

AU OPTRONICS CORP
Form 20-F
March 29, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

**REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES
EXCHANGE ACT OF 1934**

OR

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

For the fiscal year ended December 31, 2018

OR

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

OR

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

Edgar Filing: AU OPTRONICS CORP - Form 20-F

Commission file number: 001-31335

(Exact name of Registrant as specified in its charter)

AU OPTRONICS CORP.

TAIWAN, REPUBLIC OF CHINA

(Translation of Registrant's name into English) (Jurisdiction of incorporation or organization)

**1 LI-HSIN ROAD 2
HSINCHU SCIENCE PARK
HSINCHU, TAIWAN
REPUBLIC OF CHINA**

(Address of principal executive offices)

**Benjamin Tseng
Chief Financial Officer
1 Li-Hsin Road 2
Hsinchu Science Park
Hsinchu, Taiwan
Republic of China
Telephone No.: +886-3-500-8800
Facsimile No.: +886-3-564-3370**

E-mail: IR@auo.com

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Edgar Filing: AU OPTRONICS CORP - Form 20-F

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Shares of par value NT\$10.00 each	The New York Stock Exchange, Inc.*

* Not for trading but only in connection with the listing on the New York Stock Exchange, Inc. of American Depositary Shares representing such Common Shares

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: 9,624,245,115 Common Shares.

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

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. 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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. Check one):

Large Accelerated Filer	Accelerated Filer	Non-accelerated Filer	Emerging Growth Company
-------------------------	-------------------	-----------------------	-------------------------

Edgar Filing: AU OPTRONICS CORP - Form 20-F

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board
Other

If “Other” has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Table of Contents

Page

<u>SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS</u>	<u>1</u>
<u>CERTAIN CONVENTIONS</u>	<u>2</u>
<u>REFERENCES</u>	<u>3</u>
<u>PART I</u>	<u>4</u>
<u>ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS</u>	<u>4</u>
<u>ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE</u>	<u>4</u>
<u>ITEM 3. KEY INFORMATION</u>	<u>5</u>
<u>3.A. Selected Financial Data</u>	<u>5</u>
<u>3.B. Capitalization and Indebtedness</u>	<u>6</u>
<u>3.C. Reason for the Offer and Use of Proceeds</u>	<u>7</u>
<u>3.D. Risk Factors</u>	<u>7</u>
<u>ITEM 4. INFORMATION ON THE COMPANY</u>	<u>31</u>
<u>4.A. History and Development of the Company</u>	<u>31</u>
<u>4.B. Business Overview</u>	<u>32</u>
<u>4.C. Organizational Structure</u>	<u>39</u>
<u>4.D. Property, Plants and Equipment</u>	<u>43</u>
<u>ITEM 4A. UNRESOLVED STAFF COMMENTS</u>	<u>46</u>
<u>ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS</u>	<u>46</u>
<u>5.A. Operating Results</u>	<u>47</u>
<u>5.B. Liquidity and Capital Resources</u>	<u>58</u>
<u>5.C. Research and Development</u>	<u>61</u>
<u>5.D. Trend Information</u>	<u>62</u>
<u>5.E. Off-Balance Sheet Arrangements</u>	<u>63</u>
<u>5.F. Tabular Disclosure of Contractual Obligations</u>	<u>63</u>
<u>5.G. Recent Accounting Pronouncement</u>	<u>63</u>
<u>ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES</u>	<u>64</u>
<u>6.A. Directors and Senior Management</u>	<u>64</u>
<u>6.B. Compensation</u>	<u>68</u>
<u>6.C. Board Practices</u>	<u>73</u>
<u>6.D. Employees</u>	<u>73</u>
<u>6.E. Share Ownership</u>	<u>74</u>
<u>ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS</u>	<u>75</u>
<u>7.A. Major Shareholders</u>	<u>75</u>
<u>7.B. Related Party Transactions</u>	<u>76</u>
<u>7.C. Interests of Experts and Counsel</u>	<u>77</u>
<u>ITEM 8. FINANCIAL INFORMATION</u>	<u>77</u>
<u>8.A. Consolidated Statements and Other Financial Information</u>	<u>77</u>
<u>8.A.8. Dividends and Dividend Policy</u>	<u>80</u>
<u>8.B. Significant Changes</u>	<u>80</u>
<u>ITEM 9. THE OFFER AND LISTING</u>	<u>81</u>
<u>9.A. Offering and Listing Details</u>	<u>81</u>

<u>9.B.</u>	<u>Plan of Distribution</u>	<u>81</u>
<u>9.C.</u>	<u>Markets</u>	<u>81</u>
<u>9.D.</u>	<u>Selling Shareholders</u>	<u>81</u>
<u>9.E.</u>	<u>Dilution</u>	<u>81</u>
<u>9.F.</u>	<u>Expenses of the Issue</u>	<u>81</u>
<u>ITEM 10.</u>	<u>ADDITIONAL INFORMATION</u>	<u>81</u>
<u>10.A.</u>	<u>Share Capital</u>	<u>81</u>
<u>10.B.</u>	<u>Memorandum and Articles of Association</u>	<u>81</u>
<u>10.C.</u>	<u>Material Contracts</u>	<u>87</u>
<u>10.D.</u>	<u>Exchange Controls</u>	<u>87</u>
<u>10.E.</u>	<u>Taxation</u>	<u>88</u>
<u>10.F.</u>	<u>Dividends and Paying Agents</u>	<u>93</u>

Table of Contents

<u>10.G.</u>	<u>Statement by Experts</u>	<u>93</u>
<u>10.H.</u>	<u>Documents on Display</u>	<u>93</u>
<u>10.I.</u>	<u>Subsidiary Information</u>	<u>93</u>
<u>ITEM 11.</u>	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	<u>93</u>
<u>ITEM 12.</u>	<u>DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES</u>	<u>97</u>
<u>12.A.</u>	<u>Debt Securities</u>	<u>97</u>
<u>12.B.</u>	<u>Warrants and Rights</u>	<u>97</u>
<u>12.C.</u>	<u>Other Securities</u>	<u>97</u>
<u>12.D.</u>	<u>American Depositary Shares</u>	<u>97</u>
<u>PART II</u>		<u>99</u>
<u>ITEM 13.</u>	<u>ITEM DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES</u>	<u>99</u>
<u>ITEM 14.</u>	<u>MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS</u>	<u>99</u>
<u>ITEM 15.</u>	<u>CONTROLS AND PROCEDURES</u>	<u>99</u>
<u>ITEM 16.</u>	<u>[RESERVED]</u>	<u>101</u>
<u>16.A.</u>	<u>Audit Committee Financial Expert</u>	<u>101</u>
<u>16.B.</u>	<u>Code of Ethics</u>	<u>101</u>
<u>16.C.</u>	<u>Principal Accountant Fees and Services</u>	<u>101</u>
<u>16.D.</u>	<u>Exemptions from the Listing Standards for Audit Committees</u>	<u>102</u>
<u>16.E.</u>	<u>Purchases of Equity Securities by the Issuer and Affiliated Purchasers</u>	<u>102</u>
<u>16.F.</u>	<u>Change in Registrant's Certifying Accountant</u>	<u>102</u>
<u>16.G.</u>	<u>Corporate Governance</u>	<u>102</u>
<u>16.H.</u>	<u>Mine Safety Disclosure</u>	<u>104</u>
<u>PART III</u>		<u>105</u>
<u>ITEM 17.</u>	<u>FINANCIAL STATEMENTS</u>	<u>105</u>
<u>ITEM 18.</u>	<u>FINANCIAL STATEMENTS</u>	<u>105</u>
<u>ITEM 19.</u>	<u>EXHIBITS</u>	<u>105</u>
<u>SIGNATURES</u>		<u>107</u>
<u>INDEX TO CONSOLIDATED FINANCIAL STATEMENTS</u>		

Table of Contents

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This annual report on Form 20-F contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). These forward-looking statements are based on our beliefs and assumptions and the information available to us from other sources we believe to be reliable as of the date these disclosures were prepared and we undertake no obligation to update these forward-looking statements. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this annual report. The words “anticipate,” “believe,” “expect,” “intend,” “seek,” “plan,” “estimate” and similar expressions, as they relate to us, are intended to identify a number of these forward-looking statements. Our actual results of operations, financial condition or business prospects may differ materially from those expressed or implied in these forward-looking statements for a variety of reasons, including, among other things and not limited to:

- the cyclical nature of our industry;
- further declines in selling prices;
- our ability to comply with the applicable covenants under the terms of our debt instruments;
- litigation and regulatory investigations against us;
- our dependence on introducing new products on a timely basis;
- our dependence on growth in the demand for our products;
- our continued ability to achieve high capacity utilization rates;
- our ability to effectively manage inventories;
- our dependence on a small number of customers for a substantial portion of our net revenue;
- our ability to allocate capacity efficiently and in a timely manner;
- implementation of our expansion plans and our ability to obtain capital resources for our planned growth;

· our ability to compete effectively;

· our ability to expand into new businesses, industries or internationally and to undertake mergers, acquisitions, investments or divestments;

· changes in the accounting standard as required by the ROC government;

· our dependence on key personnel;

· our relationship with our affiliates;

· our ability to acquire sufficient raw materials and key components and obtain equipment and services from our suppliers in suitable quantity and quality;

· changes in technology and competing products;

· possible disruptions in commercial activities caused by natural and human-induced disasters, including terrorist activity and armed conflict;

· general political, economic, financial and regulatory conditions;

· fluctuations in foreign currency exchange rates; and

· other factors in the “Risk Factors” section in this annual report. Please see “Item 3. Key Information—3.D. Risk Factors.”

Table of Contents

CERTAIN CONVENTIONS

We publish our financial statements in New Taiwan dollars (“NT dollars”), the lawful currency of the Republic of China (“ROC”). This annual report contains translations of NT dollar amounts, Renminbi (“RMB” or “CNY”) amounts, Japanese Yen (“JPY”) amounts and Euro (“EUR”) amounts, into United States dollars (“U.S. dollars”), at specific rates solely for the convenience of the reader. For convenience only and unless otherwise noted, all translations between NT dollars and U.S. dollars, between RMB and U.S. dollars, between JPY and U.S. dollars and between EUR and U.S. dollars in this annual report were made at a rate of NT\$30.61 to US\$1.00, RMB6.8755 to US\$1.00, JPY109.70 to US\$1.00 and EUR0.8729 to US\$1.00, respectively, the exchange rates set forth in the H.10 weekly statistical release of the Federal Reserve System of the United States (the “Federal Reserve Board”) on December 31, 2018. No representation is made that the NT dollar, RMB, JPY, EUR or U.S. dollar amounts referred to herein could have been or could be converted into U.S. dollars, RMB, JPY, EUR or NT dollars, as the case may be, at any particular rate or at all. On March 12, 2019, the exchange rates set forth in the H.10 weekly statistical release of the Federal Reserve Board were NT\$30.91 to US\$1.00, RMB6.7070 to US\$1.00, JPY111.38 to US\$1.00 and EUR0.8868 to US\$1.00, respectively. Any discrepancies in any table between totals and sums of the amounts listed are due to rounding.

Table of Contents

REFERENCES

Unless otherwise indicated, in this annual report, the following terms shall have the meaning set out below:

“Acer Display”	Acer Display Technology, Inc.
“AD”	Anti-Dumping Duty
“ADSs”	American Depositary Shares
“ALCD”	Advanced LCD
“AMOLED”	Active-matrix organic light emitting diode, is an organic light emitting diode display technology
“AUKS”	AU Optronics (Kunshan) Co., Ltd.
“AUSP”	AUO SunPower Sdn. Bhd.
“AUSZ”	AU Optronics (Suzhou) Corp., Ltd.
“AUUS”	AU Optronics Corporation America
“BenQ”	BenQ Corporation
“BMC”	BenQ Materials Corp.
“BTA”	The basic tax amount
“CADE”	Conselho Administrativa de Defesa Economica
“CGU”	Cash-generating unit, the smallest identifiable group of assets that generates cash inflows which are largely independent of the cash inflows from other assets or group of assets
“China” or “PRC”	The People’s Republic of China, excluding Taiwan and the special administrative regions of Hong Kong and Macau
“CID”	Center Information Display
“Code”	The Internal Revenue Code of 1986, as amended
“Convertible Securities”	Bonds with warrants, preferred shares with warrants, convertible bonds, convertible preferred shares or certificates of warrants
“COSO”	Committee of Sponsoring Organizations of the Treadway Commission
“CSOT”	Shenzhen China Star Optoelectronics Technology Co., Ltd.
“CVD”	Countervailing Duty
“Deposit Agreement”	Deposit agreement and its amendment
“DG COMP”	The Commission of the European Communities Directorate-General for Competition
“DTC”	The Depository Trust Company
“EPA”	Environmental Protection Administration
“fabs”	Fabrication plants
“FDTC”	Fujitsu Display Technologies Corporation (which was merged into Fujitsu Limited)
“Federal Reserve Board”	The Federal Reserve System of the United States
“FHD”	Full High Definition
“Forhouse”	Forhouse Corporation
“FSC”	The ROC Financial Supervisory Commission
“FTA”	China-South Korea Free Trade Agreement
“HD”	High Definition
“HDR”	High dynamic range technology
“Hydis”	Hydis Technologies Co., Ltd.
“IBT Act”	Income Basic Tax Act

“IFRS”	The International Financial Reporting Standards as issued by the International Accounting Standards Board
“Investment Regulations”	The ROC Regulations Governing Securities Investment by Overseas Chinese and Foreign Nationals
“Israeli Court”	District Court of the Central District in Israel
“large-size panels”	Panels ten inches and above in diagonal length
“LTPS”	Low temperature poly-silicon method

Table of Contents

“LG Display” or “LGD”	LG Display Co., Ltd.
“M.Setek”	M.Setek Co., Ltd.
“mm”	Millimeters
“MOEAIC”	Investment Commission of Ministry of Economic Affairs
“non-ROC resident”	A person who is not a resident of the ROC
“NYSE”	The New York Stock Exchange
“Northern California Court”	The United States District Court for the Northern District of California
“OLED”	Organic light emitting diode, a light emitting display technology
“our company”, “us” or “we”	AU Optronics Corp. and/or its consolidated subsidiaries, unless the context suggests otherwise
“PCAOB”	Public Company Accounting Oversight Board
“PID”	Public Information Display
“PFIC”	A passive foreign investment company
“Pre-release”	American depositary shares are released before delivery of shares to the depositary
“QCSZ”	Qisda (Suzhou) Co., Ltd.
“QDI”	Quanta Display Inc.
“QDIIs”	Qualified domestic institutional investors
“Qisda”	Qisda Corporation
“Raydium”	Raydium Semiconductor Corporation
“ROC” or “Taiwan”	The island of Taiwan and the areas under the effective control of the Republic of China
“ROC government”	The government of the ROC
“Samsung”	Samsung Electronics Co., Ltd.
“Samsung Display”	Samsung Display Co., Ltd.
“Samsung Group”	Samsung Electronics Co., Ltd. and its subsidiaries
“SEC”	The United States Securities and Exchange Commission
“Seiko Epson”	Seiko Epson Corporation
“SID”	Society for Information Display
“Sharp”	Sharp Corporation
“SSEC”	Star Shining Energy Corp.
“subsidiary”	A company owned directly or indirectly by AU Optronics Corp., unless the context suggests otherwise
“SPTL”	SunPower Technology, Ltd., a subsidiary of SunPower Corporation
“Taiwan IFRS”	The International Financial Reporting Standards as issued by the International Accounting Standards Board and endorsed by the FSC, which are required to be adopted by applicable companies in Taiwan
“UHD”	Ultra High Definition
“U.S. DOJ”	The United States Department of Justice
“Unipac”	Unipac Optoelectronics Corp.
“VPV”	Vista Peak Ventures, LLC
“VR”	Virtual Reality

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2.

OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

Table of Contents

ITEM 3.

KEY INFORMATION

3.A. Selected Financial Data

The selected consolidated financial data set forth below as of December 31, 2017 and 2018 and for the years ended December 31, 2016, 2017 and 2018 have been derived from our audited consolidated financial statements and the related notes, which have been prepared in accordance with IFRS, included elsewhere in this annual report. The selected consolidated statement of financial position data as of December 31, 2014, 2015 and 2016 and selected consolidated statement of comprehensive income data for the years ended December 31, 2014 and 2015 have been derived from our audited consolidated financial statements prepared in accordance with IFRS that are not included herein. The selected financial data set forth below should be read in conjunction with “Item 5. Operating and Financial Review and Prospects” and our consolidated financial statements and the accompanying notes included elsewhere in this annual report.

	Year Ended and As of December 31,					
	2014	2015	2016	2017	2018	2018
	NT\$	NT\$	NT\$	NT\$	NT\$	US\$
	(in millions, except percentages and earnings per share and per ADS data)					
Consolidated Statement of Comprehensive Income Data:						
Net revenue	408,178.7	360,346.5	329,089.0	341,028.3	307,634.4	10,050.1
Gross profit	48,510.6	39,837.1	34,491.0	61,041.7	28,139.5	919.3
Selling and distribution expenses	(7,799.0)	(4,206.1)	(3,895.1)	(3,889.0)	(3,946.5)	(128.9)
General and administrative expenses	(9,389.6)	(9,206.0)	(9,176.7)	(8,158.9)	(7,978.3)	(260.6)
Research and development expenses	(9,156.6)	(8,903.8)	(9,080.8)	(9,854.7)	(9,546.8)	(311.9)
Profit before income tax	19,980.4	7,598.9	11,185.9	39,363.6	11,216.2	366.4
Income tax expense (benefit)	3,243.2	384.9	2,432.5	(1,125.2)	322.4	10.5
Profit for the year	16,737.2	7,214.0	8,753.4	40,488.8	10,893.8	355.9
Total comprehensive income for the year	18,914.9	6,482.3	1,423.5	39,669.9	9,510.0	310.7
Profit (loss) for the year attributable to:						
Shareholders of AU Optronics Corp.	16,366.6	7,242.2	9,965.1	42,609.5	13,071.6	427.0
Non-controlling interests	370.6	(28.2)	(1,211.7)	(2,120.7)	(2,177.8)	(71.1)
Total comprehensive income (loss) for the year attributable to:						
Shareholders of AU Optronics Corp.	18,125.7	7,185.7	4,502.5	42,146.1	11,996.3	391.9
Non-controlling interests	789.2	(703.4)	(3,079.0)	(2,476.2)	(2,486.3)	(81.2)
Earnings per share—Basic	1.70	0.75	1.04	4.43	1.36	0.04
Earnings per share—Diluted	1.69	0.70	1.02	4.27	1.34	0.04
Earnings per ADS equivalent—Basic	17.01	7.52	10.35	44.27	13.58	0.44
Earnings per ADS equivalent—Diluted	16.88	6.98	10.24	42.73	13.35	0.44

Table of Contents

	Year Ended and As of December 31,					
	2014	2015	2016	2017	2018	2018
	NT\$	NT\$	NT\$	NT\$	NT\$	US\$
(in millions, except percentages and earnings per share and per ADS data)						
Consolidated Statement of Financial Position Data:						
Total current assets	185,614.5	161,992.1	163,346.2	180,175.5	149,067.6	4,869.9
Property, plant and equipment	231,814.7	208,785.6	222,741.8	224,933.1	221,586.5	7,239.0
Total assets	442,344.3	399,237.1	405,860.8	430,170.7	398,551.2	13,020.3
Total current liabilities	174,143.1	141,867.7	118,031.6	110,264.7	129,364.2	4,226.2
Total noncurrent liabilities	94,214.3	76,708.3	110,992.9	107,088.1	61,401.7	2,005.9
Total liabilities	268,357.4	218,576.0	229,024.5	217,352.8	190,765.9	6,232.1
Common stock	96,242.5	96,242.5	96,242.5	96,242.5	96,242.5	3,144.2
Non-controlling interests in subsidiaries	19,329.2	22,648.6	18,388.2	17,068.5	14,416.6	471.0
Total equity attributable to shareholders of AU Optronics Corp.	154,657.7	158,012.5	158,448.1	195,749.4	193,368.7	6,317.2
Other Financial Data:						
Gross margin ⁽¹⁾	11.9%	11.1%	10.5%	17.9%	9.1%	9.1%
Net margin ⁽²⁾	4.1%	2.0%	2.7%	11.9%	3.5%	3.5%
Capital expenditures	16,971.0	33,440.2	46,220.1	43,881.7	34,770.3	1,135.9
Depreciation and amortization	56,902.7	47,745.8	39,693.2	36,429.8	34,227.5	1,118.2
Net cash flows provided by operating activities	63,392.7	62,003.4	36,695.8	84,363.3	40,200.7	1,313.3
Net cash flows used in investing activities	(13,106.8)	(31,734.7)	(42,267.3)	(43,667.5)	(34,497.8)	(1,127.0)
Net cash flows provided by (used in) financing activities	(45,041.5)	(34,277.0)	10,721.2	(13,410.4)	(41,846.7)	(1,367.1)
Segment Data:						
Net revenue						
Display business	384,335.2	333,392.3	304,826.7	322,335.4	290,784.8	9,499.7
Energy business ⁽³⁾	23,843.5	26,954.2	24,262.3	18,692.9	16,849.6	550.4
Segment profit (loss) ⁽⁴⁾						
Display business	24,422.5	19,226.0	12,703.5	39,971.4	7,792.5	254.6
Energy business ⁽³⁾	(2,257.1)	(1,704.8)	(365.1)	(832.3)	(1,124.6)	(36.7)

(1) Gross margin is calculated by dividing gross profit by net revenue.

(2) Net margin is calculated by dividing profit for the year by net revenue.

(3)

Formerly named "Solar business".

- (4) Segment profit (loss) represents gross profit (loss) minus selling and distribution expenses, general and administrative expenses and research and development expenses.

Exchange Rate

Fluctuations in the exchange rate between NT dollars and U.S. dollars will affect the U.S. dollar equivalent of the NT dollar price of our shares on the Taiwan Stock Exchange and, as a result, will likely affect the market price of the ADSs. These fluctuations will also affect the U.S. dollar conversion by the depositary of cash dividends paid in NT dollars on, and the NT dollar proceeds received by the depositary from any sale of, our shares represented by ADSs.

3.B. Capitalization and Indebtedness

Not applicable.

Table of Contents

3.C. Reason for the Offer and Use of Proceeds

Not applicable.

3.D. Risk Factors

Risks Relating to Our Financial Condition, Business and Industry

Our industry is cyclical, with recurring periods of capacity increases. As a result, price fluctuations in response to supply and demand imbalances could harm our results of operations.

The display panel industry in general is characterized by cyclical market conditions. From time to time, the industry has been subject to imbalances between excess supply and a slowdown in demand, and in certain periods, resulting in declines in selling prices. For example, the average selling price per square meter for our large-size panels decreased by 13% in 2018 compared to 2017. In addition, capacity expansion anticipated in the display panel industry may lead to excess capacity. Capacity expansion in the display panel industry may be due to scheduled ramp-up of new fabs, and any large increases in capacity as a result of such expansion could further drive down the selling prices of our panels, which would affect our results of operations. We cannot assure you that any continuing or further decrease in selling prices or future downturns resulting from excess capacity or other factors affecting the industry will not be severe or that any such continuation, decrease or downturn would not seriously harm our business, financial condition and results of operations.

Our ability to maintain or increase our revenues will primarily depend upon our ability to maintain market share, increase unit sales of existing products and introduce and sell new products that offset the anticipated fluctuation and long-term declines in the selling prices of our existing products. We cannot assure you that we will be able to maintain or expand market share, increase unit sales, and introduce and sell new products, to the extent necessary to compensate for market oversupply.

We may experience declines in the selling prices of our products irrespective of cyclical fluctuations in the industry.

The selling prices of our products have declined in general and are expected to continually decline with time irrespective of industry-wide cyclical fluctuations as a result of, among other factors, technology advancements and cost reductions. Although we may be able to take advantage of the higher selling prices typically associated with new

products and technologies when they are first introduced into the market, prices decline over time and in certain cases, very rapidly as a result of market competition. If we are unable to anticipate effectively and counter the price erosion that accompanies our products, or if the selling prices of our products decrease faster than the rate at which we are able to reduce our manufacturing costs, our profit margins will be affected adversely and our results of operations and financial condition may be affected materially and adversely.

Our results of operations have fluctuated in the past. If we are unable to achieve profitability in 2019 or beyond, the value of the ADSs and our shares may be adversely affected.

Our business is significantly affected by cyclical market conditions for the display panel industry. From time to time, the industry has experienced imbalances between excess supply and slowdowns in demand, and in certain periods, resulting in declines in selling prices. In addition, other factors such as technology advancement and cost reductions have driven down and may continue to drive down our average selling prices irrespective of cyclical market conditions for the display panel industry.

The solar industry has undergone challenging business conditions in the past years, including downward pricing pressure for solar modules, solar cells, solar wafers and ingots mainly as a result of oversupply and reductions in applicable governmental subsidies. For example, the average selling price of our solar monocrystalline modules dropped approximately 68% from 2011 to 2018. Although the solar industry may continue to grow in the long run, there is no assurance that the solar industry will not suffer significant downturns or significant reductions in the scope or discontinuation of government incentive programs in the future, especially in markets where we operate or we target, which will adversely affect demands for our solar products as well as our results of operations.

Table of Contents

Our results of operations have fluctuated in the past. Our net revenue decreased by approximately 9.8% to NT\$307.6 billion (US\$10.1 billion) in 2018 compared to net revenue of NT\$341.0 billion in 2017, while our net profit for the year decreased from NT\$40.5 billion in 2017 to NT\$10.9 billion (US\$0.4 billion) in 2018. We cannot assure you that we will be profitable in 2019 or beyond. In addition, we expect that selling prices for many of our existing products will continue to decline over the long term. If we are unable to reduce our production cost to offset the declines in selling prices and maintain a high capacity utilization rate, our gross margin will decline, which could seriously harm our business and reduce the value of our equity securities. If we are unable to achieve profitability in 2019 or beyond, the value of the ADSs and our shares may be adversely affected.

Our future net revenue, gross profit, net income and financing capabilities may vary significantly due to a combination of factors, including, but not limited to:

- our ability to develop and introduce new products to meet customers' needs in a timely manner;
- our ability to develop or acquire and implement new manufacturing processes and product technologies;
 - our ability to control our fixed and variable costs and operating expenses;
 - our ability to reduce production cost, such as raw materials and components;
 - our ability to manage our product mix;
- our ability to obtain raw materials and components at acceptable prices and in a timely manner;
- lower than expected growth in demand resulting in oversupply in the market;
- our ability to obtain adequate external financing on satisfactory terms;
- fines and penalties payable relating to the alleged violation of antitrust, competition laws and other regulations; and
- unforeseen circumstances that resulting from the above factors which might lead to de-recognition of deferred tax assets.

We must comply with certain financial and other covenants under the terms of our debt instruments, the failure to comply with which may put us in default under those instruments.

We are a party to numerous loans and other agreements relating to the incurrence of debt, many of which include financial covenants and broad default provisions. The financial covenants primarily include current ratios, leverage ratio, interest coverage ratios, tangible net worth and other technical requirements, which, in general, govern our existing long-term debt and debt we may incur in the future. These covenants could limit our ability to plan for or react to market conditions or to meet our capital needs in a timely manner and we may have to curtail some of our operations and growth plans to maintain compliance. In addition, any global or regional economic deterioration may cause us to incur significant net losses or force us to assume considerable liabilities, which would adversely impact our ability to comply with the financial covenants of our outstanding loans. If the relevant creditors decline to grant waivers for any non-compliance with the covenants, such non-compliance will constitute an event of default which may trigger a requirement for acceleration of the amounts due under the applicable loan agreements. Some of our loan agreements also contain cross-default clauses, which could enable creditors under our other debt instruments to declare an event of default when there is a default in other loan agreements. We cannot assure you that we will be able to remain in compliance with our financial covenants. In the event of default, we may not be able to cure the default or obtain a waiver on a timely basis. An event of default under any agreement governing our existing or future debts, if not cured by us or waived by our creditors, could have a material adverse effect on our liquidity, financial condition and results of operations. If we breach our financial or other covenants, our financial condition will be adversely affected to the extent we are not able to cure such breaches or repay the relevant debt. We have on occasion failed to comply with certain financial covenants in some of our loan agreements. Although in the past we have either obtained waivers for such noncompliance from the relevant banks or fully repaid the facility, we cannot assure you that we will always be able to do that in the future.

Table of Contents

We are involved in a number of legal proceedings concerning matters arising from our business and operations, and as a result we may face significant liabilities. If we or our employees are found to have violated any applicable law, including antitrust and competition laws in pending actions or new claims, or if our appeals regarding such violations are not successful, we may be subject to severe fines or penalties that would have a material adverse effect on our business and operations.

We are involved in a number of legal proceedings concerning matters arising from our business and operations, primarily related to the development and the sale of our products, including patent infringements, investigations by government authorities such as antitrust investigations and proceedings and other legal matters. In addition, we may have compliance issues with regulatory bodies in the course of our operations, which may subject us to administrative proceedings and unfavorable decrees that result in liabilities and cause delays to our production. Our products may also be subject to anti-dumping or countervailing duty proceedings as a result of protectionist measures adopted by governments in any of our export markets. We may be involved in other proceedings or disputes in the future that may have a material adverse effect on our business, financial condition, results of operations or cash flows.

See “Item 8. Financial Information—8.A.7. Litigation” for a discussion of certain legal proceedings in which we are involved.

We may be subject to other new claims, charges or investigations. Defending against any of these pending or future actions will likely be costly and time-consuming and could significantly divert management’s efforts and resources. The ultimate outcome of the pending investigations cannot be predicted with certainty. Any penalties, fines, damages or settlements made in connection with these criminal, civil and/or administrative investigations and/or lawsuits may have a material adverse effect on our business, results of operations and future prospects.

Our results of operations fluctuate from quarter to quarter, which makes it difficult to predict our future performance.

Our results of operations have varied significantly in the past and may fluctuate significantly from quarter to quarter in the future due to a number of factors, many of which are beyond our control. Our business and operations may be adversely affected by the following factors, among others:

- rapid changes from month to month, including shipment volume and product mix change;

· the cyclical nature of the industry, including fluctuations in selling prices, and imbalances between excess supply and slowdowns in demand;

- the speed at which we and our competitors expand production capacity;
- access to raw materials and components, equipment, electricity, water and other required utilities on a timely and economical basis;
- technological changes;
- the loss of a key customer or the postponement, rescheduling or cancellation of large orders from customers;
- the outcome of ongoing and future litigation and government investigations;
- changes in end-users' spending patterns;
- changes to our management team;
- access to funding on satisfactory terms;
- our customers' adjustments in their inventory;
- changes in general political, economic, financial and legal conditions; and

Table of Contents

natural disasters, such as typhoons and earthquakes, and industrial accidents, such as fires and power failures, as well as geo-political instability as a result of terrorism or political or military conflicts.

Due to the factors noted above and other risks discussed in this section, many of which are beyond our control, you should not rely on quarter-to-quarter comparisons to predict our future performance.

Unfavorable changes in any of the above factors may seriously harm our business, financial condition and results of operations. In addition, our results of operations may be below the expectations of public market analysts and investors in some future periods, which may result in a decline in the price of the ADSs or shares.

Our results of operations may be affected adversely if we cannot timely introduce new products or if our new products do not gain market acceptance.

Early product development by itself does not guarantee the success of a new product. Success also depends on other factors such as product acceptance by the market. New products are developed in anticipation of future demand. Our delay in the development of commercially successful products with anticipated technological advancement may adversely affect our business. We cannot assure you that the launch of any new product will be successful, or that we will be able to produce sufficient quantities of these products to meet market demand.

We plan to continue to expand our operations to meet the needs of applications in televisions, monitors, mobile PCs and devices and commercial and other applications as demand increases. Because these products are expected to be marketed to a diversified group of end-users with demands for different specifications, functions and prices, we have developed different marketing strategies to promote our panels for these products. We cannot assure you that our strategies to expand our market share for these panels will be successful. If we fail to successfully market panels for these products, our results of operations will be adversely affected.

Our net revenue and results of operations depend on continuing demand for televisions, monitors, mobile PCs and devices and commercial and other applications with display panels. Our sales may not grow at the rate we expect if there is a downturn in the demand for, or a further decrease in the selling prices of, panels for these products.

Currently, our total sales are derived principally from customers using our products in televisions, monitors, mobile PCs and devices and commercial and other applications with display devices. For example, a substantial percentage of our sales are derived from our panels and other related products for televisions, which accounted for approximately 42.7%, 44.7% and 36.8% of our net revenue in 2016, 2017 and 2018, respectively. We will continue to be dependent on the growth of the televisions, monitors, mobile PCs and devices and commercial and other applications for a substantial portion of our net revenue, and any downturn in these industries would result in reduced demand for our

products, reduced net revenue, lower selling prices and/or reduced margins and our business prospects and results of operations may be materially and adversely affected.

If we are unable to achieve high capacity utilization rates, our results of operations will be affected adversely.

High capacity utilization rates allow us to allocate fixed costs over a greater number of products produced. Increases or decreases in capacity utilization rates can impact significantly our gross margins. Accordingly, our ability to maintain or improve our gross margins will continue to depend, in part, on achieving high capacity utilization rates. In turn, our ability to achieve high capacity utilization rates will depend on the ramp-up progress of our advanced production facilities and our ability to efficiently and effectively allocate production capacity among our product lines, as well as the demand for our products and our ability to offer products that meet our customers' requirements at competitive prices.

From time to time, our results of operations in the past have been adversely affected by low capacity utilization rates. We cannot assure you that we will be able to achieve high capacity utilization rates in 2019 or beyond. If we are unable to efficiently ramp-up our production facilities for advanced technology or demand for our products does not meet our expectations, our capacity utilization rates will decrease, our gross margins will suffer and our results of operations will be materially and adversely affected.

Table of Contents

We may experience losses on inventories.

Frequent new product introductions in the technology industry can result in a decline in the selling prices of our products and the obsolescence of our existing inventory. This can result in a decrease in the stated value of our inventory, which we value at the lower of cost or net realizable value.

We manage our inventory based on our customers' and our own forecasts. Although we regularly make adjustments based on market conditions, we typically deliver our goods to our customers several weeks after a firm order is placed. While we maintain open channels of communication with our major customers to avoid unexpected decreases in firm orders or subsequent changes to placed orders, and try to minimize our inventory levels, such actions by our customers may have a material adverse effect on our inventory management and our results of operations.

We depend on a small number of customers for a substantial portion of our net revenue, and a loss of any one of these customers, a significant decrease in orders from any of these customers or difficulty in collecting of accounts receivables would result in the loss of a significant portion of our net revenue and/or material adverse effect on our results of operation.

We depend on a small number of customers for a substantial portion of our business. In 2016, 2017 and 2018, our five largest customers accounted for approximately 36.3%, 39.0% and 36.6%, respectively, of our net revenue. In addition, our major customer, Samsung Group, individually accounted for more than 10% of our net revenue in the last three years, which were 11.3%, 12.8% and 11.5% of our net revenue in 2016, 2017 and 2018, respectively.

In recent years, our major customers have varied due to changes in our product mix. We expect that we will continue to depend on a relatively small number of customers for a significant portion of our net revenue and may continue to experience fluctuations in the distribution of our sales among our largest customers as we periodically adjust our product mix. Our ability to maintain close and satisfactory relationships with our customers is important to the ongoing success and profitability of our business. Our ability to attract potential customers is also critical to the success of our business. If any of our significant customers reduces, delays or cancels its orders for any reason, or the financial condition of our key customers deteriorates, our business could be seriously harmed. Similarly, a failure to manufacture sufficient quantities of products to meet the demands of these customers may cause us to lose customers, which may affect adversely the profitability of our business as a result. Furthermore, if we experience difficulties in the collection of our accounts receivables from our major customers, our results of operation may be materially and adversely affected.

Our customers generally do not place purchase orders far in advance, which makes it difficult for us to predict our future revenues and allocate capacity efficiently and in a timely manner.

Our customers generally provide rolling forecasts several months in advance of, and do not place firm purchase orders until several weeks before the expected shipment date. There is no assurance that there will not be unexpected decreases in firm orders or subsequent changes to placed orders from our customers. In addition, due to the cyclical nature of the display panel industry, our customers' purchase orders have varied significantly from period to period. As a result, we do not typically operate with any significant backlog. The lack of significant backlog makes it difficult for us to forecast our revenues in future periods. Moreover, we incur expenses and adjust inventory levels of raw materials and components based on customers' forecast, and we may be unable to allocate production capacity in a timely manner to compensate for shortfalls in sales. We expect that, in the future, our sales in any quarter will continue to be dependent substantially upon purchase orders received in that quarter. The inability to adjust production costs, to obtain necessary raw materials and components or to allocate production capacity quickly to respond to the demand for our products may affect our ability to maximize results of operations, which may result in a negative impact on the value of your investment in the ADSs or our shares.

Table of Contents

Our future competitiveness and growth prospects could be affected adversely if we are unable to successfully expand or improve our fabs to meet market demand.

As part of our business growth strategy, we have been undertaking and may undertake in the future a number of significant capital expenditures for our fabs.

The successful expansion of our fabs and commencement of commercial production is dependent upon a number of factors, including timely delivery of equipment and machinery and the hiring and training of new skilled personnel. Although we believe that we have the internal capabilities and know-how to expand our fabs and commence commercial production, no assurances can be given that we will be successful. We cannot assure you that we will be able to obtain from third parties, if necessary, the technology, intellectual property or know-how that may be required for the expansion or improvement of our fabs on acceptable terms. In addition, delays in the delivery of equipment and machinery as a result of increased demand for such equipment and machinery or the delivery of equipment and machinery that do not meet our specifications could delay the establishment, expansion or improvement of these fabs. Moreover, the expansion of our fabs may also be disrupted by governmental planning activities. If we face unforeseen disruptions in the installation, expansion and/or manufacturing processes with respect to our fabs, we may not be able to realize the potential gains and may face disruptions in capturing the growth opportunities.

If capital resources required for our planned growth or development are not available, we may be unable to successfully implement our business strategy.

Historically, we have been able to finance our capital expenditures through cash flow from our operating activities and financing activities, including long-term borrowings, the issuance of convertible and other debt securities and the issuance of equity securities. Our ability to expand our production facilities and establish advanced technology fabs will continue to largely depend on our ability to obtain sufficient cash flow from operations as well as external funding. We expect to make capital expenditures in connection with the development of our business, including investments in connection with new capacity, technological upgrade and the enhancement of capacity value. These capital expenditures will be made well in advance of any additional sales to be generated from these expenditures. Our results of operations may be affected adversely if we do not have the capital resources to complete our planned growth, or if our actual expenditures exceed planned expenditures for any number of reasons, including changes in:

· our growth plan and strategy;

· manufacturing process and product technologies;

· market conditions;

· prices of equipment;

· costs of construction and installation;

· market conditions for financing activities of display panel manufacturers;

· interest rates and foreign exchange rates; and

· social, economic, financial, political and other conditions in Taiwan and elsewhere.

If adequate funds are not available on satisfactory terms at appropriate times, we may have to curtail our planned growth, which could result in a loss of customers, adversely affect our ability to implement successfully our business strategy and limit the growth of our business.

Table of Contents

We operate in a highly competitive environment and we may not be able to sustain our current market position if we fail to compete successfully.

The markets for our products are highly competitive. We experience pressure on our prices and profit margins, due largely to additional and growing industry capacity from competitors in Taiwan, Korea, Japan and the PRC. The ability to manufacture on a large scale with greater cost efficiencies is a competitive advantage in our industry. Some of our competitors have expanded through mergers and acquisitions. Some of our competitors have greater access to capital and substantially greater production, research and development, intellectual property, marketing and other resources than we do. Some of our competitors have announced their plans to develop, and have already invested substantial resources in new capacity. Our competitors may be able to grasp the market opportunities before us by introducing new products using such capacity. In addition, some of our larger competitors have more extensive intellectual property portfolios than ours, which they may use to their advantage when negotiating cross-licensing agreements for technologies. As a result, these companies may be able to compete more aggressively over a longer period of time than we can.

The principal elements of competition in the display industry include:

- price;
- product performance features and quality;
- customer service, including product design support;
- ability to reduce production cost;
- ability to provide sufficient quantity of products to fulfill customers' needs;
- research and development, including the ability to develop new technologies;
- time-to-market; and
- access to capital and financing ability.

Our ability to compete successfully in the display industry also depends on factors beyond our control, including industry and general political and economic conditions as well as currency fluctuations.

If brand companies do not continue to outsource the manufacturing of their products to original equipment manufacturing service providers with production operations in Taiwan, the PRC and elsewhere, our sales and results of operations could be affected adversely.

In recent years, brand companies have outsourced the manufacturing of their products to original equipment manufacturing service providers with part or all of their production operations in Taiwan, the PRC and elsewhere. We believe that we have benefited from this outsourcing trend in large part due to our production locations in Taiwan and the PRC, which has allowed us to better coordinate our production and services with our customers' requirements, especially in the areas of delivery time and product design support. We cannot assure you that this outsourcing trend will continue. If brand companies do not continue to outsource the manufacturing of their products to original equipment manufacturing service providers with their production operations in Taiwan, the PRC and elsewhere, our sales and results of operations could be adversely affected.

If we are unable to manage our growth effectively, our business could be affected adversely.

We have experienced, and expect to continue to experience, growth in the scope and complexity of our operations. For example, we may make capital expenditures in connection with new capacity and technological upgrade. This growth may strain our existing managerial, financial and other resources. In order to manage our growth, we must continue to implement additional operating and financial controls and may hire and train suitable personnel for these functions. We cannot assure you that we will be able to do so in the future, and our failure to do so could jeopardize our planned growth and seriously harm our operations.

Table of Contents

We may encounter difficulties expanding into new businesses or industries, which may affect adversely our results of operations and financial condition.

We may encounter difficulties and face risks in connection with our expansion into new businesses or industries. We cannot assure you that our expansion into new businesses will be successful, as we may have limited experience in such industries. We cannot assure you that we will be able to generate sufficient profits to justify the costs of expanding into new businesses or industries. Any new business in which we invest or which we intend to develop may require our additional capital investment, research and development efforts, as well as our management's attention. If such new business does not progress as planned, our results of operations and financial condition may be affected adversely.

We may undertake mergers, acquisitions or investments to diversify or expand our business, which may pose risks to our business and dilute the ownership of our existing shareholders, and we may not realize the anticipated benefits of these mergers, acquisition or investments.

As part of our growth and product diversification strategy, we may continue to evaluate opportunities to acquire or invest in other businesses or existing businesses, intellectual property or technologies and expand the breadth of markets we can address or enhance our technical capabilities. See "Item 4. Information on the Company—4.C. Organizational Structure" for further information.

Mergers, acquisitions or investments that we have entered into and may enter into in the future entail a number of risks that could materially and adversely affect our business, operating and financial results, including, among others:

- problems integrating the acquired operations, technologies or products into our existing business and products;
- diversion of management's time and attention from our core business;
- conflicts with joint venture partners;
- adverse effect on our existing business relationships with customers;
- need for financial resources above our planned investment levels;
- failures in realizing anticipated synergies;

- difficulties in retaining business relationships with suppliers and customers of the acquired company;

- risks associated with entering markets in which we lack experience;

- potential loss of key employees of the acquired company; and

- potential write-offs of acquired assets.

Our failure to address these risks successfully may have a material adverse effect on our financial condition and results of operations. Any such acquisition or investment will likely require a significant amount of capital investment, which would decrease the amount of cash available for working capital or capital expenditures. In addition, if we use our equity securities to pay for acquisitions, the value of your ADSs and the underlying ordinary shares may be diluted. If we borrow funds to finance acquisitions, such debt instruments may contain restrictive covenants that can, among other things, restrict us from distributing dividends.

Table of Contents

Our annual consolidated financial statements for Taiwan reporting purposes and the basis for our earnings distribution may differ from those included in the annual report on Form 20-F.

We have adopted Taiwan IFRS for reporting in Taiwan our annual consolidated financial statements beginning in 2013 and our interim quarterly earnings releases beginning in the first quarter of 2013. While we have adopted Taiwan IFRS for Taiwan reporting purposes and earnings distribution purposes, we have also adopted and will continue to adopt IFRS, which differs from Taiwan IFRS, for certain filings with the SEC, including this annual report and future reports on Form 20-F.

Taiwan IFRS differs from IFRS in certain significant respects, including, but not limited to the extent that any new or amended standards or interpretations applicable under IFRS may not be timely endorsed by the FSC. Consequently, our annual consolidated financial statements for Taiwan reporting purposes and the basis for our earnings distribution may differ from those included in the annual report on Form 20-F.

Any disagreement between applicable tax authorities and us with respect to our tax estimates, adverse changes in tax law, and any non-compliance with changes in tax laws or their application could adversely affect our results of operations.

We are subject to income taxes in Taiwan and many foreign jurisdictions and might be under tax audit by local tax authorities within certain assessment periods. Although we believe our tax estimates are reasonable, the final determination of tax audits could be materially different from our recorded income tax accruals. For example, our taxable income in any jurisdiction depends on the acceptance of our operational practices and intercompany transfer pricing by local tax authorities as being on an arm's length basis. In addition, each country's tax authority has its own regulations on transfer pricing and its own interpretations of those regulations, such as China State Administration of Taxation Public Notice [2017] No. 6, which regulates the special tax investigation and adjustment. Due to inconsistencies in the application of the arm's length standard among taxing authorities, as well as a lack of adequate treaty-based protection, challenges to transfer pricing by tax authorities could, if successful, substantially increase our income tax liability and interest expense.

As a multinational enterprise, we are subject to distinct tax regulations in multiple jurisdictions; these different regulations may change adversely over time, which can materially impact our business. For example, although we file a Country-by-Country reporting return that requires us to disclose the global allocation of our business income, taxes paid, and select indicators of economic activity in the tax jurisdictions where we have business operations, we cannot assure you that the relevant tax authority in every tax jurisdiction in which we operate will consider our transfer pricing policy acceptable. Any increase in tax liability, tax penalty or tax related interest could adversely affect our financial position and results of operation. In addition, many countries where we have commercial operations may amend their tax laws in accordance with the Base Erosion and Profit Shifting project as set out by the Organization for Economic Co-operation and Development. Rapid shifts in tax regulation can increase our risk of regulatory noncompliance in the relevant jurisdiction.

Any impairment charge may have a material adverse effect on our operating results.

Under IFRS, we are required to evaluate our investments and long-term non-financial assets, such as property, plant and equipment and long-term purchase agreements, for impairment whenever triggering events or changes in circumstances indicate that the asset may be impaired and carrying value may not be recoverable. If certain criteria are met, we are required to recognize an impairment charge.

The determination of an impairment charge at any given time is based significantly on our expected results of operations over a number of years subsequent to that time. As a result, an impairment charge is more likely to occur during a period when our operating results are otherwise already depressed. The valuation of long-term non-financial assets is subjective and requires us to make significant estimates about our future performance and cash flows, as well as other assumptions. These estimates can be affected by numerous factors, including changes in economic, industry or market conditions, changes in business operations, changes in competition or potential changes in our stock price and market capitalization. Changes in these estimates and assumptions, or changes in actual performance compared with estimates of our future performance, may affect the fair value of long-term non-financial assets, which may result in an impairment charge. See “Item 5. Operating and Financial Review and Prospects—Critical Accounting Policies and Estimates” for a discussion of how we assess if an impairment charge is required and, if so, how the amount is determined.

Table of Contents

In addition, under IFRS, we are required to determine the realizability of our deferred tax assets. Any impairment charge on our investments and long-term non-financial assets, or the inability to recognize or the subsequent derecognition of previously recognized deferred tax assets may have a material adverse effect on our operating results.

Our divestiture strategies and divestment activities may affect our financial performance and the market price of our shares and ADSs.

From time to time, we evaluate possible divestments and may, if a suitable opportunity or condition arises, make divestments or decisions to dispose of certain businesses or assets. We may reduce our holdings of equity securities or dispose of certain of our businesses or assets in order to reduce financial or operational risks. As part of our ongoing strategic plan, we have selectively divested, and may in the future continue to pursue divestitures of certain of our businesses or assets as part of our portfolio optimization strategy. We make divestments based on, among other considerations, management's evaluation of or changes in business strategies and performance and valuation of divested businesses or assets. For example, AU Optronics (Slovakia) s.r.o., one of our subsidiaries, sold its land and building in December 2018 for a total selling price of EUR\$87.7 million and recorded a profit from the disposal of approximately EUR\$30.4 million. These divestment activities may result in either gains or losses and we cannot assure you that we can always make divestment with a gain. We may be subject to continuing financial obligations for a period of time following the divestments, and any claims such as warranty or indemnification claims, if determined against us, would negatively affect our financial performance. Moreover, divestures may require us to separate integrated assets and personnel from our retained businesses and devote our resources to transitioning assets and services to purchasers, resulting in disruptions to our ongoing business and distraction of management. Any losses due to our divestments of businesses or disposal of assets could adversely affect our financial performance and may affect the market price of our shares and ADSs.

The loss of any key management personnel or the undue distraction of any such personnel may disrupt our business.

Our success depends on the continued services of key senior management, including our Chairman and President. If any legal proceedings are brought against our senior management in the future, these proceedings may divert such senior management's attention from our business operations. Our reputation may also be harmed as a result of any negative publicity associated with these charges or otherwise.

Although our talent development committee, a high-level committee that comprises the Chairman, President and other senior executives, convenes quarterly to review our mid and long-term strategic positioning for talent acquisition, organizational risk indicators and development of our senior managers, there can be no assurance that we will not lose the services of key senior management personnel. If we are not able to find suitable replacements or integrate replacement personnel in a timely manner or at all, our business operations will suffer material harm. In addition, our

continuing growth will, to a large extent, depend on the attention of key management personnel to our day-to-day affairs. If any of our key management personnel is unable to devote enough time to our company, our operations may be affected adversely. We do not carry key person life insurance for any of our senior management personnel.

If we are not able to attract and retain skilled technical personnel, including research and development and other personnel, our operations and planned growth would be affected adversely.

Our success depends on our ability to attract and retain skilled employees, particularly engineering and technical personnel in the research and development and manufacturing processing areas. We also have established a professional on-the-job training program for employees. Without a sufficient number of skilled employees, our operations and production quality could suffer. Competition for qualified technical personnel and operators in Taiwan and many other places where we operate is intense and the replacement of skilled employees is difficult. We may encounter this problem in the future, as we require an increased number of skilled employees for any expansion we may choose to undertake if market demand arises. If we are unable to attract and retain our technical personnel and other employees, this may adversely affect our business and our operating efficiency may deteriorate.

Table of Contents

Potential conflicts of interest with our affiliates may cause us to lose opportunities to expand and improve our operations.

We face potential conflicts of interest with our affiliates, such as Qisda Corporation (“Qisda”) and its subsidiaries, including BenQ Corporation. Qisda is our largest shareholder, owning directly 6.9% of our outstanding shares as of February 28, 2019 and is also one of our large customers. Qisda and its subsidiaries accounted for approximately 3.9%, 3.5% and 3.9% of our net revenue in 2016, 2017 and 2018, respectively. Qisda and its subsidiaries’ substantial interest in our company may lead to conflicts of interest affecting our sales decisions or allocations. In addition, as of February 28, 2019, one of our nine directors is a representative of Qisda. Mr. Peter Chen is the Chairman and President of Qisda. Furthermore, Mr. Kuen-Yao (K.Y.) Lee, our former Chairman, is also the Honorary Chairman of Qisda and Chairman of BenQ Corporation. See “Item 6. Directors, Senior Management and Employees—6.A. Directors and Senior Management.” As a result, conflicts of interest between their duties to Qisda and/or its subsidiaries and us may arise. We cannot assure you that when conflicts of interest arise with respect to representatives of Qisda and/or its subsidiaries, the conflicts of interest will be resolved in our favor. These conflicts may result in lost corporate opportunities, including opportunities that are never brought to our attention, or actions that may prevent us from taking advantage of opportunities to expand and improve our operations.

If we fail to maintain an effective system of internal controls, we may not be able to report accurately our financial results or prevent fraud.

The SEC, as required by Section 404 of the Sarbanes-Oxley Act of 2002, adopted rules requiring every public company to include a management report on such company’s internal controls over financial reporting in its annual report, which contains management’s assessment of the effectiveness of the company’s internal controls over financial reporting. In addition, an independent registered public accounting firm must report on the effectiveness of the company’s internal controls over financial reporting unless the company is exempt from such requirement. Our management may conclude that our internal controls over our financial reporting are not effective. Moreover, even if our management concludes that our internal controls over financial reporting are effective, our independent registered public accounting firm may conclude that our internal controls over financial reporting are not effective. Furthermore, during the course of the evaluation, documentation and attestation, we may identify deficiencies that we may not be able to remedy in a timely manner. If we fail to achieve and maintain the adequacy of our internal controls, we may not be able to conclude that we have effective internal controls, on an ongoing basis, over financial reporting in accordance with the Sarbanes-Oxley Act of 2002. Moreover, effective internal controls are necessary for us to produce reliable financial reports and are important to help prevent fraud. As a result, our failure to achieve and maintain effective internal controls over financial reporting could result in the loss of investor confidence in the reliability of our financial statements, which in turn could harm our business and negatively impact the trading price of our ADSs.

Our planned international expansion poses additional risks and could fail, which could cost us valuable resources and adversely affect our results of operations.

To meet our clients' requirements, we have expanded our operations internationally, which has led to operations across many countries. For example, we have established a 6-generation LTPS fab in Kunshan, PRC in November 2016 to produce LTPS panels for high-end applications to provide services to our customers in China and other regions. If a suitable opportunity or condition arises, we may continue to expand into new geographic areas. We intend to run our operations in compliance with local regulations, such as tax, civil, environmental and other laws in conjunction with our business activities in each country where we may have a presence or operations. However, there are inherent legal, financial and operational risks involved in having international operations. We may encounter different challenges due to differences in local market conditions, culture, government policies, regulations and taxation. In addition, we may also face established competitors with stronger local experience, more familiar with the local regulations, practices and better relationship with local suppliers, contractors and purchasers. We cannot assure you that we will be able to develop successfully and expand our international operations or we will be able to overcome the significant obstacles and risks of international operations. If our international expansion plans are unsuccessful or do not deliver an appropriate return on our investments, our results of operations, financial condition and future prospects could be materially and adversely affected.

Table of Contents

Regulations related to conflict minerals could adversely affect our business, financial condition and results of operations.

The Dodd-Frank Wall Street Reform and Consumer Protection Act contains provisions to improve transparency and accountability concerning the supply of certain minerals, known as conflict minerals, which are defined as cassiterite, columbite-tantalite, gold, wolframite or their derivatives and other minerals determined by the U.S. government to be financing conflict in the Democratic Republic of Congo and adjoining countries. As a result, in August 2012, the SEC adopted annual disclosure and reporting requirements for those companies who use conflict minerals in their products. These requirements require companies that manufacture or contract to manufacture products for which conflict minerals are necessary to the functionality or production to begin scrutinizing the origin of conflict minerals in their products starting from January 1, 2013, and file Form SD, containing the conflict minerals disclosure for the prior calendar year, beginning May 31, 2014. We may be subject to the new disclosure requirements related to the conflict minerals. There will be costs associated with complying with these disclosure requirements, including costs for diligence to determine the sources of conflict minerals used in our products and other potential changes to products, processes or sources of supply as a consequence of such verification activities. The implementation of these rules could adversely affect the sourcing, supply and pricing of materials used in our products. As there may be only a limited number of suppliers offering “conflict free” minerals, we cannot be sure that we will be able to obtain necessary “conflict free” minerals from such suppliers in sufficient quantities or at competitive prices. Also, we may face adverse effects to our reputation if we determine that certain of our products contain minerals to be not conflict free or if we are unable to sufficiently verify the origins for all conflict minerals used in our products through the procedures we may implement.

A cybersecurity breach could interfere with our business operations, compromise confidential information, adversely impact our business reputation and operating results and potentially lead to litigation and other liabilities.

Cybersecurity threats continue to expand and evolve globally. While we actively take measures to manage information technology security risks, there can be no assurance that these measures will be sufficient to mitigate all potential risks to our system, networks and data. Cybersecurity is an integral part of our risk management program. Our cybersecurity response system involves a risk evaluation mechanism that categorizes and escalates different levels of cybersecurity risks towards different countermeasures. In general, our cybersecurity protocols react against lower-level cybersecurity risks within 24 hours and react against higher-level cybersecurity risks within 8 hours.

A failure or breach in our cybersecurity response system could expose us and our customers, vendors and suppliers to risks of unauthorized access to information technology systems, misuse and compromise of confidential information, manipulation and destruction of data. These occurrences may result in the disruption of our business operations and adversely affect our business reputation, market leadership, financial condition and results of operations. Cybersecurity breaches could also involve us in litigation with third parties, regulatory scrutiny and increase our costs from having to implement additional data protection measures.

Risks Relating to Manufacturing

Our manufacturing processes are highly complex, costly and potentially vulnerable to disruptions that can significantly increase our production costs and delay product shipments to our customers.

Our manufacturing processes are highly complex, require advanced and costly equipment and are modified periodically to improve manufacturing yields and production efficiency. We face the risk of production difficulties from time to time that could cause delivery delays and reduced production yields. These production difficulties include capacity constraints, construction delays, difficulties in upgrading or expanding existing facilities, difficulties in changing our manufacturing technology and delays in the delivery or relocation of specialized equipment. We may encounter these difficulties in connection with the adoption of new manufacturing process technologies. We cannot assure you that we will be able to develop and expand our fabs without equipment delays or difficulties, or that we will not encounter manufacturing difficulties in the future.

Table of Contents

If we are unable to obtain raw materials and components in suitable quantity and quality from our suppliers, our production schedules would be delayed and we may lose substantial customers.

Raw materials and component costs represent a substantial portion of our cost of goods sold. We must obtain sufficient quantities of raw materials and components of the right quality at acceptable prices and in a timely manner. We source most of our raw materials and components, including critical materials like glass substrates, liquid crystals, color filters, polarizers and driver ICs from a limited group of suppliers, both foreign and domestic. Our operations would be affected adversely if we could not obtain raw materials and components in sufficient quantity and quality at acceptable prices. We may also experience difficulties in sourcing adequate supplies for our operations if there is a ramp-up of production capacity by display panel manufacturers, including our company, without a corresponding increase in the supply of raw materials and components. Further, our suppliers may also face shortage in supply of their key raw materials. The impact of any shortage in raw materials and components will be magnified as we establish new fabs and/or continue to increase our production capacity.

We depend on supplies of certain principal raw materials and components mainly from suppliers with production in certain jurisdictions, such as Taiwan, Japan and Korea. We cannot assure you that we will be able to obtain sufficient quantities of raw materials, components and other supplies of an acceptable quality in the future. Our inability to obtain raw materials and components of the right quality in a timely and cost-effective manner or our suppliers' failure in obtaining their raw materials may cause us to delay our production and delivery schedules, which may result in the loss of our customers and revenues.

If we are unable to obtain equipment and services from our suppliers, we may be forced to delay our planned growth.

We have purchased, and expect to purchase, a substantial portion of our equipment from foreign suppliers for our new capacity and advanced technology fabs. These foreign suppliers also provide assembly, testing and/or maintenance services for our purchased equipment. From time to time, increased demand for new equipment may cause lead time to extend beyond those normally required by equipment vendors. For example, in the past, increased demand for equipment caused some equipment suppliers to satisfy only partially our equipment orders in the normal time frame. The unavailability of equipment, delays in the delivery of equipment or the delivery of equipment that does not meet our specifications could delay implementation of our planned growth and impair our ability to meet customer orders. Furthermore, if our equipment vendors are unable to provide assembly, testing and/or maintenance services in a timely manner for any reasons, our planned growth may be adversely affected. In addition, the availability or the timely supply of equipment and services from our suppliers and vendors also could be affected by factors such as natural disasters. We may have to use assembly, testing and/or maintenance service providers with which we have no established relationship, which could expose us to potentially unfavorable pricing, unsatisfactory quality or insufficient capacity allocation. As a result of these risks, we may be unable to implement our planned growth on schedule or in line with customer expectations and our business may be materially and adversely affected.

If we are unable to manufacture successfully our products within the acceptable range of quality, our results of operations could be affected adversely.

Display panel manufacturing processes are complex and involve a number of precise steps. Defective production can result from a number of factors, including but not limited to:

- the level of contaminants in the manufacturing environment;
- human error;
- equipment malfunction;
- use of substandard raw materials and components; and
- inadequate sample testing.

Table of Contents

From time to time, we have experienced, and may in the future experience, lower than anticipated production yields as a result of the above factors, particularly in connection with the expansion of our capacity or change in our manufacturing processes. We remediate our customers mainly through repairing or replacing the defective products or refunding the purchase price relating to defective products if they are within the warranty period. We recognize a provision for warranty obligations based on the estimated costs that we expect to incur under our basic limited warranty for our products, which includes the provision of replacement parts and after-sale service for our products. The warranty provision is largely based on historical and anticipated rates of warranty claims, and therefore we cannot provide assurance that the provision would be sufficient to cover any surge in future warranty expenses that significantly exceed historical and anticipated rates of warranty claims. In addition, our production yield on new products will be lower than average as we develop the necessary expertise and experience to produce those products. If we fail to maintain high production yields and high-quality production standards, our reputation may suffer and our customers may cancel their orders or return our panels for rework, which could affect adversely our results of operations.

