

Stock Code : 2409

**AU OPTRONICS CORP.
AND SUBSIDIARIES**
Consolidated Financial Statements
December 31, 2017 and 2016
(With Independent Auditors' Report)

Representation Letter

The entities that are required to be included in the combined financial statements of AU Optronics Corp. as of and for the year ended December 31, 2017 under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with the International Financial Reporting Standard No. 10, "Consolidated Financial Statements" endorsed by the Financial Supervisory Commission. In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, AU Optronics Corp. and its subsidiaries do not prepare a separate set of combined financial statements.

Hereby declare

Company Name: AU Optronics Corp.

Chairman: Shuang-Lang (Paul) Peng

Date: February 6, 2018

Independent Auditors' Report

To the Board of Directors of AU Optronics Corp.:

Opinion

We have audited the consolidated financial statements of AU Optronics Corp. and its subsidiaries ("the Company"), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, the consolidated statement of comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows for the years ended December 31, 2017 and 2016, and notes to the consolidated financial statements including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for each of the years then ended, in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the International Financial Reporting Standards, International Accounting Standards, interpretation as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audit in accordance with the Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants and the auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the Certified Public Accountants Code of Professional Ethics in Republic of China ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of long-term non-financial assets (including goodwill)

Refer to Note 4(17) "Impairment – non-financial assets", Note 5(2) and Note 5(3) "Critical accounting judgments and key sources of estimation and assumption uncertainty", Note 6(11) "Property, plant and equipment", and Note 6(13) "Intangible assets" to the consolidated financial statements.

Description of key audit matter:

The Company operates in an industry with high investment costs, has goodwill through the acquisition of subsidiaries, and may experience volatility in response to changes in the external market; hence, it is important to assess the impairment of its long-term non-financial assets (including goodwill). The impairment assessment includes identifying cash-generating units, determining a valuation model, determining significant assumptions, and computing recoverable amounts. With the complexity of the impairment assessment process and the involvement of significant management judgment regarding assumptions used, this is one of the key areas our audit focused on.

How the matter was addressed in our audit:

In relation to the key audit matter above, our principal audit procedures included understanding and testing the Company's controls surrounding the impairment assessment and testing process; assessing whether there are impairment indications for the identified cash-generating units of the Company and its related assets; understanding and assessing the appropriateness of the valuation model used by the management in the impairment assessment and the significant assumptions used to determine related assets' future cash flows projection, useful lives, and weighted-average cost of capital; retrospectively reviewing the accuracy of assumptions used in prior-period estimates and performing a sensitivity analysis of key assumptions and results; in addition to the above audit procedures, appointing specialists to evaluate the appropriateness of the weighted-average cost of capital used and related assumptions; performing an inquiry of the management and identifying any event after the balance sheet date if able to affect the results of the impairment assessment; and assessing the adequacy of the Company's disclosures of its policy on impairment of noncurrent non-financial assets and other related disclosures.

Recognition of deferred tax assets

Refer to Note 4(22) "Income taxes", Note 5(5) "Critical accounting judgments and key sources of estimation and assumption uncertainty", and Note 6(28) "Income taxes" to the consolidated financial statements.

Description of key audit matter:

The recognition of deferred tax assets for the related unused tax losses, unused tax credits, and deductible temporary differences arising from operating entities located in other areas is based on management estimates of its future available taxable profits and the probability that the related deferred tax assets will be realized. This is one of the key areas our audit focused on.

How the matter was addressed in our audit:

In relation to the key audit matter above, our principal audit procedures included understanding and testing the controls surrounding the Company's assessment process for recognition of deferred tax assets; understanding the Company's significant operating entities for which deferred tax assets are recognized and assessing the management estimates for assumptions used in the future cash flow projection and future taxable profits calculation; retrospectively reviewing the accuracy of assumptions used in prior-period estimates of future cash flow projection and assessing whether there are any other matters that will affect the recognition of deferred tax assets; and assessing the adequacy of the Company's disclosures regarding its deferred tax asset recognition policy and other related disclosures.

Revenue recognition

Refer to Note 4(19) "Revenue recognition", and Note 6(22) "Revenue" to the consolidated financial statements.

