000	US\$ 4,005
			3,500	US\$ 3,554			3,500	US\$ 3,555
					7,000	US\$ 7,000		
			5,000	US\$ 5,000			5,000	US\$ 5,012
			12,000	US\$ 11,997			12,000	US\$ 12,022
					5,000	US\$ 5,109		
					3,840	US\$ 3,990		
					4,000	US\$ 4,443	500	US\$ 558
			2,925	US\$ 3,192			2,925	US\$ 3,180
					7,160	US\$ 7,160		

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3,900 US\$	3,988			3,900 US\$	3,992 U
			4,000 US\$	4,305	
			7,050 US\$	7,050	
16,000 US\$	16,323			10,000 US\$	10,221 U
4,000 US\$	4,208			4,000 US\$	4,221 U
			3,200 US\$	3,200	
			5,000 US\$	5,000	
			3,400 US\$	3,400	
2,900 US\$	3,074			2,900 US\$	3,074 U
			8,500 US\$	8,668	
5,950 US\$	6,009			3,000 US\$	3,030 U
3,900 US\$	3,975		9,300 US\$	9,472	
			4,000 US\$	4,335	
			3,000 US\$	3,000	
3,250 US\$	3,232			3,250 US\$	3,224 U
			9,000 US\$	9,000	

(Continued)

Type and Financial Statement	Account	Counter-party	Relationship	Nature of Shares/Units (In Thousands)	Beginning Balance		Acquisition		Disposal (Net)	
					Amount (Foreign Currencies)	Shares/Units in Thousands	Amount (Foreign Currencies)	Shares/Units in Thousands	Amount (Foreign Currencies)	Shares/Units in Thousands
er	Available-for-sale financial assets			8,000	US\$ 8,524			US\$ 8,000	US\$ 8,513	US\$
							3,000	US\$ 3,035		
							4,000	US\$ 4,329		
							4,000	US\$ 4,640		
							4,000	US\$ 4,000		
							3,870	US\$ 3,870		
							3,000	US\$ 3,000		
				6,420	US\$ 6,417				6,420	US\$ 6,422
							4,100	US\$ 4,100		
							4,000	US\$ 4,000		
							4,000	US\$ 4,000		
							4,000	US\$ 4,265		
				4,000	US\$ 4,084		4,500	US\$ 4,599		
							7,725	US\$ 7,725		
							3,250	US\$ 3,489		
							4,000	US\$ 4,000		
	Available-for-sale financial assets						20,300	US\$ 20,269	14,200	US\$ 14,206
							7,500	US\$ 7,500		
				8,765	US\$ 8,763		11,500	US\$ 11,503		
							11,045	US\$ 12,104	11,045	US\$ 12,044
							4,000	US\$ 4,002		
				5,000	US\$ 5,046				5,000	US\$ 5,043
				5,000	US\$ 5,007				5,000	US\$ 5,007
				6,800	US\$ 6,817				6,800	US\$ 6,817
				8,000	US\$ 8,040				4,650	US\$ 4,667
				10,000	US\$ 9,998				10,000	US\$ 10,001
um							3,000	US\$ 3,147	3,000	US\$ 3,142
am							3,000	US\$ 3,138	3,000	US\$ 3,117
am							3,000	US\$ 3,110	3,000	US\$ 3,140
am							3,000	US\$ 3,131	3,000	US\$ 3,164
am							3,000	US\$ 3,156		
				10,420	US\$ 10,411				10,420	US\$ 10,414
							19,000	US\$ 18,981		

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		3,550	US\$	3,549				
		14,200	US\$	14,196	14,200	US\$	14,204	US
		4,000	US\$	4,000				
Available-for-sale		10,000	US\$	10,024				
financial assets		10,000	US\$	9,988				
		10,000	US\$	10,042	10,000	US\$	10,046	US
		3,300	US\$	3,301	3,300	US\$	3,298	US
		10,000	US\$	10,084				
	41,700	US\$	42,042		41,700	US\$	42,042	US
	7,000	US\$	7,079		7,000	US\$	7,077	US
	5,250	US\$	5,212	30,175	US\$	29,906	35,425	US\$ 35,154
	11,100	US\$	10,976		11,100	US\$	10,941	US

(Concluded)

Account	Counter-party Relationship	Nature of Shares/Units (In Thousands)	Beginning Balance		Acquisition		Disposal
			Amount (Foreign Currencies)		Amount (Foreign Currencies)		Amount (Foreign Currencies)
			Shares/Units (In Thousands)	(Note 1)	Shares/Units (In Thousands)	(Note 1)	Shares/Units (In Thousands)
al Offshore Available-for-sale financial assets			12,387 US\$ 12,387	77,883 US\$ 77,883	85,349 US\$ 85,349		

Note 1: The shares/units and amount of marketable securities acquired do not include stock dividends from investees.