Climate change, other environmental concerns and green initiatives also present other commercial challenges, economic risks and physical risks that could harm our results of operations or affect the manner in which we conduct our business.

There is increasing concern that climate change is occurring and may affect adversely commercial activity. Public expectations for reductions in greenhouse gas emissions could result in increased energy, transportation and raw material costs. Scientific examination of, political attention to and regulations on issues surrounding the existence and extent of climate change may raise our cost of production through the increase in the price of energy and additional levy of energy or carbon tax. Various regulations that focus on restricting or managing emissions of carbon dioxide, methane and other greenhouse gases have recently been adopted by many countries. These regulatory and legislative developments could negatively affect our commercial operations. For example, emission-reporting obligations in newly enacted environmental regulations in ROC could increase our compliance costs and insurance premiums, which may adversely affect our results of operation and financial condition.

Furthermore, energy costs in general could increase significantly due to climate change regulations and raise the cost for purchasing emission credits, new equipment or raw materials. Our energy costs may subsequently increase if utility or power companies and suppliers pass on their costs, fully or partially, to us through these indirect channels such as carbon taxation, emission cap and carbon credit trading programs.

In addition, droughts, floods and extreme weather conditions including rising sea levels could occur with more frequency due to climate change. Power outages or unstable power supply caused by extreme weather conditions could have negative long-term effects on our supply chain. As our operations depend upon adequate supplies of water, extended or serious droughts may diminish our production capacity.

If we violate environmental regulations, we may be subject to fines or restrictions that could cause our operations to be delayed or interrupted and our business to suffer.

Our operations can expose us to the risk of environmental claims which could result in damages awarded or fines imposed against us. We must comply with regulations relating to storage, handling, generation, treatment, emission, release, discharge and disposal of certain materials and wastes resulting from our manufacturing processes. See “Item 4. Information on the Company—4.B. Business Overview—Environmental Matters.” In the past, we incurred small fines for failure to meet certain effluent standards and air pollution control regulations. Future changes to existing environmental regulations or unknown contamination of our sites, including contamination by prior owners and operators of our sites, may give rise to additional compliance costs or potential exposure to liability for environmental claims that may seriously affect our business, financial condition and results of operations. In addition, we may face possible disruptions in our manufacturing and production facilities caused by environmental activists, which may affect adversely our business operations.

Table of Contents

If we violate labor regulations, we may be subject to fines or restrictions that could have an adverse effect on our business, financial condition and results of operations.

We must comply with the various labor regulations in the jurisdictions in which we operate. The cost of compliance with such regulations may increase as regulations change or new regulations are adopted. For instance, China has been experiencing rapid changes in its labor policies and it is uncertain how any such changes in China as well as other jurisdictions will impact our current employment policies and practices. Our employment policies and practices may violate current or future laws and we may be subject to related penalties, fines or legal fees. In addition, compliance with any new labor regulations may increase our operating expenses as we may incur substantial administrative and staffing cost.

Risks Relating to Our Technologies and Intellectual Property

If we cannot successfully introduce, develop or acquire advanced technologies, our profitability may suffer.

Technology and industry standards in the display panel industry evolve quickly, resulting in steep price declines in the advanced stages of a product's life cycle. To remain competitive, we must develop or acquire advanced manufacturing process technologies and build advanced technology fabs to lower production costs and enable the timely release of new products. In addition, we expect to utilize more advanced display technologies, such as UHD 4K (3840 x 2160 pixel), curved display, OLED, quantum dot wide color gamut, High Dynamic Range ("HDR"), bezel-less, touch, 8K4K (7680 x 4320 pixel), Mini LED, Micro LED and other technologies, to develop new products. Our ability to manufacture products by utilizing more advanced manufacturing process technologies to increase production efficiency will be critical to our sustained competitiveness. We may undertake in the future a number of significant capital expenditures for advanced technology fabs and new capacity subject to market demand and our overall business strategy. See "Item 5. Operating and Financial Review and Prospects—5.B. Liquidity and Capital Resources." However, we cannot assure you that we will be successful in completing our planned growth or in the development of other future technologies for our fabs, or that we will be able to complete them without material delays or at the expected costs. If we fail to do so, our results of operations and financial condition may be materially and adversely affected. We also cannot assure you that there will be no material delays in connection with our efforts to develop new technology and manufacture more technologically advanced products. If we fail to develop or make advancements in product technologies or manufacturing process technologies on a timely basis, we may become less competitive.

Other flat panel display technologies or alternative display technologies could render our products uncompetitive.

We currently manufacture products primarily using TFT-LCD technology, which is currently one of the most commonly used flat panel display technologies. We may face competition from flat panel display manufacturers utilizing alternative flat panel technologies, such as OLED. OLED technology is currently at various stages of

development and production by us and other display panel makers. OLED technologies may, in the future, gain wider market acceptance than TFT-LCD technology for application in certain consumer products, such as televisions, mobile phones, tablets and wearable devices. Failure to further refine our OLED technology or any other alternative display technology could render our products uncompetitive or obsolete, which in turn could cause our sales and revenues to decline. Moreover, if the various alternative flat panel technologies currently commercially available or in the research and development stage are developed to have better performance-to-price ratios and begin mass production, such technologies may pose a great challenge to TFT-LCD technology. Even though we seek to remain competitive through research and development of flat panel technologies, we may invest in research and development in certain technologies that do not come to fruition.

Table of Contents

If we lose the support of our technology partners or the legal rights to use our licensed manufacturing process or product technologies, our business may suffer.

Enhancing our manufacturing process and product technologies is critical to our ability to provide high-quality products to our customers at competitive prices. We intend to continue to advance our manufacturing process and product technologies through internal research and development and licensing from other companies. We currently have certain licensing arrangements with certain companies for product and manufacturing process technologies related to the production of certain products, including certain display panels. See “Item 4. Information on The Company—4.B. Business Overview—Intellectual Property—License Agreements.” If we are unable to renew our technology licensing arrangements with some or all of these companies on mutually beneficial economic terms, we may lose the legal right to use certain of the processes and designs which we may have employed to manufacture our products. Similarly, if we cannot license or otherwise acquire or develop new manufacturing process and product technologies that are critical to the development of our business or products, we may lose important customers because we are unable to continue providing our customers with products based on advanced manufacturing process and product technologies.

We have entered into patent and intellectual property license or cross-license agreements, some of which require periodic royalty payments. In the future, we may need to obtain additional patent licenses or renew existing license agreements. We cannot assure you that these license agreements can be obtained or renewed on acceptable terms, if at all. If these license agreements are not obtained or renewed on acceptable terms or at all, our business and future results of operations may be affected materially and adversely.

Disputes over intellectual property rights could be costly and deprive us of the technology to stay competitive.

As technology is an integral part of our manufacturing process and product, we have, in the past, received communications alleging that our products or processes infringe product or manufacturing process technology rights held by others, and expect to continue to receive such communications. We are involved in intellectual property disputes with third parties. There is no means of knowing all of the patent applications that have been filed in the United States or elsewhere and whether, if the applications are granted, such patents would have a material adverse effect on our business. If any third party were to make valid intellectual property infringement claims against our customers or us, we may be required to:

- discontinue using disputed manufacturing process technologies;
- pay substantial monetary damages;
- seek to develop non-infringing technologies, which may not be feasible;

stop shipment to certain areas; and/or

seek to acquire licenses for certain technology, which may not be available on commercially reasonable terms, if at all.

If our products or manufacturing processes are found to infringe third-party rights, we may be subject to significant liabilities and/or be required to change our manufacturing processes or products. Disputes over intellectual property rights could restrict us from making, using, selling or exporting some of our products, which in turn could affect materially and adversely our business and financial condition. In addition, any litigation, whether to enforce our patents or other intellectual property rights or to defend ourselves against claims that we have infringed the intellectual property rights of others, could affect materially and adversely our results of operations because of the management attention required and legal costs incurred. For detailed information regarding legal disputes we are involved in, please refer to “Item 8.A.7. Litigation.”

Table of Contents

Our ability to compete will be harmed if we are unable to protect adequately our intellectual property.

We believe that the protection of our intellectual property rights is, and will continue to be, important to the success of our business. We rely primarily on a combination of patent, trademark, trade secret and copyright law and contractual restrictions to protect our intellectual property. These afford only limited protection. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to obtain, copy or use information that we regard as proprietary, such as product design and manufacturing process expertise. Although we have patent applications pending, our pending patent applications and any future applications may not result in issued patents or may not be broad enough to protect our proprietary technologies. Moreover, policing any unauthorized use of our products is difficult and costly, and we cannot be certain that the measures we have implemented will prevent misappropriation or unauthorized use of our technologies, particularly in foreign jurisdictions where the laws may not protect our proprietary rights as fully as the laws of the United States. Others independently may develop substantially equivalent intellectual property or otherwise gain access to our trade secrets or intellectual property. Our failure to protect effectively our intellectual property could harm our business.

Our rapid introduction of new technologies and products may increase the likelihood that third parties will assert claims that our products infringe upon their proprietary rights.

Although we take and will continue to take steps to endeavor that our new products do not infringe upon valid third-party rights, the rapid technological changes that characterize our industry require that we quickly implement new processes and components with respect to our products. Often with respect to recently developed processes and components, a degree of uncertainty exists as to who may rightfully claim ownership rights in such processes and components. Uncertainty of this type increases the risk that claims alleging that such components or processes infringe upon third-party rights may be brought against us. If our products or manufacturing processes are found to infringe upon third-party rights, we may be subject to significant liabilities and be required to change our manufacturing processes or be prohibited from manufacturing certain products, which could have a material adverse effect on our operations and financial condition.

We rely upon trade secrets and other unpatented proprietary know-how to maintain our competitive position in the industry and any loss of our rights to, or unauthorized disclosure of, our trade secrets or other unpatented proprietary know-how could affect adversely our business.

We rely upon trade secrets, unpatented proprietary know-how and information, as well as continuing technological innovation in our business. The information we rely upon includes price forecasts, core technology and key customer information. Our current standard employment agreement with our employees contains a confidentiality provision which generally provides that all inventions, ideas, discoveries, improvements and copyrightable material made or conceived by the individual arising out of the employment relationship and all confidential information developed or made known to the individual during the term of the relationship is our exclusive property. We cannot assure the enforceability of these types of agreements, or that they will not be breached. We also cannot be certain that we will

have adequate remedies for any breach. The disclosure of our trade secrets or other know-how as a result of such a breach could adversely affect our business. Also, our competitors may come to know about or determine our trade secrets and other proprietary information through a variety of methods. Disputes may arise concerning the ownership of intellectual property or the applicability or enforceability of the relevant agreements and there can be no assurance that any such disputes would be resolved in our favor. Furthermore, others may acquire or independently develop similar technology, or if patents are not issued with respect to products arising from research, we may not be able to maintain information pertinent to such research as proprietary technology or trade secrets and that could have an adverse effect on our competitive position within the industry.

Table of Contents

Political, Geographical and Economic Risks

A slowdown in the global economy could affect materially and adversely our business, results of operations and financial condition.

A slowdown in the global economy could adversely affect the market demand and result in a negative impact on electronic products sales from which we generate our income. A global economic downturn could also lead to a slowdown in our business, with side effects including significant decreases in orders from our customers, insolvency of key suppliers resulting in raw material constraints and product delays, inability of customers to obtain credit to finance purchases of our products and/or customer insolvencies and counterparty failures negatively impacting our operations. Because of such factors, we believe the level of demand for our products and projections of future revenue and operating results will be difficult to predict. If any economic downturn occurs in the future, our business, results of operations and financial condition may be affected materially and adversely.

We and many of our customers and suppliers are vulnerable to natural disasters and other events outside of our control, which may seriously disrupt our operations.

Most of our existing manufacturing operations, and the operations of many of our customers and suppliers, are located in areas including Taiwan, the PRC, Japan, Singapore and Korea. Some locations are vulnerable to natural disasters, such as earthquakes and typhoons. We cannot assure you that the natural disasters will not happen and will not have adverse impact on our operations in the future. Any disruption of operations at our fabs or the facilities of our customers and suppliers for any reason, including earthquakes, typhoons or other natural disasters, work stoppages, power outages, water supply shortages and fire, etc. could cause delays or disrupt in production and shipments of our products and raw materials. Any delays or disruptions could result in our customers seeking to source our products from other manufacturers. In addition, shortages or suspension of power supplies have occurred occasionally, and have disrupted our operations. The occurrence of a power outage or voltage sags in the future could seriously hurt our business. Besides, our manufacturing processes require a substantial amount of water. Although currently a significant portion of the water used in our production process is recycled in Taiwan, our production operations may be seriously disrupted by water shortages. We may encounter droughts in Taiwan and the PRC in the future, where most of our current or future manufacturing sites are located. If another drought were to occur and we or the authorities were unable to source water from alternative sources in sufficient quantity, we may be required to shut down temporarily or substantially reduce the operations of these fabs, which would affect seriously our operations. In addition, even if we were able to source water from alternative sources, our reliance on supplemental water supplies would increase our operating costs. Furthermore, the disruption of operations at our customers' facilities could lead to reduced demand for our products. The occurrence of any of these events in the future could affect adversely our business.

We have made investments in, and are exploring the possibility of expanding our businesses and operations to, or making additional investments in, the PRC, which may expose us to additional social, political, regulatory and economic risks with respect to our investments and business operations in the PRC.

We have established subsidiaries in the PRC. Depending on our business needs, we may further expand or adjust our business operations in the PRC in the future.

However, in recent years, China has experienced rapid social, political and economic changes which have led to extensive environmental regulations, rising wages and a growing shortage of blue-collar workers. Environmental regulations, rising wages as well as a shortage of labor in China may increase our overall cost of production, cause delays in production and could have a material adverse effect on our results of operations. In addition, the interpretation of PRC laws and regulations involves uncertainties.

Table of Contents

Furthermore, since mid-2018, increased political tensions between the United States and the PRC have escalated into a trade war; if political tension continues to rise and United States tariffs continue to increase on PRC-sourced goods, the tariff war may negatively affect our business operations in the PRC. At this time, we do not know what actions, if any, the PRC government might take in response to the trade war, nor can we predict whether changes in the PRC's political, economic and social conditions, laws, regulations and policies will have any adverse effect on our current or future investments and operations in the PRC. Therefore, we cannot assure you that changes in such laws and regulations, or in their interpretation and enforcement, will not have a material adverse effect on our investments, businesses and operations in the PRC.

The current restrictions imposed by the ROC government on investments in certain related businesses may limit our ability to compete with other display panel manufacturers that are permitted to establish display panel production operations in the PRC.

The ROC government imposes restrictions on investments made by Taiwan companies in the PRC, including but not limited to investments that relate to TFT-LCD manufacturing technology in the PRC. These restrictions limit our investment capacity in the PRC and may disadvantage us compared to other display panel manufacturers that are less restricted by their domestic regulators.

Recently, the ROC government has alleviated some of the relevant regulatory restrictions by offering exemptions, such as making certain investments in and conducting research for the next generation of display panel technology in Taiwan, to allow Taiwan-based TFT-LCD manufacturers to apply to the Investment Commission of Ministry of Economic Affairs ("MOEAIC") for investing up to three 6-generation or more advanced TFT-LCD manufacturing fabs in the PRC if these TFT-LCD manufacturers use the same or higher generation manufacturing technology in Taiwan. In addition, the MOEAIC now also permits Taiwan-based TFT-LCD manufacturers to make equity investments or conduct mergers with PRC-based companies.

Many of our customers and competitors have expanded their businesses and operations to the PRC. To capture the growth trajectory of the PRC market and the lower production costs in the PRC, we started to invest in the PRC in 2002 with the establishment of a module-assembly facility. During the past few years, our investment and commercial presence in the PRC has significantly increased. As of December 31, 2018, we have 18 subsidiaries incorporated in the PRC. For further information of our PRC investments, see "Item 4. Information on the Company—4.C. Organizational Structure."

Since some investment restrictions imposed by the ROC government are currently still effective, we cannot assure you that any of our future applications to the MOEAIC to make further investments in the PRC will be successful or timely approved. And as we do not know when or whether any of the ROC laws that govern the remaining investment restrictions in the PRC will be amended or repealed, we cannot assure you that future amendments to relevant ROC laws will enhance or hinder our capacity to invest in our commercial operations in the PRC; if amendments to relevant ROC laws impose further limitations on investing in the PRC, our business prospects may be materially and adversely

affected.

If we fail to overcome the duty barrier, our revenue will be materially affected.

There are some trade tensions in the international solar market, especially in the United States, where we are undertaking efforts to avoid or alleviate the impacts from the present and foreseeable anti-dumping duty (“AD”), and countervailing duty (“CVD”) proceedings. However, we cannot guarantee that these efforts will be successful due to potential policy changes or other changes in the activities and practices of the various national trade authorities responsible for AD and CVD enforcement. Any material adverse change in trade policies and/or our failure to overcome any duty barrier could have a material adverse impact on our business and results of operation.

We may not be able to obtain or renew all licenses, approvals or permits necessary for our current and future operations.

Our current and future operations in Taiwan and other regions require a number of regulatory licenses, approvals and permits. We cannot assure you that we will be able to obtain licenses, approvals or permits necessary for our operations in these regions, or that upon the expiration of our existing licenses, approvals or permits, we will be able to successfully renew them.

Table of Contents

In addition, if the relevant authorities enact new regulations, we cannot assure you that we will be able to meet successfully such requirements. If we fail to obtain or renew the necessary regulatory licenses, approvals or permits, we may have to cease construction or operation of the relevant projects, be subject to fines, or face other penalties, which could have a material adverse effect on our business, financial condition and results of operations. Even if we already obtained the licenses, approvals and permits, there could be parties or interest groups with different views who may take actions against the renewal of such licenses, approvals and permits, which may have an adverse effect on our business operations. For example, there have been environmental proceedings relating to the development project of the Central Taiwan Science Park in Houli, Taichung, where our second 8.5-generation fab is located. See “Item 8. Financial Information—Item 8.A.7. Litigation.”

If economic conditions in Taiwan change drastically or there are disruptions in Taiwan’s political environment, our current business, future growth and market price of our shares could be affected materially and adversely.

Most of our assets and operations are located in Taiwan and approximately 32.3% of our net revenue was derived from customers in Taiwan in 2018. Therefore, our business, financial condition and results of operations may be affected by changes in ROC government policies, taxation, inflation, interest rates and general economic conditions in Taiwan, as well as the global economies.

Our business and financial condition may also be affected by changes in local governmental policies and political and social instability. Taiwan has a unique international political status. The PRC government asserts sovereignty over mainland China and Taiwan and does not recognize the legitimacy of the government of the ROC. The PRC government has indicated that it may use military force to gain control over Taiwan if Taiwan declares independence or if Taiwan refuses to accept the PRC’s stated “One China” policy. In addition, on March 14, 2005, the National Peoples’ Congress of the PRC passed what is widely referred to as the “anti-secession” law, a law authorizing the PRC military to respond to efforts by Taiwan to seek formal independence. An increase in tensions between the ROC and the PRC and the possibility of instability and uncertainty could adversely affect the prices of our ADSs and our shares. It is unclear what effects any of the events described above may have on relations with the PRC. Relations between Taiwan and the PRC and other factors affecting Taiwan’s political environment could affect our business.

The market value of our ADSs may fluctuate due to the volatility of the ROC securities market.

The trading price of our ADSs may be affected by the trading price of our shares on the Taiwan Stock Exchange. The Taiwan Stock Exchange is smaller and more volatile than the securities markets in the United States and a number of stock exchanges in Europe. The Taiwan Stock Exchange has experienced substantial fluctuations in the prices and volumes of trading of securities, and there are currently limits on the range of daily price fluctuations on the Taiwan Stock Exchange. During the period from January 1, 2018 to December 31, 2018, the Taiwan Stock Exchange Index peaked at 11,253.11 on January 23, 2018, and reached a low of 9,478.99 on December 26, 2018. Over the same period, daily closing values of our shares ranged from NT\$11.3 per share to NT\$14.3 per share. On March 12, 2019, the Taiwan Stock Exchange Index closed at 10,343.33, and the closing value of our shares was NT\$11.65 per share.

The Taiwan Stock Exchange is particularly volatile during times of political instability, including when relations between the ROC and the PRC are strained. Several investment funds affiliated with the ROC government have also from time to time purchased securities from the Taiwan Stock Exchange to support the trading level of the Taiwan Stock Exchange. Moreover, the Taiwan Stock Exchange has experienced problems, including market manipulation, insider trading and settlement defaults. The recurrence of these or similar problems could have an adverse effect on the market price and liquidity of our shares and ADSs.

Table of Contents

If the NT dollar or other currencies in which our sales, raw materials and components, capital expenditures and certain assets are denominated fluctuate significantly against the U.S. dollar, the Japanese yen or the Renminbi, our financial condition and results of operation may be affected seriously.

We have significant foreign currency exposure and are affected by fluctuations in exchange rates among the U.S. dollar, the Japanese yen, the NT dollar, the Renminbi and other currencies. Our sales, raw materials and components, capital expenditures and certain assets are denominated mainly in U.S. dollars, Japanese yen, NT dollars and Renminbi in varying amounts. For example, in 2018, approximately 93.0% of our net revenue was denominated in U.S. dollars. During the same period, approximately 70.0%, 14.8% and 12.3% of our raw materials and component costs were denominated in U.S. dollars, Japanese yen and NT dollars, respectively. In addition, in 2018, approximately 28.2%, 46.3%, 17.0% and 7.8% of our total capital expenditures (principally for the purchase of equipment) were denominated in Japanese yen, NT dollars, U.S. dollars and Renminbi, respectively. Also, results of operation of our foreign subsidiaries are accounted for in foreign currencies before their consolidation into our financial result. During periods of weakening foreign currencies, the value of certain assets of our foreign subsidiaries could be substantially reduced in NT dollars. Although from time to time, we enter into forward foreign currency contracts to hedge our foreign currency exposure, we may not be able to hedge all of the exposure, including foreign exchange exposure relating to the value of our foreign currency-denominated assets. We cannot assure you that we will fully minimize the risk against exchange rate fluctuations and the impact on our financial condition and results of operations.

Disruptions in the international trading environment and changing international trade regulation may seriously decrease our international sales.

A majority of our net revenue is derived from sales to customers located outside of Taiwan. In 2016, 2017 and 2018, sales to our overseas customers accounted for approximately 68.4%, 68.2% and 67.7%, respectively, of our net revenue. In addition, a significant portion of our sales to customers in Taiwan and PRC is made to major brand customers or their procurement entities located in Taiwan and the PRC. We expect sales to customers outside of Taiwan to continue to represent a significant portion of our net revenue. As a result, our business will continue to be vulnerable to disruptions in the international trading environment, including those caused by adverse changes in foreign government regulations, political unrest, international economic downturns, terrorist attacks and military unrest. These disruptions in the international trading environment may affect the demand for our products and change the terms upon which we sell our products overseas, which could seriously decrease our international sales.

In addition, our ability to compete effectively could be materially and adversely affected by a number of factors relating to international trade regulation. Higher tariffs, duties or our failure to comply with trade regulations could restrict our ability to export products or compete effectively with our competitors, resulting in a decrease in our international sales. For example, the display panel industry in Taiwan may be negatively impacted by the China-South Korea Free Trade Agreement (the “FTA”) effective in December 2015, under which tariff reduction covers several areas of trade including display panels and polarizer products. However, the FTA is likely not to have an immediate significant effect on us as the tariff reduction for panel products commences from the ninth year after the FTA took effect.

Currently, the United States is undergoing political changes, which have created uncertainties for future United States trade policy developments. The U.S. administration has also shown inclinations to withdraw the United States from the World Trade Organization, which can lead to greater economic instability. Since mid-2018, political tensions have increased between the United States and the PRC and have escalated into a tariff war; this may negatively affect our business operations in the U.S and the PRC. At this time, it remains unclear what actions, if any, the U.S. administration will take with respect to other existing international trade agreements. If the United States were to withdraw from or materially modify certain international trade agreements to which it is a party, or if tariffs continue to be raised on foreign-sourced goods imported to the United States, our United States customers may seek new suppliers in the United States or other countries, and our business, financial condition and results of operations could be materially and adversely affected.

Table of Contents

We face risks related to health epidemics and outbreaks of contagious disease.

In the recent years, there have been reports of outbreaks of highly pathogenic diseases in Asia and other parts of the world. The outbreak of such contagious diseases in the human population could result in a widespread health crisis that could adversely affect the economies and financial markets of many countries. Since most of our operations and customers and suppliers are based in Asia (mainly Taiwan and PRC), an outbreak of contagious diseases in Asia or elsewhere, or the perception that such an outbreak could occur, and the measures taken by the governments of countries affected, including the ROC and the PRC, could adversely affect our business, financial condition or results of operations.

Risks Related to Our ADSs and Our Trading Market

The market value of our ADSs may fluctuate due to the volatility of the securities markets.

The securities markets in the United States and other countries have experienced significant price and volume fluctuations. Volatility in the price of our ADSs may be caused by factors beyond our control and may be unrelated to, or disproportionate to changes in, our results of operations. In the past, following periods of volatility in the market price of a public company's securities, securities class action litigation has been instituted against that company. Litigation of this kind could result in substantial costs and a diversion of our management's attention and resources.

Restrictions on the ability to deposit shares into our ADS facility may adversely affect the liquidity and price of our ADSs.

The ability to deposit shares into our ADS facility is restricted by ROC law. A significant number of withdrawals of shares underlying our ADSs would reduce the liquidity of our ADSs by reducing the number of ADSs outstanding. As a result, the prevailing market price of our ADSs may differ from the prevailing market price of our shares on the Taiwan Stock Exchange. Under current ROC law, no person or entity, including you and us, may deposit its shares in our ADS facility without specific approval of the Financial Supervisory Commission of the Republic of China (the "FSC"), unless:

- (1) we pay stock dividends on our shares;
- (2) we make a free distribution of shares;

(3) ADS holders exercise preemptive rights in the event of capital increases for cash; or

investors purchase our shares, directly or through the depositary, on the Taiwan Stock Exchange, and deliver our (4) shares to the custodian for deposit into our ADS facility, or our existing shareholders deliver our shares to the custodian for deposit into our ADS facility.

With respect to (4) above, the depositary may issue ADSs against the deposit of those shares only if the total number of ADSs outstanding following the deposit will not exceed the number of ADSs previously approved by the FSC, plus any ADSs issued pursuant to the events described in the subparagraph (1), (2) and (3) above. Issuance of additional ADSs under item (4) above will be permitted to the extent that previously issued ADSs have been cancelled. In addition, in the case of a deposit of our shares requested under item (4) above, the depositary will refuse to accept deposit of our shares if such deposit is not permitted under any legal, regulatory or other restrictions notified by us to the depositary from time to time, which restrictions may specify blackout periods (during which deposits may not be made), minimum and maximum amounts and frequencies of deposits.

Table of Contents

ADS holders will not have the same rights as our shareholders, which may affect the value of the ADSs.

ADS holders' rights as to the shares represented by such holders' ADSs are governed by the deposit agreement. ADS holders will not be able to exercise voting rights on an individual basis. If holders representing at least 51% of our ADSs outstanding at the relevant record date instruct the depositary to vote in the same manner regarding a resolution, including the election of directors, the depositary will cause all shares represented by the ADSs to be voted in that manner. If, at the relevant record date, the depositary does not receive instructions representing at least 51% of ADSs outstanding to vote in the same manner for any resolution, including the election of directors, ADS holders will be deemed to have instructed the depositary or its nominee to authorize all the shares represented by the ADS holders' ADSs to be voted at the discretion of our Chairman or his designee, which may not be in the ADS holders' interest. Moreover, while shareholders who own 1% or more of our outstanding shares are entitled to submit one proposal to be considered at our annual general meetings and submit a roster of candidates to be considered for nomination to our board of directors at our shareholders' meeting for the election of directors, only holders representing at least 51% or more of our ADSs outstanding at the relevant record date are entitled to submit one proposal to be considered at our annual general meetings or one nomination to our board of directors, in accordance with the deposit agreement. Hence, only one proposal or one nomination can be submitted on behalf of all ADS holders.

ADS holders' rights to participate in our rights offerings are limited, which could cause dilution to the holdings of ADS holders.

We may from time to time distribute rights to our shareholders, including rights to acquire our securities. Under the deposit agreement, the depositary will not offer ADS holders those rights unless both the distribution of the rights and the underlying securities to all our ADS holders are either registered under the Securities Act or exempt from registration under the Securities Act. Although we may be eligible to take advantage of certain exemptions under the Securities Act available to certain foreign issuers for rights offerings, we can give no assurances that we will be able to establish an exemption from registration under the Securities Act, and we are under no obligation to file a registration statement for any of these rights. Accordingly, ADS holders may be unable to participate in our rights offerings and may experience dilution with respect to their holdings.

Non-ROC holders of ADSs who withdraw our shares will be required to obtain a foreign investor investment identification and appoint a local custodian and agent and a tax guarantor in the ROC.

Under current ROC law, if you are a non-ROC person (other than a PRC person) and wish to withdraw and hold our shares from a depositary receipt facility, you will be required to obtain a foreign investor investment identification, or the Foreign Investor Investment I.D., issued in accordance with the ROC Regulations Governing Securities Investment by Overseas Chinese and Foreign Nationals (the "Investment Regulations"). You also will be required to appoint an eligible agent in the ROC to open a securities trading account and a Taiwan Depository & Clearing Corporation book-entry account and a bank account, to pay ROC taxes, remit funds, exercise shareholders' rights and perform such other functions as you may designate upon such withdrawal. In addition, you will be required to appoint

a custodian bank to hold the securities in safekeeping, make confirmation and settle trades and report all relevant information. Without obtaining such Foreign Investor Investment I.D. under the Investment Regulations and opening such accounts, the non-ROC withdrawing holder would be unable to hold or subsequently sell our shares withdrawn from the depositary receipt facility on the Taiwan Stock Exchange or otherwise. There can be no assurance that such withdrawing holder would be able to obtain the Foreign Investor Investment I.D. and open such accounts in a timely manner.

With the exception of a foreign institutional investor with a fixed place of business or business agent within the ROC, non-ROC holders of ADSs (other than a PRC person) withdrawing our shares represented by ADSs also are required under current ROC law and regulations to appoint an agent in the ROC for filing tax returns and making tax payments. Such agent must meet certain qualifications set by the ROC Ministry of Finance and, upon appointment, becomes a guarantor of such withdrawing holder's ROC tax obligations ("Tax Guarantor"). Generally, the evidence of the appointment of such agent and the approval of such appointment by the ROC tax authorities may be required as conditions to such withdrawing holder's repatriation of the profits. There can be no assurance that such withdrawing holder would be able to appoint and obtain approval for such agent in a timely manner.

Table of Contents

Also, if any non-ROC person (other than a PRC person) receives 10% or more of our total issued and outstanding shares upon a single withdrawal, such non-ROC person must obtain prior approval from the MOEAIC. There can be no assurance that such withdrawing holder would be able to obtain such approval in a timely manner.

Pursuant to the Regulations Governing Securities Investment and Futures Trading in Taiwan by Mainland Area Investors (the “Mainland Investors Regulations”), only qualified domestic institutional investors (“QDIIs”) approved by the China Securities Regulatory Commission and registered with the Taiwan Stock Exchange or Taiwan Futures Exchange are permitted to withdraw and hold our shares from a depository receipt facility. In order to hold our shares, such QDIIs are required to appoint an agent, custodian and Tax Guarantor as required by the Mainland Investors Regulations. If the aggregate amount of our shares held by any QDII or shares received by any QDII upon a single withdrawal reaches 10% or more of our total issued and outstanding shares, such QDII must obtain the prior approval from the MOEAIC. We cannot assure you that such approval would be granted.

In addition, PRC investors’ investments in our shares are subject to various restrictions; specifically, there are restrictions on the amount remitted to the ROC for investments by QDIIs, either individually or jointly. Accordingly, the qualification criteria for a PRC person to make investment and the investment threshold imposed by the ROC government might cause an ADS holder who is a PRC person to be unable to withdraw and hold our shares.

The protection of the interests of our public shareholders available under our Articles of Incorporation and the laws governing ROC corporations is different from that which applies to a U.S. corporation.

Our corporate affairs are governed by our Articles of Incorporation and by the laws governing ROC corporations. The rights and responsibilities of our shareholders and members of our board of directors under ROC Law are different from those that apply to a U.S. corporation. Directors of ROC corporations are required to conduct business faithfully and act with the care of good administrators. However, the duty of care required of a ROC corporation’s directors may not be the same as the fiduciary duty of a director of a U.S. corporation. In addition, controlling shareholders of U.S. corporations owe fiduciary duties to minority shareholders, while controlling shareholders in ROC corporations do not. The ROC Company Act also requires that a shareholder continuously hold at least 1% of our issued and outstanding shares for at least six months in order to request that our independent director institute an action against a director on the company’s behalf. Therefore, our public shareholders may have more difficulty protecting their interests against actions of our management, members of our board of directors or controlling shareholders than they would as shareholders of a U.S. corporation.

As a foreign private issuer, we are permitted to follow certain home country corporate governance practices instead of applicable SEC and NYSE requirements, which may result in less protection than is accorded to investors under rules applicable to domestic issuers.

As a foreign private issuer, we are permitted to follow certain home country corporate governance practices instead of those otherwise required under the NYSE rules for domestic issuers, including, but not limited to:

- the evaluation standards for director's independence;
- the requirements for non-management directors to meet regularly without management;
- the requirement to have nominating/corporate governance committee;
- the requirement to have a remuneration committee set up pursuant to NYSE rules;
- the requirement for shareholders' approval on all equity based compensation and material revisions thereto; and
- the requirement to adopt NYSE corporate governance guidelines.

For a detailed discussion of the differences between our corporate governance practices and the NYSE listing standards, see "Item 16—16.G. Corporate Governance" for more information.

Table of Contents

Following our home country governance practices as opposed to the requirements that would otherwise apply to a U.S. company listed on the NYSE may provide less protection than is accorded to investors under the NYSE rules applicable to domestic issuers. In addition, as a foreign private issuer, we are exempt from certain rules and regulations under the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”), related to the furnishing and content of proxy statements, and our officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we are not required under the Exchange Act, to file annual, quarterly and current reports and financial statements with the SEC as frequently or as promptly as domestic companies whose securities are registered under the Exchange Act.

Future sales or perceived sales of securities by us, our senior management, directors or major shareholders may hurt the price of our ADSs.

The market price of our ADSs could decline as a result of sales of ADSs or shares or the perception that these sales could occur. As of February 28, 2019, we had an aggregate of 9,624.2 million shares, including our shares and entitlement certificates, issued and outstanding, which were freely tradable. If we, our senior management, directors or our shareholders, sell ADSs or shares, the market price for our shares or ADSs could decline. Future sales, or the perception of future sales, of ADSs or shares by us, our senior management, directors or major shareholders could cause the market price of our ADSs to decline. Moreover, if the offering price of any of the sales of shares by us is substantially lower than the then existing marketing price or net tangible value per share, our existing shareholders may experience substantial dilution.

You may not be able to enforce a judgment of a foreign court in the ROC.

We are a company limited by shares and incorporated under the ROC Company Act. Most of our directors and executives, and some of the experts named herein, are residents of the ROC. As a result, it may be difficult for holders of our shares or ADSs to enforce against us or judgments obtained outside the ROC, including those predicated upon the civil liability provisions of the federal securities laws of the United States. It is also not entirely certain that an action for civil liability predicated solely on the United States federal securities laws could be brought directly in the ROC courts.

ITEM 4.

INFORMATION ON THE COMPANY

4.A. History and Development of the Company

We were incorporated as Acer Display Technology, Inc. (“Acer Display”) under the laws of the ROC as a company limited by shares in 1996. The shares of Acer Display were listed on the Taiwan Stock Exchange on September 8,

2000.

On September 1, 2001, we completed a merger with Unipac Optoelectronics Corp. (“Unipac”) pursuant to a merger agreement dated April 9, 2001, as amended by a supplemental agreement dated May 15, 2001. We changed our name to AU Optronics Corp. on May 22, 2001. Prior to the merger, Acer Display was primarily involved in the design, development, production and marketing of large-size TFT-LCD panels, and Unipac was primarily involved in the design, production and marketing of both small-size and large-size TFT-LCD panels.

On October 1, 2006, we completed our merger with Quanta Display Inc. (“QDI”), a company incorporated in Taiwan that manufactured and assembled TFT-LCD panels. As of the effective date of the merger, we became the surviving entity and assumed substantially all of the assets, liabilities and personnel of QDI. The purpose of the merger was to increase our competitiveness and expand our market share.

On October 1, 2014, our subsidiary BriView Corp. completed a merger with Forhouse Corporation (“Forhouse”), one of our investees. Both companies were primarily engaged in the manufacturing and selling of TFT-LCD modules and backlight modules. The purpose of the merger was to integrate resources and increase competitiveness. After the merger, Forhouse, as the surviving company, was renamed to Darwin Precisions Corporation and became our subsidiary.

Table of Contents

At the end of 2008, we entered the solar business and formed our Solar Photovoltaic Business Unit in October 2009. In connection with this expansion, we obtained a controlling interest in M.Setek, a major polysilicon, ingot and solar wafer manufacturer in Japan, through equity investments in 2009. Furthermore, in May 2010, we formed a joint venture named AUO SunPower Sdn. Bhd. (“AUSP”) with SunPower Technology, Ltd. (“SPTL”). Since 2011 we have also operated ingot and solar wafer related business through our subsidiary AUO Crystal Corp. In September 2016, we sold all of our interest in AUSP to SPTL for a consideration of US\$170.1 million. Furthermore, we have built solar systems and invested in solar power plants in Taiwan since 2011.

Our principal executive offices are located at No. 1, Li-Hsin Road 2, Hsinchu Science Park, Hsinchu, Taiwan, ROC, and our telephone number is +886-3-500-8800. Our agent for service of process in the United States is Puglisi & Associates, 850 Library Avenue, Suite 204, Newark, Delaware 19711, and our agent’s telephone number is 302-738-6680.

Our ADSs have been listed on the New York Stock Exchange under the symbol “AUO” since May 2002.

For a description of our capital expenditures in the past three fiscal years and source of funding, see “Item 5. Operating and Financial Review and Prospects—5.B.—Liquidity and Capital Resources—Capital Expenditures.”

4.B. Business Overview

Introduction

We are one of the world’s leading TFT-LCD panel providers. We operate in two business segments: display business and energy business (formerly named “solar business”).

Display business. We design, develop, manufacture, assemble and market flat panel displays and most of our products are TFT-LCD panels. TFT-LCD is currently the most widely used flat panel display technology. Our panels are primarily used in televisions, monitors, mobile PCs and devices, and commercial and other applications (such as displays for automobiles, industrial PCs, automated teller machines, point of sale terminals, pachinko machines, medical equipment, etc.). The display business was sub-divided into the Technology Group, the Business Group and the Manufacturing Group effective on November 1, 2018. The Technology Group is headed by Chief Technology Officer Dr. Wei-Lung Liau; the Business Group is headed by Vice President TY Lin; and the Manufacturing Group is headed by Vice President Ting-Li Lin. We expect this restructuring to optimize operational and human resource allocation and help us further advance our leadership position in R&D.

Energy business (formerly named “Solar business”). We entered into the solar business at the end of 2008. We are capable of manufacturing products such as ingots, solar wafers and solar modules. We are also able to build solar systems, invest in solar power plant and provide various value-added services for solar systems projects.

For the year ended December 31, 2018, net revenue generated from our display business and energy business was NT\$290,784.8 million (US\$9,499.7 million) and NT\$16,849.6 million (US\$550.4 million), respectively, representing approximately 94.5% and 5.5% of our total net revenue, respectively. For more information on the financial performance of our two operating segments, see “Item 5. Operating and Financial Review and Prospects” and Note 29 and Note 44 to our consolidated financial statements.

Display Business

We sell our panels primarily to companies that design and assemble products based on their customers’ specifications, commonly known as original equipment manufacturing service providers, and to brand customers. Our original equipment manufacturing service provider customers, most of whose production operations are located in Taiwan or the PRC, use our panels in the products that they manufacture on a contract basis for brand companies worldwide. Our operations in Taiwan and the PRC allow us to better coordinate our production and services with our customers’ requirements, especially in respect of delivery time and design support. We also sell our products to some brand companies on a direct shipment basis.

Table of Contents

We currently manufacture TFT-LCD panels at fabrication facilities commonly known as “fabs”. With production facilities utilizing 3.5-, 4-, 4.5-, 5-, 6-, 7.5- and 8.5-generation technologies, we have the flexibility to produce a large number of panels of various sizes. As of February 28, 2019, all the fabs listed under “—4.D. Property, Plants and Equipment” have commenced commercial production. See “Item 4. Information on the Company—4.D. Property, Plants and Equipment” for information on our principal manufacturing and module assembly sites for the display business.

Principal Products

We design, develop, manufacture, assemble and market a wide range of display products for the following principal product categories:

televisions, which utilize display panels ranging mainly from 19.5 inches to 85 inches, including panels for televisions, TV sets and other related products;

monitors, which utilize display panels ranging mainly from 17 inches to 35 inches, including products such as desktop monitors;

mobile PCs and devices, which utilize display panels ranging mainly from 4.99 inches to 17.3 inches, including products such as notebooks, tablets and mobile phones; and

commercial and other applications, which utilize display panels ranging mainly from 1.2 inches to 24 inches or above for use in products such as displays for automobiles, industrial PCs, automated teller machines, point of sale terminals, pachinko machines, medical equipment and others.

The following table sets forth the shipment of our products by category for the periods indicated:

	Year Ended December 31,		
	2016	2017	2018
	(Panels in thousands)		
Products for Televisions	31,815.3	31,374.5	31,022.7
Products for Monitors	26,951.0	26,060.8	27,985.2
Products for Mobile PCs and Devices	154,458.3	166,290.2	157,489.9
Products for Commercial and Other Applications	51,224.9	56,930.0	64,889.1
Total	264,449.5	280,655.5	281,386.9

The following table sets forth our net revenue by product category for the periods indicated:

	Year Ended December 31,						
	2016		2017		2018		
	NT\$	%	NT\$	%	NT\$	US\$	%
	(in millions, except for percentages)						
Products for Televisions	140,519.9	42.7	152,442.2	44.7	113,194.6	3,698.0	36.8
Products for Monitors	44,668.0	13.6	45,696.2	13.4	47,024.4	1,536.2	15.3
Products for Mobile PCs and Devices	66,892.1	20.3	71,068.3	20.9	74,375.3	2,429.8	24.2
Products for Commercial and Others ⁽¹⁾	52,746.6	16.0	53,128.7	15.5	56,190.5	1,835.7	18.2
Solar Products	24,262.4	7.4	18,692.9	5.5	16,849.6	550.4	5.5
Total	329,089.0	100.0	341,028.3	100.0	307,634.4	10,050.1	100.0

(1) Others include sales from products for other applications and sales of raw materials, components and from service charges.

Products for Televisions

Our current portfolio of products for televisions consists of 19.5-inch to 85-inch panels. In 2018, approximately 62.8% of the sales of products for televisions we produced were 50 inches and above. In 2016, 2017 and 2018, sales of products for televisions accounted for 42.7%, 44.7% and 36.8%, respectively, of our net revenue.

Table of Contents

Products for Monitors

In recent years, demand for monitors has continued to migrate to larger sizes. In 2018, 21.5-, 24- and 27-inch panels were the major sizes produced by us for monitors. In 2016, 2017 and 2018, sales of products for monitors accounted for 13.6%, 13.4% and 15.3%, respectively, of our net revenue.

Products for Mobile PCs and Devices

In 2016, 2017 and 2018, sales of products for mobile PCs and devices accounted for 20.3%, 20.9% and 24.2%, respectively, of our net revenue. In 2018, 14.0-inch and 15.6-inch panels with an aspect ratio of 16:9 were the major sizes produced by us for notebooks, while 8-inch and 10.1-inch panels were the major sizes produced by us for tablets. The major sizes of mobile phones produced by us range from 4.66-inch to 7.12-inch.

Products for Commercial and Others

Our products for commercial and others are used in products such as displays for automobiles, industrial PCs, automated teller machines, point of sale terminals, pachinko machines, medical equipment and others. In 2016, 2017 and 2018, sales of products for commercial and others accounted for 16.0%, 15.5% and 18.2%, respectively, of our net revenue.

Customers, Sales and Marketing

We sell our panels mostly to brand companies and original equipment manufacturing service providers with operations in Taiwan, the PRC, Japan, Singapore and other areas. The following table sets forth the geographic breakdown of our net revenue by the location of our customers placing orders for the periods indicated:

	Year Ended December 31,						
	2016		2017		2018		
	NT\$	%	NT\$	%	NT\$	US\$	%
	(in millions, except for percentages)						
Taiwan	104,059.3	31.6	108,288.4	31.8	99,357.9	3,245.9	32.3
PRC	115,110.1	35.0	125,341.6	36.8	113,632.0	3,712.3	36.9
Singapore	31,776.3	9.7	35,939.3	10.5	39,370.9	1,286.2	12.8

Edgar Filing: AU OPTRONICS CORP - Form 20-F

Japan	33,346.0	10.1	32,739.3	9.6	21,166.9	691.5	6.9
Others ⁽¹⁾	44,797.3	13.6	38,719.7	11.3	34,106.7	1,114.2	11.1
Total	329,089.0	100.0	341,028.3	100.0	307,634.4	10,050.1	100.0

(1) Include the United States, Europe and other regions.

Our sales in Taiwan and the PRC, as set forth in the table above, represent a significant portion of our net revenue for the past three years, due to the fact that our major brand customers or their procurement entities are located in Taiwan and the PRC.

We market our panels to, and negotiate prices with, both our original equipment manufacturing service provider customers and brand customers, as display panels often constitute a significant part of the end product. A significant portion of our net revenue is attributable to a small number of our customers. In 2016, 2017 and 2018, our five largest customers accounted for approximately 36.3%, 39.0% and 36.6%, respectively, of our net revenue. In addition, our major customer, Samsung Group, individually accounted for more than 10% of our net revenue in the last three years, which were 11.3%, 12.8% and 11.5% of our net revenue in 2016, 2017 and 2018, respectively.

We focus our sales activities on a number of large customers with whom we seek to build long-lasting relationships. Each of our product categories have an independent sales and marketing division; each sales and marketing division is subdivided into smaller customer teams dedicated to each of our major customers.

Our customers typically provide monthly non-binding rolling forecasts of their requirements for the coming several months, and typically place purchase orders several weeks before the expected shipment date.

Table of Contents

We generally provide a limited warranty to our customers, including the provision of replacement parts and after-sale service for our products. In connection with these warranty policies, based on our historical experience, we set aside an amount as a reserve to cover these warranty obligations. As of December 31, 2018, our reserve for warranties totaled NT\$1,463.9 million (US\$47.8 million). In addition, we are required under several of our sales contracts to provide replacement parts for our products, at agreed prices, for a specified period of time.

We price our products in accordance with prevailing market conditions, giving consideration to factors such as the complexity of the product, the order size, the strength and history of our relationship with the customer and our capacity utilization. Selling prices and payment terms for sales to related parties are not significantly different from those for other customers. Our credit policy for sales to related parties and other customers typically requires payment within 30 to 60 days. From time to time, we may extend longer credit terms to our large customers as compared to our smaller customers. The average number of collection days extended for sales to our customers for the years ended December 31, 2016, 2017 and 2018 was 46 days, 48 days and 52 days, respectively. We believe the terms for customers and products are comparable to the terms offered by our industry peers.

Our business is subject to seasonal fluctuations common in the display panel industry, which in turn is affected by the seasonality of consumer demand and other end-products produced by our customers. Our low seasons typically start in the fourth quarter and may go lower in the first quarter; while our high seasons generally start in the second quarter and may go higher in the third quarter. The seasonality of our sales also may be affected by various factors, including economic downturn, our inventory management and certain special events such as government subsidies and sports events.

The TFT-LCD Manufacturing Process

The basic structure of a TFT-LCD panel may be thought of as two glass substrates sandwiching a layer of liquid crystal. The front glass substrate is fitted with a color filter, while the back glass substrate has transistors fabricated on it. A light source called a backlight unit is located at the back of the panel.

The manufacturing process consists of hundreds of steps, but may be divided into three primary steps. The first step is the array process, which involves fabricating transistors on the back substrate using film deposition, lithography and etching. The array process is similar to the semiconductor manufacturing process, except that transistors are fabricated on a glass substrate instead of a silicon wafer. The second step is the cell process, which joins the back array substrate and the front color filter substrate. The space between the two substrates is filled with liquid crystal. The third step is the module-assembly process, which involves connecting additional components, such as driver ICs and backlight units, to the TFT-LCD panel.

The array and cell processes are capital-intensive and require highly automated production equipment. TFT-LCD manufacturers typically design their own fabs and purchase production equipment from various suppliers. Each TFT-LCD manufacturer combines various equipment according to its manufacturing process technologies to form a TFT-LCD fab. In addition to developing our own manufacturing process technologies, we also license such technologies from other companies, such as Fujitsu Display Technologies Corporation (which was merged into Fujitsu Limited) (“FDTC”). We have automated our array and cell processes, with the exception of some steps in the cell process, such as panel inspection. In contrast to the array and cell processes, the module-assembly process is labor intensive, as it involves manual labor to assemble the pieces. A substantial portion of our module-assembly process is conducted in the PRC.

Raw Materials and Components and Suppliers

Our manufacturing operations require adequate supplies of raw materials and components of the right quality on a timely basis. The prices of these raw materials and components are subject to volatility. We purchase our raw materials and components based on forecasts from our customers, as well as our own assessments of our customers’ needs. We generally prepare forecasts one to four months in advance, depending on the raw materials and components, and update this forecast weekly or monthly. We source most of our raw materials and components, including critical materials such as glass substrates, liquid crystals, color filters, polarizer and driver ICs, from a limited group of suppliers. In order to reduce our raw materials and component costs and our dependence on any one supplier, we generally purchase our raw materials and components from multiple sources. We typically do not enter into contracts with our suppliers. However, during periods of supply shortages, we may enter into supply contracts with suppliers to ensure a stable supply of necessary raw materials and components.

Table of Contents

From time to time, we experienced shortages of certain raw materials in the past. Our operations would be adversely affected if we could not obtain raw materials and components in sufficient quantity and quality. We may also experience difficulties in sourcing adequate supplies for our operations if there is a ramp-up of production capacity by display panel manufacturers, including our company, without a corresponding increase in the supply of raw materials and components.

Raw materials and components constitute a substantial portion of our cost of goods sold. An increase in the cost of our raw materials may adversely affect our gross margins. Set forth below are our major suppliers of key raw materials and components in alphabetical order by category:

Glass Substrates	Liquid Crystals	Color Filters	Polarizer	Driver ICs
Asahi Glass	JNC Corporation	Dai Nippon Printing	BMC ⁽¹⁾	Novatek
Corning Taiwan	Merck	Dongwoo Fine-Chem	Nitto Denko	Raydium ⁽²⁾
Nippon Electric Glass		Toray Industries	Sumika Technology	

(1) BMC is a subsidiary of one of our major shareholders, Qisda. See “Item 7. Major Shareholders and Related Party Transactions—7.B. Related Party Transactions.”

(2) Raydium is our investee. See “Item 7. Major Shareholders and Related Party Transactions—7.B. Related Party Transactions.”

We use a large amount of water and electricity in our manufacturing process. We mostly obtain water from government-owned entities and are in compliance with relevant local laws and regulations of water recovery rate. We use electricity supplied by the external power grids. We maintain backup generators that provide electricity in case of power interruptions, which we have experienced from time to time. Except for power outages, power interruptions in general have not materially affected our production processes.

Equipment and Suppliers

We depend on a number of equipment manufacturers that make and sell the equipment that we use in our manufacturing processes. Our manufacturing processes depend on the quality and technological capacity of our equipment. We purchase equipment that is customized to our specific requirements for our manufacturing processes. The principal types of equipment we use to manufacture display panels include chemical vapor deposition equipment, sputters, steppers, developers and coaters.

In 2018, we reduced our equipment purchases as compared to 2017 primarily due to the substantial completion of the installation of our 8.5-generation fab in Taichung and 6-generation LTPS fab in Kunshan, PRC. Going forward, we expect to maintain investments in advanced technology and new capacity based on market conditions. See “Item 5. Operating and Financial Review and Prospects—5.B. Liquidity and Capital Resources.” We purchase equipment from a small number of qualified vendors to assure consistent quality and performance. We typically order equipment six to twelve months or longer in advance of our planned installation.

Competition

The display business is highly competitive. Most of our competitors operate fabs in Korea, Taiwan, the PRC and Japan. We believe our principal competitors include LG Display and Samsung Display in Korea; Innolux, Chunghwa Picture Tubes and Hannstar Display in Taiwan; BOE, China Star Optoelectronics Technology, CEC-Panda LCD Technology, Xianyang CaiHong Optoelectronics Technology, HKC, Tianma, EverDisplay Optronics, Century, Truly Semiconductors Ltd and Visionox in the PRC and Sharp, Panasonic LCD and Japan Display in Japan.

In addition, we believe the principal elements of competition for customers in the display market include:

price, based in large part on the ability to ramp-up lower cost, advanced technology production facilities before competitors;

product features and quality;

customer service, including product design support;

Table of Contents

· ability to keep production costs low by maintaining high yield and operating at full capacity;

· ability to provide sufficient quantity of products to meet customer demand;

· quality of the research and development team;

· time-to-market;

· superior logistics; and

· access to capital.

Energy Business

Through our subsidiaries AUO Crystal Corp. and M.Setek, we mainly focus on research, production and sales of solar materials, such as ingots and solar wafers. Our principal manufacturing sites for ingots and solar wafers are located in Taiwan, Japan and Malaysia.

The rise in solar cell conversion efficiency has enabled high efficiency mono crystalline solar wafers to replace gradually multi-crystalline solar wafers as the mainstream product. Reacting to this trend, we have shut down our multi-crystalline production at the end of 2018, which includes multi-crystalline brick production, multi-crystalline slicing operation and the cell production.

We also design, develop and manufacture solar modules, build solar systems and provide various value-added services for solar systems projects. A solar module is an assembly of solar cells that are electrically interconnected, laminated and framed in a durable and weatherproof package. Currently, our solar modules are mostly manufactured with mono-crystalline solar cells. A solar system consists of one or more solar modules that are physically mounted and electrically interconnected with system components such as inverters, mounting structures, wiring systems and other devices to produce and store electricity. See “Item 4. Information on the Company—4.D. Property, Plants and Equipment.” for information on our principal manufacturing sites for the solar business.

We sell our ingot and solar wafer products primarily to solar cell manufacturers. We are also dedicated to reach out new clients in emerging markets to enlarge our current customer base. We sell our solar modules to Taiwan, Japan, Europe and customers in other regions, including installers, solar system integrators, property developers and other value-added resellers.

In 2018, revenues generated from our energy business amounted to NT\$16,849.6 million (US\$550.4 million), representing 5.5% of our total net revenue for 2018.

Quality Management

Our quality management system includes design quality assurance, manufacturing quality assurance, vendor quality assurance and service quality assurance. By structuring quality management system, building up product design and development procedures for our different business applications as well as conducting market analysis, feasibility study, risk assessment, product verification and validation in our product development process, we endeavor to achieve a “first time right” approach. We are also dedicated to production quality control and process technology enhancement upon failure modes and effect analysis, process control plan, statistical process control and measurement system analysis.

For vendor quality assurance, we cooperate with our primary suppliers through our extensive experience and effective management. We encourage suppliers to demonstrate quality control and reliability, and also perform an annual customer satisfaction survey to ensure that their needs are well understood and addressed. Customer feedbacks are critical to our continual improvement plans. In addition, we use quality audit program, nonconformity management and the hazardous chemical management to secure long-term agreements and develop strategic relationships.

Table of Contents

Our quality management system has received accredited International Standard of ISO 9001 and QC080000 certifications, as well as qualifications from our customers. We also received the IATF 16949 for most of our factories that design and manufacture the flat panel displays. In addition, all of our facilities have been certified as meeting the International Organization for Standardization ISO 14001 environmental protection standards and OHSAS 18001 occupational health and safety standard and certain of our facilities have completed ISO 50001 certification for energy management. The International Standard assessment process involves subjecting our manufacturing processes and quality management systems to periodic reviews and observations. We believe that certification also provides independent verification to our customers regarding the quality control employed in our manufacturing and assembly processes.

Insurance

We mostly maintain insurance policies on our production facilities, buildings, machinery and inventories covering property damage and damage due to fire, earthquakes, floods and other natural and accidental perils. As of December 31, 2018, our insurance coverage included protection from covered losses, including property damage up to maximum coverage of NT\$28.2 billion (US\$0.9 billion) for all of our inventories and NT\$799.9 billion (US\$26.1 billion) for our equipment and facilities. In addition, as of December 31, 2018, we had insurance coverage for business interruptions in the aggregate amount of NT\$39.2 billion (US\$1.3 billion).

In general, we also maintain insurance policies, including director and officer liability insurance, employee group health insurance, travel and life insurance, employer liability insurance, general liability insurance, and policies that provide coverage for risks during the shipment of goods and equipment, as well as during equipment installation at our fabs.

Environmental Matters

Our manufacturing processes involve the use of hazardous materials and generate a significant amount of pollution, including wastewater, solid/liquid waste and air pollution, which are strictly monitored by local environmental protection bureaus. We must comply with regulations relating to storage, handling, generation, treatment, emission, release, discharge and disposal of certain materials and wastes resulting from our manufacturing processes. To meet the ROC and the PRC environmental standards, we employ various types of pollution control equipment for the treatment of exhaust gases, liquid waste, solid waste and the treatment of wastewater and chemicals in our fabs. We control exhaust gas and wastewater on-site. The treatment of solid and liquid wastes is subcontracted to third parties off-site in accordance with pollution control requirements.

Our operations can expose us to the risk of environmental claims which could result in damages awarded or fines imposed against us. We have identified certain factors associated with climate change that would have an impact on

our operation, including the uncertainty surrounding new regulation, cap and trade schemes, change in precipitation patterns, change in weather conditions and fuel/energy taxes and regulations. We have taken the necessary steps to ensure the proper operation of our facilities to meet the necessary standards and strengthened the monitoring mechanisms against further violations, as well as obtained the appropriate permits, and believe that we are in compliance with the existing environmental laws and regulations in all material aspects in the ROC and the PRC.

On December 29, 2015, we announced the launch of the process water full recycling system to be operated at our Lungtan site. Through various recycling phases, process water could be condensed and reduced to zero liquid discharge by highly efficient evaporation equipment. We will continue to create values and opportunities for sustainable development.

Intellectual Property

Overview

As of February 28, 2019, we had filed more than 25,200 patent applications in various jurisdictions, including Taiwan, the United States, the PRC, Japan, United Kingdom, European Union, Korea and others. These patent applications include patents for TFT-LCD and OLED manufacturing processes and products, and more than 18,600 patents were issued as of February 28, 2019. Most of these patents have a term of 20 years. In addition, we have registered “AU Optronics” as a trademark in some countries and jurisdictions where we operate, including Taiwan, United States, European Union and Korea and registered our corporate logo, “AUO” as a trademark in the ROC, PRC, United States, European Union, Japan, Korea, Malaysia and Singapore.

Table of Contents

We require all of our employees to sign an employment agreement which prohibits the unauthorized disclosure of any of our trade secrets, confidential information and proprietary technologies subject to the terms and conditions of the employment agreement, and we also require our technical personnel to assign to us any inventions related to our business that they develop during the course of their employment.

We have licenses to use certain technology and processes from certain companies. Our royalty expenses relating to intellectual property licenses may increase in the future due to increases in unit sales as well as the potential need to enter into additional license agreements or to renew existing license agreements on different terms.

We intend to continue to file patent applications, where appropriate, to protect our proprietary technologies. We may find it necessary to enforce our patents or other intellectual property rights or defend ourselves against claimed infringement of the rights of others through litigation, which could result in substantial cost and diversion of our resources. We may suffer legal liabilities and financial and reputational damages if we are found to infringe product or process technology rights held by others. We are currently involved in litigation regarding alleged patent infringement. See “Item 8. Financial Information—8.A.7. Litigation.”

License Agreements

We have entered into patent and intellectual property license and cross-license agreements, some of which require periodic royalty payments. For example: (i) we have license agreements with each of FDTC (subsequently assumed by Fujitsu Limited) and Toppan Printing Co., Ltd., which provides for the non-transferable and non-exclusive license under certain patents to manufacture certain LCD and OLED panels at our facilities, (ii) we entered into cross-license agreements with each of Sharp, LGD, Samsung and Hydis (E Ink’s Korean subsidiary), respectively. Under each of these agreements, each party granted to the other non-transferable and non-exclusive licenses in relation to certain patents involving LCD related technologies, (iii) we have a cross-license agreement with Japan Display Inc. (formerly known as Japan Display East Inc./Hitachi Displays Ltd.) and Panasonic Liquid Crystal Display Co., Ltd. (formerly known as IPS Alpha Technology Ltd.), under which each party granted to the other non-transferrable and non-exclusive licenses under certain patents to manufacture certain TFT-LCD and OLED panels and modules, (iv) we have a cross-license agreement with Seiko Epson, under which AUO granted to Seiko Epson non-transferrable and non-exclusive licenses under certain patents involving certain technologies, and Seiko Epson granted to AUO a non-transferrable and non-exclusive license under certain patents involving LCD related technologies.