Description of key audit matter:

Revenue is recognized when the risks and rewards specified in each individual contract with customers are transferred. The Company recognizes revenue depending on the various sales terms in each individual contract with customers to ensure the significant risks and rewards of ownership have been transferred. In addition, the Company operates in an industry in which sales revenue is easily influenced by various external factors such as supply and demand of the market, and this may impact the recognition of revenue. Consequently, this is one of the key areas our audit focused on.

How the matter was addressed in our audit:

In relation to the key audit matter above, our principal audit procedures included testing the Company's controls surrounding revenue recognition; assessing whether appropriate revenue recognition policies are applied through comparison with accounting standards and understanding the Company's main revenue types, its related sales agreements, and sales terms; on a sample basis, inspecting contracts with customers or customers' orders and assessing whether the accounting treatment of the related contracts (including sales terms) is applied appropriately; performing a test of details of sales revenue and understanding the rationale for any identified significant sales fluctuations and any significant reversals of revenue through sales discounts and sales returns which incurred within a certain period before or after the balance sheet date; and assessing the adequacy of the Company's disclosures of its revenue recognition policy and other related disclosures.

Other Matters

AU Optronics Corp. has additionally prepared its parent-company-only financial statements as of and for the years ended December 31, 2017 and 2016, on which we have issued an unmodified opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards, International Accounting Standards, interpretation as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern, and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance (inclusive of the Audit Committee) are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in the Republic of China, we exercised professional judgment and maintained professional skepticism throughout the audit. We also:

1. Identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
3. Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
5. Evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit.

We communicated with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

We also provided those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Wei, Shing-Hai and Lu, Chien-Hui.

KPMG
Hsinchu, Taiwan (Republic of China)
February 6, 2018

Notice to Readers

The accompanying consolidated financial statements are intended only to present the consolidated financial position, financial performance, and cash flows in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the International Financial Reporting Standards, International Accounting Standards, interpretations as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China. The standards, procedures and practices to audit such consolidated financial statements are those generally accepted and applied in the Republic of China.

The auditors' report and the accompanying consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of, the English and Chinese language auditors' report and consolidated financial statements, the Chinese version shall prevail.

AU OPTRONICS CORP. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2017 and 2016
(Expressed in thousands of New Taiwan dollars)