Note 2: The data for marketable securities disposed exclude bonds maturities and redemption by the issuer.

Note 3: The ending balance includes the amortization of premium/discount on bonds investments, unrealized valuation gains/losses on financial assets, translation adjustments, equity in earnings/losses of equity method investees and other adjustments to long-term investment using equity method.

(Concluded)

TABLE 4

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries
ACQUISITION OF INDIVIDUAL REAL ESTATE PROPERTIES AT COSTS OF AT LEAST NT\$100
MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE THREE MONTHS ENDED MARCH 31, 2011
(Amounts in Thousands of New Taiwan Dollars)

Transaction Date	Amount	Payment Term	Counter-party	Nature of Relationships	Prior Transaction of Owner	Relationships of Related Parties	Transfer Date	Counter-party Amount
1 to 2011	\$ 260,171	By the construction progress	China Steel Structure Co., Ltd.		N/A	N/A	N/A	N/A
2011	842,036	By the construction progress	Da Cin Construction Co., Ltd.		N/A	N/A	N/A	N/A
1 to 2011	702,998	By the construction progress	Fu Tsu Construction Co., Ltd.		N/A	N/A	N/A	N/A
1 to 2011	188,744	By the construction progress	Tasa Construction Corporation		N/A	N/A	N/A	N/A
2011	1,050,000	Based on the agreement	Vertex Precision Electronics Inc.		N/A	N/A	N/A	N/A

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TABLE 5

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries
TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES OF AT LEAST NT\$100 MILLION OR
20% OF THE PAID-IN CAPITAL
FOR THE THREE MONTHS ENDED MARCH 31, 2011 (Amounts in Thousands of New Taiwan Dollars)

Related Party	Nature of Relationships	Sales/Purchases/	Transaction Details			Abnormal Transaction	
			Amount	Total % to	Payment Terms	Unit Price (Note)	Payment Terms (Note)
North America	Subsidiary	Sales	\$ 57,007,986	55	Net 30 days after invoice date		
	Investee with a controlling financial interest	Sales	455,936		Net 30 days after monthly closing		
China	Subsidiary	Purchases	2,419,959	19	Net 30 days after monthly closing		
	Indirect subsidiary	Purchases	1,770,429	14	Net 30 days after monthly closing		
	Investee accounted for using equity method	Purchases	1,325,127	10	Net 30 days after monthly closing		
	Investee accounted for using equity method	Purchases	955,937	7	Net 30 days after monthly closing		
North America	Same parent company	Purchases	142,690	21	Net 30 days after invoice date/net 30 days after monthly closing		
China	Parent company of director (represented for Xintec)	Sales	362,314	37	Net 30 days after monthly closing		

Note: The sales prices and payment terms to related parties were not significantly different from those of sales to third parties. For other related party transactions, prices and terms were determined in accordance with mutual agreements.

TABLE 6

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries
RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20%
OF THE PAID-IN CAPITAL
MARCH 31, 2011
(Amounts in Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationships	Ending Balance	Turnover Days (Note 1)	Overdue Amounts Action Taken	Period of Subsequent Amounts Received in All
MC	TSMC North America	Subsidiary	\$ 27,523,796	42	\$ 7,617	\$ 12,065
	TSMC China	Subsidiary	1,593,520	(Note 2)	277	
	GUC	Investee with a controlling financial interest	260,981	42	2	92
	VIS	Investee accounted for using equity method	153,680	(Note 2)	29	35
tec	OmniVision	Parent company of director (represented for Xintec)	211,809	42		

Note 1: The calculation of turnover days excludes other receivables from related parties.

Note 2: The ending balance primarily consisted of other receivables, which is not applicable for the calculation of turnover days.