In addition to the above, we have also entered into license or cross-license agreements with other third parties in the course of our business operations in connection with certain patents which such third parties own or control. In the future, we may need to obtain additional patent licenses or renew existing license agreements.

4.C. Organizational Structure

The following chart sets forth our corporate structure and ownership interest in each of our principal operating subsidiaries as of December 31, 2018.

Table of Contents

(1) 28.56% held directly by AU Optronics Corp., 6.40% held indirectly through Konly Venture Corp. and 6.09% held indirectly through Ronly Venture Corp., respectively.

(2) 93.52% held directly by AU Optronics Corp. and 2.50% held indirectly through Konly Venture Corp., respectively.

(3) 70.29% held indirectly through AU Optronics (L) Corp. and 29.71% held indirectly through Darwin Precisions Corporation, respectively.

(4) In the process of liquidation.

Table of Contents

The following table sets forth summary information for our subsidiaries as of December 31, 2018.

Subsidiary	Main Activities	Jurisdiction of Incorporation	Percentage of Ownership Interest
a. u. Vista Inc.	Research and development and IP related business	United States	100.00% ⁽¹⁾
AFPD Pte., Ltd.	Manufacturing TFT-LCD panels based on low temperature polysilicon technology	Singapore	100.00% ⁽¹⁾
AU Optronics (Czech) s.r.o.	Assembly of solar modules	Czech Republic	100.00% ⁽¹⁾
AU Optronics (Kunshan) Co., Ltd.	Manufacturing and sale of TFT-LCD panels	PRC	51.00% ⁽¹⁾
AU Optronics (L) Corp.	Holding and trading company	Malaysia	100.00%
AU Optronics (Shanghai) Co., Ltd.	Sales support of TFT-LCD panels	PRC	100.00% ⁽¹⁾
AU Optronics (Slovakia) s.r.o.	Repairing of TFT-LCD modules	Slovakia Republic	100.00% ⁽¹⁾
AU Optronics (Suzhou) Corp., Ltd.	Manufacturing and assembly of TFT-LCD modules	PRC	100.00% ⁽¹⁾
AU Optronics (Xiamen) Corp.	Manufacturing and assembly of TFT-LCD modules	PRC	100.00% ⁽¹⁾
AU Optronics Corporation America	Sales and sales support of TFT-LCD panels	United States	100.00% ⁽¹⁾
AU Optronics Corporation Japan	Sales support of TFT-LCD panels	Japan	100.00% ⁽¹⁾
AU Optronics Europe B.V.	Sales support of TFT-LCD panels	Netherlands	100.00%
AU Optronics Korea Ltd.	Sales support of TFT-LCD panels	South Korea	100.00% ⁽¹⁾
AU Optronics Manufacturing (Shanghai) Corp.	Manufacturing and assembly of TFT-LCD modules	PRC	100.00% ⁽¹⁾
AU Optronics Singapore Pte. Ltd.	Holding company and sales support of TFT-LCD panels	Singapore	100.00% ⁽¹⁾
AUO Care Information Tech. (Suzhou) Co., Ltd.	Design, development and sales of software and hardware for health care industry	PRC	100.00% ⁽²⁾
AUO Crystal (Malaysia) Sdn. Bhd.	Manufacturing and sale of solar wafers	Malaysia	100.00% ⁽³⁾
AUO Crystal Corp.	Manufacturing and sale of ingots and solar wafers	ROC	96.02% ⁽⁴⁾
AUO Energy (Tianjin) Corp.	Manufacturing and sale of solar modules	PRC	100.00% ⁽⁵⁾⁽²²⁾
AUO Green Energy America Corp.	Sales support of solar-related products	United States	100.00% ⁽⁵⁾
AUO Green Energy Europe B.V.	Sales support of solar-related products	Netherlands	100.00% ⁽⁵⁾
BriView (Hefei) Co., Ltd.	Manufacturing and sale of liquid crystal products and related parts	PRC	100.00% ⁽⁶⁾
BriView (L) Corp.	Holding company	Malaysia	100.00% ⁽⁷⁾
BriView (Xiamen) Corp.	Manufacturing and sale of liquid crystal products and related parts	PRC	100.00% ⁽⁸⁾
ComQi Canada Inc.	Research and development of content management system	Canada	100.00% ⁽²¹⁾
ComQi Holdings Ltd.	Holding company	United Kingdom	100.00% ⁽⁹⁾
ComQi Inc.	Sales of content management system and hardware	United States	100.00% ⁽²¹⁾
ComQi Ltd.	Holding company	Israel	100.00%
ComQi UK Ltd.	Sales support of content management system	United Kingdom	100.00% ⁽²¹⁾

Edgar Filing: AU OPTRONICS CORP - Form 20-F

Darwin Precisions (Hong Kong) Limited	Holding company	Hong Kong	100.00% ⁽¹⁰⁾
Darwin Precisions (L) Corp.	Holding company	Malaysia	100.00% ⁽¹¹⁾
Darwin Precisions (Slovakia) s.r.o.	Manufacturing, assembly and sale of automotive parts	Slovakia Republic	100.00% ⁽¹⁰⁾

Table of Contents

Subsidiary Main Activities Jurisdiction of Incorporation Percentage of Ownership Interest

Darwin Precisions (Suzhou) Corp.	Manufacturing and sale of backlight modules and related parts	PRC	100.00% ⁽¹²⁾
Darwin Precisions (Xiamen) Corp.	Manufacturing and sale of backlight modules and related parts	PRC	100.00% ⁽¹²⁾
Darwin Precisions Corporation	Manufacturing, design and sale of TFT-LCD modules, TV set, backlight modules and related parts	ROC	41.05% ⁽¹³⁾
Edgetech Data Technologies (Suzhou) Corp., Ltd.	Design and sales of software and hardware system and equipment relating to intelligent manufacturing	PRC	100.00% ⁽²⁾
Force International Holding Ltd.	Holding company	BVI	100.00% ⁽¹¹⁾
Forefront Corporation	Holding company	Mauritius	100.00% ⁽¹⁴⁾
Forhouse Electronics (Suzhou) Co., Ltd.	Manufacturing of motorized treadmills	PRC	100.00% ⁽¹⁵⁾
Forhouse International Holding Ltd.	Holding company	BVI	100.00% ⁽¹¹⁾
Fortech Electronics (Kunshan) Co., Ltd.	Manufacturing and sale of backlight modules and related parts	PRC	100.00% ⁽¹⁶⁾
Fortech Electronics (Suzhou) Co., Ltd.	Manufacturing and sale of backlight modules and related parts	PRC	100.00% ⁽¹⁷⁾
Fortech International Corp.	Holding company	Mauritius	100.00% ⁽¹⁸⁾
Forward Optonics International Corp.	Holding company	Samoa	100.00% ⁽¹⁸⁾
Konly Venture Corp.	Venture capital investment	ROC	100.00%
Mega Insight Smart Manufacturing (Suzhou) Corp., Ltd.	Development and licensing of software relating to intelligent manufacturing, and related consulting services	PRC	100.00% ⁽²⁾
M.Setek Co., Ltd.	Manufacturing and sale of ingots	Japan	99.9991% ⁽¹⁹⁾
Prime Forward International Ltd.	Holding company	Samoa	100.00% ⁽¹⁸⁾
Ronly Venture Corp.	Venture capital investment	ROC	100.00%
Sanda Materials Corporation	Holding company	ROC	100.00% ⁽³⁾
Space Money Inc.	Sales of content management system and hardware; leasing	ROC	100.00%
Suzhou Forplax Optonics Co., Ltd.	Manufacturing and sale of precision plastic parts	PRC	100.00% ⁽²⁰⁾
U-Fresh Technology Inc.	Planning, design and development of construction for environmental protection and related project management	ROC	100.00%
U-Fresh Technology (Suzhou) Co., Ltd.	Planning, design and development of construction project for environmental protection and related project management	PRC	100.00% ⁽²⁾

(1) Indirectly, through our 100.00% ownership of AU Optonics (L) Corp.

- (2) Indirectly, through our 100.00% ownership of AU Optronics (Shanghai) Co., Ltd.
- (3) Indirectly, through our 96.02% ownership of AUO Crystal Corp.
- (4) 93.52% held directly by AU Optronics Corp. and 2.50% held indirectly through Konly Venture Corp., respectively.
- (5) Indirectly, through our 100.00% ownership of AU Optronics Singapore Pte. Ltd.
- (6) Indirectly, through our 100.00% ownership of BriView (L) Corp.
- (7) 70.29% held indirectly through AU Optronics (L) Corp. and 29.71% held indirectly through Darwin Precisions Corporation, respectively.
- (8) Indirectly, through our 100.00% ownership of AU Optronics (Xiamen) Corp.
- (9) Indirectly, through our 100.00% ownership of ComQi Ltd.
- (10) Indirectly, through our 100.00% ownership of Darwin Precisions (L) Corp.
- (11) Indirectly, through our 41.05% ownership of Darwin Precisions Corporation.

Table of Contents

(12) Indirectly, through our 100.00% ownership of Darwin Precisions (Hong Kong) Limited.

(13) 28.56% held directly by AU Optronics Corp., 6.40% held indirectly by Konly Venture Corp. and 6.09% held indirectly by Ronly Venture Corp., respectively.

(14) Indirectly, through our 100.00% ownership of Force International Holding Ltd.

(15) Indirectly, through our 100.00% ownership of Forefront Corporation.

(16) Indirectly, through our 100.00% ownership of Prime Forward International Ltd.

(17) Indirectly, through our 100.00% ownership of Fortech International Corp.

(18) Indirectly, through our 100.00% ownership of Forhouse International Holding Ltd.

(19) Indirectly, through our 100.00% ownership of Sanda Materials Corporation.

(20) 65.52% held indirectly through Forward Optronics International Corp. and 34.48% held indirectly through Fortech International Corp., respectively.

(21) Indirectly, through our 100.00% ownership of ComQi Holdings Ltd.

(22) AUO Energy (Tianjin) Corp. is in the process of liquidation as of December 31, 2018.

The following is a summary of our major organizational activities in the first quarter of 2019:

Ÿ *AUO Crystal Corp.* was 100% acquired by AU Optronics Corp. in February 2019.

4.D. Property, Plants and Equipment

Principal Facilities

Display Business

As of December 31, 2018, we had a monthly capacity to produce approximately 2.5 to 2.9 million square meters of glass area of TFT-LCD panels. The capacity may be subject to change due to factors such as product mix, technological changes and production efficiency improvement.

As of February 28, 2019, our principal manufacturing sites were located in Taiwan, the PRC, Europe and Singapore. The following table sets forth certain information relating to our principal facilities as of February 28, 2019. The land in the Hsinchu Science Park, Lungke Science Park and Central Taiwan Science Park on which our facilities are located is leased from the ROC government. The land in Xiamen Torch Hi-tech Industrial Development Zone, Kunshan Economic and Technical Development Zone and Suzhou Industrial Park, on which our facilities are located, is leased from the PRC government.

Fab Location	Building Size (in square meters)	Generation	Input Substrate Size (in millimeters)	Commencement of Commercial Production	Primary Use	Owned or Leased
C4A36, Keji 1st Rd., Tainan Technology Industrial C5DPark, Annan Dist., Tainan City 70955, C6C Taiwan, ROC	145,793	4	620x750 680x880 730x920 1,100x1,250	July 2002	Manufacturing of color filters	· Building is owned · Land is owned
		5	1,100x1,300	March 2003		
		6	1,500x1,850	May 2005		
9, Luke 3rd Rd., Kaohsiung Science C5E Park, Luzhu Dist., Kaohsiung City 82151, Taiwan, ROC	96,576	5	1,100x1,250 1,100x1,300 1,200x1,300	July 2008	Manufacturing of color filters	· Building is owned · Land is leased (expires in January 2028)

Table of Contents

Fab Location	Building Size (in square meters)	Generation	Input Substrate Size (in millimeters)	Commencement of Commercial Production	Primary Use	Owned or Leased
L3C No. 23, Li-Hsin Rd., Hsinchu Science Park, Hsinchu 30078, Taiwan, ROC	105,127	3.5	600x720	July 1999	Manufacturing of TFT-LCD panels	· Building is owned · Land is leased (expires in January 2037)
L3D No. 189, Hwaya Rd. 2, Kueishan Hwaya		3.5	620x750	December 2001		· Building is owned
L5D Science Park, Kueishan Dist., Taoyuan 33383, Taiwan, ROC	162,826	5	1,100x 1,300	October 2003	Manufacturing of TFT-LCD panels	· Land is owned
L4A No. 1, Xinhe Rd.,		4	680x880	November 2001	Manufacturing of TFT-LCD panels;	· Building is owned
L5A Aspire Park, Lungtan Dist.,	535,528	5	1,100x1,250	March 2003	module and component assembly;	· Land is owned
L5B Taoyuan 32543, Taiwan, ROC		5	1,100x1,300	February 2004	manufacturing of color filters	
L4B 10 Tampines Industrial Avenue 3, Singapore 528798	183,341	4.5	730x920	August 2002	Manufacturing of TFT-LCD panels	· Building is owned · Land is leased (expires in May 2059)
L6A No. 1, JhongKe Rd.,	1,430,750	6	1,500x1,850	March 2005	Manufacturing of TFT-LCD panels;	· Building is owned
L5C Central Taiwan Science Park,		5	1,100x1,300	August 2005	module and component assembly;	· Land is
L7A Taichung 40763,		7.5	1,950x2,250	June 2006	manufacturing of color	leased

Edgar Filing: AU OPTRONICS CORP - Form 20-F

L7B	Taiwan, ROC		7.5	1,950x2,250	March 2009	filters	(expires in December 2022)
L8A			8.5	2,200x2,500	March 2009		
L6B	No. 228, Lungke St., Lungke Science Park, Lungtan Dist., Taoyuan 32542, Taiwan, ROC	867,955	6	1,500x1,850	August 2005	Manufacturing of TFT-LCD panels; module and component assembly; manufacturing of color filters	<ul style="list-style-type: none"> · Building is owned · Land is leased (expires in December 2027)
L6K	No. 6, LongTeng Road, Kunshan Economic and Technical Development Zone, Kunshan, the PRC	598,299	6	1,500x1,850	November 2016	Manufacturing of TFT-LCD panels; module and component assembly; manufacturing of color filters	<ul style="list-style-type: none"> · Building is owned · Land is leased (expires in 2060)

Table of Contents

Fab	Location	Building Size (in square meters)	Generation	Input Substrate Size (in millimeters)	Commencement of Commercial Production	Primary Use	Owned or Leased
L8B	No. 1, Machang Rd., Central Taiwan Science Park, Houli Dist., Taichung 42147, Taiwan, ROC	587,746	8.5	2,200x2,500	June 2011	Manufacturing of TFT-LCD panels; module and component assembly; manufacturing of color filters	· Building is owned · Land is leased (expires in December 2025)
Module S01, S02, S06	No. 398, Suhong Zhong Road, Suzhou Industrial Park, Suzhou, the PRC	413,035	N/A	N/A	July 2002	TFT-LCD module and component assembly	· Building is owned · Land is leased (expires in 2054)
Module S11, S16, S17	No. 1689, North of XiangAn Rd., XiangAn Branch, Torch Hi-tech Industrial Development Zone, Xiamen, the PRC	289,744	N/A	N/A	April 2007	TFT-LCD module and component assembly	· Building is owned · Land is leased (expires in 2056)

Energy Business

Edgar Filing: AU OPTRONICS CORP - Form 20-F

As of December 31, 2018, our energy business had the capacity of producing 500 megawatt of solar modules per year, 36 million pieces of wafer per month, and 610 tons of ingot per month. The actual shipment may be subject to market conditions, customer demand and capacity outsourcing.

As of February 28, 2019, our principal manufacturing sites for energy business were located in Taiwan, Japan, Europe and Malaysia. The following table sets forth certain information relating to our principal facilities for energy business as of February 28, 2019.

Location	Building Size (in square meters)	Commencement of Commercial Production	Primary Use	Owned or Leased
No. 1, JhongKe Rd., Central Taiwan Science Park, Taichung 40763, Taiwan, ROC	1,430,750 ⁽¹⁾	April 2010 November 2011	Manufacturing of solar cells and modules	· Building is owned · Land is leased (expires in December 2022)
No.3, Keya Rd., Xitun Dist., Taichung 40763, Taiwan, ROC	9,559	June 2011	Production of wafers ⁽²⁾	· Building is owned · Land is leased (expires in December 2020)
No. 2, Jian 7 th Rd., Wuqi Dist., Taichung 43541, Taiwan, ROC	19,888	October 2011	Production of ingots	· Building is owned · Land is leased (expires in July 2027)

Table of Contents

Location	Building Size (in square meters)	Commencement of Commercial Production	Primary Use	Owned or Leased
No. 335, sec. 2, Houke Rd., Houli Dist., Taichung 42152, Taiwan, ROC	44,225	June 2012	Production of ingots and wafers	<ul style="list-style-type: none"> · Building is owned · Land is leased (expires in December 2030)
Kochi Site 1: 378, Myoken-machi, Susaki-shi, Kochi-ken, Japan	36,729 (including Kochi Site 1 and Kochi Site 2)	Kochi Site 1: April 2004	Production of ingots	· Building is owned
Kochi Site 2: 1117-1, Otani, Susaki-shi, Kochi-ken, Japan		Kochi Site 2: January 2009		· Land is owned
Turanka 859/98d, Slatina, 627 00 Brno, Czech Republic	17,765	July 2010	Manufacturing of solar modules	<ul style="list-style-type: none"> · Building is leased (expires in December 2019) · Land is leased (expires in December 2019)
Melaka World Solar Valley, 78000 Alor Gajah, Melaka, Malaysia	7,719	March 2011	Production of wafers	<ul style="list-style-type: none"> · Building is leased · Land is leased

(1) Shared the same facility with L6A, L5C, L7A, L7B and L8A fabs.

(2) Wafer production ceased in December 2018.

Expansion Projects

In order to sustain our long-term profit model, we have invested in capacity expansion, new facilities and technology upgrades for manufacturing competitive products to differentiate ourselves from our competitors.

Set forth below is the description of our principal expansion projects:

8.5-Generation Capacity Expansion. To cater to the expected strong demand in large-size panels of televisions, we added 27 thousand substrates per month of capacity at our 8.5-generation facilities in Houli District, Taichung City in 2018. The expanded capacity was fully ramped up in the third quarter of 2018.

We estimate our capital expenditures in 2019 to be around NT\$40.0 billion for purposes including the technology upgrades and payments in the above-mentioned capacity expansion at our 8.5-generation fab in Taiwan. Our principal sources of funds include cash on hand, cash flow from operations and financing activities, for instance the issuance of equity securities, long-term borrowings, and the issuance of convertible and other debt securities. For further descriptions with regard to our capital expenditures and source of funding, see “Item 5. Operating and Financial Review and Prospects—5.B.—Liquidity and Capital Resources—Capital Expenditures.”

ITEM 4A.

UNRESOLVED STAFF COMMENTS

None.

ITEM 5.

OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion should be read in conjunction with our audited consolidated financial statements and their accompanying notes included elsewhere herein which are prepared in accordance with IFRS.

Table of Contents

5.A. Operating Results

Our operating results are affected by a number of factors, principally by general market conditions, operating efficiency and product mix.

General Market Conditions

The display panel industry in general has been characterized by cyclical market conditions. From time to time, the industry has experienced imbalances between excess supply and slowdowns in demand, and in certain periods, resulting in declines in selling prices. Our revenues primarily depend on the average selling prices and shipment volume of our panels and are affected by fluctuations in those prices and volumes.

The prices and shipment volume of our panels are affected by numerous factors, such as raw material costs, yield rates, supply and demand, competition, our pricing strategies and transportation costs. It is expected that the demand for panels is likely to continue to grow mainly driven by a shift towards larger screen and higher resolution products and the replacement cycle of TVs, including the flat screen replacement cycle in developed markets and CRT TV replacement cycle in emerging markets. However, there is still a lack of visibility into future demand and the outlook of display industry remains highly uncertain. We expect selling prices of panels will fluctuate from time to time due to the changes of general market conditions and the global economy.

To meet a potential future increase in demand, many display panel manufacturers, including our company, may expand capacity. If such expansion in capacity is not matched by a comparable increase in demand, it could lead to overcapacity and declines in the selling prices of panels in the future. In addition, we expect that, as is typical in the display panel industry, the selling prices for our existing product lines will gradually decrease as the cost of manufacturing display panels declines. However, the impact of such decreases may be offset through the introduction of new products and cost control.

The demand for our solar products also highly depends on the general economic conditions in our target markets. The solar industry has undergone challenging business conditions in the recent years, including downward pricing pressure for solar modules, solar cells, solar wafers and ingots mainly as a result of oversupply, and the fluctuations in demand mainly due to reductions in applicable governmental subsidies.

In the past year, the United States, Europe, China, Japan and India remain the primary markets of solar products. In the meantime, other emerging markets have gradually become the growth engine of the industry. In September 2018, the European Union ended the Minimum Import Price policy that imposed a minimum import price and import

volume restrictions on PRC solar manufacturers. We believe this policy shift will increase import demand for crystalline solar cells and modules in the European market.

Operating Efficiency

Our results of operations have been affected by our operating efficiency. Our operating efficiency is impacted by production yield, cycle time, capacity utilization, production capacity and other factors.

Our manufacturing processes are highly complex and require advanced and costly equipment. In order to maintain our competitiveness and to meet customer demand, we must routinely upgrade or expand our equipment. Upgrades and implementing new equipment to improve production yields and production efficiency takes time and training and may require adjustments to the manufacturing process. In addition, certain of our customers have different specification requirements than other customers. Specification requests may also require adjustments to or the use of different manufacturing processes which may accelerate or delay production. The turnaround time for production and our capacity utilization is also impacted by the availability of raw materials and components as well as the level of demand for our products.

Table of Contents

We measure the capacity of a fab in terms of the number of substrates and the glass area of substrates that can be produced. As of December 31, 2018, we had a monthly capacity to produce approximately 2.5 to 2.9 million square meters of glass area of TFT-LCD panels. Our production capacity has been affected by the process of construction and the schedule of commencement of operation of our fabs. Once the design of a new fab is completed, it typically takes six to eight quarters before the fab commences commercial production, during which time we construct the building, install the machinery and equipment and conduct trial production at the fab. An additional two to four quarters are required for the fab to be in a position to produce at the installed capacity and with high production yield, where production yield is the number of good panels produced expressed as a percentage of the total number of panels produced. This process is commonly referred to as “ramp-up.” At the beginning of the ramp-up process, fixed costs, such as depreciation and amortization, other overhead expenses, labor, general and administrative and other expenses, are relatively high on a per panel basis, primarily due to the low output. Variable costs, particularly raw materials and component costs, are also relatively high on a per panel basis since production yield is typically low in the early stages of the ramp-up of a fab, resulting in greater waste of raw materials and components. In general, upon the completion of the ramp-up process, a fab is capable of producing at its installed capacity, leading to lower fixed costs per panel as a result of higher output, as well as lower raw material and component costs per panel as a result of higher production yield. We typically construct our new fabs in phases in order to allocate our aggregate capital expenditure across a greater period of time. As a result, the installed capacity in the early phases of production at a new fab is typically lower than the maximum capacity that can be installed at a fab.

Product Mix

Our product mix affects our sales and profitability, as the prices and costs of different size panels may vary significantly. Our product mix also affects the overall average selling prices of our products. In general, higher valued products, such as higher resolution panels, typically command higher average selling prices. If the percentage of sales in higher valued products as a percentage of our net revenue increases, the overall average selling prices for all of our display products may likely improve. Moreover, higher selling prices are typically associated with new products and technologies when they are first introduced into the market, thus our ability to introduce and sell new products that offset the anticipated fluctuation and long-term declines in the selling prices of our existing products is also one of the most important factors to maintain or increase our revenues. We periodically review and adjust our product mix based on the demand for and profitability of the different panel that we manufacture.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations contained elsewhere in this annual report are based on our audited consolidated financial statements which have been prepared in accordance with IFRS. Our reported financial condition and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of our financial statements. We base our assumptions and estimates on historical experience and on various other assumptions that we believe to be reasonable and which form the basis for making judgments about matters that are not readily apparent from other sources. On an ongoing basis, our management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

The selection of critical accounting policies, the judgments and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing our financial statements. Our principal accounting policies are set forth in detail in Note 4 to our consolidated financial statements included elsewhere herein. We believe the following critical accounting policies involve the most significant judgments and estimates used in the preparation of our financial statements.

Revenue Recognition (policy applicable before January 1, 2018)

Revenue is recognized when title to the products and risk of ownership are transferred to the customers. We continuously evaluate whether our products meet our inspection standards and can reliably estimate sales returns expected to result from customer inspections. Allowance and related provisions for sales returns and discounts are estimated on the basis of historical experience, our management's judgment and any known factors that would significantly affect such allowance. Such provisions are deducted from sales in the same period during which the related revenue is recognized. There have been no changes in this policy in 2016 and 2017.

Table of Contents

The following table sets forth the movement of the allowance for sales returns and discounts for the period indicated⁽¹⁾:

	2016	2017
	NT\$	NT\$
	(in thousands)	
Balance beginning of year	1,524,144	853,614
Provision charged to revenue	472,397	1,926,017
Utilized	(1,142,927)	(1,442,555)
Balance at end of year	853,614	1,337,076

We have adopted IFRS 15, Revenue from Contracts with Customers, starting from January 1, 2018. As a result, (1)provisions for sales returns and discounts in 2018 are not comparable to that of 2016 and 2017, which applies IAS 18, Revenue. Please refer to Note 4(b) of the consolidated financial statements for more details.

Revenue from Contracts with Customers (policy applicable from January 1, 2018)

Revenue is measured based on the consideration that we expect to be entitled to during the transfer of goods or services to a customer. We recognize revenue when it satisfies a performance obligation by transferring control over a product or service to a customer. We estimate the amount of variable consideration by using either (i) the expected value or the most likely amount based on historical experience, market and economic situation and (ii) any known factors that would significantly affect the estimates. The amount of variable consideration is recognized as a reduction of revenue in the same period as the related revenue is recognized. We periodically review the reasonableness of the estimated variable consideration. However, the adequacy of estimations may be affected by factors such as market price competition and the evolution of product technology, which could result in significant adjustments to the variable consideration.

Loss Allowance for Accounts Receivables

We periodically evaluate our outstanding accounts receivables for collectability purposes on an individual and a collective basis. We first assess whether objective evidence of impairment exists for outstanding accounts receivables that are individually significant. If there is objective evidence indicating that an impairment loss has occurred, the amount of impairment loss is assessed individually. For accounts receivables other than those aforementioned, we group those assets and assess their impairment collectively. Our evaluation on a collective basis includes an analysis of the number of days outstanding for each outstanding accounts receivable account. When appropriate, we provide a

provision that is based on the number of days for which the account has been outstanding. The provision provided on each aged account is primarily based on our average historical collection experience and current trends in the credit quality of our customers. We also carry accounts receivable insurance for potential defaults. There have been no changes in this policy in 2016 and 2017.

Applicable from January 1, 2018, a new “expected credit loss” model under IFRS 9 is used to measure the impairment of financial assets, which replaces the “incurred loss” model in IAS 39. The expected credit loss is the weighted average of credit losses with the respective risks of a default occurring on the financial instrument as the weights. The Company measures loss allowances for accounts receivable at an amount equal to lifetime expected credit losses. The recognition or reversal of the loss allowance is recognized in profit or loss.

Provisions of Warranty Obligations

We make a provision for warranty obligations based on the estimated costs that we expect to incur. These liabilities are accrued when product revenue is recognized. We make the provisions based on the quantities within the warranty period, the historical and anticipated warranty claims rate associated with similar products and services, and the projected unit cost of maintenance. We regularly review the basis of the accrual and, if necessary, amend it as appropriate at the end of reporting period. There could be a significant impact on provisions for warranty obligations for any changes of the basis of the accrual. We recognized provisions for warranty obligations amounting to NT\$1,547.0 million and NT\$1,463.9 million (US\$47.8 million) as of December 31, 2017 and 2018, respectively.

Table of Contents

Realization of Inventory

Provisions for inventory obsolescence and devaluation are recorded when we determine that the amounts expected to be realized are less than their cost basis or when we determine that inventories cannot be liquidated, which may be affected by their prevailing market price and the number of months in which inventory items remain unsold. Additionally, our analysis of the amount we expect to realize ultimately is based in part on demand forecasts of our products and relevant adjustments to such forecasts. This policy has not changed for the last three years.

Inventory write-downs to net realizable value, which are charged to cost of sales, were NT\$3,673.2 million, NT\$3,756.7 million and NT\$5,171.8 million (US\$168.9 million) for the years ended December 31, 2016, 2017 and 2018, respectively. The provisions made in 2017 and 2018 were mainly due to inventory write-downs on certain products after considering their prevailing market prices. The larger provision in 2018 compared with 2017 was mainly due to decreased panel price of many products resulting from an expectation of oversupply of panels.

Recoverability of Long-Lived Assets, Excluding Goodwill

Our long-lived assets include property, plant and equipment and intangible assets. We assess the impairment of long-lived assets at the reporting date or whenever triggering events or changes in circumstances indicate that the asset may be impaired and carrying value may not be recoverable. If any such indication of impairment exists, then the recoverable amount of the relevant asset or cash-generating unit (“CGU”) is estimated. Recoverable amount is defined as the higher of (a) the fair value of an asset or a CGU less costs of disposal (if determinable) or (b) its “value in use,” which is defined as the present value of the expected future cash flows generated by the asset or CGU. An impairment loss is recognized in the consolidated statement of comprehensive income if the carrying amount of an asset or its related CGU exceeds its estimated recoverable amount.

The process of evaluating the potential impairment of long-lived assets requires significant judgment. Our future expected cash flow assumptions are based on forecasted revenue, operating costs and other relevant factors. Due to the cyclical nature of our industry and changes in our business strategy, market requirements or the needs of our customers, if our estimates of future operating results change, or if there are changes to other assumptions, the estimate of the fair value of long-lived assets could change significantly. Such change could result in impairment charges in future periods, which could have a significant impact on our consolidated financial statements.

In 2017, we wrote down certain machineries and equipment with low utilization resulting from the decline in the application for certain products associated with its display segment and recognized impairment losses of NT\$896.0 million.

In 2016, 2017 and 2018, we wrote down certain long-term assets with lower capacity utilization associated with its energy segment and recognized impairment losses of NT\$34.0 million, NT\$120.7 million and NT\$399.4 million (US\$13.0 million), respectively.

Recoverability of Goodwill

Goodwill is recognized when the purchase price exceeds the fair value of identifiable net assets acquired in a business combination. We assess the impairment of goodwill on an annual basis, or more frequently when there is an indication that goodwill may be impaired. For the purpose of impairment test, goodwill acquired in a business combination is allocated to CGUs that are expected to benefit from the synergies of the combination. If the recoverable amount of a CGU is less than its carrying amount, the difference is allocated first to reduce the carrying amount of any goodwill allocated to the unit, then the carrying amounts of the other assets in the unit on a pro rata basis. The impairment loss recognized on goodwill is not reversed in a subsequent period.

Goodwill was recognized for the acquisition of ComQi Ltd. in March 2018 and allocated to display business for the purpose of impairment test. Based on the impairment assessment for the year ended December 31, 2018, no impairment loss on goodwill was recognized as the recoverable amount of the CGU was higher than its carrying amount.

Table of Contents

Investments in equity-accounted Investees

When we have the ability to exercise significant influence over the operating and financial policies of investees, or when we have contractual arrangements with other parties sharing equal control over the arrangements, and have rights to the net assets of the arrangements, those investments are accounted for using the equity method. Significant judgment is required to assess whether we have significant influence. Factors that we consider in making such judgment include, among other matters, participation in policymaking processes, material intercompany transactions, interchange of managerial personnel or technological dependency.

The difference between the acquisition cost and the carrying amount of net equity of the investee as of the acquisition date is allocated based upon the pro rata excess of fair value over the carrying value of non-current assets. Any unallocated difference is treated as goodwill. Under IFRS, such difference is not amortized, but the carrying value of the total investment is assessed for impairment. The allocation of excess basis in equity-accounted investments requires the use of judgments regarding, among other matters, the fair value and estimated useful lives of long-lived assets. Changes in those judgments would affect the amount and timing of amounts charged to our consolidated statements of comprehensive income.

An investment in an equity-accounted investee is considered to be impaired if there is objective evidence of impairment as a result of one or more events that had occurred as of the reporting date indicating that the recoverable amount is below the carrying amount of the investment. Impairment is assessed at the individual security level. The recoverable amount is determined based on one of the two following approaches: (1) the discounted expected future net cash flows from the investee company; or (2) the combination of expected cash dividends from the investee company and the discounted cash flows from the ultimate disposal of the investment. The impairment loss is recorded in the consolidated statement of comprehensive income. If the recoverable amount increases in the future period, the amount previously recognized as impairment loss could be reversed and recognized as a gain.

In 2016, 2017 and 2018, we did not recognize any impairment loss on our investments in equity-accounted investees.

Income Taxes Uncertainties and Recognition of Deferred Taxes

We are subject to the continuous examination of our income tax returns by the tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. A change in the outcome of the assessment could materially affect our consolidated financial statements.

We have recognized deferred tax assets for the carryforward of unused tax losses and unused tax investment credits to the extent that it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilized. At each reporting date, the deferred tax assets are reviewed for recoverability and reduced to the extent that it is no longer probable that the related tax benefit will be realized, by considering nature of industry cycles, projected future taxable income and expiration years of unused tax losses carryforwards and tax investment credits. As of December 31, 2017 and 2018, our unrecognized deferred tax assets were NT\$29,346.1 million and NT\$32,190.3 million (US\$1,051.6 million), respectively. Besides, we also have unrecognized deferred tax liabilities associated with investments in subsidiaries amounting to NT\$15.3 million (US\$0.5 million) as of December 31, 2018.

The amount of the deferred tax asset considered realizable could be reduced in the near term if estimates of future taxable income during the carryforwards or reversal periods are reduced.

Table of Contents

Legal Contingencies

From time to time, we are involved in disputes that arise in the ordinary course of business, and we do not expect this to change in the future. We are currently involved in certain legal proceedings as discussed in “Item 8. Financial Information—Item 8.A.7. Litigation.”

When we determine it is more likely than not our defense in a legal claim will be unsuccessful and therefore it is also more likely than not it will result in an outflow of our resources and our management can reasonably estimate the amount or range of such outflow, we make appropriate provisions in our consolidated financial statements. In making this assessment we consider factors such as the nature of the litigation or claims, the materiality of the amount of possible loss, the progress of the case and the opinions or views of legal counsel and other advisors. In determining the appropriate amount of the provision to be recognized, we develop an estimated amount or range of such loss. Where there is a continuous range of possible outcomes, and each point in that range is as likely as any other, we use the midpoint of the range to measure and recognize the provision. Such estimates are based on our assessment of the facts and circumstances at each reporting date and are subject to change based upon new information and intervening events. We had provisions for litigation and claims amounting to NT\$89.5 million and NT\$431.2 million (US\$14.1 million) in the consolidated statements of financial position as of December 31, 2017 and 2018, respectively. See Note 24 to our consolidated financial statements included elsewhere in this annual report. However, our actual liability may be materially different from the estimates as of December 31, 2018 and may have a material adverse effect on our operating results, cash flows or financial condition.

Measurement of Defined Benefit Obligations

We use the Projected Unit Credit Cost Method for accrued pension liabilities and the resulting pension expenses under defined benefit pension plans. Actuarial assumptions comprise the discount rate, rate of employee turnover, and long-term average future salary increase, etc. The discount rate is determined by reference to the yield rate on the ROC government bonds at the reporting date. Changes in economic circumstances and market conditions will affect these assumptions and may have a material impact on the amount of the expense and the liability. As of December 31, 2017 and 2018, the accrued pension liabilities for our defined benefit obligations were NT\$915.9 million and NT\$890.7 million (US\$29.1 million), respectively.

Consolidated Results of Operations

The following table sets forth certain information of our results of operations, in both monetary amounts and as a percentage of our net revenue for the periods indicated:

Edgar Filing: AU OPTRONICS CORP - Form 20-F

	Year Ended December 31,							
	2016		2017		2018			
	NT\$	%	NT\$	%	NT\$	US\$		%
	(in millions, except for percentages)							
Net revenue	329,089.0	100.0	341,028.3	100.0	307,634.4	10,050.1		100.0
Cost of sales	(294,598.0)	(89.5)	(279,986.6)	(82.1)	(279,494.9)	(9,130.8)		(90.9)
Gross profit	34,491.0	10.5	61,041.7	17.9	28,139.5	919.3		9.1
Selling and distribution expenses	(3,895.1)	(1.2)	(3,889.0)	(1.1)	(3,946.5)	(128.9)		(1.3)
General and administrative expenses	(9,176.7)	(2.8)	(8,158.9)	(2.4)	(7,978.3)	(260.6)		(2.6)
Research and development expenses	(9,080.8)	(2.7)	(9,854.7)	(2.9)	(9,546.8)	(311.9)		(3.1)
Other income	2,380.2	0.7	3,829.9	1.1	5,412.1	176.8		1.8
Other gains and losses	(925.6)	(0.3)	(976.5)	(0.3)	1,488.1	48.6		0.5
Finance costs	(2,707.9)	(0.8)	(2,867.9)	(0.8)	(2,663.6)	(87.0)		(0.9)
Share of profit of equity-accounted investees	100.8	0.0	239.0	0.1	311.7	10.2		0.1
Profit before income tax	11,185.9	3.4	39,363.6	11.6	11,216.2	366.4		3.6
Income tax expense (benefit)	2,432.5	0.7	(1,125.2)	(0.3)	322.4	10.5		0.1
Profit for the year	8,753.4	2.7	40,488.8	11.9	10,893.8	355.9		3.5
Other comprehensive loss for the year, net of taxes	(7,329.9)	(2.3)	(818.9)	(0.3)	(1,383.8)	(45.2)		(0.4)
Total comprehensive income for the year	1,423.5	0.4	39,669.9	11.6	9,510.0	310.7		3.1

Table of Contents

In 2018, the average selling price of our panels had dropped considerably due to the expectation of an oversupply of panels. As a result, our gross margin and net margin decreased by 8.8% and 8.4% compared to 2017, respectively.

In 2017, we improved our product mix by seeking enhancement of our high-end products as well as focusing on product differentiation. Moreover, the higher average selling price of large-size panels strengthened our profitability. As a result, our gross margin and net margin increased by 7.4% and 9.2% compared to 2016, respectively.

For the Years Ended December 31, 2018 and 2017

Net Revenue

Net revenue decreased 9.8% to NT\$307,634.4 million (US\$10,050.1 million) in 2018 from NT\$341,028.3 million in 2017.

Net revenue of large-size panels decreased 12.4% to NT\$231,564.7 million (US\$7,565.0 million) in 2018 from NT\$264,203.5 million in 2017 primarily due to the decrease in average selling price resulting from the expectation of an oversupply of panels.

Net revenue of small- to medium-size panels slightly increased 0.9% to NT\$48,719.1 million (US\$1,591.6 million) in 2018 from NT\$48,277.9 million in 2017 due to a change in our product mix, despite a decline in the average selling price.

Cost of sales

Cost of sales consisted primarily of raw material and component costs, direct labor costs and overhead expenses which include depreciation expenses, maintenance expenses of production equipment, indirect labor costs, indirect material costs, utilities and supplies.

Despite an increase in the amount of panels shipped, our cost of sales slightly decreased 0.2% from NT\$279,986.6 million in 2017 to NT\$279,494.9 million (US\$9,130.8 million) in 2018. The decrease in cost of sales was primarily due to a decline in our personnel expenses and depreciation expenses. However, the decrease in average selling price

outpaced the decrease in cost of sales per panel. Therefore, as a percentage of net revenue, our cost of sales increased from 82.1% in 2017 to 90.9% in 2018.

Gross Profit

Gross profit was NT\$28,139.5 million (US\$919.3 million) in 2018 compared to gross profit of NT\$61,041.7 million in 2017. Gross margin mainly fluctuates, among other factors, with our capacity utilization rate, the yield rate of our products, market price change of our products and our product mix. Due to the expectation of an oversupply of panels, there was a decrease in the average selling price, which resulted in a lower gross margin of 9.1% in 2018 compared with 17.9% in 2017.

Selling and Distribution Expenses

Selling and distribution expenses increased 1.5% to NT\$3,946.5 million (US\$128.9 million) in 2018 from NT\$3,889.0 million in 2017. As a percentage of net revenue, selling and distribution expenses increased to 1.3% in 2018 from 1.1% in 2017. The slight increase was primarily due to an increase in shipping costs, which was partially offset by a decrease in our personnel expenses.

General and Administrative Expenses

General and administrative expenses decreased 2.2% to NT\$7,978.3 million (US\$260.6 million) in 2018 from NT\$8,158.9 million in 2017. The decrease was mainly due to decreased personnel expenses and bank charge expenses. As a percentage of net revenues, general and administrative expenses increased to 2.6% in 2018 from 2.4% in 2017.

Table of Contents

Research and Development Expenses

Research and development expenses decreased 3.1% to NT\$9,546.8 million (US\$311.9 million) in 2018 from NT\$9,854.7 million in 2017. The decrease in 2018 was primarily due to a decline in our personnel expenses and depreciation expenses resulting from the end of useful life for part of our equipment and tools. The aforementioned decrease was partially offset by an increase in our purchase of tools and materials used for our increased research and development activities. As a percentage of net revenue, research and development expenses increased to 3.1% in 2018 from 2.9% in 2017.

Other Income

Other income primarily included interest income on bank deposits, rental income, interest income on government bonds with reverse repurchase agreements, dividend income and grants, etc. Other income significantly increased to NT\$5,412.1 million (US\$176.8 million) in 2018 from NT\$3,829.9 million in 2017, primarily due to an increase in government grants which our subsidiaries received.

Other Gains and Losses

Other gains and losses primarily include gains or losses on disposal of assets, impairment loss on assets, foreign exchange gains or losses, gains or losses on valuation of financial assets and liabilities measured at fair value through profit or loss and others. We had a total net other gain of NT\$1,488.1 million (US\$48.6 million) in 2018 and a total net other loss of NT\$976.5 million in 2017. The total net other gain in 2018 was primarily due to the disposal gain of land and buildings from our subsidiaries.

Income Tax Expense (Benefit)

We had income tax expense of NT\$322.4 million (US\$10.5 million) in 2018 and income tax benefit of NT\$1,125.2 million in 2017. As a result, our effective tax rate was 2.87% in 2018 compared to negative 2.85% in 2017. The income tax benefit in 2017 was primarily due to the recognition of deferred tax assets of NT\$3,878.2 million from prior years' tax losses carried forward, which are expected to be utilized in future period. Excluding the impact of aforementioned tax benefit in 2017, the income tax expense significantly decreased from NT\$2,753.0 million in 2017 to NT\$322.4 million in 2018. The decline was primarily due to the decreased surtax on undistributed earnings resulted from the lower profit in 2018 and a decrease in surtax rate from 10% to 5% on undistributed earnings enacted in 2018. Moreover, we had a tax benefit arising from adjustment on deferred tax assets due to the amendment of statutory income tax rate from 17% to 20% enacted in 2018.

Net Profit for the Year

As a result of the foregoing, we had a consolidated net profit of NT\$10,893.8 million (US\$355.9 million) in 2018 compared to NT\$40,488.8 million in 2017. Also, we had a net profit attributable to owners of our company of NT\$13,071.6 million (US\$427.0 million) in 2018 compared to NT\$42,609.5 million in 2017, with a basic earnings per share of NT\$1.36 (US\$0.04) in 2018 compared to NT\$4.43 in 2017.

For the Years Ended December 31, 2017 and 2016

Net Revenue

Net revenue increased 3.6% to NT\$341,028.3 million in 2017 from NT\$329,089.0 million in 2016.

Net revenue of large-size panels increased 6.5% to NT\$264,203.5 million in 2017 from NT\$248,193.6 million in 2016 primarily due to increased average selling price and sales volume. The average selling price per panel increased by 5.2% from NT\$2,246.6 in 2016 to NT\$2,363.1 in 2017 mainly due to a change in our product mix and favorable market demand/supply condition.

Table of Contents

Net revenue of small- to medium-size panels increased 1.7% to NT\$48,277.9 million in 2017 from NT\$47,448.4 million in 2016. The increase was primarily due to an increase in sales volume by 9.7% from 154.0 million in 2016 to 168.9 million in 2017. On the other hand, the average selling price per panel decreased by 7.2% from NT\$308.2 in 2016 to NT\$285.9 in 2017, primarily due to the appreciation of NT dollar and a change in product mix.

Cost of sales

Cost of sales consisted primarily of raw material and component costs, direct labor costs and overhead expenses which include depreciation expenses, maintenance expenses of production equipment, indirect labor costs, indirect material costs, utilities and supplies.

Cost of sales decreased 5.0% from NT\$294,598.0 million in 2016 to NT\$279,986.6 million in 2017. This decrease in cost of sales was primarily due to our continuing improvement on cost control as well as reduction on purchases resulting from favorable exchange rate. As a percentage of net revenue, cost of sales decreased from 89.5% in 2016 to 82.1% in 2017.

Gross Profit

Gross profit was NT\$61,041.7 million in 2017 compared to gross profit of NT\$34,491.0 million in 2016. Gross margin mainly fluctuates, among other factors, with our capacity utilization rate, the yield rate of our products, market price change of our products and our product mix. The gross margin in 2017 and 2016 was 17.9% and 10.5%, respectively. The increase was primarily due to higher average selling price of large-size panels. Moreover, our focus on high-end products and the implementation of cost control also contributed to our growing profit.

Selling and Distribution Expenses

Selling and distribution expenses decreased 0.2% to NT\$3,889.0 million in 2017 from NT\$3,895.1 million in 2016. As a percentage of net revenue, selling and distribution expenses decreased to 1.1% in 2017 from 1.2% in 2016. Our selling and distribution expenses remained approximately the same from previous year.

General and Administrative Expenses

General and administrative expenses decreased 11.1% to NT\$8,158.9 million in 2017 from NT\$9,176.7 million in 2016 mainly due to the ramp-up expenses related to our 6-generation LTPS fab in China recognized in 2016. Apart from the aforementioned, the general and administrative expenses in 2017 slightly decreased compared with 2016, primarily due to a decrease in professional expenses, which was partially offset by an increase in our personnel expenses. As a percentage of net revenues, general and administrative expenses decreased to 2.4% in 2017 from 2.8% in 2016.

Research and Development Expenses

Research and development expenses increased 8.5% to NT\$9,854.7 million in 2017 from NT\$9,080.8 million in 2016. The increase in 2017 was primarily due to an increase in our personnel expenses as well as an increase in purchase of tools and materials used for our increased research and development activities. As a percentage of net revenue, research and development expenses increased to 2.9% in 2017 from 2.7% in 2016.

Other Income

Other income primarily included interest income on bank deposits, rental income, interest income on government bonds with reverse repurchase agreements, dividend income and grants, etc. Other income significantly increased to NT\$3,829.9 million in 2017 from NT\$2,380.2 million in 2016, primarily due to an increase in grants which our subsidiaries received from government.

Table of Contents

Finance Costs

Finance costs consist of interest expenses, which have been primarily attributable to our bank loans. Finance costs increased 5.9% to NT\$2,867.9 million in 2017 from NT\$2,707.9 million in 2016, primarily due to having more borrowings from countries with higher interest rates.

Income Tax Expense (Benefit)

We had income tax benefit of NT\$1,125.2 million in 2017 and income tax expense of NT\$2,432.5 million in 2016, respectively. The income tax benefit in 2017 was primarily due to the recognition of deferred tax assets from prior years' unutilized tax losses carryforwards. As a result, our effective tax rate was negative 2.85% in 2017 compared to 21.7% in 2016.

Net Profit for the Year

As a result of the foregoing, we had a net profit of NT\$40,488.8 million in 2017 or basic earnings per share of NT\$4.43 and diluted earnings per share of NT\$4.27 in 2017 compared to a net profit of NT\$8,753.4 million or basic and diluted earnings per share of NT\$1.04 and NT\$1.02, respectively, in 2016.

Segment Information

General

We have two operating segments: display business and energy business. Our management monitors and evaluates the performance of both operating segments based on the information of their revenue and segment profit (loss). Segment profit (loss) represents gross profit (loss) minus selling and distribution expenses, general and administrative expenses and research and development expenses. Segment profit (loss) excludes long-lived asset impairments, gains and losses on disposal of assets, gain on bargain purchase, litigation provisions for display business, foreign currency exchange gains or losses, finance costs, income taxes, share of profit and losses of equity-accounted investees and other miscellaneous income and expenses. The following table sets forth our segments results for the years indicated.

Edgar Filing: AU OPTRONICS CORP - Form 20-F

For the Year Ended December 31

2016	2017	2018	
NT\$	NT\$	NT\$	US\$
(in millions)			

Net revenue

Display business	304,826.7	322,335.4	290,784.8	9,499.7
Energy business	24,262.3	18,692.9	16,849.6	550.4
Total	329,089.0	341,028.3	307,634.4	10,050.1

Segment profit (loss)

Display business	12,703.5	39,971.4	7,792.5	254.6
Energy business	(365.1)	(832.3)	(1,124.6)	(36.7)
Total	12,338.4	39,139.1	6,667.9	217.9

Display business

For the Years Ended December 31, 2018 and 2017

Net revenue from our display business segment decreased 9.8% to NT\$290,784.8 million (US\$9,499.7 million) in 2018 from NT\$322,335.4 million in 2017, primarily due to a decline in average selling price of our panels resulting from an expectation of oversupply of panels.

Our segment profit was NT\$7,792.5 million (US\$254.6 million) in 2018 compared to a segment profit of NT\$39,971.4 million in 2017. The decrease in segment profit in 2018 was primarily due to the declining average selling price of our panels that resulted from an expectation of oversupply of panels.

Table of Contents

For the Years Ended December 31, 2017 and 2016

Net revenue from our display business segment increased 5.7% to NT\$322,335.4 million in 2017 from NT\$304,826.7 million in 2016, primarily due to an increase in the average selling price of large-size panels and continuous enhancement of our product mix toward high-value oriented products.

Our segment profit was NT\$39,971.4 million in 2017 compared to segment profit of NT\$12,703.5 million in 2016. The increase in segment profit in 2017 was primarily due to the increasing average selling price of large-size panels, our endeavors to work on product differentiation as well as our continued efforts to provide higher valued products.

Energy business

For the Years Ended December 31, 2018 and 2017

Net revenue from our energy business segment decreased 9.9% to NT\$16,849.6 million (US\$550.4 million) in 2018 from NT\$18,692.9 million in 2017. The decrease was primarily due to a decline in average selling price caused by oversupply and weaker demand as a result of reductions in applicable governmental subsidies received by our customers.

Segment loss increased to NT\$1,124.6 million (US\$36.7 million) in 2018 from NT\$832.3 million in 2017, primarily due to a downward pricing trend.

For the Years Ended December 31, 2017 and 2016

Net revenue from our energy business segment decreased 23.0% to NT\$18,692.9 million in 2017 from NT\$24,262.3 million in 2016. The decrease in energy segment revenue was primarily due to a decrease in the average selling price. Although the sales volume of module increased, the benefit was offset by the decrease in the average selling price.

Segment loss increased to NT\$832.3 million in 2017 from NT\$365.1 million in 2016, primarily due to a decline in the average selling price.

Inflation

We do not believe that inflation in any of our key markets has had a material impact on our results of operations in 2018. However, we cannot provide assurance that in the event of significant variations in the nature, extent or scope of inflation within any of our key markets in the future would not have a material impact on our results of operations.

Taxation

The corporate income tax rate in ROC was 17% in 2016 and 2017 and increased to 20% from the year 2018 due to the amendments to the ROC Income Tax Law, and our subsidiaries outside ROC are subject to their country's juridical tax rate.

Under regulations promulgated under the ROC Statute for Industrial Innovation, we are eligible to apply either (1) a one-time tax credit up to 15% of our research and development expenditures for that year or (2) a tax credit of 10% of our research and development expenditures for three consecutive years. Either of the aforesaid tax credits shall not exceed 30% of our corporate income tax payable for that year.

Pursuant to the ROC Income Basic Tax Act, when a taxpayer's income tax amount is less than the basic tax amount ("BTA"), a taxpayer is required to pay the regular income tax and the difference between the BTA and the regular income tax amount. For enterprises, BTA is determined using regular taxable income plus specific add-back items such as exempt capital gain or loss from securities trading.

Table of Contents

5.B.Liquidity and Capital Resources

We need cash primarily for technology advancement, capacity expansion and working capital. Although we have historically been able to meet our working capital requirements through cash flow from operations, our ability to upgrade our technology and expand our capacity has largely depended upon, and to a certain extent will continue to depend upon, our financing capability through long-term borrowings, the issuance of convertible and other debt securities and the issuance of equity securities. If adequate funds are not available, whether on satisfactory terms or at all, we may be forced to curtail our growth plans including technology advancements, new capacity and advanced technology fabs. Our ability to meet our working capital needs from cash flow from operations will be affected by our business conditions which in turn may be affected by several factors. Many of these factors are outside of our control, such as economic downturns and declines in the selling prices of our products caused by oversupply in the market. The selling prices of our existing product lines are reasonably likely to be subject to further downward pressure in the future if oversupply occurs. To the extent that we do not generate sufficient cash flow from our operations to meet our cash requirements, including technology advancement, capacity expansion, working capital, matured debt repayment and any accelerated debt obligations arising from defaults that are not waived by the relevant creditors, we may need to rely on a combination of additional borrowings, equity or debt securities offerings or other forms of capital financing. Other than as described below in “Item 5. Operating and Financial Review and Prospects—Item 5.E—Off-Balance Sheet Arrangements,” we have not historically relied, and we do not plan to rely in the foreseeable future, on off-balance sheet financing arrangements to finance our operations or expansion.

As of December 31, 2018, we had net current assets of NT\$19,703.4 million (US\$643.7 million) as our current assets of NT\$149,067.6 million (US\$4,869.9 million) exceeded our current liabilities of NT\$129,364.2 million (US\$4,226.2 million). We expect to meet our present working capital requirements through cash flow from operations, bank loans and borrowings and by financing activities from capital markets from time to time.

As of December 31, 2018, we had cash and cash equivalents of NT\$69,163.3 million (US\$2,259.5 million). As of December 31, 2018, we had total short-term credit lines of NT\$44,079.5 million (US\$1,440.0 million), of which we had borrowed NT\$546.5 million (US\$17.9 million). All of our short-term facilities are revolving with a term of one year, which may be extended for terms of one year each with lender consent. Our repayment obligations under our short-term loans are unsecured. We believe that our existing credit lines under our short-term loans, together with cash generated from our operations, are sufficient to liquidity needs.

We also entered into reverse repurchase agreements with securities firms or banks in Taiwan covering government bonds for short-term yield enhancement purposes. The terms of these reverse repurchase agreements are typically less than one month. As of December 31, 2016, 2017 and 2018, we held government bonds with reverse repurchase agreements in amounts of NT\$125.0 million, NT\$6,710.3 million and NT\$90.0 million (US\$2.9 million), respectively; and these bonds yielded interest at rates ranging from 0.26% to 0.38%, at 0.22%, and at 0.235%, respectively.

As of December 31, 2018, we had outstanding long-term borrowings of approximately NT\$86.8 billion (US\$2.8 billion). The interest rates in respect of these long-term borrowings are variable, and as of December 31, 2018 ranged between 1.07% and 6.32% per year.

Below is a summary of our major outstanding borrowings and loans. Please also see Note 23 to our consolidated financial statements for further information.

In September 2014, we entered into a NT\$25.8 billion five-year syndicated credit facility, for which the Bank of Taiwan acted as the agent bank, for the purpose of repaying existing debts. The agreement for this syndicated facility contains covenants that require us to maintain certain financial ratios. Our obligations under this facility are secured by certain of our building, equipment and machinery. As of December 31, 2018, NT\$5.9 billion (US\$193.1 million) was outstanding under this credit facility.

Table of Contents

In May 2015, our subsidiary AU Optronics (Kunshan) Co., Ltd. (“AUKS”) entered into an RMB3,985 million and US\$326 million eight-year syndicated credit facility, for which the Bank of China (Suzhou) acted as the agent bank, for the purpose of funding the construction and purchase of machinery and equipment for our 6-generation LTPS fab in Kunshan, PRC. The agreement for this syndicated facility is guaranteed by AUKS’s shareholders, Kunshan Economic & Technical Development Zone Assets Operation Co., Ltd. and us, in accordance with the shareholding percentages, respectively. Under the guarantee, we are required to maintain certain financial ratios. As of December 31, 2018, RMB6.2 billion (US\$906.4 million) was outstanding under this credit facility.

In September 2015, we entered into a NT\$37.5 billion five-year syndicated credit facility, for which the Bank of Taiwan acted as the agent bank, for the purpose of funding medium-term working capital and repaying existing debts. The agreement for this syndicated facility contains covenants that require us to maintain certain financial ratios. Our obligations under this facility are secured by certain of our building, equipment and machinery. As of December 31, 2018, NT\$36.2 billion (US\$1,181.8 million) was outstanding under this credit facility.

In February 2016, our subsidiary AUO Crystal Corp. entered into a NT\$3.0 billion three-year syndicated credit facility, for which First Commercial Bank acted as the agent bank, for the purpose of repaying AUO Crystal Corp.’s existing loan. The agreement for this syndicated facility contains covenants that require AUO Crystal Corp. to maintain certain financial ratios. As of December 31, 2018, NT\$1.8 billion (US\$58.0 million) was outstanding under this credit facility. AUO Crystal Corp. fully repaid this credit facility in January 2019.

In November 2016, we entered into a NT\$10.0 billion five-year syndicated credit facility, for which the Bank of Taiwan acted as the agent bank, for the purpose of funding purchase of machinery and equipment for 8.5-generation fab expansion. The agreement for this syndicated facility contains covenants that require us to maintain certain financial ratios. Our obligations under this credit facility are secured by certain of our equipment and machinery. As of December 31, 2018, NT\$10.0 billion (US\$326.7 million) was outstanding under this credit facility.

In July 2017, we entered into a NT\$23.0 billion five-year syndicated credit facility with a right to extend two-years of loan repayment period based on each bank’s consent, for which the Bank of Taiwan acted as the agent bank, for the purpose of funding purchase of machinery and equipment for 8.5-generation fab expansion. The agreement for this syndicated facility contains covenants that require us to maintain certain financial ratios. Our obligations under this credit facility are secured by certain of our equipment and machinery. As of December 31, 2018, no amount has been drawn down under this credit facility.

In January 2018, our subsidiary AUO Crystal Corp. entered into a NT\$3.3 billion five-year syndicated credit facility, for which the Bank of Taiwan acted as the agent bank, for the purpose of financing capital expenditure needs. The agreement for this syndicated facility contains covenants that require AUO Crystal Corp. to maintain certain financial ratios. The obligations of AUO Crystal Corp. under this credit facility are secured by certain of building, equipment and machinery. As of December 31, 2018, NT\$0.2 billion (US\$6.9 million) was outstanding under this credit facility.

In June 2018, we entered into a NT\$42.0 billion five-year syndicated credit facility, for which the Bank of Taiwan acted as the agent bank, for the purpose of repaying existing debts. The agreement for this syndicated facility contains covenants that require us to maintain certain financial ratios. Our obligations under this facility are secured by certain building, equipment and machinery. As of December 31, 2018, no amount has been drawn down under this

credit facility.

The carrying amount of our assets pledged as collateral to secure our obligations under our long-term borrowings, including land, building, machinery and equipment was NT\$65.0 billion (US\$2,123.9 million) as of December 31, 2018.

Table of Contents

Our long-term loans and facilities contain various financial and other covenants that could trigger a requirement for early payment. Among other things, these covenants require the maintenance of certain financial ratios, such as current ratio, leverage ratio, interest coverage ratio, tangible net worth and other technical requirements. In general, covenants in the agreements governing our existing debt, and debt we may incur in the future, may materially restrict our operations, including our ability to incur debt, pay dividends, make certain investments and payments and encumber or dispose of assets. A default under one debt instrument may also trigger cross-defaults under our other debt instruments. An event of default under any debt instrument, if not cured or waived, could have a material adverse effect on our liquidity, as well as our financial condition and operations. See “Item 3. Key Information—3.D. Risk Factors—Risks Relating to Our Business—We need to comply with certain financial and other covenants under the terms of our debt instruments, the failure to comply with which may put us in default under those instruments.”