		December 31						December 31			
		2017		2016				2017		2016	
		Amount	%	Amount	%			Amount	%	Amount	%
Assets						Liabilities and Stockholders' Equity					
Current assets:						Current liabilities:					
1100	Cash and cash equivalents (Note 6(1))	\$ 105,020,616	24	80,191,248	19	2100	Short-term borrowings (Note 6(15))	\$ 3,424,376	1	526,723	-
1110	Financial assets measured at fair value through profit or loss—current (Note 6(2))	70,366	-	65,669	-	2120	Financial liabilities measured at fair value through profit or loss—current (Note 6(2))	106,597	-	896,998	-
1170	Notes and accounts receivable, net (Note 6(5))	38,738,211	9	45,710,177	11	2125	Hedging derivative financial liabilities—current (Note 6(2))	-	-	3,540	-
1180	Accounts receivable from related parties, net (Note 6(5)&7)	1,853,062	-	2,533,224	1	2170	Notes and accounts payable	46,888,691	10	51,148,055	13
1210	Other receivables from related parties (Note 7)	54,093	-	34,288	-	2180	Notes and accounts payable to related parties (Note 7)	7,664,731	2	8,823,065	2
1220	Current tax assets	27,431	-	14,057	-	2213	Equipment and construction payable (Note 7)	12,131,121	3	12,647,041	3
130X	Inventories (Note 6(6))	24,854,323	6	27,679,335	6	2220	Other payables to related parties (Note 7)	21,161	-	27,341	-
1476	Other current financial assets (Note 6(5)&8)	518,329	-	559,946	-	2230	Current tax liabilities	1,656,734	-	949,890	-
1460	Noncurrent assets held for sale (Note 6(7))	2,407,980	1	228,015	-	2250	Provisions—current (Note 6(17))	819,232	-	1,783,407	-
1479	Other current assets (Note 6(8)&(14))	6,631,130	1	6,330,283	1	2399	Other current liabilities	26,368,732	6	22,385,488	5
		180,175,541	41	163,346,242	38	2322	Current installments of long-term borrowings (Note 6(16)&8)	8,155,234	2	18,074,627	4
								107,236,609	24	117,266,175	27
Noncurrent assets:						Noncurrent liabilities:					
1523	Available-for-sale financial assets—noncurrent (Note 6(3))	4,170,319	1	2,836,696	1	2540	Long-term borrowings, excluding current installments (Note 6(16)&8)	102,452,776	24	106,187,993	26
1543	Financial assets carried at cost—noncurrent (Note 6(4))	177,815	-	193,582	-	2550	Provisions—noncurrent (Note 6(17))	1,066,731	-	1,038,264	-
1550	Investments in equity-accounted investees (Note 6(8))	5,597,287	1	5,178,337	1	2570	Deferred tax liabilities (Note 6(28))	3,519,642	1	3,705,300	1
1600	Property, plant and equipment (Note 6(7),(11),(12),(18),7&8)	224,933,089	51	222,741,832	52	2600	Other noncurrent liabilities (Note 6(19))	1,930,411	-	1,936,337	-
1760	Investment property (Note 6(12),(18)&8)	717,823	-	465,868	-			108,969,560	25	112,867,894	27
1780	Intangible assets (Note 6(13))	13,170,892	3	13,602,834	3			216,206,169	49	230,134,069	54
1840	Deferred tax assets (Note 6(28))	7,069,014	2	14,364,745	3	Total liabilities					
1900	Other noncurrent assets (Note 6(8),(14)&8)	5,439,504	1	7,039,115	2	Equity: (Note 6(20))					
		261,275,743	59	266,423,009	62	Equity attributable to shareholders of AU Optronics Corp.:					
						3100	Common stock	96,242,451	22	96,242,451	22
						3200	Capital surplus	60,540,326	14	59,979,723	14
						3300	Retained earnings	51,115,529	11	24,243,153	6
						3400	Other components of equity	256,062	-	779,372	-
								208,154,368	47	181,244,699	42
						Non-controlling interests:					
						36XX	Non-controlling interests	17,090,747	4	18,390,483	4
								225,245,115	51	199,635,182	46
						Total equity					
						Total Liabilities and Equity					
								\$ 441,451,284	100	429,769,251	100
Total assets		\$ 441,451,284	100	429,769,251	100						

(See accompanying notes to the consolidated financial statements)

AU OPTRONICS CORP. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2017 and 2016

(Expressed in thousands of New Taiwan dollars, except for earnings per share)