TABLE 7

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries
NAMES, LOCATIONS, AND RELATED INFORMATION OF INVESTEEES OVER WHICH THE
COMPANY EXERCISES SIGNIFICANT INFLUENCE
MARCH 31, 2011
(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of March 31, 2011		Net Investment (Loss) in Current Period	
			March 31,	December 31,	Carrying	Value		
			2011 (Foreign Currencies in Thousands)	2010 (Foreign Currencies in Thousands)	Share Percentage (In of Ownership Thousands)	(Foreign Currencies in Thousands)		
Global	Tortola, British Virgin Islands	Investment activities	\$42,327,245	\$42,327,245	1	100	\$42,523,518	\$1
Partners	Tortola, British Virgin Islands	Investing in companies involved in the design, manufacture, and other related business in the semiconductor industry	31,456,130	31,456,130	988,268	100	32,779,954	3
	Hsin-Chu, Taiwan	Research, design, development, manufacture, packaging, testing and sale of memory integrated circuits, LSI, VLSI and related parts	13,232,288	13,232,288	628,223	38	9,456,221	3
	Singapore	Fabrication and supply of integrated circuits	5,120,028	5,120,028	314	39	7,256,841	9
	Taipei, Taiwan	Manufacturing and sales of solar cells, crystalline silicon solar cell, and test and measurement instruments and design and construction of solar power systems	6,228,661	6,228,661	76,069	20	6,770,069	6
China	Shanghai, China	Manufacturing and selling of integrated circuits at the order of and pursuant to product design specifications provided by customers	12,180,367	12,180,367		100	4,721,701	5

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th	San Jose, California, U.S.A.	Selling and marketing of integrated circuits and semiconductor devices		333,718		333,718	11,000	100		2,843,416	
	Cayman Islands	Investing in new start-up technology companies		3,602,979		3,565,441		99		2,672,382	(
	Taoyuan, Taiwan	Wafer level chip size packaging service		1,357,890		1,357,890	93,081	41		1,678,379	
	Hsin-Chu, Taiwan	Researching, developing, manufacturing, testing and marketing of integrated circuits		386,568		386,568	46,688	35		1,164,288	1
	Cayman Islands	Investing in new start-up technology companies		1,166,470		1,166,470		98		1,041,270	
ar	Amsterdam, the Netherlands	Engaged in investing activities of solar related business		411,032		25,350		100		406,305	(
Alliance	Cayman Islands	Investing in new start-up technology companies		971,785		971,785		99		290,203	
ope	Amsterdam, the Netherlands	Marketing and engineering supporting activities		15,749		15,749		100		192,329	
an	Yokohama, Japan	Marketing activities		83,760		83,760	6	100		144,224	
rea	Seoul, Korea	Customer service and technical supporting activities		13,656		13,656	80	100		21,093	
ar NA	Delaware, U.S.A.	Engaged in selling and marketing of solar related products		60,962		60,962	1	100		7,945	(
hting	Delaware, U.S.A.	Engaged in selling and marketing of LED related products		3,133		3,133	1	100		2,942	
ent	Delaware, U.S.A.	Investment activities	US\$	0.001	US\$	0.001	1	100	US\$	417,397	US\$
ding	Cayman Islands	Investing in companies involved in the design, manufacturing, and other related businesses in the semiconductor industry	US\$	43,000	US\$	43,000	43,000	49	US\$	85,259	US\$
	Cayman Islands	Investing in new start-up technology companies	US\$	4,088	US\$	4,088	4,088	97	US\$	19,707	US\$
	Cayman Islands	Investing in new start-up technology companies	US\$	16,532	US\$	16,532	16,532	97	US\$	13,253	US\$
hology	Delaware, U.S.A.	Engineering support activities	US\$	0.001	US\$	0.001	1	100	US\$	10,083	US\$
nada	Ontario, Canada	Engineering support activities	US\$	2,300	US\$	2,300	2,300	100	US\$	3,892	US\$

Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of March 31, 2011			Net Income (Losses) of the Investment (Foreign Currencies in Thousands)
			March 31, 2011 (Foreign Currencies in Thousands)	December 31, 2010 (Foreign Currencies in Thousands)	Shareholders (In Thousands)	Percentage of Ownership	Carrying Value (Foreign Currencies in Thousands)	
(stock)	Delaware, U.S.A.	Research, development, and sale of micro-semiconductor device	US \$800	US \$800	5,333	84	US\$	US\$ (3,
(stock)	Delaware, U.S.A.	Research, development, and sale of micro-semiconductor device	US \$1,000	US \$1,000	1,000	6		US\$ (3,
	Washington, U.S.A.	Manufacturing, selling, testing and computer-aided designing of integrated circuits and other semiconductor devices	US \$280,000	US \$280,000	293,640	100	US\$179,027	US\$13,
Co.,	Taipei, Taiwan	Manufacturing and selling of electronic parts and researching, developing, and testing of RFID	US \$3,937	US \$3,937	11,868	57	US\$ 1,862	US\$ (
d	Cayman Islands	Investing in new start-up technology companies	US \$1,740	US \$1,700		100	US\$ 854	US\$
ngs	Delaware, U.S.A.	Investing in new start-up technology companies				62		
ngs	Delaware, U.S.A.	Investing in new start-up technology companies				31		
	U.S.A.	Consulting services in main products	US \$1,253	US \$1,249	800	100	\$ 60,915	\$ 2,
	Japan	Consulting services in main products	JPY 30,000	JPY 30,000	1	100	14,881	
		Investment activities	US \$550	US \$550	550	100	8,846	