Our principal sources of funds have been historically from long-term borrowings, the issuance of convertible and other debt securities as well as the issuance of equity securities. We believe that our existing cash, cash equivalents, short-term investments, expected cash flow from operations and borrowings under our existing and future credit facilities should be sufficient to meet our present capital expenditure, working capital, cash obligations under our existing debt and lease arrangements and other requirements. From time to time, we frequently need to raise additional capital for the needs of our business growth, including but not limited to, our investment in new capacity and new technologies to improve our economies of scale, reduce our production costs and enrich our product portfolio. However, we cannot assure you that we will be able to raise additional capital should it become necessary on terms acceptable to us or at all. See “Item 3. Key Information—3.D. Risk Factors—Risks Relating to Our Financial Condition, Business and Industry— If capital resources required for our planned growth or development are not available, we may be unable to successfully implement our business strategy.”

Cash Flows

Net cash provided by operating activities was NT\$36,695.8 million in 2016, NT\$84,363.3 million in 2017 and NT\$40,200.7 million (US\$1,313.3 million) in 2018. The decrease in net cash provided by operating activities in 2018 compared to 2017 was primarily due to decreased cash collections from our ordinary business as a result of a decline in net revenue in 2018. The increase in net cash provided by operating activities in 2017 compared to 2016 was primarily due to increased cash collection from our revenue growth as well as our higher profit before income tax contributed more cash inflow.

Net cash used in investing activities were NT\$42,267.3 million in 2016, NT\$43,667.5 million in 2017 and NT\$34,497.8 million (US\$1,127.0 million) in 2018. Net cash used in investing activities primarily reflected capital expenditures for property, plant and equipment of NT\$46,220.1 million in 2016, NT\$43,881.7 million in 2017 and NT\$34,770.3 million (US\$1,135.9 million) in 2018. These capital expenditures were primarily funded with net cash provided by operating activities and proceeds from long-term bank borrowings.

Net cash provided by financing activities was NT\$10,721.2 million in 2016, reflecting primarily in the proceeds from long-term borrowings for NT\$61,799.6 million, partially offset by the repayment of long-term borrowings for NT\$45,651.0 million. Net cash used in financing activities was NT\$13,410.4 million in 2017, reflecting primarily in the repayment of long-term borrowings for NT\$47,443.8 million, partially offset by proceeds from long-term borrowings for NT\$34,872.6 million. Net cash used in financing activities was NT\$41,846.7 million (US\$1,367.1 million) in 2018, reflecting primarily in the repayment of long-term borrowings for NT\$28,736.5 million (US\$938.8 million) and payment of cash dividends to our shareholders for NT\$14,436.4 million (US\$471.6 million), partially offset by the proceeds from long-term borrowings for NT\$4,271.6 million (US\$139.5 million).

Capital Expenditures

We have made, and expect to continue to make, capital expenditures in connection with technology advancement and the expansion of our production capacity. For the past three years, substantially all of capital expenditures were invested in facilities located in Taiwan and the PRC.

We are sometimes required to prepay our purchases of equipment. Prepayments for purchases of equipment result from contractual agreements involving down payments to suppliers when the equipment is ordered by us. As of December 31, 2016, 2017 and 2018, prepayments for purchases of equipment were NT\$13,535.5 million, NT\$27,646.0 million, and NT\$6,721.0 million (US\$219.6 million), respectively.

Table of Contents

Our capital expenditures paid in 2018 were approximately NT\$34,770.3 million (US\$1,135.9 million), primarily for the expansion of our 8.5-generation fab in Taiwan. Our capital expenditures in 2019 are expected to be approximately NT\$40.0 billion, which, depending on cash flow generated from our operations, the progress of our planned growth, and market conditions, may be adjusted later. Our capital expenditures in 2019 are planned to be used primarily for the technology upgrades and payments in the capacity expansion at our 8.5-generation fab in Houli District, Taichung City.

5.C. Research and Development

Our research and development activities are principally directed toward advancing our technologies in key components, manufacturing processes and product development, with the objective of improving the features of our products and services to bring added value to our customers in addition to design products that meet their specific requirements. We have a product development team dedicated to each of our primary product categories. Each of these teams focuses on the development of our existing and potential new products. In addition, we have several research and development teams to develop new and advanced display technologies, such as, UHD 4K , curved display, OLED, quantum dot wide color gamut, HDR, bezel-less, touch, 8K4K, Mini LED, Micro LED and other technologies. Monetary incentives are provided to our employees if research projects result in successful patents. As of December 31, 2018, we employed approximately 1,755 research and development engineers.

In 2016, we announced and exhibited a series of new developments of advanced display technologies. For example, we showcased 4 side bezel-less ALCD TV panels, which not only demonstrates the advanced technologies (4K/Curved/quantum dot wide color gamut/HDR) but also reflects a stylish and fashionable design where consumers can barely see the bezels. We also showcased the world's first bezel-less 65-inch 8K4K (7680 x 4320 pixel) ultra-high resolution TV panel with curved display feature; this product adopts high transmittance and quantum dot materials to achieve low power consumption and true color presentation. We debuted a series of high-end products to capture the gaming market, including a 25-inch FHD (1920 x 1080 pixel) panel with 240Hz refresh rate, and a 27-inch UHD 4K panel with 144Hz refresh rate. We also debuted the 24.9-inch UHD 4K free-form curved car display in Consumer Electronics Show. The touch function for this product is imbedded, and the free-form panel is more suitable for car application. In addition, we presented the 13.3-inch UHD 4K LTPS notebook panel at Touch Taiwan. LTPS panels have the advantages of the low power consumption, high resolution and slim border. The 331 ppi UHD4K panel can fit into high-end customer product line. The panel left/right/up side border can be 2.0mm, and the power consumption is close to a current a-Si FHD panel. We also exhibited high resolution AMOLED display technologies being applied to smartwatches and virtual reality ("VR") devices. In terms of smartwatch applications, 1.5- and 1.6-inch high resolution square AMOLED displays and 1.2- and 1.4-inch full circle AMOLED displays were showcased. The ultra-narrow border, high resolution and power-saving full circle AMOLED displays apply a special cut and driver IC design to create a full circular display area. In terms of VR headset displays, we presented a 3.8-inch AMOLED display with high pixel density of 423 ppi. A set of two displays are designed together to offer a resolution as high as 2K (2160 x 1200 pixel) for both eyes. High color saturation, high contrast with ultimate black state performance, and fast response time altogether offer even smoother and more vivid images, which is expected to offer the most life-like immersive VR experience possible.

Table of Contents

In 2017, we announced and exhibited a series of new developments of advanced display technologies. For example, we enhanced ALCD technology which can achieve as high as 2000-nit brightness with significantly higher contrast. Its low reflective quality helps to deliver high HDR image quality even in daylight, perfectly capturing both bright and dark image details. By adopting environmentally-friendly cadmium-free quantum dots with high color saturation, the display can reveal rich and detailed color depth, with a wide color gamut exceeding NTSC 110% in all environments. We showcased the world's largest 85-inch 8K4K bezel-less ALCD TV display with 120Hz high refresh rate to deliver smooth motion flow with impressive image quality. We partnered with NVIDIA, an industry leader in visual computing, to jointly develop NVIDIA G-Sync HDR technology, which improves the contrast and enriches the details of game display through advanced HDR technology. We also presented the world's first 27-inch gaming monitor panel combining 144Hz refresh rate and UHD 4K ultra high resolution, applying advanced HDR technology and Adobe RGB 99% high color saturation. We showcased UHD 4K Ultra Narrow Border LTPS notebook panels that integrate on-cell touch function. This display combines ultra-high resolution, power-saving function and higher touch sensitivity features to provide a richer user experience with more flexibility. We presented a series of Public Information Display ("PID") Total Solutions, including ultra large 85-inch UHD 4K signage for the outdoors, equipped with 2500-nit ultra-brightness and capability to operate for long periods of time with stability. This also includes stretched type PID from 28.6- to 42-inch that could be installed in semi-outdoor areas; these displays typically function as traffic information displays to provide real time information and advertisement for passengers. We also presented the 18:9 full screen LTPS in-cell touch panel, including 6-inch full HD LTPS in-cell touch panel that integrates the display driver IC and touch IC to simplify the overall module structure. This product uses a new circuit and display design that enables the bottom module border to decrease by 40% in width, and the left and right module borders to be 0.6 mm wide. The in-cell touch technology enhances touch precision and the 18:9 full screen aspect ratio produces more space to accommodate a virtual HOME button, which together offers a boundless, audio-visual experience. In addition, we developed free-form and curved car displays, including the 12.3-inch full HD LTPS display for cluster application with 1.5mm ultra slim border to streamline the product appearance. The display also integrates high resolution, high color saturation, high contrast and wide viewing angle technologies to high-end car displays. We exhibited AMOLED Smartwatch displays, including the AUO 1.2-inch and 1.4-inch true circle AMOLED displays which both have resolution as high as 326 ppi and consume 30% less power when compared with other products in the market. The displays are equipped with a brightness increase mode, so that information and color on the watches are still clearly visible when users are out under strong sunlight. The 1.3-inch AMOLED touch panel, possessing touch function and power-saving strength, offers intuitive touch experience and is light to carry, making it especially suitable for children's smartwatch. We also exhibited two flexible AMOLED display applications, applying plastic substrate and special structural layer design to make the panels foldable and rollable.

In 2018, we announced and exhibited a series of new developments in advanced display technologies, including but not limited to:

85-inch 8K4K bezel-less ALCD TV display which possesses several industry-leading strengths, including the all-around bezel-less design for maximized viewing effect, achieved by the proprietary use of Gate on Array ("GOA") technology.

The world's first 65-inch gaming display panel, with 144Hz refresh rate, UHD 4K resolution, advanced HDR technology and high color saturation.

27 and 32-inch 144Hz gaming monitor displays adopting direct-lit Mini LED backlight, equipped with UHD 4K high resolution and quantum dot wide color gamut and exceptional local dimming effect combined with 1,000 nits ultra-high brightness, the displays boasts HDR images to meet the highest HDR performance level, allowing gamers to capture both bright and dark image details in games. Furthermore, the display's bezel-less design offers gamers with a more immersive gaming experience.

The 13.3-inch UHD 4K LTPS notebook PC display, with a pixel density as high as 332 ppi, wide color gamut, and a 2500:1 ultra-high contrast ratio. The border of the notebook is 1.5mm wide, and the display is 1.8mm thick, making this notebook the industry's slimmest and lightest UHD 4K notebook PC display.

The 13.2-inch free-form Center Information Display ("CID"), the world's first display utilizing the technique of moving gate circuit to the display active area, which can release extra space on the sides for free-form designs.

The 13-inch AMOLED display with world's highest transparency. With a transparency of up to 68%, the display features a 1150x575 resolution and high color saturation. Showing a single-sided image with low reflectance, the display is well suited for future security check and diagnostic devices, and augmented reality applications.

The highest resolution full color TFT driven micro LED display technology, which won the 2018 SID Best in Show Award. We showcased a 12.1-inch micro LED display with a 169 ppi pixel density and 1920x720 resolution, which was achieved by using micro LEDs less than 30 micrometers in size. Each pixel can be independently lighted to realize high dynamic range and low power consumption. Combining various advanced color conversion technologies, the display is able to yield superior color performance.

5.D. Trend Information

For trend information, see "Item 4. Information on the Company—4.B. Business Overview" and "Item 5. Operating and Financial Review and Prospects—5.A. Operating Results."

Table of Contents

5.E. Off-Balance Sheet Arrangements

We have, from time to time, entered into non-derivative financial instruments, including letters of credit, to finance or secure our purchase payment obligations. As of December 31, 2018, we had off-balance sheet outstanding letters of credit of US\$9.4 million and JPY727.2 million.

5.F. Tabular Disclosure of Contractual Obligations

The following table sets forth our contractual obligations with definitive payment terms as of December 31, 2018, which will require significant cash outlays in the future.

	Payments Due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
<u>Contractual Obligations</u>	NT\$	NT\$	NT\$	NT\$	NT\$
	(in millions)				
Long-term borrowings ⁽¹⁾	92,485.5	31,854.5	45,936.0	14,395.1	299.9
Lease obligations ⁽²⁾	5,942.2	927.3	1,562.1	1,366.9	2,085.9
Purchase obligations ⁽³⁾	19,983.5	19,983.5	-	-	-
Other obligations ⁽⁴⁾	778.4	347.2	431.2	-	-
Total	119,189.6	53,112.5	47,929.3	15,762.0	2,385.8

(1) Includes estimated relevant interest payments in any given period in the future. See Note 23 to our consolidated financial statements for further information regarding interest rates.

(2) Primarily represents our obligations to make lease payments to use the land on which our fabs and module-assembly facilities are located under International Accounting Standard 17 “Leases”.

(3) Represents our significant outstanding purchase commitments for the machinery and equipment at our fabs.

(4) Includes certain settlement agreements regarding certain alleged patent infringements with definitive payment terms as of December 31, 2018. See “Item 8. Financial Information 8.A.7. Litigation” for further information relating to certain antitrust civil actions.

In addition to the contractual obligations set forth above, we also have continuing obligations to make cash royalty payments under our technology license agreements, the amounts of which are determined based on our use of certain technology and/or patents. Furthermore, pursuant to relevant regulatory requirements, we estimate that we will contribute approximately NT\$102.8 million (US\$3.4 million) to our pension fund maintained with the Bank of Taiwan in 2019.

We have not entered into any financial guarantees or similar commitments to guarantee the payment obligations of non-affiliated third parties. Our long-term loan and lease agreements include provisions that require early payment under certain conditions. The terms of our credit facilities for long-term borrowings also contain financial covenants, including current ratio, leverage ratio, interest coverage ratio, tangible net worth and other technical requirements. Our debt under these facilities may be accelerated if there is a default, including defaults triggered by failure to comply with these financial covenants and other technical requirements. Please refer to “Item 5. Operating and Financial Review and Prospects—5.B. Liquidity and Capital Resources” for further information about our major outstanding borrowings and loans.

5.G. Recent Accounting Pronouncement

Please refer to Note 3 to the consolidated financial statements.

Table of Contents

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

6.A. Directors and Senior Management

Members of our board of directors are elected by our shareholders. Our board of directors is composed of nine directors. The chairman of the board of directors is elected by the directors. The chairman of the board of directors presides at all meetings of the board of directors and also has the authority to act as our representative. The term of office for directors is three years.

Pursuant to the ROC Company Act, a person may serve as our director in his or her personal capacity or as the representative of another legal entity. A director who serves as the representative of a legal entity may be removed or replaced at any time at the discretion of that legal entity, and the replacement director may serve the remainder of the term of office of the replaced director. Of our nine current directors, one is the representative of Qisda and one is the representative of BenQ Foundation.

In addition, pursuant to the ROC Securities Exchange Act, a public company is required to either establish an audit committee or retain supervisors, provided that the FSC may, after considering the scale and business nature of a public company and other essential conditions, require the company to establish an audit committee in place of its supervisors. We replaced our supervisors by establishing an audit committee on June 13, 2007. The audit committee's duties and powers include, but are not limited to, inspection of corporate records, verification of statements prepared by the board of directors, and giving reports at shareholders' meetings. Each individual member of our audit committee is authorized to investigate our financial condition, represent us when a director is engaged in a sale, loan or other juristic acts with us for his own account or on behalf of another, call the shareholders meeting if the board of directors fails to do so, and give notification, when appropriate, to the board of directors to cease acting in contravention of applicable law or regulations or our Articles of Incorporation or our shareholder resolutions. Our audit committee is required to be composed of all of our independent directors, who are currently Vivien Huey-Juan Hsieh, Mei-Yueh Ho, Ding-Yuan Yang, Chin-Bing (Philip) Peng and Yen-Shiang Shih.

Directors

Nine directors, including five independent directors, were elected at the 2016 Annual General Shareholders Meeting. The following table sets forth information regarding all of our directors as of February 28, 2019. The business address of all of our directors is the company's principal executive office.

Name	Age	Position	Principal Business Activities Performed
------	-----	----------	---

Edgar Filing: AU OPTRONICS CORP - Form 20-F

			Term Expires	Years on Our Board	Outside Our Company
Shuang-Lang (Paul) Peng	61	Chairman and Chief Executive Officer	2019	9	<ul style="list-style-type: none"> · Director, Qisda Corporation · Director, Darwin Precisions Corporation · Director, Qisda Corporation
Kuen-Yao (K.Y.) Lee	67	Director	2019	23	<ul style="list-style-type: none"> · Director, Darfon Corporation · Director, BenQ Materials Corp. · Director, Lextar Electronics Corp.
Kuo-Hsin (Michael) Tsai					
(representing BenQ Foundation)	55	Director, President and Chief Operating Officer	2019	3	<ul style="list-style-type: none"> · Director, Daxin Materials Corporation · Chairman and President, Qisda Corp. · Director, Darfon Electronics Corp.
Peter Chen					<ul style="list-style-type: none"> · Director, BenQ Materials Corp.
(representing Qisda) ⁽¹⁾	58	Director	2019	3	<ul style="list-style-type: none"> · Director, Alpha Networks Inc. · Chairman, DFI Inc. · Chairman, BenQ Medical Technology Corporation · Chairman, Partner Tech Corp. · Independent Director and member of Remuneration Committee and Audit Committee, Darwin Precisions Corporation
Vivien Huey-Juan Hsieh	66	Independent Director	2019	15	<ul style="list-style-type: none"> · Independent Director and member of Remuneration Committee and Audit Committee, Apacer Technology Inc.

Table of Contents

Name	Age	Position	Term Expires	Years on Our Board	Principal Business Activities Performed
					Outside Our Company
Mei-Yueh Ho	68	Independent Director	2019	9	· Independent Director and member of Remuneration Committee and Audit Committee, Bank of Kaohsiung, Ltd.
					· Independent Director and member of Remuneration Committee and Audit Committee, KINPO Electronics Inc.
Ding-Yuan Yang	71	Independent Director	2019	9	· Independent Director and member of Audit Committee, ASE Technology Holding Co., Ltd.
					· Chairman, UniSVR Global Information Technology Corp.
					· Director and President, iD SoftCapital
					· Director, ACER Incorporated
Chin-Bing (Philip) Peng	66	Independent Director	2019	6	· Director, Wistron NeWeb Corporation
					· Director, AOPEN Inc.
					· Director, Wistron Information Technology & Services Corp.
					· Director, Wistron Corporation
					· Independent Director and member of Remuneration Committee and Audit Committee, Apacer Technology Inc.
					· Independent Director and member of Remuneration Committee , Nomination Committee and Audit Committee, CTCI Corporation
Yen-Shiang Shih	69	Independent Director	2019	3	· Director, Taiwan Research Institute
					· Director, Taiwan Institute of Economic Research
					· Chair Professor, Chung Yuan Christian University
					· Independent Director and member of Remuneration Committee and Audit Committee, Formosa Plastics Corporation
					· Policy Advisor, Taiwan Electrical and Electronic Manufacturer's Association
					· Chairman, Sustainable Circulation Economy Development Association

- (1) For information regarding the transactions with Qisda, please review our related party transactions described in “Item 7. Major Shareholders and Related Party Transactions—7.B. Related Party Transactions.”

Shuang-Lang (Paul) Peng. Mr. Peng has been our Chairman since May 11, 2015, and our Chief Executive Officer since November 1, 2015. He has been a director with us since 2010. Prior to his current position, Mr. Peng was our President from January 1, 2012 to October 31, 2015, Executive Vice President from 2008 to 2011, Senior Vice President from 2007 to 2008 and Vice President from 1998 to 2007. Prior to joining AUO, Mr. Peng worked as the Manager of the Material and Production Department at BenQ’s Malaysia branch. Mr. Peng received his Master’s degree in Business Administration from Heriot-Watt University in the United Kingdom in 1995.

Kuen-Yao (K.Y.) Lee. Mr. Lee has been a director of our company since 1996. He was our Chairman from 1996 to May 10, 2015. Mr. Lee received his Bachelor’s degree in Electrical Engineering from the National Taiwan University in Taiwan in 1974 and his Master of Business Administration degree from the International Institute for Management Development in Switzerland in 1990.

Kuo-Hsin (Michael) Tsai. Mr. Tsai has been our director since 2016 and has been our President and Chief Operation Officer since November 1, 2015. Prior to his current position, Mr. Tsai was our Senior Vice President and the General Manager of our Video Solutions Business Group from 2013 to October 2015, the Vice President and the General Manager of Video Solutions Business Group from 2011 to 2012, the head of our Information Technology Business Group from 2008 to 2011, Senior Associate Vice President of our IT Display Manufacturing team from 2007 to 2008, and Associate Vice President of our Procurement Division during 2005 to 2006. Mr. Tsai also worked in various divisions including Material Management and Procurement, and was also the Director of the Suzhou module plant from 2002 to 2005. Mr. Tsai holds a Bachelor’s degree in Business Management from National Cheng Kung University and an Executive MBA degree from National Chiao Tung University in Taiwan in 2010.

Table of Contents

Peter Chen. Mr. Chen has been a director of our company since June 2016 and has been the Chairman and President of Qisda Corp. since June 22, 2017 and January 1, 2014, respectively. Mr. Chen is also the Chairman of DFI Inc., BenQ Medical Technology Corporation and Partner Tech Corp. and Director of Alpha Networks Inc., Darfon Electronics Corp. and BenQ Materials Corp. In addition, Mr. Chen is the Chairman of the risk management committee in Qisda Corp. Prior to his current position, Mr. Chen was Executive Vice President of Technology Product Center of BenQ Corp. from September 2007 to December 2013. Mr. Chen received his Bachelor's degree in Electrical Engineering from the National Cheng Kung University in Taiwan in 1985 and his EMBA from the Thunderbird American Graduate School in the United States in 2001.

Vivien Huey-Juan Hsieh. Dr. Hsieh has been our director since 2004. Dr. Hsieh is also an independent director of Darwin Precisions Corporation and Apacer Technology Inc. Dr. Hsieh served as the President of China Development Asset Management Corp. from 2001 to 2004. She was the President of Co-Operative Asset Management Corp. from 2005 to 2006. Dr. Hsieh received a Ph.D. in Finance from the Graduate School of Business Administration, University of Houston, University Park, Texas in the United States.

Mei-Yueh Ho. Ms. Ho has been our director since 2010. Ms. Ho is also the independent director of the Bank of Kaohsiung, Ltd., Kinpo Electronics Inc. and ASE Technology Holding Co., Ltd. Ms. Ho served as the Minister of the Ministry of Economic Affairs of the ROC from 2004 to 2006. She was also the Council Minister of the Council for Economic Planning and Development of the ROC from 2007 to 2008. Ms. Ho received her Bachelor's degree in Agricultural Chemistry from the National Taiwan University in Taiwan in 1973.

Ding-Yuan Yang. Dr. Yang has been a director of our company since 2010. Dr. Yang is also the Chairman of UniSVR Global Information Technology Corp. Dr. Yang served as the President of Windbond Electronics Corp. from 1987 to 1999 and as the Vice Chairman of Windbond Electronics Corp. from 1999 to 2002. Dr. Yang received his Bachelor's degree in Electrical Engineering from the National Taiwan University in Taiwan in 1969 and his Ph.D. degree in Electrical Engineering from Princeton University in the United States in 1975.

Chin-Bing (Philip) Peng. Mr. Peng has been a director of our company since 2013. Mr. Peng is also a director of Acer Incorporated, Wistron Corporation, Wistron NetWeb Corporation, AOPEN Inc., Wistron Information Technology & Services Corporation, Independent Director of Apacer Technology Inc., and the President of iD SoftCapital Inc., which offers consulting and asset and fund management services. Mr. Peng served as the Senior Vice President and Chief Financial Officer of ACER Incorporated from 2001 to 2004. Mr. Peng received his Master's degree in Business Administration from National ChengChi University in 1980.

Yen-Shiang Shih. Dr. Shih has been a director of our company since 2016. Dr. Shih is a Chair Professor of Business Management at Chung Yuan Christian University. Dr. Shih was the Chairman of Sinotech Engineering Consultants Inc. from 2014 to 2016 and served as the Minister of Economic Affairs of the ROC, the Chairman of CPC Corporation, Director General of the Taiwan Tobacco & Wine Bureau, Director General of the Industrial Development Bureau, Director General of the Small and Medium Enterprise Administration and in other posts from

1986 to 2013. Dr. Shih was a professor at National Taiwan University of Science and Technology from 1979 to 1986. Dr. Shih received his Bachelor's degree from National Taiwan University and his Ph.D. degree from the Massachusetts Institute of Technology in the United States.

Senior Management

The following table sets forth information regarding key executives as of February 28, 2019.

Name	Age	Position	Years with us
Shuang-Lang (Paul) Peng	61	Chairman and Chief Executive Officer	23
Kuo-Hsin (Michael) Tsai	55	President and Chief Operation Officer	22
Wei-Lung Liao	48	Chief Technology Officer of Technology Group	21
TY Lin	47	Vice President of Business Group	16
Ting-Li Lin	47	Vice President of Manufacturing Group	21
Amy Ku	55	Chief Sustainability Officer	15
Benjamin Tseng	51	Chief Financial Officer / Spokesperson	11

Table of Contents

Shuang-Lang (Paul) Peng. See “—Directors.”

Kuo-Hsin (Michael) Tsai. See “—Directors.”

Wei-Lung Liao. Mr. Liao has been the Chief Technology Officer of the Technology Group since November 1, 2018. Prior to his current position, Mr. Liao was the General Manager of our Video Solutions Business Group from 2015 to 2018, the Vice President of our Video Solutions Technology Unit from 2013 to October 2015, Associate Vice President of our Video Solution Technology Development Center from 2012 to 2013, Associate Vice President of our Advanced Technology Research Center from 2010 to 2012 and the head of the LCD Technology Division from 2005 to 2010. Mr. Liao also worked in various divisions including Engineering and Manufacturing. Mr. Liao received his Bachelor’s and Master’s degrees in Applied Chemistry from National Chiao Tung University in Taiwan in 1994 and 1996, respectively and received his Ph.D. in Applied Chemistry at National Chiao Tung University in Taiwan in 2017.

TY Lin. Mr. Lin has been our Vice President of Business Group since November 1, 2018. Mr. Lin joined AUO in 1998 and had since then worked in various functions including manufacturing and quality management. In 2008, Mr. Lin was appointed Deputy Managing Director of AU Optronics (Suzhou) Corp., in charge of the company’s operation and development. In 2009, he was transferred to BenQ Materials Corp., responsible for the polarizer business. From 2010 to 2015, Mr. Lin assumed as the position of the President of BenQ Materials Corp. In 2015, he returned to AUO to take the position of Senior Associate Vice President of Video Solutions Product Business Unit, and then of Solar Business. In 2018, Mr. Lin was promoted to Vice President and led AUO’s Mobile Solutions Business Group. Mr. Lin obtained his Master’s degree in Industrial Engineering from Chung Yuan Christian University in Taiwan.

Ting-Li Lin. Mr. Lin is currently Vice President of Manufacturing Group, responsible for global manufacturing affairs. Mr. Lin joined AUO’s manufacturing unit in 1998. He was appointed Director of Quality Management in 2008. In 2011, he served as the Director of G8.5 fab plant and was appointed Associate Vice President of Video Solutions Manufacturing in 2016. Mr. Lin was then promoted to Vice President of Video Solutions Manufacturing in 2018. Mr. Lin has extensive operation and management experiences across different generations of fabs, ranging from G3.5, G5, G6, G7.5 to G8.5. Mr. Lin obtained his Master’s degree in Applied Chemistry from National Chiao Tung University in Taiwan.

Amy Ku. Ms. Ku is currently AUO’s Chief Sustainability Officer, responsible for the strategic direction of corporate sustainable development, stakeholder relations and communication, and corporate sustainable culture building and promotion. Ms. Ku joined AUO in 2004 as HR Manager of the Lung Tan Site. She was appointed as the Director of Corporate HR Strategy Division, and then Associate Vice President of Executive HR Division. In 2013, she was promoted as the Vice President of Human Resource Center. In 2018, Ms. Ku was appointed as Chief Sustainability Officer of the newly established Sustainability Development unit. Ms. Ku obtained her Master’s degree in Human Resource Management from National Central University.

Benjamin Tseng. Mr. Tseng has been our Chief Financial Officer since November 1, 2015. Prior to his current position, Mr. Tseng was the Financial Associate Vice President of our Finance Center in China from 2011 to October 2015 and the Director of our Finance Management Division from 2008 to 2011. Prior to joining AUO in 2008, Mr. Tseng served as the Director of Corporate Development at Coretronic Corporation from 2006 to 2008, and as the Vice President in the Corporate Clients Department of ABN AMRO Bank from 1995 to 2006. Mr. Tseng received his Bachelor's degree in Business Administration from Huntington College in the United States in 1993, and obtained his Master's degree in Business Administration from the University of Rochester in the United States in 1995.

Table of Contents

6.B. Compensation

The aggregate compensation paid or payable to the directors and executives for their services rendered in 2018 was approximately NT\$345.0 million (US\$11.3 million). According to our Articles of Incorporation approved by our annual shareholders' meeting in June 2016, which are applicable to the distribution of compensation to our directors for the years after 2015, where we have a profit before tax for each fiscal year, we shall first reserve a certain amount of the profit to recover the loss for preceding years, and then distribute no more than 1% of the remaining profit to our directors as remuneration. In the event that a director serves as a representative of a legal entity, such compensation is paid to the legal entity. See "Item 10. Additional Information—10.B. Memorandum and Articles of Association—Dividends and Distributions."

We have a long-term incentive program based on stock ownership trust that we implement to share the risks and rewards of the Company's results of operation with our senior management officers. Each year we evaluate the incentive program based on the Company's long-term strategic goals, operational results, market share and annual revenue. In conjunction, we periodically assess the performance of our senior management officers that participate in the long-term incentive program to record their progress and to determine whether corresponding milestones are achieved. In general, the duration of a long-term incentive program is three to four years.

The following tables provide a breakdown of our compensation scheme to our directors and executives in 2018:

Table of Contents

(I) Compensation to Directors

Unit: NT\$1,000; 1,000 shares

Title (Note 1)	Name (Note 1)	Director's compensation								Ratio A, B (%) (Note 6)
		Compensation (A) (Note 2)	AU Optronics Corp. and its subsidiaries (Note 8)	Pension upon retirement (B) (Note 3)	AU Optronics Corp. and its subsidiaries (Note 8)	Director's remuneration (C) (Note 4)	AU Optronics Corp. and its subsidiaries (Note 8)	Business execution Expenses (D) (Note 5)	AU Optronics Corp. and its subsidiaries (Note 8)	
Chairman and CEO	Shuang-Lang (Paul) Peng									
Director	Kuen-Yao (K.Y.) Lee									
Independent Director	Vivien Huey-Juan Hsieh									
Independent Director	Mei-Yueh Ho									
Independent Director	Ding-Yuan Yang	23,200	24,500	0	0	24,307	24,603	4,011	5,051	0.51
Independent Director	Chin-Bing (Philip) Peng									
Independent Director	Yen-Shiang Shih									
Corporate Director	BenQ Foundation									
Corporate Director	Kuo-Hsin (Michael)									
Representative Corporate Director	Tsai Qisda Corporation	2,000	2,000	0	0	3,472	3,472	0	0	0.05
Corporate Director	Peter Chen	0	0	0	0	0	0	60	60	0.00
Representative										

*In addition to the information disclosed in the table above, has any Director provided services to AU Optronics Corp. and its subsidiaries and received compensation for such services (e.g. serving as a consultant that is not an employee): None.

Table of Contents

Table of compensation ranges

Compensation range for each Director in AU Optronics Corp.	Name of Director	Sum of the first 4 items (A+B+C+D)	Sum of the first 7 items (A+B+C+D+E+F+G)
		AU Optronics Corp. and its subsidiaries (Note 8)	AU Optronics Corp. and its subsidiaries and investees (Note 11)
Less than NT\$ 2,000,000	Kuo-Hsin (Michael) Tsai, Peter Chen	Peter Chen	Peter Chen
NT\$ 2,000,000 (inclusive)~NT\$ 5,000,000		Kuo-Hsin (Michael) Tsai	
	Shuang-Lang (Paul) Peng ,	Shuang-Lang (Paul) Peng ,	
	Kuen-Yao(K.Y.) Lee, Vivien Huey-Juan Hsieh, Mei-Yueh Ho,	Kuen-Yao(K.Y.) Lee, Vivien Huey-Juan Hsieh, Mei-Yueh Ho,	Kuen-Yao(K.Y.) Lee, Vivien Huey-Juan Hsieh, Mei-Yueh Ho, Ding-Yuan Yang, Chin-Bing (Philip) Peng,
NT\$ 5,000,000 (inclusive)~NT\$ 10,000,000	Ding-Yuan Yang, Chin-Bing (Philip) Peng,	Ding-Yuan Yang, Chin-Bing (Philip) Peng,	Chin-Bing (Philip) Peng, Yen-Shiang Shih, BenQ Foundation, Qisda Corporation
	Yen-Shiang Shih, BenQ Foundation, Qisda Corporation	Yen-Shiang Shih, BenQ Foundation, Qisda Corporation	
NT\$ 10,000,000 (inclusive)~NT\$ 15,000,000			BenQ Foundation
NT\$ 15,000,000 (inclusive)~NT\$ 30,000,000			Kuen-Yao(K.Y.) Lee, Peter Chen
NT\$ 30,000,000 (inclusive)~NT\$ 50,000,000			Kuo-Hsin (Michael) Tsai
NT\$ 50,000,000 (inclusive)~NT\$ 100,000,000			Shuang-Lang (Paul) Peng
More than NT\$ 100,000,000			Shuang-Lang (Paul) Peng
Total	11 Persons (including 2 Corporate Directors)	11 Persons (including 2 Corporate Directors)	11 Persons (including 2 Corporate Directors)

Note 1: The information in the table refers to compensation for current Directors as of the end of 2018.

Edgar Filing: AU OPTRONICS CORP - Form 20-F

Note 2: Refers to compensation for Directors in 2018 (including salaries, job allowance, severance pay, bonuses, and performance fees).

Note 3: Refers to pension either allocated or paid out per legal requirements in 2018.

Note 4: Refers to Directors' remunerations in 2018.

Note 5: Refers to Directors' business execution expenses in 2018 (including provisions of compensation, transport fees, special expenses, various subsidies, accommodations, or company vehicles and other physical items for those serving as representatives of Corporate Directors or supervisors designated by AU Optronics Corp. and its subsidiaries)

Note 6: Refers to compensation for Directors concurrently who also served as President, Vice President, other managers, or employees in 2018 including salaries, job remuneration, severance pay, bonuses, performance fees, transport fees, special expenses, various subsidies, accommodation, company vehicles, and other physical items, etc. Any salary expenses recognized under IFRS 2 Share-Based Payment, including employee stock option plan, employee restricted stock and cash capital increase by stock subscription shall also be included in compensation.

Note 7: Refers to employee's remuneration (including stock and cash) paid to Directors who also served as President, Vice President, other managers, or employees in 2018.

Note 8: Total compensation in various items paid out to AU Optronics Corp.'s Directors.

Note 9: Profit refers to the profit for the year in the 2018 parent company only financial statements of AU Optronics Corp. under Taiwan IFRS.

Note 10: Refers to compensation, remunerations (including remunerations for employees, Directors, and supervisors), business execution expenses, and other related payments received by Directors who served as Director, supervisor, or manager in investees other than AU Optronics Corp.'s subsidiaries in 2018.

Note 11: Total compensation paid to AU Optronics Corp.'s Directors.

Table of Contents

(II)

Compensation for President and Vice presidents

Unit: NT\$1,000; 1,000 shares

Title (Note 1)	Name (Note 1)	Salary (A) (Note 2)	AU Optronics Corp. and its subsidiaries (Note 6)	Pension upon retirement (B) (Note 3)	AU Optronics Corp. and its subsidiaries (Note 6)	Bonuses and special expenses etc (C) (Note 4)	AU Optronics Corp. and its subsidiaries (Note 6)	Employee's remuneration (D) (Note 5)	AU Optronics Corp. and its subsidiaries (Note 8)	Ratio of A, B, C (%) (N)
		AU Optronics Corp.	AU Optronics Corp. and its subsidiaries (Note 6)	AU Optronics Corp.	AU Optronics Corp. and its subsidiaries (Note 6)	AU Optronics Corp.	AU Optronics Corp. and its subsidiaries (Note 6)	Cash Stock	Cash Stock	AU Optronics Corp.
Chairman and CEO	Shuang-Lang (Paul) Peng									
President and COO	Kuo-Hsin (Michael) Tsai									
Senior Vice President	Wei-Lung Liau									
Vice President	TY Lin									
Vice President	Ting-Li Lin									
Vice President	Shih-Hong Liao									
Vice President	Hong-Shiung (Sean) Chen									
Vice President	Andy Yang	69,196	73,624	2,457	2,547	157,222	161,530	54,2500	54,2500	2.79
Vice President	CS Hsieh									
Vice President	Benjamin Tseng									
Vice President	Amy Ku									
Vice President	Shih-Kun Chen									
Vice President	Kun-Yu Lin									
Vice President	Hong-Jye Hong									
Vice President	James CP Chen									

Vice
President SK Huang

71

Table of Contents

Table of compensation ranges

Compensation range for each President and Vice President in AU Optronics Corp.	Name of the President and Vice presidents AU Optronics Corp.	AU Optronics Corp. and its subsidiaries and investees (Note 9)
Less than NT\$ 2,000,000		
NT\$ 2,000,000 (inclusive)~NT\$ 5,000,000	Shih-Hong Liao	
NT\$ 5,000,000 (inclusive)~NT\$ 10,000,000		
NT\$ 10,000,000 (inclusive)~NT\$ 15,000,000	Ting-Li Lin, Hong-Shiung (Sean) Chen, Andy Yang, CS Hsieh, Benjamin Tseng, Amy Ku, Shih-Kun Chen, Kun-Yu Lin, Hong-Jye Hong, James CP Chen, SK Huang	Ting-Li Lin, Hong-Shiung (Sean) Chen, Andy Yang, CS Hsieh, Benjamin Tseng, Amy Ku, Shih-Kun Chen, Kun-Yu Lin, Hong-Jye Hong, James CP Chen, SK Huang, Shih-Hong Liao
NT\$ 15,000,000 (inclusive)~NT\$ 30,000,000	Wei-Lung Liao, TY Lin	Wei-Lung Liao, TY Lin
NT\$ 30,000,000 (inclusive)~NT\$ 50,000,000	Kuo-Hsin(Michael) Tsai	Kuo-Hsin(Michael) Tsai
NT\$ 50,000,000 (inclusive)~NT\$ 100,000,000	Shuang-Lang(Paul) Peng	Shuang-Lang(Paul) Peng
More than NT\$ 100,000,000		
Total	16 persons	16 persons

Note 1: The information in the table refers to 2018 compensation for current managers such as Vice Presidents or above as of the end of 2018.

Note 2: Refers to compensation for managers such as Vice Presidents or above in 2018, including salaries, job allowance and severance pay.

Note 3: Refers to pension either allocated or paid out per legal requirements in 2018.

Note 4: Refers to compensation for managers such as Vice Presidents or above in 2018, including bonuses, fees for serving as AU Optronics Corp. and its subsidiaries' Corporate Directors or supervisors, performance fees, transport fees, special expenses, various subsidies, accommodation, company vehicles, and other physical items, etc. Any salary expenses recognized under IFRS 2 Share-Based Payment, including employee stock option plan, employee restricted stock and cash capital increase by stock subscription shall also be included in compensation.

Note 5: Refers to remunerations for employee in 2018.

Note 6: Total compensation in various items paid out to AU Optronics Corp.'s managers such as Vice Presidents or above.

Note 7: Profit refers to the profit for the year in the 2018 parent company only financial statements of AU Optronics Corp. under Taiwan IFRS.

Note 8: Refers to compensation including compensation, remuneration (including remunerations for employees, Directors, and supervisors), business execution expenses, and other related payments received by managers such as Vice Presidents or above who served as Director, supervisor, or manager in investees other than AU Optronics Corp.'s subsidiaries in 2018.

Note 9: Total compensation paid to managers such as Vice Presidents or above.

Table of Contents

We have a defined benefit pension plan covering our regular employees in the ROC. Retirement benefits are based on years of service and average salaries or wages in the last six months before retirement. We make monthly contributions, at a certain percentage of salaries and wages, to a pension fund that is deposited in the name of, and supervised by, the employees' pension plan committee. Beginning on July 1, 2005, pursuant to the ROC Labor Pension Act, we are required to make a monthly contribution for employees in the ROC that elected to participate in a defined contribution plan at a rate of no less than 6% of the employees' monthly salaries or wages to the employees' individual pension fund accounts at the ROC Bureau of Labor Insurance. The total pension cost for our executives for the year ended December 31, 2018 was NT\$2.5 million (US\$0.08 million). Our directors did not receive any pension as part of their remuneration.

Our company, AU Optronics Corp., currently does not have any stock option plans.

6.C. Board Practices

General

For a discussion of the term of office of the board of directors, see “—6.A. Directors and Senior Management.” No benefits are payable to members of the board upon termination of their relationship with us.

Audit Committee

Our board of directors established an audit committee in August 2002. On June 13, 2007, we replaced our supervisors with an audit committee pursuant to the amended ROC Securities Exchange Act. The audit committee's duties and powers include, but are not limited to, investigation of our financial condition, inspection of corporate records, verification of statements by the board of directors, giving reports at shareholders' meetings, and giving notification, when appropriate, to the board of directors to cease acting in contravention of applicable law or regulations or our Articles of Incorporation or the resolutions of our shareholders' meeting. Our audit committee is required to be composed of all our independent directors, who are currently Vivien Huey-Juan Hsieh, Mei-Yueh Ho, Ding-Yuan Yang, Chin-Bing (Philip) Peng and Yen-Shiang Shih. Vivien Huey-Juan Hsieh and Chin-Bing (Philip) Peng are financially literate and have accounting or related financial management expertise. The audit committee meets as often as it deems necessary to carry out its responsibilities. Our board of directors has adopted an Audit Committee Charter for the audit committee.

Remuneration Committee

Our board of directors established a remuneration committee in August 2011. The remuneration committee's duties and powers include, but are not limited to, matters relating to the compensation of the members of our board of directors and senior management. The members of the remuneration committee are appointed by the board of directors. They currently are Chin-Bing (Philip) Peng, Ding-Yuan Yang and Vivien Huey-Juan Hsieh. All three members of our current remuneration committee are also our independent directors. The remuneration committee must meet at least twice each year and may meet as often as it deems necessary to carry out its responsibilities. Our board of directors has adopted a Remuneration Committee Charter for the remuneration committee.

6.D. Employees

Employees

The following table provides a breakdown of our employees by function as of December 31, 2016, 2017 and 2018.

Function	As of December 31,		
	2016	2017	2018
Production	43,831	43,420	38,688
Technical ⁽¹⁾	8,992	9,055	8,930
Sales and marketing	898	969	1,013
Management and administration	3,858	3,761	3,610
Total	57,579	57,205	52,241

Table of Contents

(1) Includes research and development personnel.

The following table provides a breakdown of our employees by geographic location as of December 31, 2016, 2017 and 2018. Please refer to “Item 4. Information on the Company—Item 4.C. Organizational Structure” for information about our subsidiaries incorporated in different geographic locations.

As of December 31,			
Location	2016	2017	2018
Taiwan	25,227	26,176	25,318
PRC	30,125	28,954	24,954
Others	2,227	2,075	1,969
Total	57,579	57,205	52,241

Employee salaries are reviewed and adjusted annually. Salaries are reviewed primarily based upon market survey, inflation, individual performance, company profit and its affordable capability. In order to motivate and encourage employees, incentives consisting of a performance bonus and profit sharing are created and granted to employees according to the company’s performance.

According to our Articles of Incorporation approved by our annual shareholders’ meeting in June 2016, provided that where we have a profit before tax for each fiscal year, we shall first recover the loss for preceding years, if any, and then distribute no less than 5% of the remaining profit to employees as remuneration. Employees are entitled to receive remuneration in the form of stock, cash or a combination of stock and cash to be determined by our board of directors. The amount allocated in shares to employees is determined by valuing the shares at the closing price on the last trading day before the date of the board meeting. In addition, ROC law generally requires that our employees be given a preemptive right to subscribe for between 10% and 15% of any of our share offerings.

The distribution rule of profit sharing to our employees is based upon his/her position, individual performance, job grade and service seniority for that year.

We provide insurance coverage for employees as required by law and offer an employee retirement scheme. For example, each employee is entitled to labor insurance, National Health Insurance, and group insurance starting from

his or her first day of work. In addition, we have also established a welfare committee, a pension fund committee and other employee committees and a variety of employee benefit programs.

We do not have any collective bargaining arrangement with our employees. We consider our relations with our employees to be good. We do not employ a significant number of temporary employees.

Some senior executive officers are entitled to certain benefits upon termination under certain conditions, including a severance payment equal to a certain specified number of months of his or her then salary.

6.E. Share Ownership

The table below sets forth the information with respect to the beneficial ownership of our common shares for each of our directors and key executives as of February 28, 2019. Share ownership information will include the common shares held by the legal entities represented by our directors and key executives.

Name	Number of Shares Beneficially Owned	Percentage of Shares Beneficially Owned
Shuang-Lang (Paul) Peng, Chairman and Chief Executive Officer	6,286,800 (1)	*
Kuen-Yao (K.Y.) Lee, Director	11,727,466 (2)	*
Kuo-Hsin (Michael) Tsai, Director** and President & Chief Operation Officer	4,004,080 (3)	*
Peter Chen, Director***	663,697,887 (4)	6.9 %
Vivien Huey-Juan Hsieh, Independent Director		
Mei-Yueh Ho, Independent Director		
Ding-Yuan Yang, Independent Director		

Table of Contents

Name	Number of Shares Beneficially Owned	Percentage of Shares Beneficially Owned
Chin-Bing (Philip) Peng, Independent Director	96,670	*
Yen-Shiang Shih, Independent Director		
Wei-Lung Liao, Chief Technology Officer of Technology Group	1,563,211	*
T.Y. Lin, Vice President of Business Group	197,183 (5)	*
Ting-Li Lin, Vice President of Manufacturing Group	590,414 (6)	*
Amy Ku, Chief Sustainability Officer	1,539,259	*
Benjamin Tseng, Chief Financial Officer and Spokesperson	1,239,357 (7)	*

*The number of common shares beneficially held is less than 1% of our total outstanding common shares.

**Representative of BenQ Foundation.

***Representative of Qisda.

(1) Including 5,075,021 shares directly held and 1,211,779 shares beneficially owned by spouse and minor children.

(2) Including 10,512,153 shares directly held and 1,215,313 shares beneficially owned through spouse and minor children.

(3) Including 2,960,481 shares directly held and 943,599 shares beneficially owned through spouse and minor children. 100,000 shares beneficially owned as a representative of BenQ Foundation.

Including 0 shares directly held and 99,267 shares beneficially owned through spouse and minor children.
(4) 663,598,620 shares beneficially owned as a representative of Qisda. 421,115,000 shares beneficially owned were pledged and 89,315,690 pledged shares have no voting rights under the ROC Company Act.

(5) Including 196,660 shares directly held and 523 shares beneficially owned through spouse and minor children.

(6) Including 590,381 shares directly held and 33 shares beneficially owned through spouse and minor children.

(7) Including 344,471 shares directly held and 894,886 shares beneficially owned through spouse and minor children.

As of February 28, 2019, none of our directors or key executives held any employee stock options from our company, AU Optronics Corp. None of our directors or key executives has voting rights different from those of other shareholders.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

7.A. Major Shareholders

Qisda is one of our major shareholders. As of February 28, 2019, Qisda beneficially owned 6.9% of our outstanding shares. As of February 28, 2019, one of our nine directors is a representative of Qisda.

The following table sets forth information known to us with respect to the beneficial ownership of our shares as of February 28, 2019 or the most recent practicable date, unless otherwise noted, by (1) each shareholder known by us to beneficially own more than 5% of our shares and (2) all directors as a group.

Name of Beneficial Owner	Number of Shares Beneficially Owned	Percentage of Shares Beneficially Owned	Percentage of Shares Beneficially Owned (Fully Diluted)
Qisda 157, Shan-Ying Road, Gueishan, Taoyuan 333, Taiwan, ROC	663,598,620 ⁽¹⁾	6.9 %	6.9 %
All directors as a group ⁽²⁾	685,812,903	7.1 %	7.1 %

As of February 28, 2019, Qisda directly owned 663,598,620 of our common shares, representing approximately 6.9% of the outstanding shares. Of the 663,598,620 common shares directly owned by Qisda, 574,282,930 shares ⁽¹⁾ have sole voting power and 89,315,690 shares have no voting rights pursuant to the ROC Company Act. All 663,598,620 common shares directly owned by Qisda have sole dispositive power.

Table of Contents

Calculated as the sum of (a) with respect to directors who are serving in their personal capacity, the number of shares beneficially held by such director and (b) with respect to directors who are serving in the capacity as legal (2) representatives, the number of shares owned by such institutional or corporate shareholder for which such director is a legal representative and the number of shares beneficially held by such director in his or her personal capacity. This information is as of February 28, 2019.

None of our major shareholders has voting rights different from those of our other shareholders. To the best of our knowledge, we are not directly or indirectly owned or controlled by another corporation, any foreign government, or any other natural or legal person, severally or jointly.

We are not currently aware of any arrangement that may at a subsequent date result in a change of control of our company.

As of February 28, 2019, approximately 9,624.2 million of our shares were issued and outstanding. Citibank, N.A. has advised us that, as of February 28, 2019, approximately 53.5 million ADSs representing 534.7 million common shares were held of record by Cede & Co. and 18 other registered shareholders domiciled in and outside of the United States.

7.B.Related Party Transactions

We have not extended any loans or credit to any of our directors or executives, and we have not provided guarantees for borrowings by any of these persons. We have not entered into any fee-paying contract with any of these persons for such person to provide services not within such person's capacity as a director or executive of the company.

We have, from time to time, purchased raw materials and components and sold our products to our affiliated companies. We believe that these transactions with related parties have been conducted on arms'-length terms.

The following table sets forth a summary of our material transactions with related parties in 2018. Please also see Note 41 to our consolidated financial statements for further information.

Net Revenue				Accounts Receivables		
For the Year Ended December 31,				As of December 31,		
2016	2017	2018		2017	2018	
NT\$	NT\$	NT\$	US\$	NT\$	NT\$	US\$

Edgar Filing: AU OPTRONICS CORP - Form 20-F

	(in millions)				(in millions)		
Associates	554.9	1,216.9	1,898.3	62.0	184.9	696.4	22.8
Joint Ventures	4,105.4	-	-	-	-	-	-
Others ⁽¹⁾	12,767.1	11,959.7	12,050.5	393.7	1,668.1	2,057.8	67.2
Total	17,427.4	13,176.6	13,948.8	455.7	1,853.0	2,754.2	90.0

	Net Purchases				Accounts Payables		
	For the Year Ended December 31,				As of December 31,		
	2016	2017	2018		2017	2018	
	NT\$	NT\$	NT\$	US\$	NT\$	NT\$	US\$
	(in millions)				(in millions)		
Associates	9,886.5	8,667.6	9,185.6	300.1	3,233.0	3,664.7	119.7
Joint Ventures	3,754.4	1,057.1	1,449.6	47.4	-	-	-
Others ⁽¹⁾	18,317.4	17,549.2	18,589.8	607.3	4,431.7	4,496.5	146.9
Total	31,958.3	27,273.9	29,225.0	954.8	7,664.7	8,161.2	266.6

(1) Entities which are our substantive related parties but not been accounted for using the equity method, mainly Qisda and its subsidiaries.

Table of Contents

Our major related party transactions were conducted with the following companies in 2018:

BenQ Corporation (“BenQ”)

BenQ is a subsidiary of Qisda as of December 31, 2018. We sold panels for monitors to BenQ.

Fargen Power Corporation (“FGPC”)

FGPC is a subsidiary of SSEC, which is one of our associates, as of December 31, 2018. We sold solar modules to FGPC and undertook construction of power plants for FGPC.

Qisda (Suzhou) Co., Ltd. (“QCSZ”)

QCSZ is a subsidiary of Qisda as of December 31, 2018. We sold panels for monitors to QCSZ.

BenQ Materials Corp. (“BMC”)

BMC is a subsidiary of Qisda as of December 31, 2018. We purchased polarizers from BMC.

Qisda Corporation (“Qisda”)

We directly and indirectly owned 17.56% of Qisda as of December 31, 2018. Qisda provides module-assembly services to us.

Raydium Semiconductor Corporation (“Raydium”)

We indirectly owned 17.63% of Raydium as of December 31, 2018. We purchased driver ICs from Raydium.

7.C. Interests of Experts and Counsel

Not applicable.

ITEM 8.

FINANCIAL INFORMATION

8.A. Consolidated Statements and Other Financial Information

8.A.1. See Item 18 for our audited consolidated financial statements and pages F-1 through F-106.

8.A.2. See Item 18 for our audited consolidated financial statements, which cover the last three financial years.

8.A.3. See page F-1 for the audit report of our independent auditors, entitled “Report of Independent Registered Public Accounting Firm.”

8.A.4. Not applicable.

8.A.5. Not applicable.

8.A.6. See “Item 4. Information on the Company—4.B. Business Overview—Customers, Sales and Marketing” for the amount of our export sales.

8.A.7. Litigation

Investigation for Alleged Violation of Antitrust and Competition Laws

We and certain of our subsidiaries, along with various competitors in the TFT-LCD industry, were under investigation for alleged violation of antitrust and competition laws of certain jurisdictions in the past. Since December 2006, we and certain of our overseas subsidiaries had become involved in antitrust investigations, including but not limited to by the U.S. DOJ, the European Commission Directorate-General for Competition (the “DG COMP”), and the Secretariat of Economic Law of Brazil concerning the allegations of price fixing by manufacturers of TFT-LCD panels. Set forth below is a non-exclusive list of the material antitrust proceedings against us.

Table of Contents

United States

In June 2010, we, AUUS and certain of our current and former officers and employees were indicted in the Northern California Court for alleged violations of Section 1 of the Sherman Act. In March 2012, the jury delivered a guilty verdict against us and AUUS. On September 21, 2012, the Northern California Court imposed a fine of US\$500 million against us to be payable over three years and sentenced two of our former executives to imprisonment and imposed a fine on them. The US\$500 million fine was fully paid by us in September 2015. The Northern California Court also placed us and AUUS on probation for three years, ordered us and AUUS to publish the conviction and fine in three major trade publications in the United States, as well as assigned a monitor and required us to adopt an effective antitrust compliance program. The probationary period and monitorship ended in December 2016.

Brazil

We received requests from the Secretariat of Economic Law of Brazil for information regarding their investigations, and have cooperated with Conselho Administrativa de Defesa Economica (“CADE”), Brazil’s competition agency, in connection therewith. In December 2015, the tribunal of CADE approved a settlement reached by CADE and us. We paid CADE 16.7 million Brazilian Reals in February 2016 pursuant to the settlement agreement. We are awaiting final administrative approval.

Antitrust Civil Actions Lawsuits in the United States and other Jurisdictions

There were also over 100 civil lawsuits filed against us and/or AUUS in the United States and Canada alleging, among other things, antitrust violations. We and AUUS have reached settlement agreements with the relevant plaintiffs.

In addition to the above cases in the United States and Canada, a lawsuit was filed by certain consumers in Israel against certain LCD manufacturers, including us, in the District Court of the Central District in Israel (“Israeli Court”). The defendants contested various issues, including whether the lawsuit was properly served. In March 2016, the Israeli Court issued an order stating that the case may proceed in Israel. We and other defendants appealed the Israeli Court’s decision. The Israeli Court ordered that except the appellate proceedings, all the other court proceedings be stayed. The first-level appellate court heard the appeal in December 2016. In December 2016, the Israeli Court overturned the original decision and revoked the permission for this case to be served outside of Israeli jurisdiction. The plaintiffs lodged an appeal to the Israeli Supreme Court, but the Israeli Supreme Court overruled the appeal in August 2017. In January 2018, the parties reached a settlement agreement and agreed to commence the required proceedings for withdrawing the lawsuit.

A lawsuit was filed in June 2018 by the Government of Puerto Rico and on behalf of all consumers and relevant government agencies of Puerto Rico against certain LCD manufacturers. The named defendants for this lawsuit included AUO and AUUS. The lawsuit was filed in the Superior Court of San Juan, Court of First Instance and alleges unjust enrichment and claiming unspecified monetary damages. We have retained counsel to handle this matter. At this stage, the outcome of this matter remains uncertain. We are reviewing the merits of this lawsuit on an on-going basis, but we are unable to predict the actions of the Government of Puerto Rico or the actions that competent regulatory agencies may take in connection with this proceeding.

We will make certain provisions with respect to some, but not all, civil lawsuits as the management deems appropriate. See Note 43 of our consolidated financial statements for further details. The provisions may ultimately be proven to be under- or over-estimated. We will reassess the adequacy and reasonableness of the said provisions and make adjustments as we deem necessary. Any penalties, fines, damages or settlements made in connection with these legal proceedings and/or lawsuits may have a material adverse effect on our business, results of operations and future prospects.

Table of Contents

Other Litigation

On February 22, 2017, one of AUO's subsidiaries in the PRC, AU Optronics (Suzhou) Corp., Ltd. ("AUSZ") received an administrative complaint filed by Shenzhen China Star Optoelectronics Technology Co., Ltd. ("CSOT") alleging that AUSZ infringes two PRC patents, and the complaint requests that AUSZ cease the alleged infringing act. Based on the Company's preliminary assessment, AUO believes that its subsidiary does not infringe the two PRC patents as alleged, and further that the two PRC patents appear to be invalid. In response to such administrative complaint, AUSZ has filed a request to invalidate the two PRC patents accordingly. In April 2017, CSOT filed civil lawsuits in the Intermediate People's Court of Shenzhen Municipality against the subsidiary claiming infringement of the same two PRC patents. In June 2017, CSOT filed civil lawsuits in the No. 1 Intermediate People's Court of Chongqing Municipality against the subsidiary claiming infringement of three PRC patents (including one of the above mentioned PRC patents). CSOT requested that AUSZ cease the alleged infringing act and claimed approximately RMB49.91 million for economic loss for each of the said respective four PRC patents and compensation for reasonable fees and litigation expenses such as notarization fees and attorney fees incurred by CSOT. On September 24, 2017, the relevant parties reached a settlement agreement and agreed to withdraw relevant legal proceedings.

In July 2018, Vista Peak Ventures, LLC ("VPV") filed three lawsuits in the United States District Court for the Eastern District of Texas against the Company, claiming infringement of certain of VPV's patents in the United States relating to the manufacturing of TFT-LCD panels. In the complaints, VPV seeks, among other items, unspecified monetary damages for past damages and an injunction against future infringement. We have retained counsel to handle this matter. At this stage, the outcome of this matter remains uncertain. We are reviewing the merits of the lawsuits on an on-going basis, but we are unable to predict the actions of the United States District Court for the Eastern District of Texas or the actions that competent regulatory agencies may take in connection with this proceeding.

In addition to the matters described above, we and/or our subsidiaries are also a party to other litigations or proceedings that arise during our or their ordinary course of business. Except as mentioned above, we and/or our subsidiaries are not involved in any material litigation or proceeding which could be expected to have a material adverse effect on our business or results of operations.

Proceedings Related to Our Directors and Senior Management

None.

Environmental Proceedings

There have been environmental proceedings relating to the development project of the Central Taiwan Science Park in Houli, Taichung, where our second 8.5-generation fab is located and which has been established since 2010. The proceedings were initiated by six residents in Houli District, Taichung City (the “Plaintiffs”) to object the administrative dispositions of the environmental assessment and development approval issued in 2010 by the Environmental Protection Administration (“EPA”) of the Executive Yuan of Taiwan to the third-phase development area in the Central Taiwan Science Park (the “Project”). On August 8, 2014, the Plaintiffs reached a settlement with the defendants (i.e. the governmental authorities, including the EPA of the Executive Yuan of Taiwan, the Ministry of Science and Technology (former National Science Council of the ROC Executive Yuan) and the Central Taiwan Science Park Development Office) in the Taipei High Administrative Court. The second-phase environmental impact assessment for the Project continues to proceed. On December 14, 2017, the EPA of the Executive Yuan of Taiwan held the third review meeting of the investigation group. The review meeting reached the conclusion of suggesting approval for the Project. On November 6, 2018, the EPA approved the Project, but on December 6, 2018, five residents in Houli District, Taichung City filed administrative appeal to the Appeals Review Committee of the Executive Yuan requesting a withdrawal of the approval. We will continue to monitor if there will be any material adverse effect on our operations as the event develops.

Table of Contents

8.A.8.Dividends and Dividend Policy

On June 15, 2017, our annual shareholders' meeting approved the board of directors' proposal to distribute a cash dividend of NT\$0.56 per share for the year ended December 31, 2016. On June 15, 2018, our annual shareholders' meeting approved the board of directors' proposal to distribute a cash dividend of NT\$1.5 per share for the year ended December 31, 2017. On March 22, 2019, our board of directors passed a resolution to approve the proposal to distribute a cash dividend of NT\$0.5 per share for the year ended December 31, 2018, which is subject to the approval of the 2019 annual shareholders' meeting.