		2017		2016	
		Amount	%	Amount	%
4110	Revenue	\$ 343,461,163	101	329,931,849	100
4190	Less: sales return and discount	<u>2,432,896</u>	<u>1</u>	<u>842,813</u>	<u>-</u>
	Net revenue (Note 6(22)&7)	341,028,267	100	329,089,036	100
5000	Cost of sales (Note 6(6),(18),(23),(24)&7)	<u>279,986,522</u>	<u>82</u>	<u>294,598,017</u>	<u>90</u>
	Gross profit	<u>61,041,745</u>	<u>18</u>	<u>34,491,019</u>	<u>10</u>
	Operating expenses: (Note 6(18),(21),(23),(24)&7)				
6100	Selling and distribution expenses	3,888,969	1	3,895,089	1
6200	General and administrative expenses	8,158,940	2	9,176,683	3
6300	Research and development expenses	<u>9,854,712</u>	<u>3</u>	<u>9,080,791</u>	<u>3</u>
	Total operating expenses	<u>21,902,621</u>	<u>6</u>	<u>22,152,563</u>	<u>7</u>
	Profit from operations	<u>39,139,124</u>	<u>12</u>	<u>12,338,456</u>	<u>3</u>
	Non-operating income and expenses:				
7010	Other income (Note 6(25)&7)	3,829,897	1	2,380,228	1
7020	Other gains and losses (Note 6(2),(7),(8),(10),(11),(26)&7)	(976,560)	-	(925,673)	-
7050	Finance costs (Note 6(11)&(27))	(2,867,861)	(1)	(2,707,887)	(1)
7060	Share of profit of equity-accounted investees (Note 6(8))	<u>239,006</u>	<u>-</u>	<u>100,778</u>	<u>-</u>
	Total non-operating income and expenses	<u>224,482</u>	<u>-</u>	<u>(1,152,554)</u>	<u>-</u>
7900	Profit before income tax	39,363,606	12	11,185,902	3
7950	Less: income tax expense (Note 6(28))	<u>9,105,118</u>	<u>3</u>	<u>4,579,191</u>	<u>1</u>
8200	Profit for the year	<u>30,258,488</u>	<u>9</u>	<u>6,606,711</u>	<u>2</u>
	Other comprehensive income: (Note 6(8),(19),(20)&(28))				
8310	Items that will never be reclassified to profit or loss				
8311	Remeasurement of defined benefit obligations	(98,091)	-	(225,194)	-
8320	Equity-accounted investees – share of other comprehensive income	243	-	574	-
8349	Related tax	<u>16,675</u>	<u>-</u>	<u>38,283</u>	<u>-</u>
		<u>(81,173)</u>	<u>-</u>	<u>(186,337)</u>	<u>-</u>
8360	Items that are or may be reclassified subsequently to profit or loss				
8361	Foreign operations – foreign currency translation differences	(2,255,410)	(1)	(7,500,071)	(2)
8362	Net change in fair value of available-for-sale financial assets	1,146,422	-	766,534	-
8363	Effective portion of changes in fair value of cash flow hedges	(21,992)	-	7,199	-
8370	Equity-accounted investees – share of other comprehensive loss	(62,327)	-	(609,071)	-
8399	Related tax	<u>314,297</u>	<u>-</u>	<u>1,162,102</u>	<u>-</u>
		<u>(879,010)</u>	<u>(1)</u>	<u>(6,173,307)</u>	<u>(2)</u>
8300	Other comprehensive loss, net of tax	<u>(960,183)</u>	<u>(1)</u>	<u>(6,359,644)</u>	<u>(2)</u>
8500	Total comprehensive income for the year	<u>\$ 29,298,305</u>	<u>8</u>	<u>247,067</u>	<u>-</u>
	Profit (loss) attributable to:				
8610	Shareholders of AU Optronics Corp.	\$ 32,359,417	10	7,818,938	2
8620	Non-controlling interests	<u>(2,100,929)</u>	<u>(1)</u>	<u>(1,212,227)</u>	<u>-</u>
		<u>\$ 30,258,488</u>	<u>9</u>	<u>6,606,711</u>	<u>2</u>
	Total comprehensive income (loss) attributable to:				
8710	Shareholders of AU Optronics Corp.	\$ 31,754,733	9	3,326,560	1
8720	Non-controlling interests	<u>(2,456,428)</u>	<u>(1)</u>	<u>(3,079,493)</u>	<u>(1)</u>
		<u>\$ 29,298,305</u>	<u>8</u>	<u>247,067</u>	<u>-</u>
	Earnings per share (Note 6(29))				
9750	Basic earnings per share	<u>\$ 3.36</u>		<u>0.81</u>	
9850	Diluted earnings per share	<u>\$ 3.24</u>		<u>0.80</u>	

(See accompanying notes to the consolidated financial statements)

AU OPTRONICS CORP. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the years ended December 31, 2017 and 2016

(Expressed in thousands of New Taiwan dollars)