British Virgin Islands	The Netherlands	Consulting services in main products	EUR 100	EUR 100	100	3,916
Shanghai, China		Consulting services in main products	US \$500	US \$500	100	7,551
Delaware, U.S.A.		Investing in new start-up technology companies			7	
Hamburg, Germany		Engaged in the selling and customer service of solar cell modules and related products	EUR 9,900	EUR 100	1 100	EUR 9,618 EUR (

Note 1: Equity in earnings/losses of investees include the effect of unrealized gross profit from affiliates.

Note 2: The equity in the earnings/losses of the investee company is not reflected herein as such amount is already included in the equity in the earnings/losses of the investor company.

Note 3 : Equity in earnings/losses was determined based on the unreviewed financial statements.

(Concluded)

TABLE 8

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries
INFORMATION OF INVESTMENT IN MAINLAND CHINA
FOR THE THREE MONTHS ENDED MARCH 31, 2011
(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

Investor	Main Businesses	Total Amount of Investment Paid-in Capital	Method of Investment	Accumulated	Accumulated	Equity in the Earnings	Carrying Value as of	Accumulated Inward Remittance of Earnings as of	
				Outflow of Investment from Taiwan as of January 1, 2011	Outflow of Investment from Taiwan as of March 31, 2011				
Company	Products (Thousand)	Investment (Thousand)	Outflow	Outflow	Ownership	(Losses)	March 31, 2011	March 31, 2011	
		(US\$ in)	(US\$ in)	(US\$ in)	Percentage of				
TSMC	TSMC Manufacturing China selling of integrated circuits at the order of and pursuant to product design specifications provided by customers	\$12,180,367 (RMB 3,070,623)	(Note 1)	\$12,180,367 (US\$ 371,000)	\$	\$12,180,367 (US\$ 371,000)	100%	\$564,819 (Note 3)	\$4,721,701
GUC	GUC Shanghai Consulting services in main	16,160 (US\$ 500)	(Note 2)	16,160 (US\$ 500)		16,160 (US\$ 500)	100%	(61) (Note 4)	7,551

Accumulated Investment in

Investor Company	Mainland China as of March 31, 2011 (US\$ in Thousand)	Investment Amounts Authorized by Investment Commission, MOEA (US\$ in Thousand)	Upper Limit on Investment (US\$ in Thousand)
TSMC	\$12,180,367 (US\$ 371,000)	\$12,180,367 (US\$ 371,000)	\$12,180,367 (US\$ 371,000)
GUC	16,160 (US\$ 500)	16,160 (US\$ 500)	2,004,316 (Note 5)

Note 1: TSMC directly invested US\$371,000 thousand in TSMC China.

Note 2: GUC, TSMC's investee with a controlling financial interest, indirectly invested in GUC-Shanghai through GUC-BVI.

Note 3: Amount was recognized based on the reviewed financial statements.

Note 4: Amount was determined based on the unreviewed financial statements.

Note 5: Subject to 60% of net asset value of GUC according to the revised Guidelines Governing the Approval of Investment or Technical Cooperation in Mainland China issued by the Investment Commission.

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TABLE 9

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries
INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS

(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

A. For the three months ended March 31, 2011

Company Name	Counter Party	Nature of Relationship (Note 1)	Intercompany Transactions		Percentage of Consolidated Total Gross Sales or Total Assets
			Financial Statements Item	Amount (Note 2)	
TSMC	TSMC North America	1	Sales	\$ 57,007,986	53%
			Receivables from related parties	27,517,143	4%
			Other receivables from related parties	6,653	
	TSMC China	1	Payables to related parties	36,634	
			Sales	7,070	
			Purchases	2,419,959	2%
			Marketing expenses commission	16,320	
			Sales of property, plant, and equipment	592,339	
			Gain on disposal of property, plant and equipment, net	6,506	
			Other receivables from related parties	1,593,520	
	TSMC Japan	1	Payables to related parties	855,485	
			Deferred debits	33,833	
	TSMC Europe	1	Marketing expenses commission	66,614	
			Payables to related parties	24,004	
	TSMC Korea	1	Marketing expenses commission	90,915	
			Research and development expenses	8,774	
Payables to related parties			36,246		
Marketing expenses commission			5,375		
GUC	1	Payables to related parties	1,363		
		Sales	455,936		
		Research and development expenses	5,717		
		Receivables from related parties	260,981		
TSMC Technology	1	Payables to related parties	1,915		
		Research and development expenses	113,013		