Our Articles of Incorporation provide that when the retained earnings available for distribution of the current year reaches 2% of our paid in capital, no less than 20% of the retained earnings available for distribution of the current year shall be distributed as dividends and when the retained earnings available for distribution of the current year does not reach 2% of our paid in capital, we may distribute no dividends and the cash portion of any dividend shall not be less than 10% of the annual dividend. The form, frequency and amount of future dividends will depend upon our earnings, cash flow, financial condition, reinvestment opportunities and other factors.

We are not permitted under the ROC Company Act to distribute dividends or to make any other distributions to shareholders for any fiscal year in which we have no earnings. According to our Articles of Incorporation approved by our annual shareholders' meeting in June 2016, which are applicable to distribution of dividends for the years after 2015, provided that where we have a profit before tax for each fiscal year, we shall first recover the loss for preceding years, if any, and then distribute no less than 5% and no more than 1% of the remaining profit to our employees and directors as remuneration, and then pay taxes, and then 10% of the remaining net earnings shall be allocated as our legal reserve unless and until the accumulated legal reserve reaches the paid-in capital; and a certain amount shall be further allocated as special reserve or the special reserve shall be reserved in accordance with applicable laws and regulations or as requested by the competent authority. The balance (if any) together with accumulated and unappropriated retained earnings can be distributed after the distribution plan proposed by the Board and approved by the shareholders' meeting.

In addition to permitting dividends to be paid out of accumulated earnings after deducting losses, we are permitted under the ROC Company Act to make distributions to our shareholders in the form of shares or in cash from the legal reserve and certain capital surplus. However, where legal reserve is distributed by issuing new shares or by cash, only the portion of legal reserve that exceeds 25% of our paid-in capital may be distributed. See "Item 10. Additional Information—10.B. Memorandum and Articles of Association—Dividends and Distribution." For information about ROC taxes on dividends and distributions, see "Item 10. Additional Information—10.E. Taxation—ROC Tax Considerations—Dividends."

The holders of ADSs will be entitled to receive dividends to the same extent as the holders of our shares, subject to the terms of the deposit agreement.

Any cash dividends will be paid to the depositary in NT dollars and, after deduction of any applicable ROC taxes and fees and expenses of the depositary and custodian, except as otherwise provided in the deposit agreement, will be converted by the depositary into U.S. dollars and paid to the holders of ADSs. Whenever the depositary receives any free distribution of shares, including stock dividends, on any ADSs that the holders of ADSs hold, the depositary may, and will if we so instruct, deliver to the holders of ADSs additional ADSs which represent the number of shares received in the free distribution, after deduction of applicable taxes and the fees and expenses of the depositary and the custodian. If additional ADSs are not so delivered, each ADS that the holders of ADSs hold shall represent its proportionate interest in the additional shares distributed.

8.B. Significant Changes

Except as otherwise disclosed in this report, we have not experienced any significant changes since the date of the annual financial statements included herein.

Table of Contents

ITEM 9.

THE OFFER AND LISTING

9.A. Offering and Listing Details

Our shares have been listed on the Taiwan Stock Exchange since September 8, 2000 under the number “2409.” Our ADSs have been listed on the New York Stock Exchange under the symbol “AUO” since May 2002.

9.B. Plan of Distribution

Not applicable.

9.C. Markets

The principal trading markets for our shares are the Taiwan Stock Exchange and the New York Stock Exchange, on which our shares trade in the form of ADSs.

9.D. Selling Shareholders

Not applicable.

9.E. Dilution

Not applicable.

9.F. Expenses of the Issue

Not applicable.

ITEM 10.

ADDITIONAL INFORMATION

10.A.Share Capital

Not applicable.

10.B.Memorandum and Articles of Association

On June 15, 2017, our shareholders approved the twentieth amendment to our Articles of Incorporation, a copy of which is filed as Exhibit 1.1 hereto.

The following statements summarize the material elements of our capital structure and the more important rights and privileges of our shareholders conferred by ROC law and our Articles of Incorporation.

Objects and Purpose

The scope of our business as set forth in Article 2 of our Articles of Incorporation includes the research, development, production, manufacture and sale of the following products: plasma display and related systems, liquid crystal display and related systems, organic light emitting diodes and related systems, amorphous silicon photo sensor device parts and components, thin film photo diode sensor device parts and components, thin film transistor photo sensor device parts and components, touch imaging sensors, full color active matrix flat panel displays, field emission displays, single crystal liquid crystal displays, original equipment manufacturing for amorphous silicon thin film transistor process and flat panel display modules, original design manufacturing and original equipment manufacturing business for flat panel display modules, solar cell modules, and related systems and services, new green energy related systems and services (for operations outside the Science Park only), color filters, the simultaneous operation of a trade business relating to our business and the simultaneous operation of metals, refuse derived fuel and chemical products from our manufacturing recycle processes.

Table of Contents

Directors

Our board of directors is elected by our shareholders and is responsible for the management of our business. Our Articles of Incorporation provide that our board of directors is to have between seven to eleven members. Currently, our board of directors is composed of nine directors. The chairman of our board is elected by the directors. The chairman presides at all meetings of our board of directors and also has the authority to represent, sign for, and bind our company. The term of office for our directors is three years.

In addition, pursuant to the ROC Securities Exchange Act, a public company is required to either establish an audit committee or retain supervisors, provided that the FSC may, after considering the scale, business nature of a public company and other essential conditions, require the company to establish an audit committee in place of its supervisors. We replaced our supervisors by establishing an audit committee on June 13, 2007. The audit committee's duties and powers include, but are not limited to, inspection of corporate records, verification of statements prepared by the board of directors, and giving reports at shareholders' meetings. Each individual member of our audit committee is authorized to investigate our financial condition, represent us when a director is engaged in a sale, loan or other juristic acts with us for his own account or on behalf of another, call the shareholders meeting if the board of directors fails to do so, and give notification, when appropriate, to the board of directors to cease acting in contravention of applicable law or regulations or our Articles of Incorporation or the resolutions of our shareholders' meeting. Our audit committee is required to be composed of all of our independent directors, who are currently Vivien Huey-Juan Hsieh, Mei-Yueh Ho, Ding-Yuan Yang, Chin-Bing (Philip) Peng and Yen-Shiang Shih.

Pursuant to the ROC Company Act, the election of our directors is conducted by means of cumulative voting. The most recent election for all of the directors was held on June 16, 2016. We have adopted a candidate nomination system for the election of directors.

Pursuant to the ROC Company Act, a person may serve as a director in his or her personal capacity or as the representative of another legal entity. A legal entity that owns our shares may be elected as a director, in which case a natural person must be designated to act as the legal entity's representative. In the event several representatives are designated by the same legal entity, any or all of them may be elected. A natural person who serves as the representative of a legal entity as a director may be removed or replaced at any time at the discretion of such legal entity, and the replacement director may serve the remainder of the term of office of the replaced director. Currently, two of our directors are the representatives of the entities as shown in "Item 6. Directors, Senior Management and Employees—6.A. Directors and Senior Management—Directors."

The present members of the board of directors took office on June 16, 2016.

Shares

As of February 28, 2019, our authorized share capital was NT\$120 billion, divided into 12 billion common shares, of which 100 million shares are reserved for the issuance of shares for employee stock options, and 9,624,245,115 common shares were issued.

All shares presently issued, including those underlying our ADSs, are fully paid and in registered form, and existing shareholders are not obligated to contribute additional capital.

See “Item 3. Key Information—3.D. Risk Factors—Risks Related to Our ADSs and Our Trading Market—Our equity holders may experience dilution if we issue remunerations in the form of stock and stock options to employees or sell additional equity or equity-linked securities.”

Table of Contents

New Shares and Preemptive Rights

The issuance of new shares requires the prior approval of our board of directors. If our issuance of any new shares will result in any change in our authorized share capital, we are required under ROC law to amend our Articles of Incorporation, which requires approval of our shareholders in a shareholders' meeting. We must also obtain the approval of, or submit a report to, the FSC and the Hsinchu Science Park Administration Bureau, as applicable. Generally, when a company issues capital stock for cash, 10% to 15% of the issue must be offered to its employees. In addition, if a public company intends to offer new shares for cash, at least 10% of the issue must also be offered to the public. This percentage can be increased by a resolution passed at a shareholders' meeting, which will reduce the number of new shares in which existing shareholders may have preemptive rights. Unless the percentage of the shares offered to the public is increased by a resolution, existing shareholders of the company have a preemptive right to acquire the remaining 75% to 80% of the issue in proportion to their existing shareholdings. Nevertheless, the preemptive rights provisions will not apply to offerings of new shares through a private placement approved at a shareholders' meeting.

Register of Shareholders and Record Date

For our shareholders who have opened Taiwan Depository & Clearing Corporation book-entry accounts, our register of such shareholders is maintained by the database of Taiwan Depository & Clearing Corporation. For our shareholders who have not opened Taiwan Depository & Clearing Corporation book-entry accounts, our register of such shareholders is maintained by our share registrar, Taishin International Bank, Stock Affairs Department. The ROC Company Act permits us, by giving advance public notice, to set a record date and close the register of shareholders for a specified period in order to determine the shareholders or pledgees that are entitled to certain rights pertaining to our shares. Under the ROC Company Act, our register of shareholders should be closed for a period of sixty days before each general meeting of shareholders, thirty days before each extraordinary meeting of shareholders and five days before each record date.

Transfer of Shares

Under the ROC Company Act, shares are transferred by endorsement and delivery of the related share certificates. However, settlement of trading of shares of a listed company, such as our company, generally, is carried out on the book entry system maintained by the Taiwan Depository & Clearing Corporation. In addition, transferees must have their names and addresses registered on our register in order to assert shareholders' rights against us. Notwithstanding the foregoing, shareholders are required to file their specimen seals with our share registrar.

Shareholders' Meetings

We are required to hold an annual general shareholders' meeting once every calendar year, generally within six months after the end of each fiscal year. Any shareholder who holds 1% or more of our issued and outstanding common shares may submit one proposal for discussion at our annual general shareholders' meeting. Our directors may convene an extraordinary shareholders' meeting whenever they think fit, and they must do so if requested in writing by shareholders holding not less than 3% of our paid-in share capital who have held their shares for more than a year, or shareholders continuously holding 50% or more of the total number of outstanding shares of a company for a period of three months or a longer time may convene a special shareholders' meeting. In addition, any member of our audit committee may convene a shareholders' meeting under certain circumstances. For a public company in Taiwan, such as our company, at least 15 days' advance written notice must be given of every extraordinary shareholders' meeting and at least 30 days' advance written notice must be given of every annual general shareholders' meeting. Unless otherwise required by law or by our articles of incorporation, voting for an ordinary resolution requires an affirmative vote of a simple majority of those present and voting. A distribution of cash dividends would be an example of an act requiring an ordinary resolution. A special resolution may be adopted in a meeting of shareholders convened with a quorum of holders of at least two thirds of our total outstanding shares at which the holders of at least a majority of our shares represented at the meeting vote in favor thereof. A special resolution is necessary for various matters under ROC law, including:

any amendment to our articles of incorporation;

our dissolution or amalgamation;

Table of Contents

a merger or spin-off;

transfers of the whole or a substantial part of our business or properties;

the acquisition of the entire business or properties of another company which would have a significant impact on our operations;

execution, modification or termination of any contracts regarding leasing of all business or joint operations or mandate of our business to other persons;

the distribution of any stock dividend;

the removal of directors;

application for the approval of ceasing status as a public company;

surplus profit distributed in the form of new shares or cash;

reserve distributed in the form of new shares or cash; or

clearing conflicts of interest for Company directors.

However, in the case of a public company such as our company, a special resolution may be adopted by holders of at least two thirds of the shares represented at a meeting of shareholders at which holders of at least a majority of the total outstanding shares are present.

Voting Rights

According to the ROC Company Act, a holder of our shares has one vote for each share held at shareholders' meetings. However, (i) treasury shares or (ii) our common shares held by an entity in which our company owns more than 50% of the voting shares or paid-in capital, or a "Controlled Entity," or by a third entity in which our company and a Controlled Entity jointly own, directly or indirectly, more than 50% of the voting shares or paid-in capital, cannot be voted. There is cumulative voting for the election of directors. In all other matters, shareholders must cast all their votes the same way on any resolution provided that shareholders holding shares on behalf of others are permitted to split votes when exercising voting rights. Voting rights attached to our common shares may be exercised by personal

attendance or proxy through written or electronic ballot.

If any shareholder is represented at a general or extraordinary shareholders' meeting by proxy, a valid proxy form must be delivered to us five days before the commencement of the general or extraordinary shareholders' meeting. Voting rights attached to our shares that are exercised by our shareholders' proxy are subject to ROC proxy regulations. Any shareholder who has a personal interest in a matter to be discussed at our shareholders' meeting, the outcome of which may impair our interests, is not permitted to vote or exercise voting rights nor vote or exercise voting rights on behalf of another shareholder on such matter.

Except for trust enterprises or share transfer agents approved by the FSC, where one person is appointed as proxy by two or more shareholders who together hold more than 3% of our shares, the votes of those shareholders in excess of 3% of our total issued shares will not be counted.

You will not be able to exercise voting rights on the shares underlying your ADSs on an individual basis. For additional information, see "Item 3. Key Information—3.D. Risk Factors—Risk Related to our ADSs and Our Trading Market—ADS holders will not have the same rights as our shareholders, which may affect the value of the ADSs."

Table of Contents

Dividends and Distributions

We may distribute dividends in any year in which we have accumulated earnings. At the shareholders' annual general meeting, our board of directors submits to the shareholders for approval proposals for the distribution of a dividend or the making of any other distribution to shareholders from our accumulated earnings or reserves for the preceding fiscal year. Dividends may be distributed either in cash, in the form of shares or as a combination of cash and shares. Our Articles of Incorporation provide that the cash portion of any dividend shall not be less than 10% of the annual dividend. Dividends are paid proportionately to shareholders as listed on the register of shareholders on the relevant record date.

According to our Articles of Incorporation approved by our annual shareholders' meeting in June 2016, provided that where we have a profit before tax for each fiscal year, we shall first recover the loss for the preceding years, if any, and then distribute no less than 5% of the remaining profit for distribution to employees as remuneration and no more than 1% of the remaining profit for distribution to directors as remuneration, and then pay taxes, and then 10% of the remaining net earnings shall be allocated as our legal reserve unless and until the accumulated reserve reaches the paid-in capital; and a certain amount shall be further allocated as special reserve or the special reserve shall be reserved in accordance with applicable laws and regulations or as requested by the competent authority. The balance (if any) together with accumulated but unappropriated retained earnings can be distributed after the distribution plan proposed by the Board and approved by the shareholders' meeting.

In addition to permitting dividends to be paid out of accumulated earnings after deducting losses, we are permitted under the ROC Company Act to make distributions to our shareholders based on Taiwan IFRS financials for Taiwan reporting purposes in the form of shares or in cash from the legal reserve and certain capital surplus. However, where legal reserve is distributed by issuing new shares or by cash, only the portion of legal reserve which exceeds 25% of our paid-in capital may be distributed.

For information on the dividends paid by us in recent years, see "Item 8. Financial Information—8.A.8. Dividends and Dividend Policy." For information as to ROC taxes on dividends and distributions, see "Item 10. Additional Information—10.E. Taxation—ROC Tax Considerations—Dividends."

Acquisition of Shares by Our Company

With limited exceptions under the ROC Company Act, we are not permitted to acquire our shares.

In addition, pursuant to the Securities and Exchange Law, we may, by a board resolution adopted by majority consent at a meeting with two thirds of our directors present, purchase our shares on the Taiwan Stock Exchange or by a tender offer, in accordance with the procedures prescribed by the FSC, for the following purposes:

to transfer shares to our employees;

to facilitate conversion arising from bonds with warrants, preferred shares with warrants, convertible bonds, convertible preferred shares or certificates of warrants (collectively, the “Convertible Securities”) issued by our company into shares; and

if necessary, to maintain our credit and our shareholders’ equity; provided that the shares so purchased shall be cancelled thereafter.

Our shares purchased pursuant to the first and the second items above shall be transferred to our employees or holders of Convertible Securities, as the case maybe, within three years after the date of such purchase. Our shares purchased pursuant to Item 3 above shall be cancelled within six months after the date of such purchase.

We are not allowed to purchase more than 10% of our total issued and outstanding shares. In addition, we may not spend more than the aggregate amount of our retained earnings, the premium from issuing stock and the realized portion of the capital surplus to purchase our shares.

Table of Contents

We may not pledge or hypothecate any purchased shares. In addition, we may not exercise any shareholders' rights attaching to such shares. In the event that we purchase our shares on the Taiwan Stock Exchange, our affiliates, directors, officers and their respective spouses and minor children and/or nominees are prohibited from selling any of our shares during the period in which we purchase our shares.

According to the ROC Company Act, an entity in which our company directly or indirectly owns more than 50% of the voting shares or paid-in capital, which is referred to as a controlled entity, may not purchase our shares. Also, if our company and a controlled entity jointly own, directly or indirectly, more than 50% of the voting shares or paid-in capital of another entity, which is referred to as a third entity, the third entity may not purchase shares in either our company or a controlled entity.

Liquidation Rights

In the event of our liquidation, the assets remaining after payment of all debts, liquidation expenses, taxes and distributions to holders of preferred shares, if any, will be distributed pro rata to our shareholders in accordance with the ROC Company Act.

Rights to Bring Shareholder Suits

Under the ROC Company Act, a shareholder may bring suit against us in the following events:

Within 30 days from the date on which a shareholders' resolution is adopted, a shareholder may file a lawsuit to annul a shareholders' resolution if the procedure for convening a shareholders' meeting or the method of resolution violates any law or regulation or our articles of incorporation.

If the substance of a resolution adopted at a shareholders' meeting contradicts any applicable law or regulation or our articles of incorporation, a shareholder may bring a suit to determine the validity of such resolution.

Shareholders may bring suit against our directors under the following circumstances:

Shareholders who have continuously held 1% or more of the total number of issued and outstanding shares for a period of six months or longer may request in writing that an independent director institute an action against a director on our behalf. In case the independent director fails to institute an action within 30 days after receiving such

request, the shareholders may institute an action on our behalf. In the event that shareholders institute an action, a court may, upon motion of the defendant, order such shareholders to furnish appropriate security.

In the event that any director, officer or shareholder who holds more than 10% of our issued and outstanding shares and their respective spouse and minor children and/or nominees sells shares within six months after the acquisition of such shares, or repurchases the shares within six months after the sale, we may make a claim for recovery of any profits realized from the sale and purchase. If our board of directors or our audit committee fails to make a claim for recovery, any shareholder may request that our board of directors or our audit committee exercise the right of claim within 30 days. In the event our directors or audit committee fail to exercise such right during such 30-day period, such requesting shareholder will have the right to make a claim for such recovery on our behalf. Our directors and audit committee will be jointly and severally liable for damages suffered by us as a result of their failure to exercise the right of claim.

Financial Statements

Within three months after the end of each fiscal year, we must post our annual audited financial statements under Taiwan IFRS on the website of the Taiwan Stock Exchange, for inspection by our shareholders.

Table of Contents

Transfer Restrictions

Our directors, officers and shareholders holding more than 10% of our issued and outstanding shares and their respective spouse and minor children and/or nominees, which we refer to as insiders, are required to report any changes in their shareholding to us on a monthly basis. No insider is permitted to sell shares on the Taiwan Stock Exchange for six months from the date on which the relevant person becomes an insider. In addition, generally, the number of shares that insiders can sell or transfer on the Taiwan Stock Exchange on a daily basis is limited by ROC law. Furthermore, insiders may sell or transfer our shares on the Taiwan Stock Exchange only after reporting to the FSC at least three days before the transfer, provided that such reporting is not required if the number of shares transferred per day does not exceed 10,000.

Other Rights of Shareholders

Under the ROC Company Act, dissenting shareholders are entitled to appraisal rights in the event of a spin-off, a merger or various other major corporate actions. Dissenting shareholders may request us to redeem their shares at a fair price to be determined by mutual agreement. If no agreement can be reached, the valuation will be determined by court order. Dissenting shareholders may exercise their appraisal rights by notifying us before the related shareholders' meeting or by raising and registering their dissent at the shareholders' meeting.

Transfer Agent and Registrar

The transfer agent and registrar for our shares is Taishin International Bank, Stock Affairs Department, B1, No. 96, Jianguo N. Rd, Sec. 1, Taipei, Taiwan; telephone number: 886-2-2504-8125. The transfer agent and registrar for our ADS is Citibank, N.A., 388 Greenwich Street, 14th Floor, New York, New York 10013, USA; telephone number: 1-877-248-4237.

10.C. Material Contracts

Certain material contracts are discussed under Item 4.B and Item 5.B above where relevant.

10.D. Exchange Controls

We have extracted from publicly available documents the information presented in this section. Please note that citizens of the PRC and entities organized in the PRC are subject to special ROC laws, rules and regulations, which are not discussed in this section.

The ROC's Foreign Exchange Control Statute and regulations provide that all foreign exchange transactions must be executed by banks designated to handle foreign exchange transactions by the Central Bank of the Republic of China (Taiwan). Current regulations favor trade-related foreign exchange transactions. Consequently, foreign currency earned from exports of merchandise and services may now be retained and used freely by exporters. All foreign currency needed for the importation of merchandise and services may be purchased freely from the designated foreign exchange banks.

Aside from trade-related foreign exchange transactions, Taiwan companies and residents may remit to and from Taiwan foreign currencies of up to US\$50 million and US\$5 million, respectively, each calendar year. A requirement is also imposed on all private enterprises to report all medium- and long-term foreign debt with the Central Bank of the Republic of China (Taiwan).

In addition, a foreign person without an alien resident card or an unrecognized foreign entity may remit to and from Taiwan foreign currencies of up to US\$100,000 per remittance if required documentation is provided to ROC authorities. This limit applies only to remittances involving a conversion between NT dollars and U.S. dollars or other foreign currencies.

Table of Contents

10.E. Taxation

ROC Tax Considerations

The following summarizes the principal ROC tax consequences of owning and disposing of ADSs and shares if you are not a resident of the ROC (a “non-ROC resident”). You will be considered a non-ROC resident for the purposes of this section if:

you are an individual and you are not physically present in the ROC for 183 days or more during any calendar year;
or

you are an entity and you are organized under the laws of a jurisdiction other than the ROC and have no fixed place of business or other permanent establishment or business agent in the ROC. You should consult your own tax advisors concerning the tax consequences of owning ADSs or shares in the ROC and any other relevant taxing jurisdiction to which you are subject.

Dividends

Dividends, whether in cash or shares, declared by us out of retained earnings and paid out to a holder that is a non-ROC resident in respect of shares represented by ADSs or shares are subject to ROC withholding tax. The current rate of withholding for non-ROC residents is 21% of the amount of the distribution, in the case of cash dividends, or of the par value of the shares distributed, in the case of stock dividends. As discussed below in “Retained Earnings Tax,” our after-tax earnings will be subject to an undistributed retained earnings tax. Prior to January 1, 2019, to the extent dividends are paid out of retained earnings that have been subject to the retained earnings tax, the amount of such tax has been used by us to offset the withholding tax liability on dividends distributed to non-resident shareholders, and consequently, the effective rate of withholding on dividends paid out of retained earnings previously subject to the retained earnings tax will be less than 21%. However, after January 1, 2019, the dividends that are paid out of retained earnings will no longer offset the withholding tax liability on dividends distributed to non-resident shareholders.

Capital Gains

Starting from January 1, 2016, capital gains realized from sale or disposition of shares (including shares that were withdrawn from depositary receipt facilities) are exempt from ROC income tax under Article 4-1 of the ROC Income Tax Act. Sales of ADSs by non-ROC resident holders (as opposed to sale of our common shares) are not regarded as sales of ROC securities and, as a result, any gains on such transactions are currently not subject to ROC income tax.

Securities Transaction Tax

The ROC government imposes a securities transaction tax that will apply to sales of shares, but not to sales of ADSs. The transaction tax is payable by the seller for the sale of shares and is equal to 0.3% of the sales proceeds.

Estate and Gift Tax

Subject to allowable exclusions, deductions and exemptions, any property within the ROC of a deceased individual is subject to the estate tax at progressive tax rates at 10%, 15% and 20%, and any property within the ROC donated by any individual is subject to the gift tax at progressive tax rates at 10%, 15% and 20%. Under ROC estate and gift tax laws, shares issued by ROC companies, such as our shares, are deemed located in the ROC regardless of the location of the holder. It is unclear whether ADSs will be deemed assets located in the ROC for the purpose of ROC gift and estate taxes.

Table of Contents

Preemptive Rights

Distributions of statutory preemptive rights for shares in compliance with the ROC Company Act are not subject to ROC tax. Proceeds derived from sales of statutory preemptive rights evidenced by securities are subject to securities transaction tax. Effective from January 1, 2016, the amended ROC Income Tax Act abolished the ROC income tax on capital gains from sale or disposition of shares. Proceeds derived from sales of statutory preemptive rights that are not evidenced by securities are not subject to securities transaction tax but are subject to income tax at the rate of 20% regardless of whether the non-ROC resident is an individual or an entity.

We have the sole discretion to determine whether statutory preemptive rights are evidenced by securities or not.

Retained Earnings Tax

Under the ROC Income Tax Act, from the taxable year of 1998 to the taxable year of 2018, if retained earnings of the current year are not distributed by the company in the next fiscal year, an additional retained earnings tax will be levied at the rate of 10% on such retained earnings. The 10% retained earnings tax may be credited against the dividend withholding tax once the company distributes dividends from the corresponding retained earnings in subsequent years. From the taxable year of 1998 to the taxable year of 2018, only 50% retained earnings tax paid can be credited against the dividend withholding tax on dividends distributed to non-resident shareholders. The surtax rate for undistributed earnings commencing from the taxable year of 2018 is 5% and retained earnings tax cannot offset the withholding tax.

Tax Treaty

The ROC does not have an income tax treaty with the United States. The ROC has tax treaties for the avoidance of double taxation with Indonesia, Singapore, South Africa, Australia, the Netherlands, Vietnam, New Zealand, Malaysia, Macedonia, Eswatini, Gambia, the United Kingdom, Senegal, Sweden, Belgium, Denmark, Israel, Paraguay, Hungary, France, India, Slovakia, Switzerland, Germany, Thailand, Kiribati, Luxembourg, Austria, Italy, Japan, Canada and Poland, which may limit the rate of ROC withholding tax on dividends paid with respect to shares. It is unclear whether, if you hold ADSs, you will be considered to hold shares for the purposes of these treaties. Accordingly, if you may otherwise be entitled to the benefits of an income tax treaty, you should consult your tax advisors concerning your eligibility for these benefits with respect to ADSs.

United States Federal Income Tax Considerations for United States Holders

The following is a discussion of the material U.S. federal income tax consequences of the ownership and disposition of our ADSs or shares to the U.S. Holders described below, but it is not a comprehensive description of all of the tax considerations that may be relevant to a particular person's decision to hold such securities. The discussion set forth below applies only to beneficial owners of our ADSs or shares that are U.S. Holders, hold the ADSs or shares as capital assets for tax purposes and are non-ROC residents as defined under "ROC Tax Considerations." You are a "U.S. Holder" if, for United States federal income tax purposes, you are:

a citizen or individual resident of the United States;

a corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States or any state or the District of Columbia or any political subdivision thereof;

an estate the income of which is subject to U.S. federal income taxation regardless of its source; or

a trust, if (1) a U.S. court can exercise primary supervision over the trust's administration and one or more United States persons (within the meaning of the Code, as defined below) are authorized to control all substantial decisions of the trust or (2) the trust has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

Table of Contents

This discussion is based on the Internal Revenue Code of 1986, as amended (the “Code”), administrative pronouncements, judicial decisions and final, temporary and proposed Treasury regulations, all as of the date hereof. These laws are subject to change, possibly with retroactive effect. In addition, this summary is based in part on representations by the depositary and assumes that each obligation under the Deposit Agreement and any related agreement will be performed in accordance with its terms. This summary does not contain a detailed description of all the U.S. federal income tax consequences to you in light of your particular circumstances and does not address the effects of any state, local or non-U.S. tax laws (or other U.S. federal tax consequences, such as U.S. federal estate or gift tax consequences). In addition, it does not describe all of the U.S. federal income tax consequences that may be relevant in light of the U.S. Holder’s particular circumstances, including alternative minimum tax consequences, the potential application of the provisions of the Code known as the Medicare Contribution Tax and tax consequences applicable to U.S. Holders subject to special rules, such as:

- dealers and traders in securities who use a mark-to-market method of tax accounting;
- certain financial institutions;
- tax-exempt entities, including “individual retirement accounts”;
- entities classified as partnerships for U.S. federal income tax purposes;
- persons holding ADSs or shares as part of a hedge, straddle, wash sale, conversion transaction or integrated transaction or persons entering into a constructive sale with respect to the ADSs or shares;
- persons that own or are deemed to own 10% or more of the voting power or value of our stock;
- persons whose functional currency for U.S. federal income tax purposes is not the U.S. dollar;
- persons who acquired ADSs or shares pursuant to the exercise of any employee stock option or otherwise as compensation;
- persons holding ADSs or shares through a partnership or other pass-through entity; or
- persons holding ADSs or shares in connection with a trade or business conducted outside of the United States.

If a partnership (or other entity that is classified as a partnership for U.S. federal income tax purposes) holds our ADSs or shares, the tax treatment of a partner will depend upon the status of the partner and the activities of the partnership. If you are a partner of a partnership holding ADSs or shares, you are urged to consult your tax advisor.

For U.S. federal income tax purposes, the beneficial owner of an ADS will generally be treated as the owner of the shares underlying the ADS. Accordingly, no gain or loss will be recognized if you exchange ADSs for the underlying shares represented by those ADSs.

The U.S. Treasury has expressed concerns that parties to whom American depositary shares are released before delivery of shares to the depositary (“pre-release”), or intermediaries in the chain of ownership between holders and the issuer of the security underlying the American depositary shares, may be taking actions that are inconsistent with the claiming of foreign tax credits by the holders of American depositary shares. Such actions would also be inconsistent with the claiming of the preferential rates for dividends received by certain non-corporate U.S. Holders. Accordingly, the creditability of ROC taxes and the availability of the preferential rates applicable to dividends received by certain non-corporate U.S. Holders, each described below, could be affected by actions that may be taken by parties to whom the ADSs are pre-released.

You are urged to consult your tax advisor concerning the particular U.S. federal income tax consequences to you of the ownership and disposition of ADSs or shares, as well as the consequences to you arising under the laws of any other taxing jurisdiction.

This discussion assumes that we were not a passive foreign investment company for our 2018 taxable year, as discussed below.

Table of Contents

Taxation of Dividends

Distributions you receive on your ADSs or shares, other than certain pro rata distributions of shares, including amounts withheld in respect of ROC withholding taxes, will generally be treated as dividend income to you to the extent the distributions are made from our current or accumulated earnings and profits (as determined under U.S. federal income tax principles). Distributions in excess of our current and accumulated earnings and profits will be treated first as a tax-free return of capital to the extent of your tax basis in your ADSs or shares and then as capital gain. Because we do not maintain calculations of our earnings and profits under U.S. federal income tax principles, we expect that distributions will generally be reported to U.S. Holders as dividends. The amount of a dividend will include any amounts withheld by us or our paying agent in respect of ROC taxes. The amount will be treated as foreign source dividend income to you and will not be eligible for the dividends-received deduction generally allowed to U.S. corporations under the Code.

Subject to applicable limitations that may vary depending upon a U.S. Holder's individual circumstances and the concerns expressed by the U.S. Treasury described above, dividends paid to certain non-corporate U.S. Holders will be taxable at the preferential rates applicable to long-term capital gain if the dividends constitute qualified dividend income. Dividends will constitute qualified dividend income if the stock or ADSs with respect to which such dividends are paid is readily tradable on an established securities market in the United States, such as the New York Stock Exchange where our ADSs are traded, and we are not a passive foreign investment company in the year the dividend is paid (and were not in the prior year). We believe we were not a passive foreign investment company for our 2018 taxable year, as discussed below under "Passive Foreign Investment Company Rules." Even if dividends on the ADSs or shares would otherwise be eligible for qualified dividend income treatment, individual U.S. Holders nevertheless will not be eligible for the preferential rates (a) if they have not held our ADSs or shares for at least 61 days of the 121-day period beginning on the date which is 60 days before the ex-dividend date or (b) to the extent they are under an obligation to make related payments with respect to positions in substantially similar or related property. U.S. Holders should consult their own tax advisors regarding the availability of the preferential rates in light of their particular circumstances.

Dividends paid in New Taiwan dollars will be included in your income in a U.S. dollar amount calculated by reference to the exchange rate in effect on the date of your (or, in the case of ADSs, the depository's) receipt of the dividend, regardless of whether the payment is in fact converted into U.S. dollars. If the dividend is converted into U.S. dollars on the date of receipt, you generally should not be required to recognize foreign currency gain or loss in respect of the dividend income. You may have foreign currency gain or loss, which will be U.S. source, if you convert the amount of such dividend into U.S. dollars after the date of receipt.

Subject to limitations that may vary depending upon your circumstances and the concerns expressed by the U.S. Treasury described above, you may be entitled to a credit against your U.S. federal income taxes for the amount of ROC income taxes that are withheld from dividend distributions made to you. In determining the amounts withheld in respect of ROC taxes, any portion of the amount withheld that is reduced by reason of the ROC credit in respect of the retained earnings tax is not considered a withholding tax. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, dividends distributed by us generally

should constitute “passive category income.” The rules governing the foreign tax credit are complex. We therefore urge you to consult your own tax advisor regarding the availability of the foreign tax credit in your particular circumstances. Instead of claiming a credit, you may, at your election, deduct foreign taxes, including otherwise creditable ROC taxes, in computing your taxable income, subject to generally applicable limitations. An election to deduct foreign taxes instead of claiming foreign tax credits applies to all taxes paid or accrued in the taxable year.

It is possible that pro rata distributions of shares to all shareholders may be made in a manner that is not subject to U.S. federal income tax, but is subject to ROC withholding tax as discussed above under “ROC Tax Considerations—Dividends.” Such distribution will not give rise to U.S. federal income tax against which the ROC withholding tax imposed on these distributions may be credited. U.S. Holders should consult their tax advisors with respect to the creditability of any such ROC tax. The basis of any new ADSs or shares you receive as a result of a pro rata distribution of shares by us will be determined by allocating your basis in the old ADSs or shares with respect to which the new shares were distributed between the old ADSs or shares and the new ADSs or shares received, based on their relative fair market values on the date of distribution.

Table of Contents

Taxation of Capital Gains

For U.S. federal income tax purposes, when you sell or otherwise dispose of your ADSs or shares, you will recognize U.S. source capital gain or loss in an amount equal to the difference between the U.S. dollar value of the amount realized for the ADSs or shares and your adjusted tax basis in the ADSs or shares, determined in U.S. dollars. Any such gain or loss will be long-term capital gain or loss if you held the ADSs or shares for more than one year. U.S. Holders should consult their own tax advisors regarding the U.S. federal income tax treatment of capital gains, which may be taxed at lower rates than ordinary income for individuals and certain other non-corporate U.S. Holders, and capital losses, the deductibility of which are subject to limitations.

If you receive non-U.S. currency when you sell your ADSs or shares, gain or loss, if any, recognized on the subsequent sale, conversion or disposition of such non-U.S. currency will be ordinary income or loss, and will generally be U.S. source income or loss.

Passive Foreign Investment Company Rules

We believe that we were not a “passive foreign investment company,” or PFIC, for U.S. federal income tax purposes for our 2018 taxable year. However, since PFIC status depends upon the composition of a company’s income and assets and the market value of its assets (including, among others, goodwill) from time to time, there can be no assurance that we will not be a PFIC for any taxable year. If we were a PFIC for any taxable year during which you held ADSs or shares, certain adverse tax consequences could apply to you.

If we were a PFIC for any taxable year during which you held ADSs or shares, gain recognized by you on a sale or other disposition (including certain pledges) of ADSs or shares would be allocated ratably over your holding period for the ADSs or shares. The amounts allocated to the taxable year of the sale or other disposition and to any year before we became a PFIC would be taxed as ordinary income. The amount allocated to each other taxable year would be subject to tax at the highest rate in effect for individuals or corporations, as appropriate, for such taxable year, and an interest charge would be imposed on the amount allocated to such taxable year. Further, to the extent that any distribution received by you on your ADSs or shares exceeds 125% of the average of the annual distributions on ADSs or shares received by you during the preceding three years or your holding period, whichever is shorter, that distribution would be subject to taxation in the same manner as gain, described immediately above. Certain elections may be available that would result in alternative treatments (such as mark-to-market treatment) of the ADSs or shares. You should consult your tax advisor to determine whether any of these elections would be available and, if so, what the consequences of the alternative treatments would be in your particular circumstances.

In addition, if we were a PFIC with respect to a particular U.S. Holder for the taxable year in which we pay a dividend or the prior taxable year, the preferential rates discussed above with respect to dividends paid to certain non-corporate

U.S. Holders would not apply.

If we are a PFIC for any taxable year during which you own our shares or ADSs, you will generally be required to file IRS Form 8621 with your annual U.S. federal income tax return, subject to certain exceptions.

Information Reporting and Backup Withholding

Payments of dividends and sales proceeds that are made within the United States or through certain U.S.-related financial intermediaries generally are subject to information reporting, and may be subject to backup withholding unless (i) you are an exempt recipient or (ii) in the case of backup withholding, you provide a correct taxpayer identification number and certify that you are not subject to backup withholding.

The amount of any backup withholding from a payment to you will be allowed as a credit against your U.S. federal income tax liability and may entitle you to a refund, provided that the required information is timely furnished to the Internal Revenue Service.

Certain U.S. Holders who are individuals or entities closely held by individuals may be required to report information relating to securities of non-U.S. companies, or accounts through which they are held, subject to certain exceptions (including an exception for securities held in accounts maintained by U.S. financial institutions). U.S. Holders should consult their tax advisors regarding the effect, if any, of these rules on their ownership or disposition of shares or ADSs.

Table of Contents

10.F. Dividends and Paying Agents

Not applicable.

10.G. Statement by Experts

Not applicable.

10.H. Documents on Display

It is possible to read and copy documents referred to in this annual report that have been filed with the SEC at the SEC's public reference rooms in Washington, D.C., New York and Chicago, Illinois. Please call the SEC at 1-800-SEC-0330 for further information on the reference rooms. The SEC also maintains a website at www.sec.gov, which contains, in electronic form, each of the reports and other information that we have filed electronically with the SEC. Information about AU Optronics Corp. is also available on the web at www.auo.com.

10.I. Subsidiary Information

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk

Market risk is the risk of loss related to adverse changes in market prices, including interest rates and foreign exchange rates, of financial instruments. We are exposed to various types of market risks, including changes in interest rates and foreign currency exchange rates, in the ordinary course of business.

We use financial instruments, including variable rate debt and swap and foreign currency forward contracts, to finance our operations and to manage risks associated with our interest rate and foreign currency exposures, through a controlled program of risk management in accordance with established policies. We have used, and intend to continue to use, derivative financial instruments only for hedging purposes. These policies are reviewed and approved by our board of directors. Our treasury operations are subject to the review of our internal audit department, and this review is submitted to our audit committee on a quarterly basis.

As of December 31, 2018, we had U.S. dollar- and Japanese yen-denominated savings and checking accounts of US\$219.5 million and JPY12,640.0 million (US\$115.2 million), respectively. We also had certificates of deposit denominated in U.S. dollars and Renminbi in the amount of US\$620.2 million and RMB2,556.2 million (US\$371.8 million), respectively. Since export sales are primarily conducted in U.S. dollars, we had U.S. dollar-denominated accounts receivables of US\$1,455.8 million as of December 31, 2018, which represents 94.6% of the total accounts receivables balance at that date. In addition, we had U.S. dollar- and Japanese yen-denominated accounts payables of US\$1,373.6 million and JPY25,471.1 million (US\$232.2 million), respectively, relating to our overseas vendors.

As of December 31, 2017, we had U.S. dollar- and Japanese yen-denominated savings and checking accounts of US\$272.3 million and JPY12,013.4 million, respectively. We also had certificates of deposit denominated in U.S. dollars and Renminbi in the amount of US\$651.4 million and RMB1,553.7 million, respectively. Since export sales are primarily conducted in U.S. dollars, we had U.S. dollar-denominated accounts receivables of US\$1,279.9 million as of December 31, 2017, which represents 94.1% of the total accounts receivables balance at that date. In addition, we had U.S. dollar- and Japanese yen-denominated accounts payables of US\$1,294.5 million and JPY27,244.7 million, respectively, relating to our overseas vendors.

Our primary market risk exposures relate to interest rate movements on long-term borrowings and exchange rate movements on foreign currency-denominated cash and cash equivalents, accounts receivables, borrowings and accounts payables. The fair value of forward exchange contracts has been determined by our internal evaluation model, and the fair value of interest rate swaps has been determined by obtaining from our bankers the estimated amount that would be received/(paid) to terminate the contracts.

Table of Contents

Interest Rate Risk

Our exposure to market risk for changes in interest rates relates primarily to our long-term debt obligations. We incur debt obligations primarily to support general corporate purposes, including capital expenditures and working capital needs.

The tables set forth below provide information about our derivative financial instruments and other financial instruments that are sensitive to changes in interest rates, including debt obligations and certain assets that are held by us as of December 31, 2017 and 2018, respectively. For debt obligations, the tables set forth principal cash flows and related weighted average interest rates by expected maturity date.

	Expected Maturity Date							Fair Value at
	2019	2020	2021	2022	2023	Thereafter	Total	December 31, 2018
	(in thousands)							
Assets								
Certificates of Deposit:								
Fixed rate (US\$)	620,218	—	—	—	—	—	620,218	620,218
Average interest rate	2.956%	—	—	—	—	—	2.956%	—
Fixed rate (NT\$)	8,244,750	—	—	—	—	—	8,244,750	8,244,750
Average interest rate	0.517%	—	—	—	—	—	0.517%	—
Fixed rate (CNY)	2,556,150	—	—	—	—	—	2,556,150	2,556,150
Average interest rate	1.856%	—	—	—	—	—	1.856%	—
Fixed rate (CZK)	110,000	—	—	—	—	—	110,000	110,000
Average interest rate	0.650%	—	—	—	—	—	0.650%	—
Long-term Loans:								
Variable rate (NT\$)	29,595,931	21,073,695	22,172,748	7,643,961	6,014,098	281,655	86,782,088	86,782,088

Edgar Filing: AU OPTRONICS CORP - Form 20-F

Average interest rate	3.096%	3.429%	3.791%	3.497%	5.076%	1.876%	2.429%	—
-----------------------	--------	--------	--------	--------	--------	--------	--------	---

	Expected Maturity Date							Fair Value at December 31, 2017
	2018 (in thousands)	2019	2020	2021	2022	Thereafter	Total	
Assets								
Certificates of Deposit:								
Fixed rate (US\$)	651,370	—	—	—	—	—	651,370	651,370
Average interest rate	1.785%	—	—	—	—	—	1.785%	—
Fixed rate (NT\$)	30,741,384	—	—	—	—	—	30,741,384	30,741,384
Average interest rate	0.483%	—	—	—	—	—	0.483%	—
Fixed rate (CNY)	1,553,660	—	—	—	—	—	1,553,660	1,553,660
Average interest rate	1.752%	—	—	—	—	—	1.752%	—
Fixed rate (CZK)	110,000	—	—	—	—	—	110,000	110,000
Average interest rate	0.050%	—	—	—	—	—	0.050%	—
Long-term Loans:								
Variable rate (NT\$)	8,155,234	35,824,355	28,718,488	24,892,488	7,600,254	5,854,154	111,044,973	111,044,973
Average interest rate	2.612%	2.808%	3.186%	3.665%	5.037%	5.502%	3.051%	—

Table of Contents

Foreign Currency Risk

The primary foreign currencies to which we are exposed are the Japanese yen, the U.S. dollar and the Renminbi. We enter into short-term foreign currency forward contracts to hedge the impact of foreign currency fluctuations on certain underlying assets, liabilities, and firm commitments for the purchase of raw materials and components and capital expenditures denominated in U.S. dollars, Japanese Yen and Renminbi. The purpose of entering into these hedges is to minimize the impact of foreign currency fluctuations on the results of operations. Gains and losses on foreign currency contracts and foreign currency denominated assets and liabilities are accrued in the period of the exchange rate changes on a monthly basis. The terms of the contracts are typically less than one year.

The tables below set forth our outstanding foreign currency forward contracts as of December 31, 2017 and 2018:

	December 31, 2018 (in thousands)
Contracts to sell EUR/Buy JPY	
Aggregate contract amount	EUR12,000
Average contractual exchange rate	JPY128.02 per EUR
Contracts to sell EUR/Buy CZK	
Aggregate contract amount	EUR3,240
Average contractual exchange rate	CZK25.95 per EUR
Contracts to sell US\$/Buy JPY	
Aggregate contract amount	US\$147,470
Average contractual exchange rate	JPY111.84 per US\$
Contracts to sell US\$/Buy CNY	
Aggregate contract amount	US\$87,000
Average contractual exchange rate	CNY6.87 per US\$
Contracts to sell US\$/Buy MYR	
Aggregate contract amount	US\$879
Average contractual exchange rate	MYR4.18 per US\$
Contracts to sell US\$/Buy NT\$	
Aggregate contract amount	US\$223,000
Average contractual exchange rate	NT\$30.76 per US\$
Contracts to sell US\$/Buy SGD	
Aggregate contract amount	US\$5,793
Average contractual exchange rate	SGD1.37 per US\$
Contracts to sell NT\$/Buy JPY	
Aggregate contract amount	NT\$2,054,260
Average contractual exchange rate	JPY3.60 per NT\$
Contracts to sell CNY/Buy JPY	
Aggregate contract amount	CNY60,800
Average contractual exchange rate	JPY16.14 per CNY
Contracts to sell EUR/Buy US\$	
Aggregate contract amount	EUR28,500

Average contractual exchange rate	US\$1.14 per EUR
Contracts to sell CNY/Buy US\$	
Aggregate contract amount	CNY853,328
Average contractual exchange rate	US\$0.15 per CNY
Fair value of all forward contracts ⁽¹⁾	NT\$47,959

(1) Fair value represents the amount of the receivable from or payable to the counterparties if the contracts were terminated on the reporting date.

Table of Contents

	December 31, 2017 (in thousands)
Contracts to sell EUR/Buy JPY	
Aggregate contract amount	EUR65,000
Average contractual exchange rate	JPY133.72 per EUR
Contracts to sell EUR/Buy CZK	
Aggregate contract amount	EUR3,280
Average contractual exchange rate	CZK25.46 per EUR
Contracts to sell US\$/Buy JPY	
Aggregate contract amount	US\$304,926
Average contractual exchange rate	JPY111.80 per US\$
Contracts to sell US\$/Buy CNY	
Aggregate contract amount	US\$137,000
Average contractual exchange rate	CNY6.60 per US\$
Contracts to sell US\$/Buy MYR	
Aggregate contract amount	US\$931
Average contractual exchange rate	MYR4.09 per US\$
Contracts to sell US\$/Buy NT\$	
Aggregate contract amount	US\$213,100
Average contractual exchange rate	NT\$29.93 per US\$
Contracts to sell US\$/Buy SGD	
Aggregate contract amount	US\$5,480
Average contractual exchange rate	SGD1.34 per US\$
Contracts to sell JPY/Buy NT\$	
Aggregate contract amount	JPY10,000,000
Average contractual exchange rate	NT\$0.27 per JPY
Contracts to sell CNY/Buy JPY	
Aggregate contract amount	CNY86,623
Average contractual exchange rate	JPY16.66 per CNY
Fair value of all forward contracts ⁽¹⁾	NT\$(36,231)

(1) Fair value represents the amount of the receivable from or payable to the counterparties if the contracts were terminated on the reporting date.

Table of Contents

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

12.A. Debt Securities

Not applicable.

12.B. Warrants and Rights

Not applicable.

12.C. Other Securities

Not applicable.

12.D. American Depositary Shares

Depositary Fees and Charges

Under the terms of the deposit agreement dated May 29, 2002 among Citibank, N.A., as depositary, holders and beneficial owners of ADSs and us, which was filed as an exhibit to our annual report on Form 20-F on June 30, 2003 and its amendment dated February 15, 2006, which was filed as an exhibit to our annual report on Form 20-F on June 29, 2007 (collectively, the “Deposit Agreement”) for our ADSs, an ADS holder may have to pay the following service fees to the depositary bank:

Service	Fees
(1) Issuance of ADSs	Up to US\$0.05 per ADS issued
(2) Cancellation of ADSs	Up to US\$0.05 per ADS cancelled
(3) Distribution of cash dividends or other cash distributions	Up to US\$0.02 per ADS held

- | | |
|--|-----------------------------|
| (4) Distributions of ADSs pursuant to stock dividends, free stock distributions or other exercises of rights | Up to US\$0.05 per ADS held |
| (5) Distribution of securities other than ADSs or rights to purchase additional ADSs | Up to US\$0.05 per ADS held |

An ADS holder will also be responsible to pay certain fees and expenses incurred by the depositary bank and certain taxes and governmental charges such as:

- fees for the transfer and registration of ADSs charged by the registrar and transfer agent for the ADSs;
- the expenses and charges incurred by the depositary in the conversion of foreign currency into U.S. dollars;
- such cable, telex and facsimile transmission and delivery expenses;
- taxes and duties upon the transfer of ADSs; and
- the fees and expenses incurred by the depositary in connection with the delivery of ADSs.

Depository fees payable upon the issuance and cancellation of ADSs are typically paid to the depositary bank by the brokers (on behalf of their clients) receiving the newly-issued ADSs from the depositary bank and by the brokers (on behalf of their clients) delivering the ADSs to the depositary bank for cancellation. The brokers in turn charge these transaction fees to their clients.

Table of Contents

Depository fees payable in connection with distributions of cash or securities to ADS holders are charged by the depository bank to the holders of record of ADSs as of the applicable ADS record date. The depository fees payable for cash distributions are generally deducted from the cash being distributed. In the case of distributions other than cash (i.e., stock dividends, rights offerings), the depository bank charges the applicable fee to the ADS record date holders concurrent with the distribution. In the case of ADSs registered in the name of the investor (whether certificated or un-certificated in direct registration), the depository bank sends invoices to the applicable record date ADS holders. In the case of ADSs held in brokerage and custodian accounts via the central clearing and settlement system, The Depository Trust Company (“DTC”), the depository bank generally collects its fees through the systems provided by DTC (whose nominee is the registered holder of the ADSs held in DTC) from the brokers and custodians holding ADSs in their DTC accounts. The brokers and custodians who hold their clients’ ADSs in DTC accounts in turn charge their clients’ accounts the amount of the fees paid to the depository banks.

In the event of refusal to pay the depository fees, the depository bank may, under the terms of the deposit agreement, refuse the requested service until payment is received or may offset the amount of the depository fees from any distribution to be made to the ADS holder.

Note that the fees and charges you may be required to pay may vary over time and may be changed by us and by the depository bank. You will receive prior notice of such changes.

Payment received by us

In 2018, we received the following payments from Citibank, N.A, the Depository Bank for our ADR program:

Reimbursement of Proxy Process Expenses	US\$72,059.39
Reimbursement of ADR holders identification expenses	US\$30,639.63
Reimbursement of Legal Fees	US\$1,500.00
Reimbursement to Issuer	US\$917,981.43
Tax Payment to the IRS	US\$437,327.35
Total	US\$1,459,507.80

Table of Contents

PART II

ITEM 13. ITEM DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

None.

ITEM 15. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in the Exchange Act Rules 13a-15(e) or 15d-15(e)) as of the end of the period covered by this report, have concluded that based on the evaluation of these controls and procedures required by paragraph (b) of Exchange Act Rules 13a-15 or 15d-15, that our disclosure controls and procedures were effective.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

Our internal control over financial reporting includes those policies and procedures that:

pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect our transactions and dispositions of our assets;

provide reasonable assurance that our transactions are recorded as necessary to permit preparation of our financial statements in accordance with IFRS, and that our receipts and expenditures are being made only in accordance with authorizations of our management and our directors; and

provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our 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. Projections of any evaluation of internal control 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.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2018 based on the criteria set forth in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). Based on the assessment, our management believes that our internal control over financial reporting was effective as of December 31, 2018.

Our independent registered public accounting firm has issued an audit report on the effectiveness of our internal control over financial reporting as of December 31, 2018, which is included below.

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

AU Optronics Corp.:

Opinion on Internal Control Over Financial Reporting

We have audited the internal control over financial reporting of AU Optronics Corp. and subsidiaries (“the Company”) as of December 31, 2018, based on the criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on the criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the consolidated statements of financial position of AU Optronics Corp. and subsidiaries as of December 31, 2017 and 2018, and the related consolidated statements of comprehensive income, changes in equity and cash flows for each of the years in the three-year period ended December 31, 2018 (collectively, “the consolidated financial statements”), and our report dated March 22, 2019 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company’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 Annual 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 are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. 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 of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

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.

/s/ KPMG

We have served as the Company's auditor since 1996.

Hsinchu, Taiwan (Republic of China)

March 22, 2019

Table of Contents

Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting that occurred during the period covered by this annual report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16.

[RESERVED]

16.A. Audit Committee Financial Expert

Our board of directors has determined that Vivien Huey-Juan Hsieh and Chin-Bing (Philip) Peng are audit committee financial experts and are independent as defined under NYSE Section 303A.02. Ms. Hsieh received a Ph.D. in Finance and served as the President of China Development Asset Management Corp. and the President of Co-Operative Asset Management Corp. and Mr. Peng served as Chief Financial Officer of ACER Incorporated. Both of them have acquired financial expertise through their role as supervisor at a company where their responsibilities include examining the business and financial condition of the company and supervising certified public accountants in their examination of the same.

16.B. Code of Ethics

We have adopted a code of ethical conduct, which applies to directors and senior management. Our code of ethics covers the specific ethical operating method and the schemes to prevent unethical conduct, such as operation procedures, conduct guide, educational training, etc. Besides, our code of ethics contains provisions covering conflicts of interest, corporate opportunities, confidentiality, fair dealing, protection and proper use of company assets, compliance with laws, rules and regulations (including insider trading laws, money laundering prevention, personal information protection) and encouraging the reporting of any illegal or unethical behavior, as well as compliance standards and procedures that will facilitate the operation of the code and ensure the prompt and consistent action against violations of the code. We will address violations of the code of ethical conduct. A copy of our Codes of Ethical Conduct for Directors and Senior Management is available on our website at [http://www.auo.com/en-global/Governance and Policy/index](http://www.auo.com/en-global/Governance_and_Policy/index).

16.C. Principal Accountant Fees and Services

Policy on Pre-Approval of Audit and Non-Audit Services of Independent Registered Public Accounting Firm

Our audit committee is responsible for the oversight of KPMG's work. The policy of our audit committee is to pre-approve all audit and non-audit services provided by KPMG, including audit services, audit-related services, tax services and other services, as described below. The audit committee sets forth its pre-approval in detail, listing the particular services or categories of services which are pre-approved, and setting forth a specific budget for such services. In urgent circumstances, the audit committee's chairman may issue such a pre-approval. Additional services may be pre-approved on an individual basis. KPMG and our management then report to the audit committee on a quarterly basis regarding the extent of services actually provided in accordance with the applicable pre-approval, and regarding the fees for the services performed.

Auditor Fees

The following are fees for professional services to KPMG for the years ended December 31, 2017 and 2018.

Services	Year Ended	
	December 31,	
	2017	2018
	NT\$	NT\$
	(in thousands)	
Audit-Related Fees ⁽¹⁾	42,575	42,176
Tax Fees ⁽²⁾	5,510	6,874
Other Fees ⁽³⁾	8,657	1,379
Total	56,742	50,429

Table of Contents

(1) *Audit Fees.* This category includes the audit of our annual financial statements, review of quarterly financial statements and services that are normally provided by the independent auditors in connection with statutory and regulatory filings or engagements for those fiscal years, and service related to the audit of the effectiveness of our internal control over financial reporting required by Section 404 of the Sarbanes-Oxley Act of 2002. This category also includes advice on audit and accounting matters that arose during, or as a result of, the audit or the review of quarterly financial statements and statutory audits required by non-U.S. jurisdictions, including statutory audits required by the Customs Bureau of the ROC and Financial Supervisory Commission of the ROC. This category also includes assistance with and review of documents filed with the SEC.

(2) *Tax Fees.* This category includes fees incurred from professional services related to tax compliance.

(3) *Other Fees.* This category includes fees incurred from professional services related to training, advisory and assurance for corporate and social responsibility reporting and professional services related to tax advice.

16.D. Exemptions from the Listing Standards for Audit Committees

Not applicable.

16.E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Neither we nor any “affiliated purchaser,” as defined in Rule 10b-18(a)(3) of the Exchange Act, purchased any of our equity securities during the period covered by this annual report.

16.F. Change in Registrant’s Certifying Accountant

Not applicable.

16.G. Corporate Governance

Our corporate governance practices are governed by applicable ROC law, specifically, the ROC Company Act and the ROC Securities and Exchange Act, and our Articles of Incorporation. Also, because our shares are registered with the SEC and are listed on the New York Stock Exchange (“NYSE”), we are subject to corporate governance requirements applicable to NYSE-listed foreign private issuers.

Under Section 303A of the NYSE Listed Company Manual, NYSE-listed non-US companies may, in general, follow their home country corporate governance practices in lieu of most of the new NYSE corporate governance requirements. However, all NYSE-listed foreign private issuers must comply with NYSE Sections 303A.06, 303A.11, 303A.12(b) and 303A.12(c).

Item 16G as well as NYSE Section 303A.11 requires that foreign private issuers disclose any significant ways in which their corporate governance practices differ from U.S. companies under NYSE listing standards. A NYSE-listed foreign private issuer is required to provide to its U.S. investors, a brief, general summary of the significant differences, either: (a) on the company website in English, or (b) in its annual report distributed to its U.S. investors. To comply with NYSE Section 303A.11, we have prepared the comparison in the table below.

The most relevant differences between our corporate governance practices and NYSE standards for listed companies are as follows:

Table of Contents

NYSE Standards for U.S. Listed Companies
under Listed Company Manual
Section 303A

NYSE Section 303A.02 establishes general standards to evaluate directors' independence (no director qualifies as independent unless the board of directors affirmatively determines that the director has no material relationship with the listed company either directly or as a partner, shareholder or officer of an organization that has a relationship with the listed company).

NYSE Section 303A.03 requires non-management directors to meet at regularly scheduled executive meetings that are not attended by management.

NYSE Section 303A.04 requires listed companies to have a nominating/corporate governance committee comprised entirely of independent directors which committee shall have a written charter establishing certain minimum responsibilities as set forth in NYSE Section 303A.04(b)(i) and providing for an annual evaluation of the committee's performance.

NYSE Section 303A.05 requires listed companies to have a remuneration committee comprised entirely of independent directors, which committee shall have a written charter to establish certain minimum responsibilities as set forth in NYSE Section 303A.05(b)(i) and to provide for an annual evaluation of the committee's performance.

NYSE Section 303A.08 requires each company to give to shareholders the opportunity to vote on all equity based compensation plans and material revisions thereto with certain exceptions.

Our Corporate Governance Practices

Our standards for determining director independence, which comply with ROC requirements for director independence, may differ from the standards imposed by the NYSE. The independence standards of our board of directors are disclosed in our ROC annual report.

Our board of directors has affirmatively determined that our five independent directors have no material relationship with us.

ROC law does not contain such a requirement. ROC law does not allow separate board meetings to be held by part but not all of the directors of the board.

ROC law does not contain such a requirement, and we do not have a nominating/corporate governance committee.

We established a remuneration committee on August 30, 2011 to meet the requirements under ROC law. The current members of the remuneration committee appointed by the board of directors are three of our independent directors, Chin-Bing (Philip) Peng, Ding-Yuan Yang and Vivien Huey-Juan Hsieh. We have a written charter to establish certain minimum responsibilities in accordance with ROC law. We do not assess the independence of our remuneration committee members under the independence requirements of the NYSE listing standards.

Under ROC law, shareholders' approval is required for (i) any issuance of restricted stocks to employees, and (ii) employee stock option plans with exercise price lower than the closing price of the company's stocks as of the issuance date. Other than the above, under ROC law, the board of directors has authority to approve employee remunerations and employee stock option plans with exercise price equal to or higher than the closing price of the company's stocks as of the issuance date, and to grant options to employees pursuant to such plans, subject to the approval of the FSC, and to approve share buy-back programs and the transfer of shares to employees under such programs.

Table of Contents

NYSE Standards for U.S. Listed Companies
under Listed Company Manual
Section 303A

Our Corporate Governance Practices

NYSE Section 303A.09 requires public companies to adopt and disclose corporate governance guidelines, including several issues for which such reporting is mandatory, and to include such information on the company's website (which website should also include the charters of the audit committee, the nominating committee, and the remuneration committee.)

We have adopted corporate governance principles, and we provide an explanation of differences between our practice and ROC non-binding corporate governance principles promulgated by the Taiwan Stock Exchange, if any, in our ROC annual report.

16.H.Mine Safety Disclosure

Not applicable.