	Equity attributable to shareholders of AU Optronics Corp.											
	Capital Stock		Retained earnings			Other components of equity				Equity attributable to shareholders of AU Optronics Corp.	Non-controlling interests	Total equity
	Common stock	Capital surplus	Legal reserve	Unappropriated earnings	Subtotal	Cumulative translation differences	Unrealized gains (losses) on available-for-sale financial assets	Unrealized gains (losses) on cash flow hedges	Subtotal			
Balance at January 1, 2016	\$ 96,242,451	60,249,983	2,164,596	18,242,681	20,407,277	5,612,885	(539,653)	12,279	5,085,511	181,985,222	22,651,183	204,636,405
Appropriation of earnings												
Legal reserve	-	-	493,196	(493,196)	-	-	-	-	-	-	-	-
Cash dividends distributed to shareholders	-	-	-	(3,368,486)	(3,368,486)	-	-	-	-	(3,368,486)	-	(3,368,486)
Profit (loss) for the year	-	-	-	7,818,938	7,818,938	-	-	-	-	7,818,938	(1,212,227)	6,606,711
Other comprehensive income, net of tax	-	-	-	(186,239)	(186,239)	(5,076,066)	763,952	5,975	(4,306,139)	(4,492,378)	(1,867,266)	(6,359,644)
Total comprehensive income for the year	-	-	-	7,632,699	7,632,699	(5,076,066)	763,952	5,975	(4,306,139)	3,326,560	(3,079,493)	247,067
Adjustments to capital surplus and retained earnings for changes in investees' equity	-	(290,266)	-	(428,337)	(428,337)	-	-	-	-	(718,603)	(1,056,876)	(1,775,479)
Group reorganization	-	20,006	-	-	-	-	-	-	-	20,006	37,036	57,042
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	(161,367)	(161,367)
Balance at December 31, 2016	<u>96,242,451</u>	<u>59,979,723</u>	<u>2,657,792</u>	<u>21,585,361</u>	<u>24,243,153</u>	<u>536,819</u>	<u>224,299</u>	<u>18,254</u>	<u>779,372</u>	<u>181,244,699</u>	<u>18,390,483</u>	<u>199,635,182</u>
Appropriation of earnings												
Legal reserve	-	-	781,894	(781,894)	-	-	-	-	-	-	-	-
Cash dividends distributed to shareholders	-	-	-	(5,389,577)	(5,389,577)	-	-	-	-	(5,389,577)	-	(5,389,577)
Profit (loss) for the year	-	-	-	32,359,417	32,359,417	-	-	-	-	32,359,417	(2,100,929)	30,258,488
Other comprehensive income, net of tax	-	-	-	(81,374)	(81,374)	(1,657,788)	1,152,732	(18,254)	(523,310)	(604,684)	(355,499)	(960,183)
Total comprehensive income for the year	-	-	-	32,278,043	32,278,043	(1,657,788)	1,152,732	(18,254)	(523,310)	31,754,733	(2,456,428)	29,298,305
Adjustments to capital surplus and retained earnings for changes in investees' equity	-	42,407	-	(16,090)	(16,090)	-	-	-	-	26,317	(6,262)	20,055
Differences between consideration and carrying amount arising from disposal of subsidiaries	-	518,196	-	-	-	-	-	-	-	518,196	(518,196)	-
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	1,681,150	1,681,150
Balance at December 31, 2017	<u>\$ 96,242,451</u>	<u>60,540,326</u>	<u>3,439,686</u>	<u>47,675,843</u>	<u>51,115,529</u>	<u>(1,120,969)</u>	<u>1,377,031</u>	<u>-</u>	<u>256,062</u>	<u>208,154,368</u>	<u>17,090,747</u>	<u>225,245,115</u>

(See accompanying notes to the consolidated financial statements)

AU OPTRONICS CORP. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2017 and 2016
(Expressed in thousands of New Taiwan dollars)