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WaferTech	1	Payables to related parties	76,694	
		Sales	2,027	
		Purchases	1,770,429	2%
		Sales of property, plant, and equipment	64,255	
TSMC Canada	1	Payables to related parties	550,219	
		Research and development expenses	42,489	
Xintec	1	Payables to related parties	15,036	
		Research and development expenses	2,755	
		Manufacturing overhead	84,600	
TSMC Solar Europe GmbH	1	Payables to related parties	53,025	
		Sales	52,526	
		Other receivables from related parties	52,413	

(Continued)

No.	Company Name	Counter Party	Nature of Relationship (Note 1)	Financial Statements Item	Intercompany Transactions	
					Amount	Percentage of Terms Consolidated Total Gross Sales or Total Assets (Note 2)
		TSMC North America	3	Purchases	\$ 142,690	
				Manufacturing overhead	92,754	
				Payables to related parties	87,469	
1	GUC	GUC-NA	3	Operating expenses	29,539	
				Manufacturing overhead	17,604	
				Accrued expense	14,791	
		GUC-Japan	3	Operating expenses	9,565	
				Accrued expense	2,895	
		GUC-Shanghai	3	Operating expenses	4,567	
				Accrued expense	1,760	
2	TSMC Partners	TSMC China	3	Other long term receivables	7,367,000	1%
3	TSMC China	TSMC Partners	3	Other long term payables	7,375,950	1%

Note 1: No. 1 represents the transactions from parent company to subsidiary.

No. 3 represents the transactions between subsidiaries.

Note 2: The sales prices and payment terms of intercompany sales are not significantly different from those to third parties. For other intercompany transactions, prices and terms are determined in accordance with mutual agreements.

(Continued)

B. For the three months ended March 31, 2010

Name	Counter Party	Nature of Relationship (Note 1)	Financial Statements Item	Intercompany Transactions	
				Amount	TermsConsolidate (Note 2) Sales or T
TSMC North America		1	Sales	\$ 48,676,679	5
			Receivables from related parties	22,055,122	4
			Other receivables from related parties	8,810	
			Payables to related parties	8,667	
TSMC China		1	Sales	1,409	
			Purchases	1,557,962	2
			Marketing expenses commission	11,446	
			Sales of property, plant, and equipment	11,224	
			Purchase of property, plant, and equipment	14,498	
			Gain on disposal of property, plant and equipment, net	23,866	
			Technical service income	1,560	
			Other receivables from related parties	123,354	
			Payables to related parties	762,578	
			Deferred debits	4,672	
			TSMC Japan		1
Payables to related parties	22,869				
TSMC Europe		1	Marketing expenses commission	98,913	
			Research and development expenses	6,352	
			Payables to related parties	35,186	
TSMC Korea		1	Marketing expenses commission	4,285	
			Payables to related parties	1,333	
GUC		1	Sales	320,263	
			Receivables from related parties	205,381	
TSMC Technology		1	Research and development expenses	131,169	
			Payables to related parties	129,058	
WaferTech		1	Sales	1,648	
			Purchases	1,636,493	2
			Purchase of property, plant, and equipment	9,624	
			Other receivables from related parties	4,703	
			Payables to related parties	647,205	
TSMC Canada		1	Research and development expenses	45,209	
			Payables to related parties	15,983	
Xintec		1	Manufacturing overhead	45,546	
			Payables to related parties	27,979	
TSMC North America		3	Purchases	181,144	
			Manufacturing overhead	61,478	
			Payables to related parties	107,527	
GUC-NA		3	Operating expenses	44,847	
			Accrued expense	13,917	
GUC-Japan		3	Operating expenses	10,706	
			Accrued expense	3,472	
GUC-Shanghai		3	Other receivables from related parties	5,960	

Note 1: No. 1 represents the transactions from parent company to subsidiary.

No. 3 represents the transactions between subsidiaries.

Note 2: The sales prices and payment terms of intercompany sales are not significantly different from those to third parties. For other intercompany transactions, prices and terms are determined in accordance with mutual agreements.

(Concluded)

SIGNATURES

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

Taiwan Semiconductor Manufacturing
Company Ltd.

Date: April 28, 2011

By /s/ Lora Ho
Lora Ho
Senior Vice President & Chief Financial
Officer