Table of Contents

PART III

ITEM 17. FINANCIAL STATEMENTS

Not applicable.

ITEM 18. FINANCIAL STATEMENTS

Our consolidated financial statements and the report thereon by our independent registered public accounting firm listed below are included herein as follows:

- (a) Report of Independent Registered Public Accounting Firm.
- (b) Consolidated Statements of Financial Position of AU Optronics Corp. and subsidiaries as of December 31, 2017 and 2018.
- (c) Consolidated Statements of Comprehensive Income of AU Optronics Corp. and subsidiaries for the years ended December 31, 2016, 2017 and 2018.
- (d) Consolidated Statements of Changes in Equity of AU Optronics Corp. and subsidiaries for the years ended December 31, 2016, 2017 and 2018.
- (e) Consolidated Statements of Cash Flows of AU Optronics Corp. and subsidiaries for the years ended December 31, 2016, 2017 and 2018.
- (f) Notes to Consolidated Financial Statements of AU Optronics Corp. and subsidiaries.

ITEM 19. EXHIBITS

1.1 Articles of Incorporation (English translation).

2.1 Deposit Agreement, dated May 29, 2002, among AU Optronics Corp., Citibank, N.A. as depositary, and Holders and Beneficial Owners of American depositary shares evidenced by American depositary receipts issued thereunder, including the form of American depositary receipt (incorporated herein by reference to Exhibit 2(A) to

our annual report on Form 20-F as filed with the SEC on June 30, 2003).

2.2 Amendment No. 1 to the Deposit Agreement, dated February 15, 2006, among AU Optronics Corp., Citibank, N.A. as depositary, and Holders and Beneficial Owners of American depositary shares evidenced by American depositary receipts issued thereunder, including the amended form of American depositary receipt (incorporated herein by reference to Exhibit 2.2 to our annual report on Form 20-F as filed with the SEC on June 29, 2007).

4.1 Patent and Technology License Agreement by and between FDTC and AU Optronics Corp., for TFT-LCD technologies, dated March 31, 2003 (incorporated herein by reference to Exhibit 4(g) to our annual report on Form 20-F as filed with the SEC on June 30, 2003).

4.2 Lease Agreement with Hsinchu Science Park Administration in relation to government-owned land located at Hsinchu Science Park, No. 76-6 Small Section, Hsinchu, Taiwan, Republic of China, with respect to part of the site of our previous L1 fab (incorporated herein by reference to Exhibit 4(j) to our annual report on Form 20-F as filed with the SEC on June 30, 2003).

Table of Contents

4.3	<u>Lease Agreement with Hsinchu Science Park Administration in relation to government-owned land located at Hsinchu Science Park, No. 77 Ke-Yuan Small Section, Hsinchu, Taiwan, Republic of China, with respect to part of the site of L1 fab (incorporated herein by reference to Exhibit 4(k) to our annual report on Form 20-F as filed with the SEC on June 30, 2003).</u>
4.4	<u>Lease Agreement with Hsinchu Science Park Administration in relation to government-owned land located at Hsinchu Science Park, Nos. 114-4 Gin-Shan Section, Hsin-Chu, Taiwan, Republic of China, the L3B site of one of our 3.5-generation fabs (incorporated herein by reference to Exhibit 4(m) to our annual report on Form 20-F as filed with the SEC on June 30, 2003).</u>
4.5	<u>Lease Agreement with Hsinchu Science Park Administration in relation to government-owned land located at Hsinchu Science Park, Nos. 472 etc., Gin-Shan Section, Hsinchu, Taiwan, Republic of China, the site of one of our 3.5-generation fabs (incorporated herein by reference to Exhibit 4(n) to our annual report on Form 20-F as filed with the SEC on June 30, 2003).</u>
4.6	<u>Lease Agreement by and between AU Optronics (Suzhou) Corp., Ltd. and Chinese-Singapore Suzhou Industrial Park Development Co., Ltd. for No. 398, Suhong Zhong Road, Suzhou Industrial Park, Suzhou, The People's Republic of China, the site of two of our module-assembly plants (incorporated herein by reference to Exhibit 4(q) to our annual report on Form 20-F as filed with the SEC on June 30, 2003).</u>
8.1	<u>List of Subsidiaries.</u>
12.1	<u>Certification of Shuang-Lang (Paul) Peng, Chairman and Chief Executive Officer of AU Optronics Corp., pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
12.2	<u>Certification of Benjamin Tseng, Chief Financial Officer of AU Optronics Corp., pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
13.1	<u>Certification of Shuang-Lang (Paul) Peng, Chairman and Chief Executive Officer of AU Optronics Corp., pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
13.2	<u>Certification of Benjamin Tseng, Chief Financial Officer of AU Optronics Corp., pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
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

Table of Contents

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

AU OPTRONICS CORP.

By: /s/ Shuang-Lang (Paul) Peng
Name: Shuang-Lang (Paul) Peng
Title: Chairman and Chief Executive Officer

Date: March 29, 2019

Table of Contents

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Financial Statements of AU Optronics Corp. and Subsidiaries	<u>Page</u>
<u>Report of Independent Registered Public Accounting Firm</u>	<u>F-1</u>
<u>Consolidated Statements of Financial Position</u>	<u>F-2</u>
<u>Consolidated Statements of Comprehensive Income</u>	<u>F-4</u>
<u>Consolidated Statements of Changes in Equity</u>	<u>F-5</u>
<u>Consolidated Statements of Cash Flows</u>	<u>F-6</u>
<u>Notes to Consolidated Financial Statements</u>	<u>F-7</u>

Table of Contents

**AU OPTRONICS CORP.
AND SUBSIDIARIES**

Consolidated Financial Statements

December 31, 2016, 2017 and 2018

(With Report of Independent Registered Public Accounting Firm)

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

AU Optronics Corp.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated statements of financial position of AU Optronics Corp. and subsidiaries (the “Company”) as of December 31, 2017 and 2018 the related consolidated statements of comprehensive income, changes in equity and cash flows for each of the years in the three-year period ended December 31, 2018, and the related notes (collectively, the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of AU Optronics Corp. and subsidiaries as of December 31, 2017 and 2018 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2018, in conformity with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of December 31, 2018, based on the criteria established in Internal Control Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 22, 2019, expressed an unqualified opinion on the effectiveness of the Company’s internal control over financial reporting.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of

material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG

We have served as the Company's auditor since 1996.

Hsinchu, Taiwan (Republic of China)

March 22, 2019

F-1

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Consolidated Statements of Financial Position

December 31, 2017 and 2018

(Expressed in thousands of New Taiwan dollars)

	Notes	December 31, 2017	December 31, 2018
Assets			
Current assets:			
Cash and cash equivalents	7	\$105,020,616	69,163,296
Financial assets at fair value through profit or loss - current	8	70,366	1,709,531
Accounts receivable, net	11	38,738,211	44,647,981
Accounts receivable from related parties, net	11, 41	1,853,062	2,754,253
Other receivables from related parties	41	54,093	12,945
Current tax assets		27,431	69,156
Inventories	12	24,854,323	26,309,104
Other current financial assets	11, 42	518,329	1,459,763
Noncurrent assets held for sale	13	2,407,980	-
Other current assets	14, 21	6,631,130	2,941,598
Total current assets		180,175,541	149,067,627
Noncurrent assets:			
Financial assets at fair value through other comprehensive income - noncurrent	9	-	6,979,925
Available-for-sale financial assets - noncurrent	10	4,348,134	-
Investments in equity-accounted investees	14	5,597,287	6,285,865
Property, plant and equipment	18, 41, 42	224,933,089	221,586,475
Investment property	19, 25, 42	717,823	730,306
Intangible assets	15, 20	1,890,297	2,096,668
Deferred tax assets	36	7,069,014	6,632,668
Other noncurrent assets	14, 21, 42	5,439,504	5,171,646
Total noncurrent assets		249,995,148	249,483,553
Total Assets		\$430,170,689	398,551,180

(See accompanying notes to the consolidated financial statements)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES**

Consolidated Statements of Financial Position (continued)

December 31, 2017 and 2018

(Expressed in thousands of New Taiwan dollars, except for par value)

	Notes	December 31, 2017	December 31, 2018
Liabilities			
Current liabilities:			
Short-term borrowings	22	\$3,424,376	546,472
Current installments of long-term borrowings	23, 42	8,155,234	29,595,931
Financial liabilities at fair value through profit or loss - current	8	106,597	22,115
Accounts payable		46,888,691	50,459,587
Accounts payable to related parties	41	7,664,731	8,161,186
Equipment and construction payable	41	12,131,121	11,231,333
Other payables to related parties	41	21,161	27,998
Current tax liabilities		4,684,818	3,520,469
Provisions - current	24	819,232	1,507,564
Other current liabilities		26,368,732	24,291,532
Total current liabilities		110,264,693	129,364,187
Noncurrent liabilities:			
Long-term borrowings, excluding current installments	23, 42	102,452,776	56,709,387
Provisions - noncurrent	24	1,066,731	1,030,485
Deferred tax liabilities	36	1,638,227	1,632,164
Other noncurrent liabilities	26	1,930,411	2,029,651
Total noncurrent liabilities		107,088,145	61,401,687
Total liabilities		217,352,838	190,765,874
Equity	27		
Common stock, \$10 par value		96,242,451	96,242,451
Capital surplus		60,538,505	60,620,224
Retained earnings		38,712,332	37,353,842
Other components of equity		256,062	(847,770)
Equity attributable to shareholders of AU		195,749,350	193,368,747
Optronics Corp.			
Non-controlling interests		17,068,501	14,416,559
Total equity		212,817,851	207,785,306
Total Liabilities and Equity		\$430,170,689	398,551,180

(See accompanying notes to the consolidated financial statements)

F-3

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2016, 2017 and 2018

(Expressed in thousands of New Taiwan dollars, except for earnings per share)

	Notes	2016	2017	2018
Net revenue	29, 30, 41	\$ 329,089,036	341,028,267	307,634,389
Cost of sales	12, 25, 31, 32, 41	(294,598,017)	(279,986,522)	(279,494,885)
Gross profit		34,491,019	61,041,745	28,139,504
Selling and distribution expenses	25, 28, 31, 32, 41	(3,895,089)	(3,888,969)	(3,946,509)
General and administrative expenses	15, 25, 28, 31, 32, 41	(9,176,683)	(8,158,940)	(7,978,267)
Research and development expenses	25, 28, 31, 32, 41	(9,080,791)	(9,854,712)	(9,546,863)
Other income	25, 33, 41	2,380,228	3,829,897	5,412,125
Other gains and losses	13, 15, 17, 18, 34, 41	(925,673)	(976,560)	1,488,052
Finance costs	18, 35	(2,707,887)	(2,867,861)	(2,663,605)
Share of profit of equity-accounted investees	14	100,778	239,006	311,714
Profit before income tax		11,185,902	39,363,606	11,216,151
Income tax expense (benefit)	36	2,432,545	(1,125,157)	322,374
Profit for the year		8,753,357	40,488,763	10,893,777
Other comprehensive income (loss)	14, 26, 27, 36			
Items that will never be reclassified to profit or loss				
Remeasurement of defined benefit obligations		(225,194)	(98,091)	(56,956)
Unrealized loss on equity investments at fair value through other comprehensive income		-	-	(756,287)
Equity-accounted investees – share of other comprehensive income		574	243	4,239
Related tax		-	155,930	38,908
		(224,620)	58,082	(770,096)
Items that are or may be reclassified subsequently to profit or loss				
Foreign operations – foreign currency translation differences		(7,500,071)	(2,255,410)	(785,772)
Net change in fair value of available-for-sale financial assets		766,534	1,146,422	-

Edgar Filing: AU OPTRONICS CORP - Form 20-F

Effective portion of changes in fair value of cash flow hedges	7,199	(21,992) -
Equity-accounted investees – share of other comprehensive loss	(609,071	) (62,327	) (19,716)
Related tax	230,202	316,372	191,809
	(7,105,207	) (876,935	) (613,679)
Other comprehensive income (loss), net of tax	(7,329,827	) (818,853	) (1,383,775)
Total comprehensive income for the year	\$1,423,530	39,669,910	9,510,002
Profit (loss) attributable to:			
Shareholders of AU Optronics Corp.	\$9,965,129	42,609,500	13,071,646
Non-controlling interests	(1,211,772	) (2,120,737	) (2,177,869)
Profit for the year	\$8,753,357	40,488,763	10,893,777
Total comprehensive income (loss) attributable to:			
Shareholders of AU Optronics Corp.	\$4,502,568	42,146,146	11,996,308
Non-controlling interests	(3,079,038	) (2,476,236	) (2,486,306)
Total comprehensive income for the year	\$1,423,530	39,669,910	9,510,002
Earnings per share	37		
Basic earnings per share	\$1.04	4.43	1.36
Diluted earnings per share	\$1.02	4.27	1.34

(See accompanying notes to the consolidated financial statements)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the years ended December 31, 2016, 2017 and 2018

(Expressed in thousands of New Taiwan dollars)

	Equity attributable to shareholders of AU Optronics Corp.					Other components of equity		
	Common stock	Capital surplus	Legal reserve	Retained earnings (Accumulated deficit)		Cumulative translation differences	Unrealized gains (losses) on financial assets at fair value through other comprehensive income	Unrealized gains (losses) on available-f financial assets
				Unappropriated earnings (deficit)	Subtotal			
Balance at January 1, 2016	\$96,242,451	60,247,848	2,164,596	(6,657,762)	(4,493,166)	6,540,196	-	(539,653)
Appropriation of earnings								
Legal reserve	-	-	493,196	(493,196)	-	-	-	-
Cash dividends distributed to shareholders	-	-	-	(3,368,486)	(3,368,486)	-	-	-
Profit (loss) for the year	-	-	-	9,965,129	9,965,129	-	-	-
Other comprehensive income, net of tax	-	-	-	(224,522)	(224,522)	(6,009,190)	-	763,952
Total comprehensive income for the year	-	-	-	9,740,607	9,740,607	(6,009,190)	-	763,952

Edgar Filing: AU OPTRONICS CORP - Form 20-F

Adjustments to capital surplus and								
accumulated deficit for	-	(290,111)	-	(428,337)	(428,337)	-	-	-
changes in investees' equity								
Group reorganization	-	20,006	-	-	-	-	-	-
Changes in non-controlling interests	-	-	-	-	-	-	-	-
Balance at December 31, 2016	96,242,451	59,977,743	2,657,792	(1,207,174)	1,450,618	531,006	-	224,299
Appropriation of earnings								
Legal reserve	-	-	781,894	(781,894)	-	-	-	-
Cash dividends distributed to shareholders	-	-	-	(5,389,577)	(5,389,577)	-	-	-
Profit (loss) for the year	-	-	-	42,609,500	42,609,500	-	-	-
Other comprehensive income, net of tax	-	-	-	57,881	57,881	(1,651,975)	-	1,152,732
Total comprehensive income for the year	-	-	-	42,667,381	42,667,381	(1,651,975)	-	1,152,732
Adjustments to capital surplus and								
accumulated deficit for	-	42,566	-	(16,090)	(16,090)	-	-	-
changes in investees' equity								
Differences between consideration and carrying amount arising from disposal of interest in subsidiary	-	518,196	-	-	-	-	-	-
Changes in non-controlling interests	-	-	-	-	-	-	-	-
Balance at December 31,	96,242,451	60,538,505	3,439,686	35,272,646	38,712,332	(1,120,969)	-	1,377,031

Edgar Filing: AU OPTRONICS CORP - Form 20-F

2017								
Adjustments on initial application of new standards	-	-	-	73,020	73,020	-	1,303,816	(1,377,031)
Adjusted balance at January 1, 2018	96,242,451	60,538,505	3,439,686	35,345,666	38,785,352	(1,120,969)	1,303,816	-
Appropriation of earnings								
Legal reserve	-	-	3,235,942	(3,235,942)	-	-	-	-
Cash dividends distributed to shareholders	-	-	-	(14,436,368)	(14,436,368)	-	-	-
Profit (loss) for the year	-	-	-	13,071,646	13,071,646	-	-	-
Other comprehensive income, net of tax	-	-	-	(16,862)	(16,862)	(306,716)	(751,760)	-
Total comprehensive income for the year	-	-	-	13,054,784	13,054,784	(306,716)	(751,760)	-
Deemed contributions from shareholders	-	33,304	-	-	-	-	-	-
Adjustments for changes in investees' equity	-	28,891	-	158	158	-	-	-
Group reorganization	-	19,524	-	-	-	(22,225)	-	-
Disposal of equity investments at fair value through other comprehensive income	-	-	-	(50,084)	(50,084)	-	50,084	-
Changes in non-controlling interests	-	-	-	-	-	-	-	-
Balance at December 31, 2018	\$96,242,451	60,620,224	6,675,628	30,678,214	37,353,842	(1,449,910)	602,140	-

(See accompanying notes to the consolidated financial statements)

F-5

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2016, 2017 and 2018

(Expressed in thousands of New Taiwan dollars)

	2016	2017	2018
Cash flows from operating activities:			
Profit before income tax	\$ 11,185,902	39,363,606	11,216,151
Adjustments for:			
- depreciation	38,533,775	35,801,230	33,686,561
- amortization	1,159,465	628,606	540,969
- loss (gain) on financial instruments at fair value through profit or loss	491,860	(795,098)	(406,507)
- interest expense	2,707,887	2,867,861	2,663,605
- interest income	(494,542)	(612,210)	(841,615)
- dividend income	(107,141)	(248,514)	(468,263)
- share of profit of equity-accounted investees	(100,778)	(239,006)	(311,714)
- gains on disposals of property, plant and equipment, net	(24,278)	(330,814)	(1,923,044)
- losses (gains) on disposals of investments and financial assets, net	333,858	(42,788)	-
- write-downs of inventories	3,673,213	3,756,726	5,171,752
- impairment losses on assets	34,733	1,046,668	399,363
- unrealized foreign currency exchange losses (gains)	(1,386,370)	776,962	545,856
- others	(37,295)	(126,760)	(132,537)
Changes in operating assets and liabilities:			
- accounts receivable	(13,023,581)	4,643,577	(3,702,504)
- receivables from related parties	(47,075)	659,522	(826,893)
- inventories	112,708	(1,149,146)	(6,825,812)
- other current assets	7,312,751	1,572,360	3,260,786
- accounts payable	(601,488)	(2,489,088)	2,776,504
- payables to related parties	(504,779)	(1,164,514)	503,293
- net defined benefit liability	(57,382)	(103,668)	(82,176)
- provisions	(3,125,053)	(911,810)	636,100
- other current liabilities	(4,454,647)	3,974,959	(3,679,040)
Cash generated from operations	41,581,743	86,878,661	42,200,835
Cash received from interest income	501,076	628,223	815,890
Cash received from dividends	311,492	421,550	670,234
Cash paid for interest	(2,105,285)	(2,551,944)	(2,481,821)
Cash paid for income taxes	(3,593,180)	(1,013,159)	(1,004,444)
Net cash provided by operating activities	36,695,846	84,363,331	40,200,694

Edgar Filing: AU OPTRONICS CORP - Form 20-F

Cash flows from investing activities:

Acquisitions of financial assets at fair value through profit or loss	-	-	(2,509,528)
Disposals of financial assets at fair value through profit or loss	-	-	924,567
Acquisitions of financial assets at fair value through other comprehensive income	-	-	(3,452,722)
Proceeds from disposals of financial assets at fair value through other comprehensive income	-	-	59,021
Acquisitions of available-for-sale financial assets	(66,948)	(201,434)	-
Proceeds from disposals of available-for-sale financial assets	9,917	-	-
Proceeds from return of capital by available-for-sale financial assets	-	32,000	-
Acquisitions of equity-accounted investees	(240,500)	(397,000)	(684,756)
Proceeds from disposals of equity-accounted investees	3,522,610	56	-
Proceeds from return of capital by equity-accounted investees	-	-	99,200
Net cash outflow arising from acquisition of subsidiaries	-	-	(448,488)
Net cash inflows resulting from disposals of subsidiaries	179,262	276,393	51,387
Acquisitions of property, plant and equipment	(46,220,129)	(43,881,660)	(34,770,263)
Proceeds from disposals of property, plant and equipment	789,682	1,149,649	6,408,057
Increase in refundable deposits	(16,955)	(404,233)	(169,666)
Increase in intangible assets	(187,020)	(196,781)	-
Increase in other financial assets	(37,246)	(44,469)	(4,635)
Net cash used in investing activities	(42,267,327)	(43,667,479)	(34,497,826)
Cash flows from financing activities:			
Proceeds from short-term borrowings	17,676,857	10,548,495	2,526,082
Repayments of short-term borrowings	(18,742,699)	(7,644,568)	(5,343,976)
Proceeds from long-term borrowings	61,799,594	34,872,615	4,271,566
Repayments of long-term borrowings	(45,650,997)	(47,443,813)	(28,736,527)
Guarantee deposits refunded	(30,944)	(34,654)	(13,402)
Cash dividends	(3,368,486)	(5,389,577)	(14,436,368)
Net change of non-controlling interests and others	(962,106)	1,681,150	(114,035)
Net cash provided by (used in) financing activities	10,721,219	(13,410,352)	(41,846,660)
Effect of exchange rate change on cash and cash equivalents	(3,839,190)	(2,456,132)	286,472
Net increase (decrease) in cash and cash equivalents	1,310,548	24,829,368	(35,857,320)
Cash and cash equivalents at January 1	78,880,700	80,191,248	105,020,616
Cash and cash equivalents at December 31	\$ 80,191,248	105,020,616	69,163,296

(See accompanying notes to the consolidated financial statements)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

For the years ended December 31, 2016, 2017 and 2018

(Expressed in thousands of New Taiwan dollars, unless otherwise indicated)

1. Organization

AU Optronics Corp. (“AUO”) was founded on August 12, 1996 and is located in Hsinchu Science Park, the Republic of China (“ROC”). AUO’s main activities are the research, development, production and sale of thin film transistor liquid crystal displays (“TFT-LCDs”) and other flat panel displays used in a wide variety of applications. AUO also engages in the production and sale of solar modules and systems. AUO’s common shares have been publicly listed on the Taiwan Stock Exchange since September 2000, and its American Depositary Shares (“ADSs”) have been listed on the New York Stock Exchange since May 2002.

On September 1, 2001, October 1, 2006 and October 1, 2016, Unipac Optoelectronics Corp. (“Unipac”), Quanta Display Inc. (“QDI”) and Taiwan CFI Co., Ltd. (“CFI”) were merged with and into AUO, respectively. AUO is the surviving Company, whereas Unipac, QDI and CFI were dissolved.

The principal operating activities of AUO and its subsidiaries (hereinafter referred to as “the Company”) are described in note 5(c)(2).

2. The Authorization of Financial Statements

These consolidated financial statements were authorized for issue by the audit committee of the Board of Directors of AUO on March 22, 2019.

3. Application of New and Revised Standards, Amendments and Interpretations

(a) New and revised standards, amendments and interpretations in issue but not yet effective

In preparing the accompanying consolidated financial statements, the Company has not adopted the following International Financial Reporting Standards (“IFRS”), International Accounting Standards (“IAS”), Interpretations developed by the International Financial Reporting Interpretations Committee (“IFRIC”) or the former Standing Interpretations Committee (“SIC”) issued by the International Accounting Standards Board (“IASB”) (collectively, “IFRSs”).

New, Revised or Amended Standards and Interpretations	Effective Date (Note)
Amendments to IFRS 3, <i>Definition of a Business</i>	January 1, 2020
Amendments to IFRS 9, <i>Prepayment Features with Negative Compensation</i>	January 1, 2019
Amendments to IFRS 10 and IAS 28, <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	Subject to IASB’s announcement
IFRS 16, <i>Leases</i>	January 1, 2019
IFRS 17, <i>Insurance Contracts</i>	January 1, 2021
Amendments to IAS 1 and IAS 8, <i>Definition of Material</i>	January 1, 2020
Amendments to IAS 19, <i>Plan Amendment, Curtailment or Settlement</i>	January 1, 2019
Amendments to IAS 28, <i>Long-term Interests in Associates and Joint Ventures</i>	January 1, 2019
IFRIC 23, <i>Uncertainty over Income Tax Treatments</i>	January 1, 2019
Annual Improvements to IFRSs 2015 – 2017 Cycle	January 1, 2019

F-7 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Note: The aforementioned new, revised and amended standards and interpretations are effective for annual periods beginning on or after the respective effective dates.

(b) Except for the items discussed below, the Company believes that the initial adoption of abovementioned standards or interpretations would not have a material impact on its accounting policies.

IFRS 16, *Leases*

IFRS 16 sets out the accounting standards for leases that will replace IAS 17, *Leases* and the related interpretations.

Upon the initial application of IFRS 16, if the Company is a lessee, it is required to recognize a right-of-use asset and a lease liability on the statement of financial position for all leases with exception for leases of low-value assets and short-term leases which the Company may elect to apply the accounting method similar to the accounting for operating lease under IAS 17. Additionally, a depreciation expense charged on the right-of-use asset and an interest expense accrued on the lease liability, for which interest is computed by using effective interest method, are recognized separately on the statement of comprehensive income. On the statement of cash flows, cash payments for the principal amount of the lease liability will be classified within financing activities; cash payments for interest portion will be classified within operating activities.

When IFRS 16 becomes effective, as a lessee, the Company will apply this Standard using the modified retrospective approach with the cumulative effect of the initial application of this Standard recognized at the date of initial application. Comparative financial information will not be restated. As a lessor, the Company is not required to make any adjustments for leases except it is an intermediate lessor in a sub-lease.

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The Company has performed an assessment and identification over its current operating leases whether they are in scope of IFRS 16. The main impact to the Company may arise from its lease contracts of land and plant which are currently accounted as operating lease. Please refer to note 25 for the related disclosures. The Company has identified whether a contract that contains a lease meets the definition of a lease under this Standard, and if so, a right-of-use asset and a lease liability will be recognized. The Company estimated that the right-of-use asset and the lease liability would increase by \$14,059,544 thousand and \$12,689,526 thousand, respectively, at January 1, 2019 as a result of the application of IFRS 16.

Except for the aforementioned impacts, as of the date that the accompanying consolidated financial statements were issued, the Company continues in assessing the potential impact on its financial position and results of operations as a result of the application of other standards, interpretations and amendments.

4. Changes in Significant Accounting Policies

A number of new standards are effective from January 1, 2018 which do not have a material effect on the Company's consolidated financial statements. The Company has made certain adjustments upon the initial application of IFRS 9 and IFRS 15 which did not have a material impact on the consolidated financial statements. The following sets forth the adjustments made by the Company upon adoption.

Due to the transition methods chosen by the Company in applying these standards, comparative information throughout these consolidated financial statements has not been restated to reflect the requirements of the new standards.

(a) IFRS 9, *Financial Instruments*

IFRS 9 replaces the current standards on accounting for financial instruments, IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 contains three principal classification categories for financial assets: at amortized cost, at fair value through other comprehensive income ("FVTOCI") and at fair value through profit or loss ("FVTPL"). Under IFRS 9, the classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. This Standard eliminates the classification of financial assets under IAS 39 which are held to maturity, loans and receivables and available for sale. In addition, IAS

39 has an exception for the measurement of investments in equity instruments (and its derivatives) that do not have a quoted market price in an active market and for which fair value cannot therefore be measured reliably; such financial instruments are measured at cost. IFRS 9 removes this exception and requires that all equity instruments (and its derivatives) should be measured at fair value.

F-9 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

See note 5(g) for an explanation of the Company's accounting policies on how it classifies and measures financial assets and accounts for related gains and losses under IFRS 9. In addition, the adoption of IFRS 9 has not had a material impact on the Company's accounting policies related to financial liabilities.

Under IFRS 9, a new "expected credit loss" model is used to measure the impairment of financial assets, which replaces the "incurred loss" model in IAS 39. The new impairment model applies to financial assets at amortized cost and contract assets that result from transactions that are within the scope of IFRS 15, but not to investments in equity instruments.

See note 5(g) for an explanation of the Company's accounting policies related to the impairment of financial assets under IFRS 9.

Upon the initial application of IFRS 9, the Company elected not to restate comparative information for prior reporting period with respect to the classification and measurement (including impairment) changes. The cumulative effect of initially applying this Standard was recognized in retained earnings and the components of other equity as at January 1, 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9, and therefore is not comparable to the information presented for 2018 under IFRS 9.

The following tables set out measurement categories, carrying amounts and related reconciliation for each class of the Company's financial assets as at January 1, 2018 when retrospectively applying IFRS 9 (no change in measurement categories and carrying amounts for financial liabilities).

	IAS 39 Measurement category	Carrying amount (in thousands)	IFRS 9 Measurement category	Carrying amount (in thousands)	Note
Financial assets					
Cash and cash equivalents	Loans and receivables	\$ 105,020,616	Amortized cost	\$ 105,020,616	
Derivatives	Held for trading	70,366	Mandatorily at FVTPL	70,366	

Edgar Filing: AU OPTRONICS CORP - Form 20-F

Investments in equity instruments	Available-for-sale	4,348,134	FVTOCI	4,348,134	(i)
Receivables, net (including related parties)	Loans and receivables	40,645,366	Amortized cost	40,645,366	
Other financial assets, refundable deposits and restricted cash in banks	Loans and receivables	1,107,757	Amortized cost	1,107,757	
Long-term receivables	Loans and receivables	1,790,400	Amortized cost	1,790,400	

F-10 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

	Carrying amount as of December 31, 2017 under IAS 39 (in thousands)	Reclassification	Remeasurement	Carrying amount as of January 1, 2018 under IFRS 9	Adjustments to retained earnings on January 1, 2018	Adjustments to other equity on January 1, 2018	Note
Financial assets at FVTOCI	\$- -	-	-	-	-	-	
Equity instruments							
Reclassification from available-for-sale financial assets	- 4,348,134	-	-	4,348,134	73,020	(73,020)	(i)
	\$- 4,348,134	-	-	4,348,134	73,020	(73,020)	

	Carrying amount as of December 31, 2017 under IAS 39 (in thousands)	Adjustments on initial application of new standards	Carrying amount as of January 1, 2018 under IFRS 9	Adjustments to retained earnings on January 1, 2018	Adjustments to other equity on January 1, 2018	Note
Investments in equity-accounted investees	\$5,597,287	(195)	5,597,092	-	(195)	(ii)

(i) The equity investments that previously classified as available-for-sale financial assets under IAS 39 were classified as at FVTPL or designated as at FVTOCI under IFRS 9 considering the Company's strategy for holding these equity investments. The related other equity unrealized gains (losses) on available-for-sale financial assets of \$1,404,832

thousand was reclassified to other equity unrealized gains (losses) on financial assets at fair value through other comprehensive income. Additionally, since no impairment assessment is required for the aforementioned equity investments which are designated as at FVTOCI under IFRS 9, the impairment losses recognized and carried in retained earnings for these investments under IAS 39 were adjusted with a decrease of \$73,020 thousand in other equity unrealized gains (losses) on financial assets at fair value through other comprehensive income and an increase of \$73,020 thousand in retained earnings on January 1, 2018 upon transition to IFRS 9.

- (ii) In connection with the retrospective adjustment made upon initial application of IFRS 9 by associates which account for using equity method, corresponding adjustments are made by the Company on January 1, 2018, which resulted in a decrease of investments in equity-accounted investees amounting to \$195 thousand, a decrease in other equity unrealized gains (losses) on financial assets at fair value through other comprehensive income of \$27,996 thousand and an increase in other equity unrealized gains (losses) on available-for-sale financial assets of \$27,801 thousand.

F-11 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(b) IFRS 15, *Revenue from Contracts with Customers*

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers, using a five-step model framework to determine the method, timing and amount of revenue recognized. This Standard replaces existing revenue recognition guidance, including IAS 18, *Revenue*, IAS 11, *Construction Contracts*, and the related interpretations. See note 5(s) for an explanation of the relevant accounting policies. The nature and impact of the change in accounting policies are detailed below:

(1) Sales of goods

Under IFRS 15, revenue for the sale of goods is recognized when a customer obtains control of the goods. For contracts that permit a customer to return goods, revenue is recognized to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur.

For contracts with volume discounts to customers, under IFRS 15, revenue is recognized on a net basis of contract price less estimated volume discounts, and only to the extent that it is highly probable that a significant reversal will not occur.

Under IFRS 15, a refund liability (presented under other current liabilities) is measured at the amount of consideration received (or receivable) for which an entity does not expect to be entitled. The refund liability shall be updated at the end of each reporting period for changes in circumstances.

(2) Rendering of services

Under IFRS 15, for rendering of services, the consideration of the entire contract is allocated on a basis of a relative stand-alone selling price of the services. The stand-alone selling price is determined based on the list price of service at which the Company sells that service separately.

The Company elected to apply this Standard retrospectively only to contracts that are not completed at the date of initial application, and elected not to restate the comparative information for prior reporting period. Upon the initial application of this Standard, there was no cumulative effect and no adjustment was made to retained earnings on January 1, 2018.

F-12 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

The following tables summarize the impacts of adopting IFRS 15 on the Company's consolidated financial statements for the year ended December 31, 2018.

(1) Related impacts to the consolidated statement of financial position

December 31, 2018			
	Carrying amount under IAS 18 and related standards and interpretations	Adjustments from changes in accounting policies	Carrying amount under IFRS 15
	(in thousands)		
Accounts receivable, net	\$ 42,801,513	1,846,468	44,647,981
Accounts receivable from related parties, net	2,754,253	-	2,754,253
Impacts to total assets		\$ 1,846,468	
Other current liabilities	\$ 22,445,064	1,846,468	24,291,532
Impacts to total liabilities		\$ 1,846,468	
January 1, 2018			
	Carrying amount under IAS 18 and related standards and interpretations	Adjustments from changes in accounting policies	Carrying amount under IFRS 15
	(in thousands)		
Accounts receivable, net	\$ 38,738,211	1,721,331	40,459,542
Accounts receivable from related parties, net	1,853,062	13,218	1,866,280
Impacts to total assets		\$ 1,734,549	
Other current liabilities	\$ 26,368,732	1,734,549	28,103,281
Impacts to total liabilities		\$ 1,734,549	

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

(2) Related impacts to the consolidated statement of cash flows

For the year ended December 31, 2018

	Carrying amount under IAS 18 and related standards and interpretations	Adjustments from changes in accounting policies	Carrying amount under IFRS 15
--	---	--	--

(in thousands)

Accounts receivable	\$(3,577,367)	(125,137)	(3,702,504)
Receivables from related parties	(840,111)	13,218	(826,893)
Other current liabilities	(3,790,959)	111,919	(3,679,040)
Impacts to net cash provided by (used in) operating activities		\$ -	
Impacts to net increase (decrease) in cash and cash equivalents		\$ -	

The above-mentioned reconciliation items represent volume discounts which the Company expects it may occur. Prior to the application of IFRS 15, the amount of the reconciliation item was recognized as a reduction of receivables. Under IFRS 15, such amount was recorded as a refund liability (presented under other current liabilities).

Notwithstanding the aforementioned difference, there are no differences between the consolidated statement of comprehensive income prepared under IAS 18, IAS 11 and the related interpretations and the one prepared under IFRS 15 upon the initial application.

5. Summary of Significant Accounting Policies

The significant accounting policies applied in the preparation of these consolidated financial statements are set out as below. The significant accounting policies have been applied consistently to all periods presented in these consolidated financial statements.

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with IFRSs as issued by the IASB.

F-14 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(b) Basis of preparation

(1) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following material items in the consolidated statements of financial position:

(i) Financial instruments at fair value through profit or loss (including derivative financial instruments) (note 8);

(ii) Financial assets at fair value through other comprehensive income (note 9);

(iii) Available-for-sale financial assets measured at fair value (note 10); and

(iv) Defined benefit asset (liability) is recognized as the fair value of the plan assets less the present value of the defined benefit obligation (note 26).

(2) Functional and presentation currency

The functional currency of each individual consolidated entity is determined based on the primary economic environment in which the entity operates. The Company's consolidated financial statements are presented in New Taiwan Dollar ("NTD"), which is also AUO's functional currency.

All financial information presented in NTD has been rounded to the nearest thousand, unless otherwise noted.

(c) Basis of consolidation

(1) Principle of preparation of the consolidated financial statements

The Company includes in its consolidated financial statements the results of operations of all controlled entities in which the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. All significant inter-company transactions, income and expenses are eliminated in the consolidated financial statements.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Total comprehensive income (loss) in a subsidiary is allocated to the shareholders of AUO and the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

F-15 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Subsidiaries' financial statements are adjusted to align the accounting policies with those of the Company.

Changes in the Company's ownership interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Company's investment and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between such adjustment and the fair value of the consideration paid or received is recognized directly in equity and attributed to shareholders of AUO.

Upon the loss of control, the Company derecognizes the carrying amounts of the assets and liabilities of the subsidiary and non-controlling interests. Any interest retained in the former subsidiary is remeasured at fair value when control is lost. Any surplus or deficit arising from the loss of control is recognized in profit or loss. The gain or loss is measured as the difference between:

(i) The aggregate of:

a. the fair value of the consideration received, and

b. the fair value of any retained investment in the former subsidiary at the date when the Company loses control.

(ii) The aggregate of the carrying amount of the former subsidiary's assets (including goodwill), liabilities and non-controlling interests at the date when the Company loses control.

When the Company loses control of a subsidiary, the Company accounts for all amounts previously recognized in other comprehensive income in relation to that subsidiary on the same basis as would be required if the Company had directly disposed of the related assets or liabilities.

(2) List of subsidiaries in the consolidated financial statements

The consolidated entities were as follows:

Name of Investor	Name of Subsidiary	Main Activities and Location	Percentage of Ownership (%)	
			December 31, 2017	December 31, 2018
AUO	AU Optronics (L) Corp. (AULB)	Holding and trading company (Malaysia)	100.00	100.00
AUO	Konly Venture Corp. (Konly)	Venture capital investment (Taiwan ROC)	100.00	100.00
AUO	Ronly Venture Corp. (Ronly)	Venture capital investment (Taiwan ROC)	100.00	100.00

F-16 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

Name of Investor	Name of Subsidiary	Main Activities and Location	Percentage of Ownership (%)	
			December 31, 2017	December 31, 2018
AUO	Space Money Inc. (SMI)	Sales of content management system and hardware; leasing (Taiwan ROC)	100.00	100.00
AUO	U-Fresh Technology Inc. (UTI)	Planning, design and development of construction for environmental protection and related project management (Taiwan ROC)	100.00 ⁽¹⁾	100.00
AUO	ComQi Ltd. (CQIL)	Holding company (Israel)	-	100.00 ⁽²⁾
AUO, Konly and Ronly	Darwin Precisions Corporation (DPTW)	Manufacturing, design and sales of TFT-LCD modules, TV set, backlight modules and related parts (Taiwan ROC)	41.05 ⁽³⁾	41.05 ⁽³⁾
AUO, Konly and Ronly	AUO Crystal Corp. (ACTW)	Manufacturing and sales of ingots and solar wafers (Taiwan ROC)	96.03	96.02 ⁽⁴⁾
AUO, Konly, Ronly and ACTW	Sanda Materials Corporation (SDMC)	Holding company (Taiwan ROC)	99.9950	100.00 ⁽⁵⁾
AUO and AULB	AU Optronics Europe B.V. (AUNL)	Sales support of TFT-LCD panels (Netherlands)	100.00	100.00 ⁽⁶⁾
Konly	LiGen Power Corporation (LGPC) ⁽⁷⁾	Renewable energy power generation (Taiwan ROC)	100.00	-
Konly	ChampionGen Power Corporation (CGPC)	Solar power generation (Taiwan ROC)	100.00 ⁽¹⁾	-(8)
ACTW	AUO Crystal (Malaysia) Sdn. Bhd. (ACMK)	Manufacturing and sales of solar wafers (Malaysia)	100.00	100.00
SDMC	M.Setek Co., Ltd. (M.Setek)	Manufacturing and sales of ingots (Japan)	99.9991	99.9991
AULB	AU Optronics Corporation America (AUUS)	Sales and sales support of TFT-LCD panels (United States)	100.00	100.00
AULB	AU Optronics Corporation Japan (AUJP)	Sales support of TFT-LCD panels (Japan)	100.00	100.00
AULB	AU Optronics Korea Ltd. (AUKR)	Sales support of TFT-LCD panels (South Korea)	100.00	100.00
AULB	AU Optronics Singapore Pte. Ltd.	Holding company and sales support of TFT-LCD panels (Singapore)	100.00	100.00

Edgar Filing: AU OPTRONICS CORP - Form 20-F

	(AUSG)			
AULB	AU Optronics (Czech s.r.o. (AUCZ)	Assembly of solar modules (Czech Republic)	100.00	100.00
AULB	AU Optronics (Shanghai) Co., Ltd. (AUSH)	Sales support of TFT-LCD panels (PRC)	100.00	100.00
AULB	AU Optronics (Xiamen) Corp. (AUXM)	Manufacturing and assembly of TFT-LCD modules (PRC)	100.00	100.00

F-17 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

Name of Investor	Name of Subsidiary	Main Activities and Location	Percentage of Ownership (%)	
			December 31, 2017	December 31, 2018
AULB	AU Optronics (Suzhou) Corp., Ltd. (AUSZ)	Manufacturing and assembly of TFT-LCD modules (PRC)	100.00	100.00
AULB	AU Optronics Manufacturing (Shanghai) Corp. (AUSJ)	Manufacturing and assembly of TFT-LCD modules (PRC)	100.00	100.00
AULB	AU Optronics (Slovakia) s.r.o. (AUSK)	Repairing of TFT-LCD modules (Slovakia Republic)	100.00	100.00
AULB	AFPD Pte., Ltd. (AUST)	Manufacturing TFT-LCD panels based on low temperature polysilicon technology (Singapore)	100.00	100.00
AULB	AU Optronics (Kunshan) Co., Ltd. (AUKS)	Manufacturing and sales of TFT-LCD panels (PRC)	51.00	51.00
AULB	a.u. Vista Inc. (AUVI)	Research and development and IP related business (United States)	100.00	100.00
AULB and DPTW	BriView (L) Corp. (BVLB)	Holding company (Malaysia)	100.00	100.00
AUSG	AUO Energy (Tianjin) Corp. (AETJ) ⁽⁷⁾	Manufacturing and sales of solar modules (PRC)	100.00	100.00
AUSG	AUO Green Energy America Corp. (AEUS)	Sales and sales support of solar-related products (United States)	100.00	100.00
AUSG	AUO Green Energy Europe B.V. (AENL)	Sales support of solar-related products (Netherlands)	100.00	100.00
AUXM	BriView (Xiamen) Corp. (BVXM)	Manufacturing and sales of liquid crystal products and related parts (PRC)	100.00	100.00
AUSH	AUO Care Information Tech. (Suzhou) Co., Ltd. (A-Care)	Design, development and sales of software and hardware for health care industry (PRC)	100.00 ⁽¹⁾	100.00
AUSH	U-Fresh Technology (Suzhou) Co., Ltd. (UFSZ)	Planning, design and development of construction project for environmental protection and related project management (PRC)	-	100.00 ⁽¹⁾
AUSH	Edgetech Data Technologies (Suzhou) Corp., Ltd. (EDT)	Design and sales of software and hardware integration system and equipment relating to	-	100.00 ⁽¹⁾

Edgar Filing: AU OPTRONICS CORP - Form 20-F

AUSH	Mega Insight Smart Manufacturing (Suzhou) Corp., Ltd. (MIS)	intelligent manufacturing (PRC) Development and licensing of software relating to intelligent manufacturing, and related consulting services (PRC)	-	100.00 ⁽¹⁾
CQIL	ComQi Holdings Ltd. (CQHLD)	Holding company (United Kingdom)	-	100.00 ⁽²⁾

F-18 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

Name of Investor	Name of Subsidiary	Main Activities and Location	Percentage of Ownership (%)	
			December 31, 2017	December 31, 2018
CQHLD	ComQi UK Ltd. (CQUK)	Sales support of content management system (United Kingdom)	-	100.00 ⁽²⁾
CQHLD	ComQi Inc. (CQUS)	Sales of content management system and hardware (United States)	-	100.00 ⁽²⁾
CQHLD	ComQi Canada Inc. (CQCA)	Research and development of content management system (Canada)	-	100.00 ⁽²⁾
DPTW	Darwin Precisions (L) Corp. (DPLB)	Holding company (Malaysia)	100.00	100.00
DPTW	Forhouse International Holding Ltd. (FHVI)	Holding company (BVI)	100.00	100.00
DPTW	Force International Holding Ltd. (FRVI)	Holding company (BVI)	100.00	100.00
FHVI	Fortech International Corp. (FTMI)	Holding company (Mauritius)	100.00	100.00
FHVI	Forward Optronics International Corp. (FWSA)	Holding company (Samoa)	100.00	100.00
FHVI	Prime Forward International Ltd. (PMSA)	Holding company (Samoa)	100.00	100.00
FHVI	Full Luck Precisions Co., Ltd. (FLMI) ⁽⁷⁾	Holding company (Mauritius)	100.00	-
FRVI	Forefront Corporation (FFMI)	Holding company (Mauritius)	100.00	100.00
FFMI	Forhouse Electronics (Suzhou) Co., Ltd. (FWJ)	Manufacturing of motorized treadmills (PRC)	100.00	100.00
FTMI	Fortech Electronics (Suzhou) Co., Ltd. (FTWJ)	Manufacturing and sales of backlight modules and related parts (PRC)	100.00	100.00
FTMI	Fortech Optronics (Xiamen) Co., Ltd. (FTXM) ⁽⁷⁾	Manufacturing and sales of backlight modules and related parts (PRC)	100.00	-
FWSA and FTMI	Suzhou Forplax Optronics Co., Ltd. (FPWJ)	Manufacturing and sales of precision plastic parts (PRC)	100.00	100.00
PMSA	Fortech Electronics (Kunshan) Co., Ltd. (FTKS)	Manufacturing and sales of backlight modules and related parts (PRC)	100.00	100.00
FLMI	Full Luck (Wujiang) Precisions Co., Ltd. (FLWJ) ⁽⁷⁾	Manufacturing and sales of precision metal parts (PRC)	100.00	-

Edgar Filing: AU OPTRONICS CORP - Form 20-F

DPLB	Darwin Precisions (Hong Kong) Limited (DPHK)	Holding company (Hong Kong)	100.00	100.00
------	--	-----------------------------	--------	--------

F-19 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

Name of Investor	Name of Subsidiary	Main Activities and Location	Percentage of Ownership (%)	
			December 31, 2017	December 31, 2018
DPLB	Darwin Precisions (Slovakia) s.r.o. (DPSK)	Manufacturing, assembly and sales of automotive parts (Slovakia Republic)	100.00	100.00
DPHK	Darwin Precisions (Suzhou) Corp. (DPSZ)	Manufacturing and sales of backlight modules and related parts (PRC)	100.00	100.00
DPHK	Darwin Precisions (Xiamen) Corp. (DPXM)	Manufacturing and sales of backlight modules and related parts (PRC)	100.00	100.00
DPHK	Darwin Precisions (Chengdu) Corp. (DPCD) ⁽⁷⁾	Manufacturing and sales of backlight modules and related parts (PRC)	100.00	-
BVLB	BriView (Hefei) Co., Ltd. (BVHF)	Manufacturing and sales of liquid crystal products and related parts (PRC)	100.00	100.00

Note 1: UTI was incorporated in January 2017. CGPC was incorporated in May 2017. A-Care was incorporated in September 2017. UFSZ was incorporated in February 2018. EDT and MIS were incorporated in August 2018.

Note 2: In March 2018, the Company acquired 100% of the shareholdings of CQIL and its subsidiaries (hereinafter referred to as “ComQi”) and therefore, obtained control over ComQi. Please refer to note 15 for further details.

Note 3: As at December 31, 2017 and 2018, although the Company did not own more than 50% of the DPTW’s ownership interests, it was considered to have de facto control over the main operating policies of DPTW. As a result, DPTW was accounted for as a subsidiary of the Company. Please refer to note 16 for further details.

Note 4: As part of a business restructuring, Konly and Ronly disposed its shareholdings in ACTW to AUO, respectively, during December 2018. This was treated as an equity transaction as there was no change in control of ACTW by the Company.

Note 5: As part of a business restructuring, AUO, Konly and Ronly disposed all of their shareholdings in SDMC to ACTW during the second quarter of 2018. This was treated as an equity transaction as there was no change in

control of SDMC by the Company.

Note 6: As part of a business restructuring, AULB disposed all of its shareholdings in AUNL to AUO during December 2018. This was treated as an equity transaction as there was no change in control of AUNL by the Company.

F-20 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As part of a business restructuring, DPCD, FTXM, FLMI, FLWJ, AETJ and LGPC have been resolved by their respective boards of directors for dissolution. As of December 31, 2018, except AETJ is still in the process of liquidation, the other entities have been liquidated.

Note8: The Company disposed all of its shareholdings in CGPC to Star Shining Energy Corporation (“SSEC”), an associate of the Company, in September 2018. Please refer to note 17 for further details.

(d) Foreign currency

(1) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the individual entities of the Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date and the resulting exchange differences are included in profit or loss for the year. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date when the fair value was determined. The resulting exchange differences are included in profit or loss for the year except for those arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income. Non-monetary items in foreign currencies that are measured at historical cost are translated using the exchange rate at the date of the transaction.

Exchange differences arising from the effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges are recognized in other comprehensive income.

(2) Foreign operations

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Company’s foreign operations are translated into NTD using the exchange rates at each reporting date. Income and expenses of foreign operations are translated at the average exchange rates for the period unless the exchange rates fluctuate significantly

during the period; in that case, the exchange rates at the dates of the transactions are used. Foreign currency differences are recognized in other comprehensive income and accumulated in equity (attributed to shareholders of AUO and non-controlling interests as appropriate).

F-21 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(e) Classification of current and non-current assets and liabilities

An asset is classified as current when:

- (1) The asset expected to realize, or intends to sell or consume, in its normal operating cycle;
- (2) The asset primarily held for the purpose of trading;
- (3) The asset expected to realize within twelve months after the reporting date; or
- (4) Cash and cash equivalent excluding the asset restricted to be exchanged or used to settle a liability for at least twelve months after the reporting date.

All other assets are classified as non-current.

A liability is classified as current when:

- (1) The liability expected to settle in its normal operating cycle;
- (2) The liability primarily held for the purpose of trading;
- (3) The liability is due to be settled within twelve months after the reporting date; or

The Company does not have an unconditional right to defer settlement of the liability for at least twelve months (4) after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments, do not affect its classification.

All other liabilities are classified as non-current.

(f)

Cash and cash equivalents

Cash comprises cash balances and demand deposits. Cash equivalents comprise short-term highly liquid investments that are readily convertible into known amount of cash and are subject to an insignificant risk of changes in their fair value. Time deposits with short-term maturity but not for investments and other purposes and are qualified with the aforementioned criteria are classified as cash equivalent.

F-22 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(g) Financial instruments

(1) Financial assets (policy applicable from January 1, 2018)

(i) Classification of financial assets

The Company classifies financial assets into the following categories: financial assets at amortized cost, financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss. When, and only when, the Company changes its business model for managing financial assets it shall reclassify all affected financial assets.

a. Financial assets at amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as measured at fair value through profit or loss:

- i. it is held within a business model whose objective is to hold financial assets to collect contractual cash flows; and
- ii. its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Such financial assets are initially recognized at fair value, plus any directly attributable transaction costs. Subsequently, these assets are measured at amortized cost using the effective interest method, less any impairment losses. Interest income, foreign exchange gains and losses, and recognition (reversal) of impairment losses, are recognized in profit or loss.

b. Financial assets at fair value through other comprehensive income

On initial recognition, the Company is able to make an irrevocable election to present subsequent changes in the fair value of investments in equity instruments that is not held for trading in other comprehensive income. This election is made on an instrument-by-instrument basis.

F-23 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Such financial assets are initially recognized at fair value, plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein are recognized in other comprehensive income and accumulated in equity unrealized gains (losses) on financial assets at fair value through other comprehensive income, except for dividends deriving from equity investments which are recognized in profit or loss (unless the dividend clearly represents a recovery of part of the cost of the investment). When an investment is derecognized, the cumulative gain or loss in equity will not be reclassified to profit or loss, instead, is reclassified to retained earnings.

Dividends on investments in equity instruments are recognized on the date that the Company's right to receive the dividends is established.

c. Financial assets at fair value through profit or loss

All financial assets not classified as at amortized cost or at fair value through other comprehensive income as described above are measured at fair value through profit or loss. This includes all derivative financial assets.

Such financial assets are initially recognized at fair value, and attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, they are measured at fair value and changes therein are recognized in profit or loss.

(ii) Impairment of financial assets

The Company recognizes loss allowances for expected credit losses on financial assets at amortized cost (including cash and cash equivalents, receivables, refundable deposits and other financial assets, etc.) and contract assets.

The expected credit loss is the weighted average of credit losses with the respective risks of a default occurring on the financial instrument as the weights.

The Company measures the loss allowance for a financial instrument at an amount equal to lifetime expected credit losses, except for the financial instrument that is determined to have low credit risk at the reporting date and the credit risk thereof has not increased significantly since initial recognition, which is measured at an amount equal to the 12-month expected credit losses. For trade receivables and contract assets, the Company measures their loss allowances at an amount equal to lifetime expected credit losses.

F-24 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

When determining whether the credit risk of a financial asset has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant. This includes both qualitative and quantitative information and analysis, based on the Company's historical experience and credit assessment as well as forward-looking information.

In the circumstance that a financial asset is past due or the borrower is unlikely to pay its credit obligations to the Company in full, the Company considers the credit risk on that financial asset has significantly increased, or further, to be in default.

At each reporting date, the Company assesses whether financial assets at amortized cost are credit-impaired. A financial asset is "credit-impaired" when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Loss allowances for financial assets are deducted from the gross carrying amount of the assets. The recognition or reversal of the loss allowance is recognized in profit or loss.

(iii) De-recognition of financial assets

The Company derecognizes financial assets when the contractual rights to the cash flows from the asset expire, or when the Company transfers substantially all the risks and rewards of ownership of the financial assets to another entity.

(2) Financial assets (policy applicable before January 1, 2018)

(i) Classification of financial assets

The Company classifies financial assets into the following categories: financial assets at fair value through profit or loss, receivables and available-for-sale financial assets.

a. Financial assets at fair value through profit or loss

The Company has certain financial assets to hedge its exposure to foreign exchange risk arising from operating and financing activities. When a financial asset is not effective as a hedge, the Company accounts for it as a financial asset at fair value through profit or loss.

F-25 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

b. Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated as available-for-sale or are not classified as receivables or financial assets at fair value through profit or loss. Available-for-sale financial assets are recognized initially at fair value, plus any directly attributable transaction cost. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, dividend income and foreign currency differences related to monetary financial assets, are recognized in other comprehensive income and presented within equity in unrealized gains (losses) on available-for-sale financial assets. When an investment is derecognized, the cumulative gain or loss in equity is reclassified to profit or loss. A regular way, purchase or sale of financial assets shall be recognized and derecognized, as applicable, using trade date accounting.

Investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured, are carried at their cost less any impairment losses.

Cash dividends on equity instruments are recognized in profit or loss on the date that the Company's right to receive dividends is established.

c. Receivables

Receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Receivables comprise trade receivables and other receivables. Such assets are recognized initially at fair value, plus any directly attributable transaction costs. Subsequently, receivables are measured at amortized cost using the effective interest method, less any impairment. If the effect of discounting is immaterial, the short-term receivables are measured at the original amount.

(ii) Impairment of financial assets

Financial assets not measured at fair value through profit or loss are assessed at each reporting date for indicators of impairment. Financial assets are considered to be impaired if an objective evidence indicates that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of those

assets have been negatively impacted.

F-26 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

When an available-for-sale equity security is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss. Such impairment losses are not reversed through profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income and accumulated in other components of equity.

For receivables, the Company first assesses whether objective evidence of impairment exists that are individually significant. If there is objective evidence that an impairment loss has occurred, the amount of impairment loss is assessed individually. For receivables other than those aforementioned, the Company groups those assets and collectively assesses them for impairment. An impairment loss for trade receivables is reflected in an allowance account against the receivables. When it is determined a receivable is uncollectible, it is written off from the allowance account. If any subsequent recovery of receivable previously written off can be related objectively to an event occurring after the impairment loss was recognized, it is credited against the allowance account and recognized in profit or loss.

For equity instruments without a quoted market price in an active market, the objective evidence of impairment includes the investees' financial information, current operating result, future business plans and relevant industry and public market information. An impairment loss for this kind of equity instruments is reduced from the carrying amount and any impairment loss recognized is not reversed through profit or loss in subsequent periods.

Bad debt expenses and reversal of allowance for doubtful debts for trade receivables are recognized in general and administrative expenses while impairment losses and reversal of impairment for financial assets other than receivables are recognized in other gains and losses.

(iii)

De-recognition of financial assets

The Company derecognizes financial assets when the contractual rights to the cash inflow from the asset expire, or when the Company transfers substantially all the risks and rewards of ownership of the financial assets to another entity.

On de-recognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received or receivable and any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

F-27 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(3) Financial liabilities

(i) Classification of financial liabilities

The Company classifies financial liabilities into the following categories: financial liabilities at fair value through profit or loss and other financial liabilities.

a. Financial liabilities at fair value through profit or loss

The Company designates financial liabilities as held for trading for the purpose of hedging exposure to foreign exchange risk arising from operating and financing activities. When a financial liability is not effective as a hedge, the Company accounts for it as a financial liability at fair value through profit or loss.

The Company designates financial liabilities, other than the one mentioned above, as at fair value through profit or loss at initial recognition. Attributable transaction costs are recognized in profit or loss as incurred. Financial liabilities in this category are subsequently measured at fair value and changes therein, which takes into account any interest expense, are recognized in profit or loss.

b. Other financial liabilities

Financial liabilities not classified as held for trading, or not designated as at fair value through profit or loss (including loans and borrowings, trade and other payables), are measured at fair value, plus any directly attributable transaction cost at the time of initial recognition. Subsequent to initial recognition, they are measured at amortized cost calculated using the effective interest method, except for insignificant recognition of interest expense from short-term borrowings and payables. Interest expense not capitalized as an asset cost is recognized in profit or loss.

(ii) De-recognition of financial liabilities

The Company derecognizes financial liabilities when the contractual obligation has been discharged, cancelled or expired. The difference between the carrying amount and the consideration paid or payable, including any non-cash assets transferred or liabilities assumed is recognized in profit or loss.

F-28 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(4) Offsetting of financial assets and liabilities

The Company presents financial assets and liabilities on a net basis in the consolidated statement of financial position when the Company has the legally enforceable rights to offset, and intends to settle such financial assets and liabilities on a net basis or to realize the assets and settle the liabilities simultaneously.

(h) Inventories

The cost of inventories includes all necessary expenditures and charges for bringing the inventory to a stable, useable and marketable condition and location. The production overhead is allocated to finished goods and work in process based on the normal capacity of the production facilities. Subsequently, inventories are measured at the lower of cost and net realizable value. Cost is determined using the weighted-average method. Net realizable value for raw materials is based on replacement cost. Net realizable value for finished goods and work in process is calculated based on the estimated selling price less all estimated costs of completion and the estimated costs necessary to make the sale.

(i) Noncurrent assets held for sale

Noncurrent assets are classified as held for sale when their carrying amounts are expected to be recovered primarily through sale rather than through continuing use. Such noncurrent assets must be available for immediate sale in their present condition and the sale is highly probable within one year. When classified as held for sale, the assets are measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on initial classification as held for sale and subsequent gains or losses on re-measurement are recognized in profit or loss. However, subsequent gains are not recognized in excess of the cumulative impairment loss that has been recognized.

When intangible assets and property, plant and equipment are classified as held for sale, they are no longer amortized or depreciated. In addition, once an equity-accounted investee is classified as held for sale, it is no longer equity accounted.

(j) Investments in associates

Associates are those entities in which the Company has the power to exercise significant influence, but not control or joint control, over their financial and operating policies.

Investments in associates are accounted for using the equity method and are recognized initially at cost. The cost of the investment includes transaction costs. The carrying amount of the investment in associates includes goodwill, which is arising from the acquisition, less any accumulated impairment losses.

F-29 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The difference between acquisition cost and fair value of associates' identifiable assets and liabilities as of the acquisition date is accounted for as goodwill. Goodwill is included in the original investment cost of acquired associates and is not amortized. If the fair value of identified assets and liabilities is in excess of acquisition cost, the remaining excess over acquisition cost is recognized as a gain in profit or loss.

If an equity security is not acquired through cash, that is, by providing services or other assets, then the fair value of such security or the fair value of the services or assets surrendered, whichever is more objectively determinable, is the purchase price of the security. If an equity investment of associates is acquired by providing subsequent services and the cost is determined based on the fair value of such services, the Company defers and recognizes revenue using a reasonable amortization method over the future period when the service is rendered.

The consolidated financial statements include the Company's share of the profit or loss and other comprehensive income of associates, after adjustments to align the accounting policies with those of the Company, from the date that significant influence commences until the date that significant influence ceases. When an associate incurs changes in its equity not derived from profit or loss and other comprehensive income, the Company recognizes all the equity changes in proportion to its ownership interest in the associate as capital surplus provided that the ownership interest in the associate remains unchanged.