	2017	2016
Cash flows from operating activities:		
Profit before income tax	\$ 39,363,606	11,185,902
Adjustments for:		
Depreciation	35,801,230	38,533,775
Amortization	628,606	1,159,465
Interest expense	2,867,861	2,707,887
Interest income	(612,210)	(494,542)
Dividend income	(248,514)	(107,141)
Share of profit of equity-accounted investees	(239,006)	(100,778)
Gains on disposals of property, plant and equipment, net	(330,814)	(24,278)
Losses (gains) on disposals of investments and financial assets, net	(42,788)	333,858
Impairment losses on assets	1,046,668	34,733
Changes in fair values of financial instruments	(795,098)	491,860
Unrealized foreign currency exchange losses (gains)	776,962	(1,386,370)
Others	(126,760)	(37,295)
Subtotal of income and expense items not affecting cash flows	38,726,137	41,111,174
Change in operating assets and liabilities:		
- notes and accounts receivable	4,643,577	(13,023,581)
- receivables from related parties	659,522	(47,075)
- inventories	2,607,580	3,785,921
- other current assets	1,572,360	7,312,751
- notes and accounts payable	(2,489,088)	(601,488)
- payables to related parties	(1,164,514)	(504,779)
- net defined benefit liability	(103,668)	(57,382)
- provisions	(911,810)	(3,125,053)
- other current liabilities	3,974,959	(4,454,647)
Subtotal of net changes in operating assets and liabilities	8,788,918	(10,715,333)
Subtotal of adjustment items	47,515,055	30,395,841
Cash generated from operations	86,878,661	41,581,743
Cash received from interest income	628,223	501,076
Cash received from dividend income	421,550	311,492
Cash paid for interest	(2,551,944)	(2,105,285)
Cash paid for income taxes	(1,013,159)	(3,593,180)
Net cash provided by operating activities	84,363,331	36,695,846
Cash flows from investing activities:		
Acquisitions of financial assets carried at cost	(14,233)	(66,948)
Proceeds from return of capital by financial assets carried at cost	32,000	-
Acquisitions of available-for-sale financial assets	(187,201)	-
Proceeds from disposals of available-for-sale financial assets	-	9,917
Acquisitions of equity-accounted investees	(397,000)	(240,500)
Proceeds from disposals of equity-accounted investees	56	3,522,610
Net cash inflows resulting from disposals of subsidiaries	276,393	179,262
Acquisitions of property, plant and equipment	(43,881,660)	(46,220,129)
Proceeds from disposals of property, plant and equipment	1,149,649	789,682
Increase in refundable deposits	(404,233)	(16,955)
Increase in intangible assets	(196,781)	(187,020)
Increase in other financial assets	(44,469)	(37,246)
Net cash used in investing activities	(43,667,479)	(42,267,327)
Cash flows from financing activities:		
Increase (decrease) in short-term borrowings	2,903,927	(1,065,842)
Proceeds from long-term borrowings	34,872,615	61,799,594
Repayments of long-term borrowings	(47,443,813)	(45,650,997)
Decrease in guarantee deposits received	(34,654)	(30,944)
Cash dividends	(5,389,577)	(3,368,486)
Net change of non-controlling interests and others	1,681,150	(962,106)
Net cash provided by (used in) financing activities	(13,410,352)	10,721,219
Effect of exchange rate change on cash and cash equivalents	(2,456,132)	(3,839,190)
Net increase in cash and cash equivalents	24,829,368	1,310,548
Cash and cash equivalents at January 1	80,191,248	78,880,700
Cash and cash equivalents at December 31	\$ 105,020,616	80,191,248

(See accompanying notes to the consolidated financial statements)

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

(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 consolidated financial statements comprise AUO and its subsidiaries (collectively as “the Company”).

2. The Authorization of Financial Statements

These consolidated financial statements were approved and authorized for issue by the Board of Directors of AUO on February 6, 2018.

3. Application of New Standards, Amendments and Interpretations

- (1) Impact of adoption of new, revised or amended standards and interpretations endorsed by the Financial Supervisory Commission, ROC (“FSC”)

In preparing the accompanying consolidated financial statements, the Company has adopted the following International Financial Reporting Standards (“IFRS”), International Accounting Standards (“IAS”), and Interpretations that have been issued by the International Accounting Standards Board (“IASB”) (collectively, “IFRSs”) and endorsed by the FSC, with effective date from January 1, 2017.

New, Revised or Amended Standards and Interpretations	Effective Date Issued by IASB
Amendments to IFRS 10, IFRS 12 and IAS 28, <i>Investments Entities: Applying the Consolidation Exception</i>	January 1, 2016
Amendments to IFRS 11, <i>Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations</i>	January 1, 2016
IFRS 14, <i>Regulatory Deferral Accounts</i>	January 1, 2016
Amendments to IAS 1, <i>Presentation of Financial Statements - Disclosure Initiative</i>	January 1, 2016