The Company discontinues the use of the equity method from the date when the Company ceases to have significant influence over an associate, and then measures the retained interests at fair value at that date. The difference between the carrying amount of the investment at the date the equity method was discontinued and the fair value of the retained interests along with any proceeds from disposing of a part interest in the associate is recognized in profit or loss. Moreover, the Company accounts for all amounts previously recognized in other comprehensive income in relation to that investment on the same basis as would be required if the associate had directly disposed of the related assets or liabilities. If the Company's ownership interest in an associate is reduced, but the Company continues to apply the equity method, the Company shall reclassify to profit or loss the proportion of the gain or loss that had previously been recognized in other comprehensive income relating to that reduction in ownership interest on the same basis as mentioned above.

If an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the Company continues to account for the investment using equity method and does not remeasure the interest previously held.

F-30 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

When the Company subscribes for additional shares in an associate at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Company's proportionate interest in the net assets of the associate. The Company records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus. If the capital surplus arising from investment accounted for under the equity method in associates is insufficient to offset with the said corresponding amount, the differences will be charged or credited to retained earnings. If the Company's ownership interest is reduced due to circumstances as mentioned above, but the Company continues to apply the equity method, the Company shall reclassify to profit or loss the proportion of the gain or loss that had previously been recognized in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be required to be reclassified to profit or loss on the disposal of the related assets or liabilities.

At the end of each reporting period, if there is any indication of impairment, the entire carrying amount of the investment including goodwill is tested for impairment as a single asset, by comparing its recoverable amount with its carrying amount. An impairment loss recognized forms part of the carrying amount of the investment in associates. Accordingly, any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

Profits and losses resulting from the transactions between the Company and associates are recognized in the Company's consolidated financial statements only to the extent of interests in the associate that are not related to the Company.

When the Company's share of losses exceeds its interest in an associate, the carrying amount of that interest, including any long-term investments that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Company has a legal or constructive obligation, or has made payments on behalf of the investee.

(k)

Investments in joint ventures

Joint venture is a joint arrangement whereby the Company and other parties agreed to share the control of the arrangement, and have rights to the net assets of the arrangement. Unanimous consent from the parties sharing control is required when making decisions for the relevant activities of the arrangement. Investments in joint venture are accounted for in the Company's consolidated financial statements under the equity method.

F-31 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(l) Investment property

Investment property is the property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost on initial recognition. Subsequent to initial recognition, investment properties are measured using the cost model. Depreciation is charged and recognized based on the depreciable amount. Depreciation methods, useful lives and residual values are in accordance with the policy of property, plant and equipment. Cost includes expenditure that is directly attributable to the acquisition of the investment property.

An investment property is reclassified to property, plant and equipment at its carrying amount when the use of the investment property changes.

(m) Property, plant and equipment

(1) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributed to the acquisition of the asset, any cost directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, and any borrowing cost that is eligible for capitalization. The cost of the software is capitalized as part of the equipment if the purchase of the software is necessary for the equipment to be capable of operating.

When part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item and the useful life or the depreciation method of the significant part is different from another significant part of that same item, it is accounted for as a separate item (significant component) of property, plant and equipment.

The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, and is recognized in profit or loss.

(2)

Subsequent costs

Subsequent expenditure is capitalized only when it is probable that the future economic benefits associated with the expenditure will flow to the Company and the cost of the item can be measured reliably. Ongoing repairs and maintenance expenses are recognized in profit or loss as incurred.

F-32 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(3)

Depreciation

Excluding land, depreciation is recognized in profit or loss and provided over the estimated useful lives of the respective assets, considering significant components of an individual asset, on a straight-line basis less any residual value. If a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Leased assets are depreciated over their useful lives if it is reasonably certain that the Company will obtain ownership by the end of the lease term. Otherwise, leased assets are depreciated over the shorter of the lease term and their useful lives.

The estimated useful lives of the assets, except for land are as follows:

(i)

Buildings: 20~50 years

(ii)

Machinery and equipment: 3~10 years

(iii)

Other equipment: 3~6 years

Depreciation methods, useful lives, and residual values are reviewed at each annual reporting date and, if necessary, adjusted as appropriate. Any changes therein are accounted for as changes in accounting estimates.

(4)

Reclassification to investment property

A property is reclassified to investment property at its carrying amount when the use of the property changes from owner-occupied to investment purpose.

(n) Long-term prepaid rent

Long-term prepaid rent is for the right to use of land (classified as other noncurrent assets), which is amortized over the shorter of economic useful life or the covenant period on a straight-line basis.

(o) Leases

(1) Lessor

Lease income from an operating lease is recognized in profit or loss on a straight-line basis over the lease term. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized as an expense on a straight-line basis over the lease term.

F-33 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(2) Lessee

Payments made under operating lease (excluding insurance and maintenance expenses) are recognized in profit or loss on a straight-line basis over the term of the lease.

(p) Intangible assets

(1) Goodwill

Goodwill is recognized when the purchase price exceeds the fair value of identifiable net assets acquired in a business combination. Goodwill is measured at cost less accumulated impairment losses.

Equity-method goodwill is included in the carrying amounts of the equity investments. The impairment losses for the goodwill within the equity-accounted investees are accounted for as deductions of carrying amounts of investments in equity-accounted investees.

(2) Research and development

During the research phase, activities are carried out to obtain and understand new scientific or technical knowledge. Expenditures during this phase are recognized in profit or loss as incurred.

Expenditure arising from development is capitalized as an intangible asset when the Company demonstrates all of the following:

- (i) the technical feasibility of completing the intangible asset so that it will be available for use or sale;

- (ii) its intention to complete the intangible asset and use or sell it;
- (iii) its ability to use or sell the intangible asset;
- (iv) the probability that the intangible asset will generate probable future economic benefits;
- (v) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- (vi) its ability to measure reliably the expenditure attributable to the intangible asset during its development.

F-34 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Development expenditure which fails to meet the criteria for recognition as an intangible asset is reflected in profit or loss when incurred. Capitalized development expenditure is measured at cost less accumulated amortization and any accumulated impairment losses.

(3) Other intangible assets

Other intangible assets acquired are measured at cost less accumulated amortization and any accumulated impairment losses.

(4) Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

(5) Amortization

The depreciable amount of an intangible asset is the cost less its residual value. Other than goodwill and intangible assets with indefinite useful life, an intangible asset with a finite useful life is amortized over 3 to 20 years using the straight-line method from the date that the asset is made available for use. The amortization charge is recognized in profit or loss.

The residual value, amortization period, and amortization method are reviewed at least annually at each annual reporting date, and any changes therein are accounted for as changes in accounting estimates.

(q) Impairment – non-financial assets

Other than inventories, deferred tax assets and noncurrent assets held for sale, the carrying amounts of the Company's investment property measured at cost and other long-term non-financial assets (property, plant and equipment and other intangible assets with finite useful lives), are reviewed at the reporting date to determine whether there is any indication of impairment. When there is an indication of impairment exists for the aforementioned assets, the recoverable amount of the asset is estimated. If it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset has been allocated to.

In performing an impairment test for other long-term non-financial assets, the estimated recoverable amount is evaluated in terms of an asset or a CGU. Any excess of the carrying amount of the asset or its related CGU over its recoverable amount is recognized as an impairment loss. The recoverable amount of an asset or a CGU is the higher of its fair value less costs of disposal and its value in use.

F-35 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

If there is evidence that the accumulated impairment loss of an asset other than goodwill and intangible assets with indefinite useful lives in prior years no longer exists or has decreased, the amount previously recognized as an impairment loss is reversed, and the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount. The increased carrying amount shall not exceed the carrying amount that would have been determined (net of depreciation or amortization) had no impairment loss been recognized for the asset in prior years.

For goodwill and intangible assets with indefinite useful lives or that are not yet available for use, are required to be tested for impairment at least annually. Any excess of the carrying amount of the asset over its recoverable amount is recognized as an impairment loss.

For the purpose of impairment test, goodwill acquired in a business combination is allocated to CGUs that are expected to benefit from the synergies of the combination. If the recoverable amount of a CGU is less than its carrying amount, the difference is allocated first to reduce the carrying amount of any goodwill allocated to the unit, then the carrying amounts of the other assets in the unit on a pro rata basis. The impairment loss recognized on goodwill is not reversed in a subsequent period.

(r)

Provisions

A provision is recognized when the Company has a present obligation arising from a past event, it is probable that the Company will be required to make an outflow of resources embodying economic benefits to settle the obligation, and the amount of the obligation can be estimated reliably. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as interest expense.

(1)

Warranties

A provision for warranties is recognized when the underlying products or services are sold. The provision is weighting factors based on historical experience of warranty claims rate and other possible outcomes against their associated probabilities.

(2)

Decommissioning obligation

The Company is subject to decommissioning obligations related to certain items of property, plant and equipment. Such decommissioning obligations are primarily attributable to clean-up costs, including deconstruction, transportation, and recover costs. The unwinding of the discount based on original discount rate is recognized in profit or loss as interest expense over the periods with corresponding increase in the carrying amounts of the accrued decommissioning costs. The carrying amount of the accruals at the end of the assets' useful lives is the same as the estimated decommissioning costs.

F-36 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(3) Onerous contracts

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Company recognizes any impairment loss on the assets associated with that contract.

(4) Loss contingencies

Provision for loss contingencies arising from claims, assessments, litigation, fines, and penalties and other sources are recognized when it is probable the present obligation as a result of a past event will result in an outflow of resources and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred. Management periodically assesses the obligation of all litigation and claims and relative legal costs. Such provisions are adjusted as further information becomes known or circumstances change.

Provisions recognized are the best estimates of the expenditure for settling the present obligation at each reporting date.

(s) Revenue from contracts with customers (policy applicable from January 1, 2018)

Revenue is measured based on the consideration that the Company expects to be entitled in the transfer of goods or services to a customer. The Company recognizes revenue when it satisfies a performance obligation by transferring control over a product or service to a customer. The following is a description of the Company's major revenues:

(1) Sales of goods

Revenue is recognized when the control over a product has been transferred to the customer. The transfer of control refers to the product has been delivered to and accepted by the customer without remaining performance obligations from the Company. Delivery occurs when the product has been shipped to the specified location and the risk of loss over the product has been transferred to the customer, as well as when the product has been accepted by the customer according to the terms of sales contract, or when the Company has objective evidence that all criteria for acceptance have been satisfied.

F-37 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

For certain contracts with volume discounts offer to customers, revenue is recognized on a net basis of contract price less estimated volume discounts, and only to the extent that it is highly probable that a significant reversal will not occur. The amount of volume discounts is estimated based on the expected value with reference to the historical experience, and is recorded as refund liability (presented under other current liabilities).

Trade receivable is recognized when the Company is entitled for unconditional right to receive payment upon delivery of goods to customers. The consideration received in advance from the customer according to the sales contract but without delivery of goods is recognized as a contract liability, for which revenue is recognized when the control over the goods is transferred to the customer.

The Company provides standard warranties for goods sold and has obligation to refund payments for defective goods, in which the Company has recognized provisions for warranties to fulfill the obligation. Refer to note 24 for further details.

(2)

Construction contracts

For construction contracts, revenue is recognized progressively based on the progress towards complete satisfaction of contract activities, and only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur.

If the Company cannot reasonably measure its progress towards complete satisfaction of performance obligations in accordance with the construction contracts, revenue is recognized only to the extent of contract costs incurred that it is expected to be recoverable.

The consideration is paid by the customer according to the agreed payment terms. The excess of the amount that has been recognized as revenue over the amount that the Company has issued a bill is recognized as a contract asset. When the entitlement to the payment becomes unconditional, the contract asset is transferred to receivables.

A contract liability is recognized for an advance consideration that the Company has billed to customers arising from construction contracts. When the construction is completed and accepted by the customers, the contract liability is transferred to revenue.

If there are changes in circumstances, the estimates of revenue, cost and the progress towards complete satisfaction of contract will be amended. Any changes therein are recognized in profit or loss during the period in which the changes and amendments are made.

F-38 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The Company provides standard warranties for construction contracts and has recognized provisions for warranties to fulfill the obligation. Refer to note 24 for further details.

(3) Financing components

The Company expects that the length of time when the Company transfers the goods or services to the customer and when the customer pays for those goods or services will be less than one year. Therefore, the amount of consideration is not adjusted for the time value of money.

(t) Revenue recognition

(1) Goods sold (policy applicable before January 1, 2018)

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognized when the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized.

The timing of the transfers of risks and rewards varies depending on the individual terms of the sales agreement.

(2) Government grants

(i) Grants for compensating the research and development expenditures

Grants that compensate the Company for research and development expenditures are recognized in profit or loss on a systematic basis in the periods in which the expenses are recognized.

(ii) Grants related to the purchase of assets

Grants related to the purchase of assets are set up as deferred income and are recognized in profit or loss on a systematic basis over the useful life of the assets.

F-39 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(iii)

Other grants

Other grants from government that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Company with no future related costs are recognized in profit or loss of the period in which it becomes receivable.

(u)

Employee benefits

(1)

Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

(2)

Defined benefit plans

The Company's net obligation in respect of defined benefit pension plans is calculated separately for each benefit plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets. Discount rate is determined by reference to the yield rate of Taiwan government bonds at the reporting date. The calculation of defined benefit obligations is performed annually by a qualified actuary using the Projected Unit Credit Cost Method.

Remeasurements of the net defined benefit liability (asset) which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized in other comprehensive income in the period in which they occur, and which then are reflected in retained earnings and will not be reclassified to profit or loss.

(3)

Short-term employee benefits

Short-term employee benefit obligations, which are due to be settled within twelve months are measured on an undiscounted basis and are expensed as the related service is provided.

The expected cost of cash bonus or profit-sharing plans, which is anticipated to be paid within one year, are recognized as a liability when the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

F-40 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(v) Share-based payment arrangements

The compensation cost of employee share-based payment arrangements is measured based on the fair value at the date on which they are granted. The compensation cost is recognized, together with a corresponding increase in equity, over the periods in which the employees become unconditionally entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards whose related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions, and there is no true-up for differences between expected and actual outcomes.

(w) Income taxes

Income tax expense comprises current and deferred taxes.

(1) Current taxes

Current taxes comprise the expected tax payable or receivable on the taxable income or losses for the year and any adjustments to tax payable or receivable in respect of previous years. It is measured using the statutory tax rate or the actual legislative tax rate at the reporting date.

In accordance with the ROC Income Tax Act, undistributed earnings from the companies located in the Republic of China, if any, is subject to an additional surtax. The surtax on unappropriated earnings is recognized during the period the earnings arise and adjusted to the extent that distributions are approved by the shareholders in the following year.

(2) Deferred taxes

Deferred taxes are recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax liabilities are recognized for temporary difference of future taxable income. Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized.

F-41 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Deferred tax assets are reviewed at each reporting date, by considering global economic environment, industry environment, statutory tax deduction years and projected future taxable income, and reduced to the extent that it is no longer probable that the related tax benefit will be realized. Deferred tax assets which originally not recognized is also reviewed at each reporting date and recognized to the extent that it is probable that future taxable profits will be available to allow all or part of the deferred tax asset to be recovered.

Deferred taxes liabilities for taxable temporary differences related to investments in subsidiaries, associates and joint arrangements are recognized, unless the Company is able to control the timing of the reversal of the taxable temporary differences and it is probable that they will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when the reverse, using the statutory tax rate or the actual legislative tax rate on the reporting date. Deferred tax assets and liabilities are offset only if certain criteria are met.

Current taxes and deferred taxes are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive income.

(x)

Business combinations

The consideration transferred in the acquisition is measured at fair value, as are identifiable net assets acquired. Goodwill is measured as the excess of the aggregate of the fair value of consideration transferred and the amount of any non-controlling interests in the acquiree over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred and the amount of any non-controlling interests in the acquiree, after reassessing all of the assets acquired and all of the liabilities assumed being properly identified, the difference is recognized in profit or loss as a gain on bargain purchase.

Acquisition-related costs are expensed as incurred, except that the costs are related to the issue of debt or equity instruments.

Non-controlling interests in an acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured, on a case-by-case basis, at either fair value or the present ownership instruments' proportionate share in the recognized amounts of the acquiree's net identifiable assets. All other components of non-controlling interests shall be measured at their acquisition-date fair values, unless another measurement basis is required by IFRSs.

F-42 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Any contingent consideration included in the consideration transferred is recognized at fair value at the date of acquisition. Subsequent changes to the fair value of the contingent consideration during the measurement period shall adjust to the cost of the acquisition and the resulting goodwill retrospectively. An adjustment made during the measurement period is to reflect additional information obtained by the Company about facts and circumstances that existed as of the acquisition date. The measurement period shall not exceed one year from the acquisition date. The accounting treatment for those changes to the fair value of the contingent consideration that are not measurement period adjustments is depending on the classification of the contingent consideration. If the contingent consideration is classified as equity, it is not remeasured and the subsequent settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value are recognized in profit or loss.

(y) Earnings (loss) per share

Basic earnings (loss) per share is computed by dividing profit or loss attributable to the shareholders of AUO by the weighted-average number of common shares outstanding during the period. In computing diluted earnings per share, profit or loss attributable to the shareholders of AUO and the weighted-average number of common shares outstanding during the period are adjusted for the effects of dilutive potential common stock, assuming dilutive share equivalents had been issued.

The weighted-average outstanding shares are retroactively adjusted for the effects of stock dividends transferred from retained earnings or capital surplus to common stock.

(z) Operating segments

An operating segment is a component of an entity: (1) that engages in business activities from which it may earn revenue and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), (2) whose operating results are reviewed regularly by the entity's chief operating decision maker ("CODM") to make decisions pertaining to the allocation of resources to the segment and to assess its performance, and (3) for which discrete financial information is available. Management has determined that the Company has two operating segments: display and energy (formerly named "solar").

The accounting policies for the operating segments are the same as those used in the preparation of the consolidated financial statements of the Company. Segment profit (loss) is determined by deducting selling, administrative and research and development expenses from gross profit. Segment profit (loss) excludes long-lived asset impairments, gains and losses on disposal of assets, litigation provisions, foreign currency exchange gains or losses, finance cost, income taxes, share of profit (loss) from equity-accounted investees, and other miscellaneous income and expenses. The CODM does not receive asset and liability information by operating segment. Consequently, no operating segment asset and liability information is disclosed. Geographic net revenue information is based upon the location of customers placing orders.

F-43 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

6. Use of Judgments and Estimates

The preparation of the consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed by management on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments, estimates and assumptions in applying accounting policies that have the significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

(a) Estimate of provisions

Provision for warranty is estimated when product revenue is recognized. The estimate has been made based on the quantities within the warranty period, the historical and anticipated warranty claims rate associated with similar products and services, and the projected unit cost of maintenance. The Company regularly reviews the basis of the estimate and if necessary, amends it as appropriate. There could be a significant impact on provision for warranty for any changes of the basis of the estimate.

Provision for unsettled litigation and claims is recognized when it is probable that it will result in an outflow of the Company's resources and the amount can be reasonably estimated. While the ultimate resolution of litigation and claims cannot be predicted with certainty, the final outcome or the actual cash outflow may be materially different from the estimated liability.

(b) Impairment of long-term non-financial assets, other than goodwill

In the process of evaluating the potential impairment of tangible and intangible assets other than goodwill, the Company is required to make subjective judgments in determining the independent cash flows, useful lives, expected future income and expenses related to the specific asset groups with the consideration of the usage mode of asset and the nature of industry. Any changes in these estimates based on changed economic conditions or business strategies could result in significant impairment charges or reversal in future years.

(c)

Impairment of goodwill

The assessment of impairment of goodwill requires the Company to make subjective judgment to determine the identified CGUs, allocate the goodwill to relevant CGUs and estimate the recoverable amount of relevant CGUs.

F-44 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(d) Measurement of defined benefit obligations

Accrued pension liabilities and the resulting pension expenses under defined benefit pension plans are calculated using the Projected Unit Credit Cost Method. Actuarial assumptions comprise the discount rate, rate of employee turnover, long-term average future salary increase, etc. Changes in economic circumstances and market conditions will affect these assumptions and may have a material impact on the amount of the expense and the liability.

(e) Recognition of deferred tax assets

Deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which those deferred tax assets can be utilized. Assessment of the realization of the deferred tax assets requires management's subjective judgment and estimate, including the future revenue growth and profitability, the sources of taxable income, the amount of tax credits can be utilized and feasible tax planning strategies. Changes in the global economic environment, the industry trends and relevant laws and regulations may result in adjustments to the deferred tax assets.

(f) Estimate of variable consideration of revenue (applicable from January 1, 2018)

The Company estimates the amount of variable consideration by using methods either the expected value or the most likely amount based on historical experience, market and economic situation and any known factors that would significantly affect the estimates. The amount of variable consideration is recognized as a reduction of revenue in the same period the related revenue is recognized. The Company periodically reviews the reasonableness of the estimated variable consideration. However, the adequacy of estimations may be affected by factors such as market price competition and the evolution of product technology, which could result in significant adjustments to the variable consideration.

(g) Estimate of allowance for sales returns and discounts (applicable before January 1, 2018)

The Company records a provision as the deduction of revenue for estimated future sales returns and other allowances in the same period the related revenue is recognized. Estimated sales returns and other allowances are generally made and adjusted based on historical experience, management's judgment and any known factors that would significantly

affect the allowance, and management periodically reviews the reasonableness of the estimates.

(h)

Valuation of inventories

As inventories are stated at the lower of cost or net realizable value, the Company estimates the net realizable value of inventories for obsolescence and unmarketable items at the end of reporting period and then writes down the cost of inventories to net realizable value. The net realizable value of the inventory is mainly determined based on assumptions of future demand within a specific time horizon. Due to the rapid industrial transformation, there may be significant changes in the net realizable value of inventories.

F-45 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

7. Cash and Cash Equivalents

	December 31,	
	2017	2018
	(in thousands)	
Cash on hand, demand deposits and checking accounts	\$40,871,878	30,134,051
Time deposits	57,438,459	38,939,198
Government bonds with reverse repurchase agreements	6,710,279	90,047
	\$105,020,616	69,163,296

Refer to note 39 for the disclosure of credit risk, currency risk and sensitivity analysis of the financial instruments of the Company.

As at December 31, 2017 and 2018, no cash and cash equivalents were pledged with banks as collaterals.

8. Financial Assets and Liabilities at Fair Value through Profit or Loss

	December 31,	
	2017	2018
	(in thousands)	
Financial assets mandatorily measured at FVTPL:		
Foreign currency forward contracts	\$-	70,074
Structured deposits	-	1,639,457
Financial assets held for trading:		
Foreign currency forward contracts	70,366	-
	\$70,366	1,709,531
Financial liabilities held for trading:		
Foreign currency forward contracts	\$106,597	22,115

The Company entered into derivative contracts to manage the exposure to currency risk arising from operating activities. Refer to note 39 for the disclosure of the Company's credit, currency and interest rate risks related to financial instruments. As of December 31, 2017 and 2018, the Company's outstanding foreign currency forward contracts were as follows:

December 31, 2017

Contract item	Maturity date	Contract amount (in thousands)
Sell USD / Buy NTD	Jan. 2018 – Feb. 2018	USD213,100 / NTD6,377,672
Sell USD / Buy JPY	Jan. 2018 – Jun. 2018	USD304,926 / JPY34,092,055
Sell USD / Buy CNY	Jan. 2018 – Apr. 2018	USD137,000 / CNY903,800
Sell EUR / Buy JPY	Jan. 2018 – Feb. 2018	EUR65,000 / JPY8,691,815
Sell EUR / Buy CZK	Jan. 2018 – Mar. 2018	EUR3,280 / CZK83,502
Sell USD / Buy MYR	Jan. 2018 – Mar. 2018	USD931 / MYR3,811
Sell JPY / Buy NTD	Jan. 2018	JPY10,000,000 / NTD2,654,220
Sell CNY / Buy JPY	Jan. 2018 – Apr. 2018	CNY86,623 / JPY1,443,259
Sell USD / Buy SGD	Jan. 2018	USD5,480 / SGD7,366

F-46 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2018

Contract item	Maturity date	Contract amount (in thousands)
Sell USD / Buy NTD	Jan. 2019	USD223,000 / NTD6,858,785
Sell USD / Buy JPY	Jan. 2019 – Apr. 2019	USD147,470 / JPY16,493,633
Sell NTD / Buy JPY	Jan. 2019 – Mar. 2019	NTD2,054,260 / JPY7,400,000
Sell USD / Buy CNY	Jan. 2019 – Jun. 2019	USD87,000 / CNY597,420
Sell EUR / Buy JPY	Jan. 2019	EUR12,000 / JPY1,536,180
Sell EUR / Buy USD	Jan. 2019	EUR28,500 / USD32,441
Sell EUR / Buy CZK	Jan. 2019 – Mar. 2019	EUR3,240 / CZK84,081
Sell USD / Buy MYR	Jan. 2019 – Mar. 2019	USD879 / MYR3,670
Sell CNY / Buy JPY	Jan. 2019 – Feb. 2019	CNY60,800 / JPY981,383
Sell USD / Buy SGD	Jan. 2019	USD5,793 / SGD7,940
Sell CNY / Buy USD	Jan. 2019 – Feb. 2019	CNY853,328 / USD124,000

9. Financial Assets at Fair Value through Other Comprehensive Income

**December 31,
2018**

(in thousands)

Investments in equity instruments at FVTOCI:

Equity securities – listed stocks	\$6,803,900
Equity securities – non-listed stocks	176,025
	\$6,979,925

F-47 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The purpose that the Company invests in the abovementioned equity securities is for long-term strategies, but rather for trading purpose. Therefore, those equity securities are designated as financial assets at FVTOCI, whereas, were presented under available-for-sale financial assets as of December 31, 2017. Please refer to note 10.

If the value of these equity securities appreciates or depreciates by 10% at the reporting date, other comprehensive income would increase or decrease by \$697,993 thousand for the year ended December 31, 2018, respectively.

10. Available-for-sale Financial Assets noncurrent

**December
31, 2017**
(in
thousands)
Equity securities \$4,348,134

The Company sold part of its investments in available-for-sale securities during 2016. The selling price and realized gains on disposal amounted to \$9,917 thousand and \$2,877 thousand, respectively.

The Company determined part of its available-for-sale financial assets was impaired, and there is a remote chance of future recovery. As a result, the Company recognized an impairment loss of \$686 thousand and \$30,000 thousand for the years ended December 31, 2016 and 2017, respectively.

Some of the available-for-sale securities held by the Company were publicly traded equity shares. If the share price of these securities appreciates or depreciates by 10% at the reporting date, other comprehensive income would increase or decrease by \$283,670 thousand and \$417,032 thousand for the years ended December 31, 2016 and 2017, respectively.

The abovementioned investments held by the Company were presented under financial assets at FVTPL or financial assets at FVTOCI (refer to note 9) as of December 31, 2018.

F-48 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

11. Accounts Receivable, net (Including Related and Unrelated Parties)

	December 31,	
	2017	2018
	(in thousands)	
Accounts receivable	\$42,021,402	47,453,087
Less: loss allowance	(93,053)	(50,853)
Less: allowance for sales returns and discounts	(1,337,076)	-
	\$40,591,273	47,402,234
Accounts receivable, net	\$38,738,211	44,647,981
Accounts receivable from related parties, net	\$1,853,062	2,754,253

As of December 31, 2018, the Company measures loss allowance for accounts receivable using the simplified approach under IFRS 9 with the lifetime expected credit losses. Analysis of expected credit losses as of December 31, 2018, which was measured based on the aforementioned method, was as follows:

	Carrying amount of accounts receivable	Weighted-average loss rate		Loss allowance for lifetime expected credit losses
	(in thousands)			(in thousands)
Not past due	\$46,529,408	0.00	%	89
Past due less than 60 days	862,373	0.05	%	439
Past due 61~180 days	11,090	0.98	%	109
Past due over 180 days	475	100	%	475
	\$47,403,346			1,112

In addition, the Company recognized a loss allowance amounting to \$49,741 thousand as of December 31, 2018 for accounts receivable with gross carrying amount of \$49,741 thousand, as there was objective evidence indicating that, under reasonable expectation, it would not be recovered in total.

F-49 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

As of December 31, 2017, the Company measured the allowance for doubtful debts for accounts receivable using the incurred loss model. Aging analysis of accounts receivable, which were past due but not impaired, as of December 31, 2017, was as follows:

	December 31, 2017 (in thousands)
Past due less than 60 days	\$ 560,016
Past due 61~180 days	12,790
	\$ 572,806

The movement of the loss allowance for accounts receivable was as follows:

	For the years ended December 31, 2016		2017		
	Individually assessed for impairment	Collectively assessed for impairment	Individually assessed for impairment	Collectively assessed for impairment	2018
	(in thousands)				
Balance at beginning of the year (IAS 39)	\$11,714	58,183	41,812	62,805	93,053
Adjustments on initial application of IFRS 9					-
Provisions (reversals) charged to (against) expense	31,360	12,938	(28,236)	18,396	(24,302)
Write-offs	-	(7,385)	(6)	-	(17,985)
Effect of changes in foreign currency exchange rates	(1,262)	(931)	(805)	(913)	87
Balance at end of the year	\$41,812	62,805	12,765	80,288	50,853

The payment terms granted to customers are generally 30 to 60 days from the end of the month during which the invoice is issued. This term is consistent with practices in our industry, and thus, no financing components involved.

Information about the Company's exposure to credit risk is included in note 39.

F-50 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

The Company entered into financing facilities with banks to factor certain of its accounts receivable without recourse. As at December 31, 2018, the Company did not sell its trade receivables to banks. As at December 31, 2017, the Company's trade receivables sold and derecognized were as follows:

December 31, 2017				
Underwriting bank	Factoring limit	Amount advanced	Amount sold and derecognized	Principal terms
		(in thousands)		
Taishin Bank	USD 35,000	-	USD 6,382	See notes(a)~(e)

Note (a): Under this facility, the Company transferred accounts receivable to the underwriting bank, which is without recourse subject to the underwriting consent.

Note (b): The Company informed its customers pursuant to the facility to make payment directly to the underwriting bank.

Note (c): As of December 31, 2017, total outstanding receivables after the above transaction, net of fees charged by underwriting bank, of \$190,451 thousand were recognized under other current financial assets.

Note (d): To the extent of the amount transferred to the underwriting bank, risks of non-collection or potential payment default by customers in the event of insolvency are borne by the bank. The Company is not responsible for the collection of receivables subject to the facility, or for any legal proceedings and costs thereof in collecting these receivables.

Note (e): The Company bears all risks deriving from the customers except credit risk.

12.

Inventories

	December 31,	
	2017	2018
	(in thousands)	
Finished goods	\$ 10,095,820	9,406,248
Work-in-progress	9,405,677	11,133,846
Raw materials	5,352,826	5,769,010
	\$ 24,854,323	26,309,104

For the years ended December 31, 2016, 2017 and 2018, the amounts recognized as cost of sales in relation to inventories were \$294,598,017 thousand, \$279,986,522 thousand and \$279,494,885 thousand, respectively. Charges for inventories written down to net realizable value, which were also included in cost of sales, amounted to \$3,673,213 thousand, \$3,756,726 thousand and \$5,171,752 thousand for the years ended December 31, 2016, 2017 and 2018, respectively.

As at December 31, 2017 and 2018, none of the Company's inventories was pledged as collateral.

F-51 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

13. Noncurrent Assets Held for Sale

In December 2016, M.Setek decided to dispose part of its land and buildings to TAKEEI Corporation and other companies, and has reclassified certain of these assets for reclassification as noncurrent assets held for sale in the consolidated statement of financial position as of December 31, 2016. Disposal transactions of aforementioned land and buildings, together with certain assets presented as property, plant and equipment as of December 31, 2016, were completed between March 2017 to August 2017. The total selling price (net of costs of disposal) and gain on disposal were \$837,103 thousand and \$215,478 thousand, respectively.

In October 2017, in relation to compulsory imposition under regulatory plan and urban construction plan, FTKS has entered into a compensation agreement with Kunshan Economic and Technology Development Zone. The imposed land use right, plant buildings and its related appendages have been reclassified as noncurrent assets held for sale and presented separately in the consolidated statement of financial position as at December 31, 2017. The disposal transaction was completed in March 2018. The selling price (net of costs of disposal) and gain on disposal amounted to \$983,082 thousand and \$561,815 thousand, respectively. As of December 31, 2018, the proceeds from disposal have been fully received.

In December 2017, in order to enhance the utilization of the Company's assets and to increase its working capital, BVHF has entered into a real estate transfer agreement with Hefei Heng Chuang Intelligent Technology Co., Ltd. to dispose its land use right, plant buildings and its related appendages. The aforementioned assets have been reclassified as noncurrent assets held for sale and presented separately in the consolidated statement of financial position as at December 31, 2017. The disposal transaction was completed in June 2018. The selling price (net of costs of disposal) and gain on disposal amounted to \$2,204,576 thousand and \$228,754 thousand, respectively. As of December 31, 2018, the proceeds from disposal have been fully received.

14. Investments in equity-accounted Investees

	December 31,	
	2017	2018
	(in thousands)	
Associates	\$5,286,487	5,973,127

Joint ventures	310,800	312,738
	\$5,597,287	6,285,865

F-52 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

(a)		Associates				
Name of associate	Principal activities	Principal place of business	December 31, 2017		December 31, 2018	
			Ownership Amount		Ownership Amount	
			interest		interest	
			%	(in thousands)	%	(in thousands)
Lextar Electronics Corp. ("Lextar")	Manufacturing and sales of Light Emitting Diode	Taiwan ROC	27	\$3,104,955	27	\$3,082,178
Raydium Semiconductor Corporation ("Raydium")	IC design	Taiwan ROC	18	678,908	18	716,381
Star River Energy Corp. ("SREC")	Holding company	Taiwan ROC	34	533,840	34	434,421
Daxin Materials Corp. ("Daxin")	Research, manufacturing, and sales of display related chemicals	Taiwan ROC	25	573,571	25	654,940
SSEC	Holding company	Taiwan ROC	37	369,153	33	1,002,874
Others				26,060		82,333
				\$5,286,487		\$5,973,127

None of the above associates is considered individually material to the Company. The following table summarized the amount recognized by the Company at its share of those associates.

	For the years ended December 31,		
	2016	2017	2018
	(in thousands)		
The Company's share of profits of associates	\$18,644	251,699	307,992
The Company's share of other comprehensive loss of associates	(29,460)	(62,084)	(15,477)
The Company's share of total comprehensive income (loss) of associates	\$(10,816)	189,615	292,515

F-53 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

(b)

Joint ventures

In September 2016, AUSG disposed of its entire 50% interest in AUO SunPower Sdn. Bhd., a joint venture of the Company, to SunPower Technology, Ltd. for total selling price of \$5,408,546 thousand (US\$170,100 thousand) in cash and recognized a loss on disposal, net of tax, amounting to \$382,608 thousand. The selling price will be settled with repayment of installments over the years. As of December 31, 2017 and 2018, the outstanding selling price amounting to US\$61,100 thousand and US\$60,000 thousand, respectively, which will be received in cash at US\$30,000 thousand and US\$30,000 thousand in year 2019 and 2020, respectively, are classified under other current assets and other noncurrent assets by its liquidity.

None of the joint ventures is considered individually material to the Company. The following table summarized the amount recognized by the Company at its share of those joint ventures.

	For the years ended December 31,		
	2016	2017	2018
	(in thousands)		
The Company's share of profits (losses) of joint ventures	\$82,134	(12,693)	3,722
The Company's share of other comprehensive loss of joint ventures	(314,710)	-	-
The Company's share of total comprehensive income (loss) of joint ventures	\$(232,576)	(12,693)	3,722

As at December 31, 2017 and 2018, none of the Company's investments in equity-accounted investees was pledged as collateral.

15.

Acquisition of Subsidiaries

In March 2018, the Company obtained control over ComQi by acquiring 100% of shareholdings of ComQi. ComQi is engaged in integration service of content management system and hardware. Through the acquisition of ComQi, the Company expects to be able to provide a total solution for the upstream and downstream of public information displays.

If the acquisition had taken place on January 1, 2018, management estimated that the Company's consolidated revenue and net profit for the year ended December 31, 2018 would have been \$307,673,560 thousand and \$7,956,563 thousand, respectively. In determining these amounts, management had assumed that the fair value adjustments that arose on the acquisition date would have been the same if the acquisition had taken place on January 1, 2018. The aforementioned pro-forma information is presented for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Company that would have been achieved had the acquisition been completed on January 1, 2018, nor is it intended to be a projection of future results.

F-54 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

Acquisition-related costs of \$12,191 thousand on legal fees and due diligence fees were expensed and recognized in general and administrative expenses in the consolidated statement of comprehensive income.

The following table summarizes each major class of consideration transferred, the assets acquired and liabilities assumed at the acquisition date and the amount of goodwill recognized.

(a)	Consideration transferred	Amounts (in thousands)
	Cash	\$ 467,920
	Contingent consideration	283,354
		\$ 751,274

In accordance with the terms of the contingent consideration, in the event that ComQi's annual net revenue and annual recurring revenue for the year ended December 31, 2018 are greater than the agreed revenue targets in the agreement, the Company will pay additional consideration of USD4,000 thousand and USD7,000 thousand, respectively, to the original shareholders of ComQi. Under the arrangement of the contingent consideration, the potential undiscounted amount of the contingent payment that the Company may have to pay in the future is between USD0 and USD11,000 thousand.

The fair value of the contingent consideration estimated using Monte Carlo simulation amounted to \$283,354 thousand. The fair value measurement was based on the significant unobservable inputs in the market and categorised as a Level 3 fair value under IFRS 13. The significant inputs in the valuation technique used are discount rate of 8.5%, revenue volatility rate of 30.8% and AUO's credit spread of 0.88%.

As ComQi's annual net revenue and annual recurring revenue for the year ended December 31, 2018 were not greater than the agreed revenue targets in the agreement, the Company remeasured the fair value of the contingent consideration and determined the value was zero. The change in the fair value of the contingent consideration of \$283,354 thousand was not a measurement period adjustment, and therefore, was recognized under other gains and losses in the consolidated statement of comprehensive income.

F-55 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(b) Identifiable assets acquired and liabilities assumed

The following table summarizes the fair value of identifiable assets acquired and liabilities assumed recognized at the acquisition date:

	Fair value (in thousands)
Cash and cash equivalents	\$ 19,432
Accounts receivable and other current assets	36,851
Property, plant and equipment	3,712
Intangible assets	150,436
Accounts payable and other current liabilities	(57,361)
Other liabilities	(2,120)
	\$ 150,950

(c) Goodwill arising from the acquisition for which is attributable mainly to the synergies expected to be achieved from integrating ComQi into the Company's existing business has been recognized as follows:

	Amounts (in thousands)
Consideration transferred	\$ 751,274
Less: Fair value of identifiable net assets	(150,950)
	\$ 600,324

The Company will continue to review the aforesaid matters during the measurement period. If new information obtained within one year from the acquisition date about facts and circumstances that existed at the acquisition date

which leads to an adjustment to the above amounts, or any additional provisions as at the acquisition date, then the accounting for the acquisition will be revised.

F-56 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

16. Disposal of Part of Ownership Interest in Subsidiary without Losing Control

In November 2017, the Company disposed its ownership interest in DPTW totaling of 9.99% with consideration (net of costs of disposal) amounting to \$1,776,984 thousand in cash. The effect of changes in ownership interest of the subsidiary which is attributable to owners of the parent is summarized as follows:

	For the year ended December 31, 2017 (in thousands)
Consideration received	\$ 1,776,984
Carrying amount of the equity interest disposed of	(1,190,529)
Capital surplus – changes in ownership interest of subsidiary	(12,099)
Other equity – effect from foreign currency translation differences arising from foreign operations	(56,160)
Capital surplus – differences between consideration and carrying amount arising from disposal of interest in subsidiary	\$ 518,196

17. Disposal of Subsidiaries

The Company disposed all its shareholdings in Fargen Power Corporation and TronGen Power Corporation to SSEC, an associate of the Company, in December 2017 with consideration amounting to \$480,000 thousand in cash. The gain on disposal amounting to \$76,331 thousand was recognized under other gains and losses in the consolidated statement of comprehensive income.

The carrying amounts of the assets and liabilities of the subsidiaries disposed of by the Company were as follows:

	Amounts (in thousands)
Cash and cash equivalents	\$ 203,607

Edgar Filing: AU OPTRONICS CORP - Form 20-F

Accounts receivable and other receivables	4,513
Other current assets	38,649
Property, plant and equipment	260,828
Other assets	54,397
Payable for equipments	(71,076)
Accrued expense and other current liabilities	(3,062)
Long-term borrowings	(84,187)
Net assets disposed of	\$ 403,669

F-57 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

The Company disposed all its shareholdings in CGPC to SSEC in September 2018 with consideration amounting to \$116,000 thousand in cash. The gain on disposal amounting to \$17,269 thousand was recognized under other gains and losses in the consolidated statement of comprehensive income.

The carrying amounts of the assets and liabilities of the subsidiary disposed of by the Company were as follows:

	Amounts (in thousands)
Cash and cash equivalents	\$ 70,516
Other current assets	48,148
Payable for equipments	(19,933)
Net assets disposed of	\$ 98,731

18. Property, Plant and Equipment

For the year ended December 31, 2017

	Balance, Beginning of Year	Additions	Disposal or write off	Reclassification and effect of change in exchange rate	Balance, End of Year
	(in thousands)				
Cost:					
Land	\$ 8,873,981	865,956	(675,811)	(55,467)	9,008,659
Buildings	130,595,844	433,269	(3,786,388)	(3,231,856)	124,010,869
Machinery and equipment	798,046,434	1,827,188	(14,844,436)	15,135,124	800,164,310
Other equipment	32,419,736	4,140,108	(7,900,925)	700,229	29,359,148
	969,935,995	7,266,521	(27,207,560)	12,548,030	962,542,986
Accumulated depreciation and impairment loss:					
Land	173,397	-	(54,186)	(119,211)	-

Edgar Filing: AU OPTRONICS CORP - Form 20-F

Buildings	36,028,301	3,216,571	(3,785,921)	(1,633,576)	33,825,375
Machinery and equipment	698,110,663	27,946,301	(14,694,674)	(4,027,879)	707,334,411
Other equipment	26,154,173	5,655,026	(7,883,150)	(208,469)	23,717,580
	760,466,534	36,817,898	(26,417,931)	(5,989,135)	764,877,366
Prepayments for purchase of land and equipment, and construction in progress	13,272,371	36,289,529	(29,206)	(22,265,225)	27,267,469
Net carrying amounts	\$222,741,832				224,933,089

F-58 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

	For the year ended December 31, 2018				
	Balance, Beginning of Year	Additions	Disposal or write off	Reclassification, effect of change in exchange rate and others	Balance, End of Year
	(in thousands)				
Cost:					
Land	\$9,008,659	-	(161,728)	12,392	8,859,323
Buildings	124,010,869	53,706	(5,271,527)	2,426,312	121,219,360
Machinery and equipment	800,164,310	2,145,769	(13,164,282)	46,787,823	835,933,620
Other equipment	29,359,148	5,077,326	(1,775,217)	2,467,867	35,129,124
	962,542,986	7,276,801	(20,372,754)	51,694,394	1,001,141,427
Accumulated depreciation and impairment loss:					
Buildings	33,825,375	3,097,807	(1,754,678)	862,822	36,031,326
Machinery and equipment	707,334,411	25,620,993	(12,828,449)	1,706,393	721,833,348
Other equipment	23,717,580	5,367,124	(1,775,840)	782,123	28,090,987
	764,877,366	34,085,924	(16,358,967)	3,351,338	785,955,661
Prepayments for purchase of land and equipment, and construction in progress	27,267,469	26,228,260	-	(47,095,020)	6,400,709
Net carrying amounts	\$224,933,089				221,586,475

As of December 31, 2017 and 2018, a non-irrigated farmland located in LongTan plant amounted to \$23,671 thousand was registered in the name of a farmer due to regulations. An agreement of pledge had been signed between the Company and the farmer clarifying the rights and obligations of each party.

In order to enhance the utilization of the Company's assets and to increase its working capital, AUSK disposed its land, plant buildings and related appendages to third party in December 2018 with consideration (net of costs of disposal) amounting to \$3,029,191 thousand. The gain on disposal was amounting to \$1,080,720 thousand.

In 2017, the Company wrote down certain machineries and equipment with low utilization resulting from the decline in the application for certain products associated with its display segment and recognized an impairment loss of \$895,954 thousand.

In 2016, 2017 and 2018, the Company wrote down certain long-term assets with lower capacity utilization associated with its energy segment and recognized impairment losses of \$34,047 thousand, \$120,714 thousand and \$399,363 thousand, respectively.

F-59 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

The capitalized borrowing costs were \$542,994 thousand, \$624,235 thousand and \$421,618 thousand for the years ended December 31, 2016, 2017 and 2018, respectively. The interest rates applied for the capitalization, ranged from 1.09% to 4.66%, 1.09% to 5.24% and 1.04% to 5.59% for the years ended December 31, 2016, 2017 and 2018, respectively.

Certain property, plant and equipment were pledged as collateral, see note 42.

19.

Investment Property

	For the year ended December 31, 2017				
	Balance,			Reclassification	Balance,
	Beginning	Additions	Disposal	and effect of	End of
	of Year			change in	Year
	(in thousands)			exchange rate	
Land	\$465,868	-	-	251,955	717,823
Fair Value	\$1,402,040				2,213,184

	For the year ended December 31, 2018				
	Balance,			Reclassification	Balance,
	Beginning	Additions	Disposal	and effect of	End of
	of Year			change in	Year
	(in thousands)			exchange rate	
Land	\$717,823	-	-	12,483	730,306
Fair Value	\$2,213,184				2,252,170

In relation to the cessation of polysilicon production, M.Setek leased part of its lands to third party in 2017, and has reclassified those lands amounting to \$251,955 thousand from property, plant and equipment to investment property.

The fair value of investment property is based on a valuation performed by a qualified independent appraiser who holds a recognized and relevant professional qualification and has recent valuation experience in the location and category of the investment property being valued. The valuation is performed using income approach, sales comparison approach and land development analysis approach with reference to available market information.

F-60 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

The fair value measurement was categorized as a level 3 fair value based on the inputs in the valuation techniques used. Income approach determines the fair value of the investment property based on the projected cash flows from the Company's estimated future rentals collected and discounted using the capitalization rate of the property. The capitalization rate used in the valuation was 12%. Sales comparison approach is through comparison, analysis, adjustment and other means of value for comparable properties to estimate the value of the investment property. Land development analysis approach determine the fair value of investment property based on the value prior to development or construction, after deducting the direct cost, indirect cost, capital interest and profit during the development period, and also consider total sales price of properties after completion of development or construction. It also incorporates the possibility of changes in utility of land through development or improvement in accordance with legal use and density of the land. The overall capital interest rate and the rate of return used in the valuation were 1.86% and 10%, respectively.

Certain investment property were pledged as collateral, see note 42.

20. Intangible Assets

For the year ended December 31, 2017				
	Balance,		Effect of	Balance,
	Beginning	Additions	change	End of
	of Year		in	Year
			exchange	
			rate	
	(in thousands)			
Cost:				
Patent and technology fee	\$ 12,078,767	196,781	-	12,275,548
Accumulated amortization:				
Patent and technology fee	9,756,528	628,606	117	10,385,251
Net carrying amounts	\$ 2,322,239			1,890,297

For the year ended December 31, 2018

	Additions	Effect of	Balance,
--	------------------	------------------	-----------------

	Balance, Beginning of Year		Effect of change in consolidated entities	change in exchange rate	End of Year
	(in thousands)				
Cost:					
Goodwill	\$-	-	600,324	-	600,324
Patent and technology fee	12,275,548	-	-	(3,806)	12,271,742
Others	-	-	150,436	-	150,436
	12,275,548	-	750,760	(3,806)	13,022,502
Accumulated amortization:					
Patent and technology fee	10,385,251	518,404	-	(386)	10,903,269
Others	-	22,565	-	-	22,565
	10,385,251	540,969	-	(386)	10,925,834
Net carrying amounts	\$1,890,297				2,096,668

F-61 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The Company acquired goodwill and other intangible assets arising from the business combination in March 2018. Please refer to note 15 for the relevant information.

For the purpose of impairment test, the following table shows the information of the operating business that the Company's goodwill allocating to.

	December 31, 2018 (in thousands)
Display business	\$ 600,324

The Company's goodwill has been tested for impairment at least once at the end of the annual reporting period. The recoverable amount was determined based on value in use of the operating business.

The key assumptions used in the estimation of the recoverable amount included discount rate and terminal growth rate. The annual discount rate for the year 2018 was 11.57% based on industry weighted average cost of capital. The cash flow projection for the year 2018 was determined based on the financial budgets approved by management covering the future five-year period and extrapolated with a steady annual terminal growth rate of negative 1% for subsequent years. The key assumptions abovementioned represents the management's forecast of the future for the related industry by considering the history information from internal and external sources.

Based on the impairment assessment for the year ended December 31, 2018, no impairment loss was recognized as the recoverable amount of the cash-generating unit was higher than its carrying value.

21. Other Current Assets and Other Noncurrent Assets

	December 31,	
	2017	2018
	(in thousands)	
Prepayment for equipment	\$457,201	650,727
Refundable and overpaid tax	3,291,235	1,351,646
Long-term prepaid rents	1,412,026	1,364,111
Prepayments for purchases	2,053,554	230,793
Long-term receivables	1,790,400	930,001
Refundable deposits	515,148	716,097
Others	2,551,070	2,869,869
	12,070,634	8,113,244
Less: current	(6,631,130)	(2,941,598)
Noncurrent	\$5,439,504	5,171,646

F-62 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

22.

Short-term Borrowings

	December 31, 2017	2018
	(in thousands)	
Unsecured borrowings	\$3,424,376	546,472
Unused credit facility	\$35,866,924	43,533,037
Interest rate	3.62%~	2.54%~
	4.35%	4.35%

23.

Long-term Borrowings

Bank or agent bank	Durations	December 31,	December 31,
		2017	2018
		(in thousands)	
Syndicated loans:			
Bank of Taiwan and others	From Feb. 2015 to Aug. 2019	\$22,704,000	5,912,000
Bank of Taiwan and others	From Apr. 2016 to Apr. 2021	37,500,000	36,175,000
Bank of Taiwan and others	From May 2017 to May 2022	10,000,000	10,000,000
Bank of Taiwan and others	From Jul. 2018 to Jul. 2023	-	210,000
First Commercial Bank and others	From Feb. 2016 to Jan. 2019	2,395,868	1,775,236
Bank of China and others	From Nov. 2015 to Nov. 2023	27,800,680	27,743,519
Unsecured loans	From May 2016 to Aug. 2023	10,203,390	2,976,158
Secured loans	From Apr. 2017 to Apr. 2032	441,035	1,990,175
		111,044,973	86,782,088
Less: transaction costs		(436,963)	(476,770)
		110,608,010	86,305,318
Less: current portion		(8,155,234)	(29,595,931)
		\$102,452,776	56,709,387
Unused credit facility		\$37,220,839	79,933,812
Interest rate range		1.25%~	1.07%~
		M.16%	N.32%

The Company entered into the aforementioned long-term loan arrangements with banks and financial institutions to finance capital expenditures for purchase of machinery and equipment, and to fulfill working capital, as well as to repay the matured debts. A commitment fee is negotiated with the leading banks of syndicated loans, and is calculated based on the committed-to-withdraw but unused balance, if any. No commitment fees were paid for the year ended December 31, 2018.

F-63 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

These credit facilities contain covenants that require the Company to maintain certain financial ratios, calculating based on the Company's annual consolidated financial statements prepared in accordance with Taiwan Financial Reporting Standards, such as current ratio (defined as current assets divided by current liabilities excluding current portion of long-term debt and payable for equipment and construction), leverage ratio (calculated as the sum of short-term borrowings plus current portion of long-term debt and long-term debt to consolidated tangible net worth), interest coverage ratio, tangible net worth and others as specified in the loan agreements.

As of December 31, 2017 and 2018, the Company complied with all financial covenants required under each of the loan agreements.

Refer to note 39 for detailed information of exposures to interest rate, currency, and liquidity risks. Refer to note 42 for assets pledged as collateral to secure the aforementioned long-term borrowings.

The reconciliation of liabilities to cash flows arising from financing activities was as follows:

	Long-term borrowings	Short-term borrowings	Guarantee deposits	Total liabilities from financing activities
	(in thousands)			
Balance at January 1, 2017	\$ 124,262,620	526,723	838,263	125,627,606
Cash flows	(12,571,198)	2,903,927	(34,654)	(9,701,925)
Non-cash changes:				
Changes in exchange rate	(1,142,980)	(6,274)	34,873	(1,114,381)
Effect of change in consolidated entities	(84,187)	-	-	(84,187)
Amortization on transaction costs	143,755	-	-	143,755
Balance at December 31, 2017	110,608,010	3,424,376	838,482	114,870,868
Cash flows	(24,464,961)	(2,817,894)	(13,402)	(27,296,257)
Non-cash changes:				
Changes in exchange rate	27,663	(60,010)	(8,568)	(40,915)
Amortization on transaction costs	134,606	-	-	134,606
Balance at December 31, 2018	\$ 86,305,318	546,472	816,512	87,668,302

F-64 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

24.

Provisions

	Warranties⁽ⁱ⁾	Litigation and claims	Others	Total
	(in thousands)			
Balance at January 1, 2017	\$1,528,898	1,027,328	265,445	2,821,671
Additions	436,464	90,945	4,346	531,755
Usage	(297,829)	(1,025,032)	-	(1,322,861)
Reversals	(120,704)	-	-	(120,704)
Effect of change in exchange rate	131	(3,721)	(20,308)	(23,898)
Balance at December 31, 2017	1,546,960	89,520	249,483	1,885,963
Less: current	(725,366)	(89,520)	(4,346)	(819,232)
Noncurrent	\$821,594	-	245,137	1,066,731
Balance at January 1, 2018	\$1,546,960	89,520	249,483	1,885,963
Additions	276,846	336,061	571,113	1,184,020
Usage	(259,109)	-	(187,842)	(446,951)
Reversals	(100,754)	-	(215)	(100,969)
Effect of change in exchange rate	(74)	5,647	10,413	15,986
Balance at December 31, 2018	1,463,869	431,228	642,952	2,538,049
Less: current	(686,424)	(431,228)	(389,912)	(1,507,564)
Noncurrent	\$777,445	-	253,040	1,030,485

- (i) The provisions for warranties were estimated based on historical experience of warranty claims rate associated with similar products and services. The Company expects most warranty claims will be made within two years from the date of the sale of the product.

F-65 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

25. Operating Leases

(a) Lessees

Future minimum lease payments under non-cancellable operating leases as of December 31, 2017 and 2018 were as follows:

	December 31,	
	2017	2018
	(in thousands)	
Less than one year	\$858,207	927,351
Between one and five years	3,070,676	2,928,983
More than five years	3,491,748	2,085,877
	\$7,420,631	5,942,211

AUO entered into various operating lease agreements for land with Hsinchu Science Park Bureau beginning from March 1, 1994 for a period of 20 years, with renewal option upon expiration. AUO had on July 2003 and November 2006, entered into various operating lease for land with Central Science Park Administration Bureau for period from July 28, 2003 till December 31, 2023 and November 9, 2006 till December 31, 2025. All lease amounts are adjusted in accordance with the land value announced by the government from time to time.

AUO had also on February 2008 and October 2018, respectively, renewed its lease agreements with Hsinchu Science Park Bureau and Southern Taiwan Science Park Bureau, respectively, for the lands in Longtan Science Park and Kaohsiung Science Park. The period covers from February 9, 2008 till December 31, 2027 and October 23, 2018 till October 22, 2038, respectively. All lease amounts are adjusted in accordance with the land value announced by the government from time to time.

Rental expense for operating leases amounted to \$1,178,774 thousand, \$1,081,731 thousand and \$1,064,263 thousand for the years ended December 31, 2016, 2017 and 2018, respectively.

(b)

Lessor

The Company leased its investment properties to third parties under operating lease. Refer to note 19 for further information on investment properties.

F-66 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

Future minimum lease receivables under non-cancellable operating leases as of December 31, 2017 and 2018 were as follows:

	December 31,	
	2017	2018
	(in thousands)	
Less than one year	\$46,538	105,788
Between one and five years	404,695	423,150
More than five years	2,189,936	2,188,728
	\$2,641,169	2,717,666

In addition to the above-mentioned, the Company also leased partial offices to others. See note 33 for rental income. Repair and maintenance expenses incurred from aforementioned operating leases for the years ended December 31, 2016, 2017 and 2018 amounted to \$449 thousand, \$18,396 thousand and \$1,723 thousand, respectively.

26.

Employee Benefits

(a)

Defined benefit plans

Pursuant to the ROC Labor Standards Act, AUO has established a defined benefit pension plan covering their full-time employees in the ROC. This plan provides for retirement benefits to retiring employees based on years of service and the average salaries and wages for the six-month period before the employee's retirement. The funding of this retirement plan by AUO is contributed monthly based on a certain percentage of employees' total salaries and wages. The fund is deposited with Bank of Taiwan.

M.Setek has established defined benefit pension plans providing for retirement benefits to retiring employees based on years of service, position, and certain other factors in accordance with the regulations of its country of establishment.

(1) Reconciliation for AUO's and M.Setek's present value of defined benefit obligation and the fair value of plan assets

	December 31,	
	2017	2018
	(in thousands)	
Present value of defined benefit obligation	\$(3,128,927)	(3,257,962)
Fair value of plan assets	2,213,018	2,367,273
Net defined benefit liability	\$(915,909)	(890,689)

F-67 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

(2) Movement in net defined benefit asset (liability)

	Defined benefit obligation		Fair value of plan assets		Net defined benefit asset (liability)	
	2017	2018	2017	2018	2017	2018
	(in thousands)					
Balance at January 1,	\$(3,027,176)	(3,128,927)	2,105,690	2,213,018	(921,486)	(915,909)
Included in profit or loss						
Service cost	(6,242)	(5,289)	-	-	(6,242)	(5,289)
Interest cost	(53,624)	(49,598)	-	-	(53,624)	(49,598)
Expected return on plan assets	-	-	37,902	35,408	37,902	35,408
	(59,866)	(54,887)	37,902	35,408	(21,964)	(19,479)
Included in other comprehensive income						
Remeasurements (loss) gain:						
Actuarial (loss) gain arising from:						
- demographic assumptions	(21,054)	(15,795)	-	-	(21,054)	(15,795)
- financial assumptions	(126,708)	(178,212)	-	-	(126,708)	(178,212)
- experience adjustment	66,016	84,437	-	-	66,016	84,437
Return on plan assets excluding interest income	-	-	(16,345)	52,614	(16,345)	52,614
	(81,746)	(109,570)	(16,345)	52,614	(98,091)	(56,956)
Other						
Contributions paid by the employer	-	-	102,870	102,831	102,870	102,831
Benefits paid	37,528	36,915	(17,099)	(36,598)	20,429	317
Effect of changes in exchange rates and others	2,333	(1,493)	-	-	2,333	(1,493)
	39,861	35,422	85,771	66,233	125,632	101,655
Balance at December 31,	\$(3,128,927)	(3,257,962)	2,213,018	2,367,273	(915,909)	(890,689)

(3)

Plan assets

AUO contributes an amount based on a certain percentage of employees' total salaries and wages paid every month to its pension fund (the "Fund"), which is administered by the Bureau of Labor Fund, Ministry of Labor and supervised by the employees' pension plan committee (the "Committee") and deposited in the Committee's name with Bank of Taiwan. Under the ROC Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund, the minimum return on the plan assets should not be lower than the average interest rate on two-year time deposits published by the local banks. The government is not only responsible for the determination of the investment strategies and policies, but also for any shortfall in the event that the rate of return is less than the required rate of return.

F-68 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

As of December 31, 2018, the Fund deposited in the Committee's name in the Bank of Taiwan amounted to \$2,367,273 thousand. Information on utilization of labor pension funds, including the yield rate of funds and the component of plan assets are available at the Bureau of Labor Funds, Ministry of Labor website.

Under the defined benefit plans in Japan, M.Setek is responsible to pay to employees when they are retired.

(4) Defined benefit obligation

(i) Principal actuarial assumptions

	December 31,	
	2017	2018
Discount rate	0.21%~1.60%	0.21%~1.22%
Rate of increase in future salary	0.77%~4.49%	0.77%~4.49%

The Company anticipates contributing \$102,831 thousand to the defined benefit plans in the next year starting from January 1, 2019.

As at December 31, 2018, the weighted-average duration of the defined benefit obligation was between 5 years to 20 years.

(ii) Sensitivity analysis

Reasonably possible changes at December 31, 2017 and 2018 to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below.

	December 31, 2017		December 31, 2018	
	Changes in assumptions		Changes in assumptions	
	+ 0.25%	- 0.25%	+ 0.25%	- 0.25%
	(in thousands)		(in thousands)	
Discount rate	\$(158,160)	167,594	(160,307)	169,544
Rate of increase in future salary	\$164,867	(156,470)	166,250	(158,100)

In practical, the relevant actuarial assumptions are correlated to each other. The approach to develop the sensitivity analysis as above is the same approach to recognize the net defined benefit liability in the statement of financial position.