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

New, Revised or Amended Standards and Interpretations	Effective Date Issued by IASB
Amendments to IAS 16 and IAS 38, <i>Clarification of Acceptable Methods of Depreciation and Amortization</i>	January 1, 2016
Amendments to IAS 16 and IAS 41, <i>Agriculture: Bearer Plants</i>	January 1, 2016
Amendments to IAS 19, <i>Defined Benefit Plans: Employee Contributions</i>	July 1, 2014
Amendments to IAS 27, <i>Equity Method in Separate Financial Statements</i>	January 1, 2016
Amendments to IAS 36, <i>Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets</i>	January 1, 2014
Amendments to IAS 39, <i>Financial Instruments - Novation of Derivatives and Continuation of Hedge Accounting</i>	January 1, 2014
Annual Improvements to IFRSs 2010 – 2012 Cycle and 2011 – 2013 Cycle	July 1, 2014
Annual Improvements to IFRSs 2012 – 2014 Cycle	January 1, 2016
IFRIC 21, <i>Levies</i>	January 1, 2014

The initial adoption of aforementioned IFRSs endorsed by the FSC has not had a material impact on the Company's consolidated financial statements.

(2) Impact of the IFRSs that have been endorsed by the FSC but not yet effective

According to Ruling No. 1060025773 issued by the FSC on July 14, 2017, commencing from 2018, the Company is required to adopt the IFRSs that have been endorsed by the FSC with effective date from January 1, 2018. The related new, revised or amended standards and interpretations are set out below:

New, Revised or Amended Standards and Interpretations	Effective Date Issued by IASB
Amendments to IFRS 2, <i>Share-based Payments - Classification and Measurement of Share-based Payment Transactions</i>	January 1, 2018
Amendments to IFRS 4, <i>Insurance Contracts - Applying IFRS 9, Financial Instruments with IFRS 4, Insurance Contracts</i>	January 1, 2018
IFRS 9, <i>Financial Instruments</i>	January 1, 2018
IFRS 15, <i>Revenue from Contracts with Customers</i>	January 1, 2018
Amendments to IAS 7, <i>Statement of Cash Flows - Disclosure Initiative</i>	January 1, 2017
Amendments to IAS 12, <i>Income Taxes - Recognition of Deferred Tax Assets for Unrealized Losses</i>	January 1, 2017
Amendments to IAS 40, <i>Transfers of Investment Property</i>	January 1, 2018

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective Date Issued by IASB</u>
Annual Improvements to IFRSs 2014 – 2016 Cycle:	
Amendments to IFRS 12, Disclosure of Interests in Other Entities	January 1, 2017
Amendments to IFRS 1, <i>First-time Adoption of International Financial Reporting Standards</i> and amendments to IAS 28, <i>Investments in Associates and Joint Ventures</i>	January 1, 2018
IFRIC 22, <i>Foreign Currency Transactions and Advance Consideration</i>	January 1, 2018

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.

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: measured at amortized cost, measured at fair value through other comprehensive income (“FVTOCI”) and measured at fair value through profit or loss (“FVTPL”). 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 related 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 related derivatives) should be measured at fair value.

The Company held equity instruments classified as available-for-sale and financial assets carried at cost at December 31, 2017. Based on the facts and circumstances that existed on that day and considering the Company’s strategy for holding the equity investments, those equity instruments are classified as FVTPL, or designated as FVTOCI upon the adoption of IFRS 9. With regard to equity instruments designated as FVTOCI aforementioned, except dividend income is recognized in profit or loss, all relevant gains and losses are recognized in other comprehensive income. No impairment losses will be recognized in profit or loss, and the cumulative gains or losses previously recognized in other comprehensive income will not be reclassified to profit or loss on disposal.

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Under IFRS 9, a new “expected credit loss” model is used to measure the impairment of financial assets. A loss allowance for expected credit losses should be recognized for financial assets measured at amortized cost, investments in debt instruments measured at fair value through other comprehensive income, lease receivables, contract assets that result from transactions that are within the scope of IFRS 15 or financial guarantee contracts and loan commitments. If the credit risk of the abovementioned financial instruments at the reporting date has increased significantly since initial recognition, a loss allowance is measured at an amount equal to lifetime expected credit losses; if the credit risk has not significantly increased, the loss allowance is measured at an amount equal to the 12-month expected credit losses. If the financial instrument is determined to have low credit risk at the reporting date, it may assume that the credit risk thereof has not increased significantly since initial recognition. However, lifetime expected credit loss measurement always applies for trade receivables and contract assets without a significant financing component.