The approach to develop the sensitivity analysis and its relevant actuarial assumptions are the same as those in previous year.

F-69 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(b) Defined contribution plans

Commencing July 1, 2005, pursuant to the ROC Labor Pension Act (the “Act”), employees who elected to participate in the Act or joined the Company after July 1, 2005, are subject to a defined contribution plan under the Act. Under the defined contribution plan, AUO and its subsidiaries located in the ROC contribute monthly at a rate of no less than six percent of the employees’ monthly salaries and wages to the employee’s individual pension fund account at the ROC Bureau of Labor Insurance. The Company’s foreign subsidiaries have set up their retirement plans, if necessary, based on their respective local government regulations.

AUO and its subsidiaries in the ROC have set up defined contribution plans in accordance with the Act. For the years ended December 31, 2016, 2017 and 2018, these companies set aside \$936,923 thousand, \$1,003,063 thousand and \$1,024,700 thousand, respectively, of the pension costs under the pension plan to the ROC Bureau of the Labour Insurance. Except for the aforementioned companies, other foreign subsidiaries recognized pension expenses of \$1,127,958 thousand, \$892,109 thousand and \$923,378 thousand for the years ended December 31, 2016, 2017 and 2018, respectively, for the defined contribution plans based on their respective local government regulations.

27. Capital and Other Components of Equity

(a) Common stock

AUO’s authorized common stock, with par value of \$10 per share, both amounted to \$100,000,000 thousand as at December 31, 2017 and 2018.

AUO’s issued and outstanding common stock, with par value of \$10 per share, both amounted to \$96,242,451 thousand as at December 31, 2017 and 2018.

AUO’s ADSs were listed on the New York Stock Exchange. Each ADS represents 10 shares of common stock. As of December 31, 2018, AUO has issued 51,674 thousand ADSs, which represented 516,741 thousand shares of its

common stock.

(b)

Capital surplus

The components of capital surplus as of December 31, 2017 and 2018 were as follows:

	December 31,	
	2017	2018
	(in thousands)	
From common stock	\$ 52,756,091	52,756,091
From convertible bonds	6,049,862	6,049,862
From others	1,732,552	1,814,271
	\$ 60,538,505	60,620,224

F-70 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

According to the ROC Company Act, capital surplus, including premium from stock issuing and donations received, shall be applied to offset accumulated deficits before it can be distributed by issuing common stock as stock dividends or by cash according to the proportion of shareholdings. Pursuant to the ROC Regulations Governing the Offering and Issuance of Securities by Securities Issuers, the total sum of capital surplus capitalized per annum shall not exceed 10 percent of the paid-in capital.

(c)

Legal reserve

According to the ROC Company Act, 10 percent of the annual earnings after payment of income taxes and offsetting accumulated deficits, if any, shall be allocated as legal reserve until the accumulated legal reserve equals the paid-in capital. When a company incurs no loss, it may, pursuant to a resolution to be adopted by a shareholders' meeting, distribute its legal reserve by issuing new shares or by cash, only the portion of legal reserve which exceeds 25 percent of the paid-in capital may be distributed.

(d)

Distribution of earnings and dividend policy

In accordance with AUO's Articles of Incorporation, where 10 percent of the annual earnings, after payment of income taxes and offsetting accumulated deficits, if any, shall be set aside as a legal reserve until the accumulated legal reserve equals AUO's paid-in capital. In addition, a special reserve in accordance with applicable laws and regulations shall also be set aside. The remaining current-year earnings together with accumulated undistributed earnings from preceding years can be distributed after the earnings distribution plan proposed by the board of directors is approved by resolution of the shareholders' meeting.

AUO's dividend policy is to pay dividends from surplus considering factors such as AUO's current and future investment environment, cash requirements, domestic and overseas competitive conditions and capital budget requirements, while taking into account shareholders' interest, maintenance of balanced dividend and AUO's long-term financial plan. If the current-year retained earnings available for distribution reach 2% of the paid-in capital of AUO, dividend to be distributed shall be no less than 20% of the current-year retained earnings available for distribution. If the current-year retained earnings available for distribution do not reach 2% of the paid-in capital of AUO, AUO may decide not to distribute dividend. The cash portion of the dividend, which may be in the form of cash and stock, shall not be less than 10% of the total dividend distributed during the year. The dividend distribution ratio aforementioned

could be adjusted by the shareholders' meeting after taking into consideration factors such as finance, business and operations, etc.

F-71 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Pursuant to relevant laws or regulations or as requested by the local authority, total net debit balance of the other components of equity shall be set aside from current earnings as special reserve, and not for distribution. Subsequent decrease pertaining to items that are accounted for as a reduction to the other components of equity shall be reclassified from special reserve to undistributed earnings.

AUO's appropriations of earnings for 2016 had been approved in the shareholders' meeting held on June 15, 2017. The appropriations and dividends per share were as follows:

	For fiscal year 2016	
	Appropriation	Dividends
	per	per
	of earnings	share
	(in thousands, except for per share data)	
Legal reserve	\$781,894	
Cash dividends to shareholders	5,389,577	\$ 0.56
	\$6,171,471	

The aforementioned appropriation of earnings for 2016 was consistent with the resolutions of the board of directors' meeting held on March 22, 2017.

AUO's appropriations of earnings for 2017 had been approved in the shareholders' meeting held on June 15, 2018. The appropriations and dividends per share were as follows:

	For fiscal year 2017	
	Appropriation	Dividends
	per	per
	of earnings	share

Edgar Filing: AU OPTRONICS CORP - Form 20-F

(in thousands, except for
per share data)

Legal reserve	\$3,235,942	
Cash dividends to shareholders	14,436,368	\$ 1.50
	\$17,672,310	

The aforementioned appropriation of earnings for 2017 was consistent with the resolutions of the board of directors' meeting held on March 23, 2018.

F-72 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

AUO's appropriations of earnings for 2018 have been approved in the meeting of the board of directors held on March 22, 2019. The appropriations and dividends per share were as follows:

	For fiscal year 2018	
	Appropriation	Dividends
	of earnings	per
	share	
	(in thousands, except for per share data)	
Legal reserve	\$1,016,060	
Special reserve	847,770	
Cash dividends to shareholders	4,812,122	\$ 0.50
	\$6,675,952	

The appropriations of earnings for 2018 are to be presented for approval in AUO's 2019 shareholders' meeting.

Information on the approval of board of directors and shareholders for AUO's appropriations of earnings are available at the Market Observation Post System website.

(e)

Other components of equity

	Cumulative translation differences	Unrealized gains (losses) on available-for-sale financial assets	Unrealized gains (losses) on cash flow hedges	Total
	(in thousands)			
Balance at January 1, 2016	\$6,540,196	(539,653)	14,793	6,015,336
Foreign operations – foreign currency translation differences	(5,510,836)	-	-	(5,510,836)
Effective portion of changes in fair value of cash flow hedges	-	-	7,199	7,199

Edgar Filing: AU OPTRONICS CORP - Form 20-F

Net change in fair value of available-for-sale financial assets	-	769,410	-	769,410
Equity-accounted investees – share of other comprehensive income	(342,162)	(2,582)	-	(344,744)
Realized gain on sales of securities reclassified to profit or loss	(265,849)	(2,876)	-	(268,725)
Related tax	109,657	-	-	109,657
Balance at December 31, 2016	\$531,006	224,299	21,992	777,297
Balance at January 1, 2017	\$531,006	224,299	21,992	777,297
Foreign operations – foreign currency translation differences	(1,882,545)	-	-	(1,882,545)
Effective portion of changes in fair value of cash flow hedges	-	-	(21,992)	(21,992)
Net change in fair value of available-for-sale financial assets	-	1,146,422	-	1,146,422
Equity-accounted investees – share of other comprehensive income	(68,637)	6,310	-	(62,327)
Related tax	299,207	-	-	299,207
Balance at December 31, 2017	\$(1,120,969)	1,377,031	-	256,062

F-73 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

	Cumulative translation differences	Unrealized gains (losses) on financial assets at FVTOCI	Unrealized gains (losses) on available-for-sale financial assets	Total
	(in thousands)			
Balance at January 1, 2018	\$(1,120,969)	-	1,377,031	256,062
Adjustments on initial application of new standards	-	1,303,816	(1,377,031)	(73,215)
Foreign operations – foreign currency translation differences	(336,902)	-	-	(336,902)
Net change in fair value of financial assets at FVTOCI	-	(754,813)	-	(754,813)
Equity-accounted investees – share of other comprehensive income	(19,716)	3,053	-	(16,663)
Realized gain on sales of securities reclassified to profit or loss	(107,457)	-	-	(107,457)
Cumulative unrealized loss of equity instruments transferred to retained earnings due to disposal	-	50,084	-	50,084
Group reorganization	(22,225)	-	-	(22,225)
Related tax	157,359	-	-	157,359
Balance at December 31, 2018	\$(1,449,910)	602,140	-	(847,770)

F-74 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

(f) Non-controlling interests, net of tax

	For the years ended December 31,		
	2016	2017	2018
	(in thousands)		
Balance at the beginning of the year	\$22,648,604	18,388,204	17,068,501
Equity attributable to non-controlling interests:			
Loss for the year	(1,211,772)	(2,120,737)	(2,177,869)
Adjustment of changes in ownership of investees	(191,394)	(6,421)	(20,998)
Foreign currency translation differences	(1,867,168)	(355,700)	(306,963)
Unrealized loss on financial assets at FVTOCI	-	-	(1,474)
Remeasurement of defined benefit plans	(98)	201	-
Group reorganization	-	-	2,701
Effect of disposal of interest in subsidiary to non-controlling interests	-	1,258,788	-
Effect of acquisition of non-controlling interests	37,036	-	-
Redemption of subsidiary treasury shares	(865,633)	-	-
Others	(161,371)	(95,834)	(147,339)
Balance at the end of the year	\$18,388,204	17,068,501	14,416,559

28. Share-based Payments

The Company's employee stock option plans were as follows:

(a) DPTW Option Plan

DPTW 2011 Employee stock option plan was fully expired on January 6, 2017.

Information about DPTW's outstanding stock options is as follows:

	For the year ended December 31, 2017 Weighted-average exercise price Number of price options (per (shares) share)	
Outstanding at January 1	\$19.04	2,913,000
Options expired	-	(2,913,000)
Outstanding at December 31	-	-
Exercisable at December 31	-	-

F-75 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

(b) ACTW Option Plan

- (1) The key terms and conditions related to the grants under ACTW's outstanding employee stock option plan were disclosed as follows:

	Grant date	Total number of options issued (units in thousands)	Contractual life of options	Exercisable period	Exercise price (per share)
2014 Employee stock option plan	Sep. 1, 2014	20	Sep.1, 2014 – Aug. 31, 2019	After Aug. 31, 2016	\$ 10

ACTW 2012 Employee stock option plan was fully expired on August 31, 2017.

The related employee benefit expenses and capital surplus recognized on ACTW's employee stock options were (2)\$1,534 thousand, \$474 thousand and \$167 thousand for the years ended December 31, 2016, 2017 and 2018, respectively.

(3) Fair value of stock options

The fair value of the employee stock options granted by ACTW was measured at the dates of grant using the Binomial option pricing model. The valuation information was as follows:

	2014 Employee Stock Option Plan
Expected volatility	38.88%
Risk-free interest rate	1.1648%
Expected duration	5 years

Fair value at the grant date NT\$0.20/per share

(4) Information about ACTW's outstanding stock options is as follows:

	For the years ended December 31,			
	2017		2018	
	Weighted-average	Number of	Weighted-average	Number of
	exercise price	options	exercise price	options
	(per share)	(shares)	(per share)	(shares)
Outstanding at January 1	\$ 10	29,209,000	\$ 10	16,601,000
Options exercised	10	(1,162,000)	10	(2,260,000)
Options expired	-	(11,446,000)	-	(1,050,000)
Outstanding at December 31	10	16,601,000	10	13,291,000
Exercisable at December 31		12,425,000		13,291,000

F-76 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

29. Revenue from Contracts with Customers

	For the year ended December 31, 2018		
	Display segment	Energy segment	Total segments
	(in thousands)		
Primary geographical markets:			
PRC	\$ 112,542,529	1,089,508	113,632,037
Taiwan	93,126,115	6,231,767	99,357,882
Singapore	39,363,415	7,515	39,370,930
Japan	19,748,373	1,418,491	21,166,864
Others	26,004,322	8,102,354	34,106,676
	\$ 290,784,754	16,849,635	307,634,389
Major products:			
Products for Televisions	\$ 113,194,567	-	113,194,567
Products for Mobile PCs and Devices	74,375,305	-	74,375,305
Products for Monitors	47,024,353	-	47,024,353
Products for Commercial and Others ⁽ⁱ⁾	56,190,529	-	56,190,529
Solar Products	-	16,849,635	16,849,635
	\$ 290,784,754	16,849,635	307,634,389
Major customers:			
Customer A	\$ 35,358,013	-	35,358,013
Others (individually not greater than 10%)	255,426,741	16,849,635	272,276,376
	\$ 290,784,754	16,849,635	307,634,389

(i) Others include sales from products for other applications and sales of raw materials, components and from service charges.

Refer to note 30 and note 44 for revenue related information for the years ended December 31, 2016 and 2017.

30.

Revenue

	For the years ended December 31,	
	2016	2017
	(in thousands)	
Sale of goods	\$318,243,539	329,584,136
Other operating revenue	10,845,497	11,444,131
	\$329,089,036	341,028,267

Refer to note 29 for the disaggregation of revenue for the year ended December 31, 2018.

F-77 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

31. Remuneration to Employees and Directors

According to AUO's Articles of Incorporation, AUO should distribute remuneration to employees and directors no less than 5% and no more than 1% of annual profits before income tax, respectively, after offsetting accumulated deficits, if any. Only employees, including employees of affiliate companies that meet certain conditions are entitled to the abovementioned remuneration which to be distributed in stock or cash. The said conditions and distribution method are decided by board of directors or the personnel authorized by board of directors.

AUO accrued remuneration to employees based on the profit before income tax excluding the remuneration to employees and directors for each period, multiplied by the percentage resolved by board of directors. For the years ended December 31, 2016, 2017 and 2018, AUO estimated the remuneration to employees amounting to \$1,107,486 thousand, \$4,062,114 thousand and \$1,215,696 thousand, respectively. Remuneration to directors was estimated based on the amount expected to pay and recognized together with the remuneration to employees as cost of sales or operating related expenses. If remuneration to employees is resolved to be distributed in stock, the number of shares is determined by dividing the amount of remuneration by the closing price of the shares (ignoring ex-dividend effect) on the day preceding the board of directors' meeting. If there is a change in the proposed amounts after the annual consolidated financial statements are authorized for issue, the differences are accounted for as a change in accounting estimate and adjusted prospectively to next year's profit or loss.

Remuneration to employees and directors for 2016 in the amounts of \$1,107,486 thousand and \$24,226 thousand, respectively, in cash for payment had been approved in the meeting of board of directors held on March 22, 2017. The aforementioned approved amounts are the same as the amounts charged against earnings of 2016.

Remuneration to employees and directors for 2017 in the amounts of \$4,062,114 thousand and \$132,604 thousand, respectively, in cash for payment had been approved in the meeting of board of directors held on March 23, 2018. The aforementioned approved amounts are the same as the amounts charged against earnings of 2017.

Remuneration to employees and directors for 2018 in the amounts of \$1,215,696 thousand and \$27,780 thousand, respectively, in cash for payment have been approved in the meeting of board of directors held on March 22, 2019. The aforementioned approved amounts are the same as the amounts charged against earnings of 2018.

The information about AUO's remuneration to employees and directors is available at the Market Observation Post System website.

F-78 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

32. The Nature of Expenses

(a) Depreciation of property, plant and equipment

	For the years ended December 31,		
	2016	2017	2018
	(in thousands)		
Recognized in cost of sales	\$34,305,760	31,660,279	29,980,415
Recognized in operating expenses ⁽ⁱ⁾	4,228,015	4,140,951	3,706,146
	\$38,533,775	35,801,230	33,686,561

(b) Amortization of intangible assets

	For the years ended December 31,		
	2016	2017	2018
	(in thousands)		
Recognized in cost of sales	\$1,159,465	628,606	518,403
Recognized in operating expenses ⁽ⁱ⁾	-	-	22,566
	\$1,159,465	628,606	540,969

(c) Employee benefits expenses

	For the years ended December 31,		
	2016	2017	2018
	(in thousands)		
Salaries and wages	\$33,283,639	37,818,321	34,933,925
Labor and health insurances	1,804,900	1,967,688	2,009,652
Retirement benefits	2,098,013	1,917,136	1,967,557
Other employee benefits	3,024,372	3,197,324	3,839,988
	\$40,210,924	44,900,469	42,751,122
Employee benefits expense summarized by function			
Recognized in cost of sales	\$30,950,614	34,703,579	33,455,273
Recognized in operating expenses ⁽ⁱ⁾	9,260,310	10,196,890	9,295,849

\$40,210,924 44,900,469 42,751,122

- (i) Operating expenses are inclusive of selling and distribution expenses, general and administrative expenses and research and development expenses.

F-79 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

33. Other Income

	For the years ended December 31,		
	2016	2017	2018
	(in thousands)		
Interest income on bank deposits	\$491,160	591,995	832,621
Interest income on government bonds with reverse repurchase agreements and others	3,382	20,215	8,994
Rental income, net	527,381	531,442	628,401
Dividend income	107,141	248,514	468,263
Grants	631,750	1,801,585	2,716,197
Others	619,414	636,146	757,649
	\$2,380,228	3,829,897	5,412,125

34. Other Gains and Losses

	For the years ended December 31,		
	2016	2017	2018
	(in thousands)		
Foreign exchange gains (losses), net	\$770,325	(1,364,929)	(41,391)
Gains (losses) on valuation of financial instruments at FVTPL, net	(411,437)	1,646,034	507,532
Gains (losses) on disposals of investments and financial assets, net	(333,858)	42,788	-
Gains on disposals of property, plant and equipment, net	24,278	330,814	1,923,044
Impairment losses on assets	(34,733)	(1,046,668)	(399,363)
Litigation losses and others	(940,248)	(584,599)	(501,770)
	\$(925,673)	(976,560)	1,488,052

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

35. Finance Costs

	For the years ended December 31,		
	2016	2017	2018
	(in thousands)		
Interest expense on bank borrowings	\$2,072,458	2,519,839	2,442,872
Interest expense on others	635,429	348,022	220,733
	\$2,707,887	2,867,861	2,663,605

36. Income Taxes

According to the amendment to the ROC Income Tax Act enacted on February 7, 2018, an increase in the corporate income tax rate from 17% to 20% is applicable to AUO and its domestic subsidiaries starting from fiscal year 2018 and beyond. In addition, the tax rate for 2018 undistributed earnings was reduced from 10% to 5%.

The Company cannot file a consolidated tax return under local regulations. Therefore, AUO and its subsidiaries calculate their income taxes liabilities individually on a stand-alone basis using the enacted tax rates in their respective tax jurisdictions.

(a) The components of income tax expense (benefit) for the years ended December 31, 2016, 2017 and 2018 were as follows:

	For the years ended December 31,		
	2016	2017	2018
	(in thousands)		
Current income tax expense (benefit):			
Current year	\$1,601,384	3,719,483	1,444,698
Adjustment to prior years and others	879,337	246,264	(1,772,898)
	2,480,721	3,965,747	(328,200)

Deferred tax expense (benefit):

Edgar Filing: AU OPTRONICS CORP - Form 20-F

Temporary differences	(98,137)	(1,271,415)	(632,785)
Investment tax credit and tax losses carryforwards	49,961	(3,819,489)	1,998,662
Effect of changes in statutory income tax rate	-	-	(715,303)
	(48,176)	(5,090,904)	650,574
Total income tax expense (benefit)	\$2,432,545	(1,125,157)	322,374

F-81 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

- (b) Income taxes expense (benefit) recognized directly in other comprehensive income for the years ended December 31, 2016, 2017 and 2018 were as follows:

	For the years ended December 31,		
	2016	2017	2018
	(in thousands)		
Items that will never be reclassified to profit or loss:			
Remeasurement of defined benefit obligations	\$-	(155,930)	(38,908)
Items that are or may be reclassified subsequently to profit or loss:			
Foreign operations – foreign currency translation differences	\$(230,202)	(316,372)	(191,809)

Reconciliation of the expected income tax expense (benefit) calculated based on the ROC statutory income tax rate (c) compared with the actual income tax expense (benefit) as reported in the consolidated statements of comprehensive income for the years ended December 31, 2016, 2017 and 2018, was as follows:

	For the years ended December 31,					
	2016	Amount	2017	Amount	2018	Amount
	Rate	(in thousands)	Rate	(in thousands)	Rate	(in thousands)
Profit before income taxes		\$ 11,185,902		\$ 39,363,606		\$ 11,216,151
Income tax expense at AUO's statutory tax rate	17.00 %	1,901,603	17.00 %	6,691,813	20.00 %	2,243,230
Effect of different subsidiaries income tax rate	2.55 %	285,661	0.89 %	348,192	(4.32)%	(484,055)
Share of profit (loss) of equity-accounted subsidiaries	(3.86)%	(432,163)	(1.80)%	(708,417)	7.09 %	795,459
Effect of changes in statutory income tax rate	-	-	-	-	(6.38)%	(715,303)
Effect of change of unrecognized deductible temporary differences, tax losses carryforwards, and investment tax credits	(9.76)%	(1,091,327)	(27.04)%	(10,645,339)	1.24 %	138,969
Net of non-taxable income and non-deductible expense	2.47 %	275,706	0.61 %	241,265	(0.96)%	(108,166)

Edgar Filing: AU OPTRONICS CORP - Form 20-F

Loss (gain) from domestic long-term investment	(1.51)%	(168,484)	1.16 %	457,275	(0.70)%	(78,791)
Tax on undistributed earnings, net	6.84 %	765,419	7.59 %	2,987,763	2.89 %	323,559
Adjustments to prior year	8.01 %	895,861	(1.34)%	(528,662)	(15.81)%	(1,772,898)
Others	-	269	0.08 %	30,953	(0.18)%	(19,630)
Income tax expense (benefit)		\$2,432,545		\$(1,125,157)		\$322,374
Effective tax rate	21.74 %		(2.85)%		2.87 %	

F-82 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

The above reconciliation is prepared based on each individual entity of the Company and presented on an aggregate basis.

During the year ended December 31, 2017, the Company has utilized previously unrecognized tax losses carryforwards in current year amounting to \$7,494,191 thousand and recognized deferred tax assets arising from tax losses carryforwards of \$3,878,233 thousand that are expected to be utilized in future periods.

(d) The components of deferred tax assets and liabilities were as follows:

	Deferred tax assets		Deferred tax liabilities		Total	
	December 31,	December 31,	December 31,	December 31,	December 31,	December 31,
	2017	2018	2017	2018	2017	2018
	(in thousands)					
Investment tax credits	\$656,480	542,115	-	-	656,480	542,115
Tax losses carryforwards	3,942,012	2,760,163	-	-	3,942,012	2,760,163
Unrealized loss and expenses	284,084	310,192	(61,345)	(5,556)	222,739	304,636
Inventories write-down	644,887	1,027,680	-	-	644,887	1,027,680
Foreign investment gains under the equity method	-	-	(890,153)	(1,049,091)	(890,153)	(1,049,091)
Remeasurement of defined benefit plans	155,930	194,838	-	-	155,930	194,838
Foreign operations – foreign currency translation differences	279,517	426,333	(44,992)	-	234,525	426,333
Others	1,106,104	1,371,347	(641,737)	(577,517)	464,367	793,830
Deferred tax assets (liabilities)	\$7,069,014	6,632,668	(1,638,227)	(1,632,164)	5,430,787	5,000,504

(e) Changes in deferred tax assets and liabilities were as follows:

Edgar Filing: AU OPTRONICS CORP - Form 20-F

	January 1, 2017	Recognized in profit or loss	Recognized in other comprehensive income	Effect of change in consolidated entities, exchange rate and others	December 31, 2017	Recognized in profit or loss	Recognized in other comprehensive income	Effect of change in consolidated entities, exchange rate and others	December 31, 2018
(in thousands)									
Investment tax credits	\$ 840,112	(121,696)	-	(61,936)	656,480	(132,840)	-	18,475	542,115
Tax losses carryforwards	-	3,941,185	-	827	3,942,012	(1,181,429)	-	(420)	2,760,163
Unrealized loss and expenses	178,948	47,383	-	(3,592)	222,739	81,893	-	4	304,636
Inventories write-down	69,938	575,199	-	(250)	644,887	386,558	-	(3,765)	1,027,680
Foreign investment losses (gains) under the equity method	(1,091,023)	200,870	-	-	(890,153)	(158,938)	-	-	(1,049,091)
Remeasurement of defined benefit plans	-	-	155,930	-	155,930	-	38,908	-	194,838
Foreign operations – foreign currency translation differences	(81,847)	-	316,372	-	234,525	-	191,809	-	426,334
Others	(9,538)	447,963	-	25,942	464,367	354,182	-	(24,720)	793,829
Total	\$ (93,410)	5,090,904	472,302	(39,009)	5,430,787	(650,574)	230,717	(10,426)	5,000,504

F-83 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

(f) Unrecognized deferred tax assets and unrecognized deferred tax liabilities

Deferred tax assets have not been recognized in respect of the following items.

	December 31,	
	2017	2018
	(in thousands)	
Unused tax losses carryforwards	\$25,868,554	28,697,671
Unused investment tax credits	706,648	853,837
Difference in depreciation expense for tax and financial purposes	2,104,639	1,972,536
Inventories write-down	10,328	19,852
Others	655,974	646,390
	\$29,346,143	32,190,286

The unused investment tax credits with no expiration for the year ended December 31, 2018 from AUST and ACMK were \$837,960 thousand and \$15,877 thousand, respectively.

Tax loss carryforwards is utilized in accordance with the relevant jurisdictional tax laws and regulations. Net losses from foreign subsidiaries are approved by tax authorities in respective jurisdiction to offset future taxable profits. Under the ROC tax laws, approved tax losses of AUO and its domestic subsidiaries can be carried forward for 10 years to offset future taxable profits.

As of December 31, 2018, the expiration period for abovementioned unrecognized deferred tax assets of unused tax losses carryforwards were as follows:

Year of assessment	Unrecognized deferred tax assets	Expiration in year
	(in thousands)	
2009	\$ 8,662	2019
2010	602,694	2019
2011	1,143,264	2020 ~ 2021

Edgar Filing: AU OPTRONICS CORP - Form 20-F

2012	10,532,962	2021 ~ 2022
2013	1,748,462	2022 ~ 2023
2014	2,416,663	2019 ~ 2024
2015	4,291,923	2019 ~ 2025
2016	L,339,100	2020 ~ 2026
2017	J,356,880	2021 ~ 2027
2018 (estimated)	<u>L,257,061</u>	2023 ~ 2028
	\$J8,697,671	

F-84 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

As of December 31, 2018, the aggregate taxable temporary differences associated with investments in subsidiaries not recognized as deferred tax liabilities amounted to \$15,301 thousand.

(g) Assessments by the tax authorities

As of December 31, 2018, the tax authorities have completed the examination of income tax returns of AUO through 2016.

37. Earnings per Share

(a) Basic earnings per share for the years ended December 31, 2016, 2017 and 2018 were calculated as follows:

	For the years ended December 31,		
	2016	2017	2018
	(in thousands, except for per share data)		
Profit attributable to AUO's shareholders	\$9,965,129	42,609,500	13,071,646
Weighted-average number of common shares outstanding during the year (basic)	9,624,245	9,624,245	9,624,245
Basic earnings per share	\$1.04	4.43	1.36

(b) Diluted earnings per share for the years ended December 31, 2016, 2017 and 2018 were calculated as follows:

	For the years ended December 31,		
	2016	2017	2018
	(in thousands, except for per share data)		
Profit attributable to AUO's shareholders	\$9,965,129	42,609,500	13,071,646
Weighted-average number of common shares outstanding during the year (including the effect of dilutive potential common stock):			
Weighted-average number of common shares (basic)	9,624,245	9,624,245	9,624,245
Effect of employee remuneration in stock	107,547	347,903	164,609

Edgar Filing: AU OPTRONICS CORP - Form 20-F

Weighted-average number of common shares (diluted)	9,731,792	9,972,148	9,788,854
Diluted earnings per share	\$1.02	4.27	1.34

F-85 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

38. Financial Instruments

(1) Fair value and carrying amount

The carrying amounts of the Company's current non-derivative financial instruments, including financial assets at amortized cost (loans and receivables) and financial liabilities at amortized cost, were considered to approximate their fair value due to their short-term nature. This methodology applies to cash and cash equivalents, receivables or payables (including related parties), other current financial assets, and short-term borrowings.

Except for aforementioned financial instruments, the carrying amount and fair value of other financial instruments of the Company as of December 31, 2017 and 2018 were as follows:

	December 31, 2017		December 31, 2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in thousands)			
Financial assets:				
Financial assets at FVTPL:				
Financial assets mandatorily measured at FVTPL	\$-	-	1,709,531	1,709,531
Financial assets held for trading	70,366	70,366	-	-
Financial assets at FVTOCI	-	-	6,979,925	6,979,925
Available-for-sale financial assets noncurrent	4,348,134	4,348,134	-	-
Financial assets at amortized cost (loans and receivables):				
Long-term receivables	1,790,400	1,790,400	930,001	930,001
Refundable deposits	515,148	515,148	716,097	716,097
Financial liabilities:				
Financial liabilities at FVTPL:				
Financial liabilities held for trading	106,597	106,597	22,115	22,115
Financial liabilities at amortized cost:				
Long-term borrowings (including current installments)	110,608,010	110,608,010	86,305,318	86,305,318
Guarantee deposits	838,482	838,482	816,512	816,512

F-86 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(2) Valuation techniques and assumptions applied in fair value measurement

The fair values of financial assets and financial liabilities with standard terms and conditions and traded in active markets are determined with reference to quoted market prices. The fair values of other financial assets and financial liabilities without quoted market prices are estimated using valuation approach. The estimates and assumptions used are the same as those used by market participants in the pricing of financial instruments.

Fair value of foreign currency forward contract is measured based on the maturity date of each contract with quoted spot rate and quoted swap points from Reuters quote system.

Fair value of structured investment product is measured based on the discounted future cash flows arising from principal consideration and probable gains estimate to be received.

Fair value of long-term receivable is determined by discounting the expected cash flows at a market interest rate.

The refundable deposits and guarantee deposits are based on carrying amount as there is no fixed maturity.

The fair value of floating-rate long-term borrowings approximates to their carrying value.

(3) Fair value measurements recognized in the consolidated statements of financial position

The Company determines fair value based on assumptions that market participants would use in pricing an asset or a liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels:

- (i) Level 1 inputs: Unadjusted quoted prices for identical assets or liabilities in active markets.
- (ii) Level 2 inputs: Other than quoted prices included within Level 1, inputs are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- (iii) Level 3 inputs: Derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value measurement level of an asset or a liability within their fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The Company uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs.

F-87 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

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

	Level 1 (in thousands)	Level 2	Level 3	Total
December 31, 2017				
Financial assets at FVTPL:				
Financial assets held for trading	\$-	70,366	-	70,366
Available-for-sale financial assets noncurrent	4,170,319	-	177,815	4,348,134
Loans and receivables:				
Long-term receivables	-	1,790,400	-	1,790,400
Financial liabilities at FVTPL:				
Financial liabilities held for trading	-	106,597	-	106,597
December 31, 2018				
Financial assets at FVTPL:				
Financial assets mandatorily measured at FVTPL	-	1,709,531	-	1,709,531
Financial assets at FVTOCI	6,803,900	-	176,025	6,979,925
Financial assets at amortized cost:				
Long-term receivables	-	930,001	-	930,001
Financial liabilities at FVTPL:				
Financial liabilities held for trading	-	22,115	-	22,115

There were no transfers between Level 1 and 2 for the years ended December 31, 2017 and 2018.

F-88 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

(4) Reconciliation for recurring fair value measurements categorized within Level 3

	For the years ended December 31, 2016 2017	
	(in thousands)	
Available-for-sale financial assets without quoted market prices		
Balance at the beginning of the year	\$70,938	193,582
Net realized/unrealized losses included in:		
Profit or loss ⁽ⁱ⁾	(686)	(30,000)
Other comprehensive income	-	-
Purchases	66,948	14,233
Transfer in	56,400	-
Effect of change in exchange rate	(18)	-
Balance at the end of the year	\$193,582	177,815

(i) Change in unrealized losses, which were included in profit or loss, relating to those available-for-sale assets without quoted market prices held at December 31, 2016 and 2017 were \$686 thousand and \$30,000 thousand, respectively.

	For the year ended December 31, 2018
	(in thousands)
Financial assets at FVTOCI equity instruments without quoted market prices	
Balance at the beginning of the year	\$-
Adjustments on initial application of IFRS 9	177,815
Net gains included in other comprehensive income	9,990
Purchases	34,157
Disposals	(45,937)
Balance at the end of the year	\$176,025

- (5) Description of valuation processes and quantitative disclosures for fair value measurements categorized within Level 3

The Company's management reviews the policy and procedures of fair value measurements at least once at the end of the annual reporting period, or more frequently as deemed necessary. When a fair value measurement involves one or more significant inputs that are unobservable, the Company monitors the valuation process discreetly and examines whether the inputs are used the most relevant market data available.

F-89 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

Item	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Financial assets at FVTOCI—equity investments without active market	Market approach	• Price-Book ratio (0.99~5.2 at Dec. 31, 2018)	• The higher the price-book ratio is, the higher the fair value is.
		• Price-Earnings ratio (14.69~112.13 at Dec. 31, 2018)	• The higher the price-earnings ratio is, the higher the fair value is.
		• Discount for lack of marketability (20% at Dec. 31, 2018)	• The greater degree of lack of marketability is, the lower the fair value is.

39. Financial Risk Management

(a) Risk management framework

The managerial officers of related divisions are appointed to review, control, trace and monitor the strategic risks, financial risks and operational risks faced by the Company. The managerial officers report to executive officers the progress of risk controls from time to time and, if necessary, report to the board of directors, depending on the extent of impact of risks.

(b) Financial risk information

Hereinafter discloses information about the Company's exposure to variable risks, and the goals, policies and procedures of the Company's risk measurement and risk management.

The Company is exposed to the following risks due to usage of financial instruments:

(1) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's exposures to credit risk are mainly from:

- (i) The carrying amount of financial assets recognized in the consolidated statements of financial position.
- (ii) The amount of contingent liabilities as a result from the Company providing financial guarantee to its customers.

F-90 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The Company's potential credit risk is derived primarily from cash in bank, cash equivalents and trade receivables. The Company deposits its cash and cash equivalent investments with various reputable financial institutions of high credit quality. The Company also entered into reverse repurchase agreements with securities firms or banks in Taiwan covering government bonds that classified as cash equivalents. There should be no major concerns for the performance capability of trading counterparts. Management performs periodic evaluations of the relative credit standing of these financial institutions and limits the amount of credit exposure with any one institution. Management believes that there is a limited concentration of credit risk in cash and cash equivalent investments.

The majority of the Company's customers are in high technology industries. Management continuously evaluates and controls the credit quality, credit limit and financial strength of its customers to ensure any overdue receivables are taken necessary procedures. The Company also flexibly makes use of prepayments, accounts receivable factoring and credit insurance as credit enhancement instruments. If necessary, the Company will request collaterals or assurance from its customers in order to reduce the credit risk from particular customers.

Additionally, on the reporting date, the Company reviews the recoverability of its receivables to provide appropriate valuation allowances. Consequently, management believes there is a limited concentration of its credit risk.

For the years ended December 31, 2017 and 2018, the Company's five largest customers accounted for 39.0% and 36.6%, respectively, of the Company's consolidated net revenue. There is no other significant concentration of credit risk.

Refer to note 11 for expected credit loss analysis of accounts receivable and the movement in the loss allowance of accounts receivable.

For credit of guarantee, the Company's policy is to provide financial guarantees only to subsidiaries.

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset due to an economic downturn or unbalanced demand and supply resulting in a significant drop in product prices. The Company's approach to managing liquidity is to ensure, as far as possible, that it always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions.

F-91 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

Liquidity risk of the Company is monitored through its corporate treasury department which tracks the development of the actual cash flow position for the Company and uses input from a number of sources in order to forecast the overall liquidity position both on a short and long term basis. Corporate treasury invests surplus cash in money market deposits with appropriate maturities to ensure sufficient liquidity is available to meet liabilities when due, without incurring unacceptable losses or risking damage to the Company's reputation.

The following, except for payables (including related parties) and equipment and construction payable, are the contractual maturities of other financial liabilities. The amounts include estimated interest payments (except for short-term borrowings) but exclude the impact of netting agreements.

	Contractual cash flows (in thousands)	2018.1.1~ 2018.12.31	2019.1.1~ 2020.12.31	2021.1.1~ 2022.12.31	2023 and thereafter
December 31, 2017					
Non-derivative financial liabilities					
Short-term borrowings	\$3,424,376	3,424,376	-	-	-
Long-term borrowings (including current installments)	119,344,944	10,941,692	68,455,501	33,892,568	6,055,183
Refundable deposits	838,482	33,510	9,902	-	795,070
Derivative financial instruments					
Foreign currency forward contracts inflows	(22,124,574)	(22,124,574)	-	-	-
Foreign currency forward contracts outflows	22,170,245	22,170,245	-	-	-
	\$123,653,473	14,445,249	68,465,403	33,892,568	6,850,253
	Contractual cash flows (in thousands)	2019.1.1~ 2019.12.31	2020.1.1~ 2021.12.31	2022.1.1~ 2023.12.31	2024 and thereafter
December 31, 2018					
Non-derivative financial liabilities					
Short-term borrowings	\$546,472	546,472	-	-	-
Long-term borrowings (including current installments)	92,485,536	31,854,500	45,935,987	14,395,139	299,910
Refundable deposits	816,512	36,977	-	-	779,535
Derivative financial instruments					

Edgar Filing: AU OPTRONICS CORP - Form 20-F

Foreign currency forward contracts inflows	(12,453,853)	(12,453,853)	-	-	-
Foreign currency forward contracts outflows	12,436,885	12,436,885	-	-	-
	\$93,831,552	32,420,981	45,935,987	14,395,139	1,079,445

The Company is not expecting that the cash flows included in the maturity analysis could occur significantly earlier or at significantly different amounts.

F-92 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As at December 31, 2018, the Company's total current assets exceeded its total current liabilities by \$19,703,440 thousand. Management believes the Company's existing unused credit facilities under its existing loan agreements, together with net cash flows expected to be generated from its operating activities, will be sufficient for the Company to fulfill its payment obligations over the next twelve months. Therefore, management believes that the Company does not have significant liquidity risk.

(3)

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, which will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable range, while optimizing the return.

The Company buys and sells derivatives, and also incurs financial assets and liabilities, in order to manage market risks. All such transactions are executed in accordance with the Company's handling procedures for conducting derivative transactions, and also monitored by internal audit department.

(i)

Currency risk

The Company is exposed to currency risk on foreign currency denominated financial assets and liabilities arising from operating, financing and investing activities such that the Company uses forward exchange contracts to hedge its currency risk. Gains and losses derived from the foreign currency fluctuations on underlying assets and liabilities are likely to offset. However, transactions of derivative financial instruments help minimize the impact of foreign currency fluctuations, but the risk cannot be fully eliminated.

The Company periodically examines portions exposed to currency risks for individual asset and liability denominated in foreign currency and uses forward contracts as hedging instruments to hedge positions exposed to risks. The contracts have maturity dates that do not exceed six months, and do not meet the criteria for hedge accounting.

F-93 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

A. Exposure of currency risk

The Company's significant exposure to foreign currency risk was as follows:

	Foreign currency amounts	Exchange rate	NTD
	(in thousands)		(in thousands)
<u>December 31, 2017</u>			
Financial assets			
Monetary items			
USD	\$ 2,084,406	29.840	62,198,675
JPY	10,228,194	0.2644	2,704,334
EUR	46,517	35.632	1,657,494
Non-monetary items			
USD	3,300	29.840	98,472
RMB	19,426	4.5697	88,771
Financial liabilities			
Monetary items			
USD	1,048,371	29.840	31,283,391
JPY	27,100,546	0.2644	7,165,384
EUR	418	35.632	14,894
<u>December 31, 2018</u>			
Financial assets			
Monetary items			
USD	\$ 2,092,501	30.8020	64,453,216
JPY	11,872,572	0.2775	3,294,639
EUR	29,681	35.2036	1,044,878
Non-monetary items			
USD	2,799	30.8020	86,215
RMB	20,258	4.4813	90,782
Financial liabilities			
Monetary items			
USD	1,188,175	30.8020	36,598,166
JPY	25,296,499	0.2775	7,019,778

EUR	209	35.2036	7,358
-----	-----	---------	-------

F-94 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

B.**Sensitivity analysis**

The Company's exposure to foreign currency risk arises mainly from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, trade receivables, loans and borrowings and trade payables that are denominated in foreign currency.

Depreciation or appreciation of the NTD by 1% against the USD, EUR and JPY at December 31, 2017 and 2018, while all other variables were remained constant, would have increased or decreased the net profit before tax for the years ended December 31, 2017 and 2018 as follows:

For the years ended**December 31,
2017 2018**

(in thousands)

1% of depreciation	\$280,968	251,674
1% of appreciation	(280,968)	(251,674)

C.**Foreign exchange gain (loss) on monetary items**

With varieties of functional currencies within the consolidated entities of the Company, the Company disclosed foreign exchange gain (loss) on monetary items in aggregate. The aggregate of realized and unrealized foreign exchange gains (losses) for the years ended December 31, 2016, 2017 and 2018 were \$770,325 thousand, \$(1,364,929) thousand and \$(41,391) thousand, respectively.

(ii)**Interest rate risk**

The Company's exposure to changes in interest rates is mainly from floating-rate long-term debt obligations. Any change in interest rates will cause the effective interest rates of long-term borrowings to change and thus cause the future cash flows to fluctuate over time. The Company will, depending on the market condition, enter into and designate interest rate swaps as hedges of the variability in cash flows attributable to interest rate risk.

Assuming the amount of floating-rate debts at the end of the reporting period had been outstanding for the entire year and all other variables were remained constant, an increase or a decrease in the interest rate by 0.25% would have resulted in a decrease or an increase in the net profit before tax for the years ended December 31, 2016, 2017 and 2018 by \$307,464 thousand, \$277,612 thousand and \$216,955 thousand, respectively.

F-95 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

(iii)

Equity price risk

See note 9 and note 10 for disclosure of equity price risk analysis.

40. Capital Management

Through clear understanding and managing of significant changes in external environment, related industry characteristics, and corporate growth plan, the Company manages its capital structure to ensure it has sufficient financial resources to sustain proper liquidity, to invest in capital expenditures and research and development expenses, to repay debts and to distribute dividends in accordance to its plan. The management pursues the most suitable capital structure by monitoring and maintaining proper financial ratios as below. The Company aims to enhance the returns of its shareholders through achieving an optimized debt-to-equity ratio from time to time.

	December 31,		2018	
	2017			
	(in thousands)			
Total liabilities	\$217,352,838		190,765,874	
Total equity	212,817,851		207,785,306	
Interest-bearing debts	114,032,386		86,851,790	
Debt-to-equity ratio	102	%	92	%
Interest-bearing debt-to-equity ratio	54	%	42	%
Net debt-to-equity ratio ⁽¹⁾	4	%	9	%

(1) Net debt-to-equity ratio is defined as interest-bearing debts less cash and cash equivalents divided by total equity.

41.

Related-party Transactions

All inter-company transactions and balances between AUO and its subsidiaries are eliminated in the consolidated financial statements. The transactions between the Company and its related parties are set out as follows:

(a) Compensation to key management personnel

Key management personnel's compensation comprised:

	For the years ended		
	December 31,		
	2016	2017	2018
	(in thousands)		
Short-term employee benefits	\$354,883	566,231	345,019
Post-employment benefits	1,937	2,244	2,547
	\$356,820	568,475	347,566

F-96 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

- (b) Except for otherwise disclosed in other notes to the consolidated financial statements, the Company's significant related party transactions and balances were as follows:

	(1)			Sales	
	Sales			Accounts receivable from related parties	
	For the years ended December 31,			December 31,	
	2016	2017	2018	2017	2018
	(in thousands)				
Associates	\$554,889	1,216,868	1,898,336	184,948	696,423
Joint ventures	4,105,390	-	-	-	-
Others ⁽ⁱ⁾	12,767,161	11,959,720	12,050,450	1,668,114	2,057,830
	\$17,427,440	13,176,588	13,948,786	1,853,062	2,754,253

The collection terms for sales to related parties were 30 to 55 days from the end of the month during which the invoice is issued. The pricing for sales to related parties were not materially different from those with third parties.

	(2)			Purchases	
	Purchases			Accounts payable to related parties	
	For the years ended December 31,			December 31,	
	2016	2017	2018	2017	2018
	(in thousands)				
Associates	\$9,886,487	8,667,555	9,185,563	3,233,050	3,664,742
Joint ventures	3,754,404	1,057,106	1,449,636	-	-
Others ⁽ⁱ⁾	18,317,386	17,549,228	18,589,791	4,431,681	4,496,444
	\$31,958,277	27,273,889	29,224,990	7,664,731	8,161,186

The payment terms for purchases from related parties were 30 to 120 days. The pricing and payment terms with related parties were not materially different from those with third parties.

(3) Acquisition of property, plant and equipment

	For the years ended		
	December 31,		
	2016	2017	2018
	(in thousands)		
Associates	\$7,391	1,549	6,527
Others ⁽ⁱ⁾	-	2,801	4,449
	\$7,391	4,350	10,976

F-97 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(4) Disposal of property, plant and equipment and others

	Proceeds from disposal For the years ended December 31, 2016 2017 2018		
	(in thousands)		
Associates	\$926	-	-
Others ⁽ⁱ⁾	-	3,352	-
	\$926	3,352	-

	Gains on disposal For the years ended December 31, 2016 2017 2018		
	(in thousands)		
Associates	\$22	-	-
Others ⁽ⁱ⁾	-	2,212	-
	\$22	2,212	-

(5) Other related party transactions

	Other receivables due from related parties December 31, 2017 2018	
	(in thousands)	
Associates	\$47,746	8,161
Others ⁽ⁱ⁾	6,347	4,784
	\$54,093	12,945

Other payables
due to related
parties (including
payable for
equipment)

December 31,

2017 2018

(in thousands)

Associates	\$9,009	18,148
Joint ventures	292	-
Others ⁽ⁱ⁾	15,137	10,027
	\$24,438	28,175

F-98 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

**Rental income
For the years ended
December 31,****2016 2017 2018**

(in thousands)

Associates	\$31,858	48,223	55,044
Joint ventures	6,611	6,611	6,611
Others ⁽ⁱ⁾	90,032	82,427	91,222
	\$128,501	137,261	152,877

**Administration and other
income****For the years ended
December 31,****2016 2017 2018**

(in thousands)

Associates	\$15,083	14,311	18,580
Joint ventures	8,301	-	1,060
Others ⁽ⁱ⁾	5,174	9,246	8,789
	\$28,558	23,557	28,429

**Rental and other expenses
For the years ended****December 31,****2016 2017 2018**

(in thousands)

Associates	\$36,499	28,017	37,155
Joint ventures	21,821	1,389	567
Others ⁽ⁱ⁾	55,131	35,040	29,336
	\$113,451	64,446	67,058

⁽ⁱ⁾ Entities which are substantive related parties of the Company but not been accounted for using the equity method, mainly Qisda Corporation and its subsidiaries.

The Company leased portion of its facilities to related parties. The collection term was 15 days from quarter-end, and the pricing was not materially different from that with third parties.

For the years ended December 31, 2016, 2017 and 2018, the Company had received cash dividends from related parties of \$307,481 thousand, \$420,547 thousand and \$668,228 thousand, respectively.

F-99 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

42. Pledged Assets

The carrying amounts of the assets which the Company pledged as collateral were as follows:

Pledged assets	Pledged to secure	December 31, 2017 2018 (in thousands)	
Restricted cash in banks ⁽ⁱ⁾	Customs duties and guarantee for warranties	\$87,105	91,753
Land and building	Long-term borrowings	42,031,020	27,696,480
(including investment property)	Long-term borrowings	17,143,591	37,317,602
Machinery and equipment	Long-term borrowings	\$59,261,716	65,105,835

(i) Classified as other current financial assets and other noncurrent assets by its liquidity.

43. Contingent Liabilities and Commitments

The significant commitments and contingencies of the Company as of December 31, 2018, in addition to those disclosed in other notes to the consolidated financial statements, were as follows:

(a) Outstanding letters of credit

As at December 31, 2018, the Company had the following outstanding letters of credit for the purpose of purchasing machinery and equipment and materials:

Currency

	December 31,
	2018
	(in thousands)
USD	9,417
JPY	727,211

The letters of credit are irrevocable and will expire upon the Company's payment of the related obligations.

(b) Technology licensing agreements

Starting 1998, AUO has entered into technical collaboration, patent licensing, and/or patent cross licensing agreements with Fujitsu Display Technologies Corp. (subsequently assumed by Fujitsu Limited), Toppan Printing Co., Ltd. ("Toppan Printing"), Semiconductor Energy Laboratory Co., Ltd., Japan Display Inc. (formerly Japan Display East Inc./Hitachi Displays, Ltd.), Panasonic Liquid Crystal Display Co., Ltd. (formerly IPS Alpha Technology, Ltd.), LG Display Co., Ltd., Sharp Corporation, Samsung Electronics Co., Ltd., Hydis Technologies Co., Ltd., Seiko Epson Corporation and others. AUO believes that it is in compliance with the terms and conditions of the aforementioned agreements.

F-100 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(c) Purchase commitments

In April 2011, AUO signed a long-term materials supply agreement with Korean OCI Company Ltd. (“OCI”), under which, AUO and OCI agreed on the supply of certain polysilicon. Purchase prices were determined and adjusted through negotiation on each order basis between both parties. AUO paid proportionate prepayments in three installments to OCI in 2011. In May 2015 and December 2016, the supply agreement was amended and the amended effective term is from April 15, 2011 to December 31, 2020.

Starting from 2006, DPTW has entered into a long-term materials supply agreement with Evonik Forhouse Optical Polymers Corp. (“EFOP”), a joint venture of the Company. Under the agreement, DPTW and EFOP agreed on the supply of certain optical-grade molding compounds at agreed prices and quantities.

As at December 31, 2018, significant outstanding purchase commitments for construction in progress, property, plant and equipment totaled \$19,983,507 thousand.

(d) Litigation

(1) Antitrust civil actions lawsuits in the United States and other jurisdictions

There were civil lawsuits filed against AUO, AUUS and various manufacturers in the TFT-LCD industry in the United States and Canada alleging, among other things, antitrust violations. As of March 22, 2019, AUO and AUUS have reached settlement agreements with the relevant plaintiffs.

In addition to the above cases in the United States and Canada, a lawsuit was filed by certain consumers in Israel against certain LCD manufacturers including AUO in the District Court of the Central District in Israel (“Israeli Court”). The defendants contested various issues including whether the lawsuit was properly served. In December 2016, the Israeli Court overturned the original decision and revoked the permission for this case to serve out of Israeli jurisdiction. The plaintiffs lodged an appeal to the Israeli Supreme Court but the Israeli Supreme Court overruled the

appeal in August 2017. In January 2018, the parties reached a settlement agreement and agreed to commence the required proceedings for withdrawing the lawsuit.

A lawsuit was filed in September 2018 by the Government of Puerto Rico on its own behalf and on behalf of all consumers and governmental agencies of Puerto Rico against certain LCD manufacturers including AUO and AUUS in the Superior Court of San Juan, Court of First Instance alleging unjust enrichment and claiming unspecified monetary damages. AUO has retained counsel to handle the related matter and intends to defend this lawsuit vigorously, and at this stage, the final outcome of these matters is uncertain. AUO is reviewing the merits of this lawsuit on an on-going basis.

F-101 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(2)

Alleged patent infringements

At the end of February 2017, one of AUO's subsidiaries in the PRC, AUSZ received an administrative complaint filed by Shenzhen China Star Optoelectronics Technology Co., Ltd. ("CSOT") alleging that AUSZ infringes two PRC patents, and the complaint requests that AUSZ cease the alleged infringing act. Based on the Company's preliminary assessment, it believes that its subsidiary does not infringe the two PRC patents as alleged, and further that the two PRC patents appear to be invalid. In response to such administrative complaint, AUSZ has filed a request to invalidate the two PRC patents accordingly. In April 2017, CSOT filed civil lawsuits in the Intermediate People's Court of Shenzhen Municipality against the subsidiary claiming infringement of the same two PRC patents. In June 2017, CSOT filed civil lawsuits in the No.1 Intermediate People's Court of Chongqing Municipality against the subsidiary claiming infringement of three PRC patents (including one of the above mentioned PRC patents). CSOT requested that AUSZ ceases the alleged infringing act and claimed approximate RMB49.91 million for economic loss for each of the said respective four PRC patents and compensation for reasonable fees and litigation expenses such as notarization fees and attorney fees incurred by CSOT. On September 24, 2017, the relevant parties reached a settlement agreement and agreed to withdraw relevant legal proceedings.

In July 2018, Vista Peak Ventures, LLC ("VPV") filed three lawsuits in the United States District Court for the Eastern District of Texas against AUO, claiming infringement of certain of VPV's patents in the United States relating to the manufacturing of TFT-LCD panels. In the complaints, VPV seeks, among other things, unspecified monetary damages for past damages and an injunction against future infringement. While AUO intends to defend the suits vigorously, the ultimate outcome of the three matters is uncertain. AUO is reviewing the merits of the lawsuits on an on-going basis.

In addition to the matters described above, the Company is also a party to other litigations or proceedings that arise during the ordinary course of business. Except as mentioned above, the Company, to its knowledge, is not involved as a defendant in any material litigation or proceeding which could be expected to have a material adverse effect on the Company's business or results of operations.

F-102 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The Company has made certain provisions with respect to certain of the above lawsuits as the management deems appropriate, considering factors such as the nature of the litigation or claims, the materiality of the amount of possible loss, the progress of the cases and the opinions or views of legal counsel and other advisors. However, for certain cases described above where the legal proceedings and/or lawsuits are in their early stage or where management does not have sufficient information for assessment of the financial exposure, management is unable to determine if the final outcome of the cases will be unfavorable to the Company and/or to estimate the potential losses. The ultimate resolution of the legal proceedings and/or lawsuits cannot be predicted with certainty. While management intends to defend certain of the lawsuits described above vigorously, there is a possibility that one or more legal proceedings or lawsuits may result in an unfavorable outcome to the Company.

Management will reassess all litigation and claims at each reporting date based on the facts and circumstances that exist at that time, and will make additional provisions or adjustments to previous provisions, as considered necessary under IFRS. Such additional provisions or adjustments may have a material adverse effect on the Company's business, results of operations and future prospects. See note 24 for further information about legal provisions and the movements in those legal provisions.

(e)

Others

There have been environmental proceedings relating to the development project of the Central Taiwan Science Park in Houli, Taichung, which AUO's second 8.5-generation fab is located at and which has been established since 2010. The proceedings were initiated by six residents in Houli District, Taichung City (the "Plaintiffs") to object the administrative dispositions of the environmental assessment and development approval issued in 2010 by the Environmental Protection Administration ("EPA") of the Executive Yuan of Taiwan to the third phase development area in the Central Taiwan Science Park (the "Project"). On August 8, 2014, the Plaintiffs reached a settlement with the defendants (i.e. the governmental authorities, including the EPA of the Executive Yuan of Taiwan, the Ministry of Science and Technology (former National Science Council of the ROC Executive Yuan) and the Central Taiwan Science Park Development Office) in the Taipei High Administrative Court. The second phase environmental impact assessment for the Project continues to proceed. On December 14, 2017, the EPA of the Executive Yuan of Taiwan held the third review meeting of the investigation group. The review meeting reached the conclusion of suggesting approval for the Project. On November 6, 2018, the EPA approved the Project, but on December 6, 2018, five residents in Houli District, Taichung City filed administrative appeal to the Appeals Review Committee of the Executive Yuan requesting a withdrawal of the approval. Currently management does not believe that this event will have a material adverse effect on the Company's operation and will continue to monitor the development of this event.

F-103 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

44. Segment, Geographic and Revenue Information

(a) Operating segment information

The Company has two operating segments: display and energy (formerly named “solar”). The display segment generally is engaged in the research, development, design, manufacturing and sale of flat panel displays and most of our products are TFT-LCD panels. The energy segment primarily is engaged in the design, manufacturing and sale of ingots, solar wafers and solar modules, as well as providing technical engineering services and maintenance services for solar system projects.

The Company’s operating segment information for the years ended December 31, 2016, 2017 and 2018 was as follows:

	For the year ended December 31, 2016		
	Display segment	Energy segment	Total segments
	(in thousands)		
Net revenue from external customers	\$304,826,682	24,262,354	329,089,036
Depreciation and amortization	\$37,860,430	1,832,810	39,693,240
Inventory write-down	\$3,288,067	385,146	3,673,213
Segment profit (loss) ⁽ⁱ⁾	\$12,703,548	(365,092)	12,338,456
Other income			2,380,228
Other gains and losses			(925,673)
Finance costs			(2,707,887)
Share of profit of equity-accounted investees			100,778
Consolidated profit before income tax			\$11,185,902

	For the year ended December 31, 2017		
	Display segment	Energy segment	Total segments
	(in thousands)		
Net revenue from external customers	\$322,335,330	18,692,937	341,028,267
Depreciation and amortization	\$34,816,463	1,613,373	36,429,836
Inventory write-down	\$3,423,097	333,629	3,756,726
Segment profit (loss) ⁽ⁱ⁾	\$39,971,375	(832,251)	39,139,124

Edgar Filing: AU OPTRONICS CORP - Form 20-F

Other income	3,829,897
Other gains and losses	(976,560)
Finance costs	(2,867,861)
Share of profit of equity-accounted investees	239,006
Consolidated profit before income tax	\$ 39,363,606

F-104 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

	For the year ended December 31, 2018		
	Display segment	Energy segment	Total segments
	(in thousands)		
Net revenue from external customers	\$ 290,784,754	16,849,635	307,634,389
Depreciation and amortization	\$ 32,981,240	1,246,290	34,227,530
Inventory write-down	\$ 5,094,195	77,557	5,171,752
Segment profit (loss) ⁽ⁱ⁾	\$ 7,792,505	(1,124,640)	6,667,865
Other income			5,412,125
Other gains and losses			1,488,052
Finance costs			(2,663,605)
Share of profit of equity-accounted investees			311,714
Consolidated profit before income tax			\$ 11,216,151

(i) There were no intersegment revenues or other transactions between operating segments for the years ended December 31, 2016, 2017 and 2018.

(b) Geographic information

The geographic breakdown for the years ended December 31, 2016, 2017 and 2018 was as follows:

(1) Net revenue from external customers

	For the years ended December 31,		
	2016	2017	2018
<u>Region</u>	(in thousands)		
PRC	\$ 115,110,137	125,341,648	113,632,037
Taiwan	104,059,325	108,288,387	99,357,882
Singapore	31,776,305	35,939,290	39,370,930
Japan	33,346,041	32,739,262	21,166,864
Others	44,797,228	38,719,680	34,106,676
	\$ 329,089,036	341,028,267	307,634,389

(2) Consolidated noncurrent assets⁽ⁱⁱ⁾

	December 31,	
	2017	2018
<u>Region</u> (in thousands)		
Taiwan	\$154,097,271	161,358,754
PRC	67,846,109	61,284,667
Others	11,037,333	6,941,674
	\$232,980,713	229,585,095

(ii) Noncurrent assets are not inclusive of financial instruments, deferred tax assets, and prepaid pension.

F-105 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

(c) Major customer information

For the years ended December 31, 2016, 2017 and 2018, sales to individual customers representing greater than 10% of consolidated net revenue were as follows:

	For the years ended December 31,					
	2016	%	2017	%	2018	%
	(in thousands)					
Customer A	\$37,306,348	11	43,645,518	13	35,358,013	11

(d) Product information

The consolidated net revenue by principal products was as follows:

	For the years ended December 31,		
	2016	2017	2018
	(in thousands)		
Products for Televisions	\$ 140,519,923	152,442,198	113,194,567
Products for Mobile PCs and Devices	66,892,131	71,068,304	74,375,305
Products for Monitors	44,668,054	45,696,144	47,024,353
Products for Commercial and Others ⁽ⁱⁱⁱ⁾	52,746,574	53,128,684	56,190,529
Solar Products	24,262,354	18,692,937	16,849,635
Total	\$ 329,089,036	341,028,267	307,634,389

(iii) Others include sales from products for other applications and sales of raw materials, components and from service charges.

45. Subsequent Events

Except for otherwise disclosed in the other notes to the consolidated financial statements, there is no significant reportable subsequent event.

F-106