The Company elected to apply the simplified approach for trade receivables, contract assets and lease receivables to measure the loss allowance at an amount equal to life time expected credit losses. Based on the Company’s assessment, the application of impairment requirements of IFRS 9 would not have a material impact on its consolidated financial statements.

At the initial application of IFRS 9, the Company elected not to restate comparative information for prior years with respect to the classification and measurement (including impairment) changes. The cumulative effect of initially applying this Standard shall be recognized in retained earnings as at January 1, 2018. The Company will disclose information on classification changes and related reconciliation as a result of the application of IFRS 9.

b. *IFRS 15, Revenue from Contracts with Customers*

IFRS 15 establishes a five-step model framework for recognizing revenue that apply to all contracts with customers, and will replace existing revenue recognition guidance, including IAS 18, *Revenue*, IAS 11, *Construction Contracts*, and the related interpretations.

(i) *Sales of goods*

Under IFRS 15, revenue for the sale of goods is recognized when a customer obtains control of the goods. For certain 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 certain 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.

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Under IFRS 15, a refund liability 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.

Based on the Company's assessment, the application of IFRS 15 would not result in material differences and impact in the timing of revenue recognition.

(ii) 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.

Based on the Company's assessment, the application of IFRS 15 would not have a material impact on the revenue recognition.

(iii) Transition

The Company elected to apply IFRS 15 using the cumulative effect method, and meanwhile, chose to use the practical expedient for completed contracts. That is, the Company elected to apply this Standard retrospectively only to contracts that are not completed contracts at the date of initial application. The cumulative effect resulting from the initial application of this Standard shall be recognized as an adjustment to retained earnings at January 1, 2018, and the comparative information for prior periods is not required to be restated.

c. Amendments to IAS 7, *Disclosure Initiative*

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The Company is expected to disclose a reconciliation between the opening and closing balances for liabilities with changes from financing activities to meet the requirement as stated above.

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- (3) The IFRSs issued by the IASB but not yet endorsed by the FSC

A summary of the new standards and amendments issued by the IASB but not yet endorsed by the FSC is set out below.

New, Revised or Amended Standards and Interpretations	Effective Date Issued by IASB
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 28, <i>Long-term Interests in Associates and Joint Ventures</i>	January 1, 2019
Amendments to IFRS 9, <i>Prepayment Features with Negative Compensation</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

Except for the item 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.

Under IFRS 16, a lessee is required to recognize a right-of-use asset and a lease liability on the balance sheet 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 and the interest of the lease liability are generally classified within financing activities.

When IFRS 16 becomes effective, as a lessee, the Company may elect to apply this Standard either retrospectively to each prior reporting period presented or retrospectively with a recognition of cumulative effect of the initial adoption of this Standard at the date of initial adoption. As a lessor, the Company is not required to make any adjustments for leases except it is an intermediate lessor in a sub-lease.

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The Company has performed a preliminary 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 6(18) for the related disclosures. The Company will identify 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 shall be recognized. The related impact for adoption of IFRS 16 by the Company will be disclosed when the Company completes the assessment.

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. The potential impact will be disclosed when the assessment is complete.

4. 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.

(1) Statement of compliance

The consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (hereinafter referred to as “the Regulations”) and the IFRSs endorsed by the FSC with effective dates (hereinafter referred to as “TIFRSs”).

(2) Basis of preparation

a. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following material items in the consolidated balance sheets:

- (i) Financial instruments measured at fair value through profit or loss (including derivative financial instruments) (note 6(2));
- (ii) Hedging derivative financial instruments measured at fair value (note 6(2));
- (iii) Available-for-sale financial assets measured at fair value (note 6(3)); 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 6(19)).

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

b. 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.

(3) Basis of consolidation

a. 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.

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 measured at fair value when control is lost. The gain or loss is measured as the difference between: (i) the aggregate of the fair value of the consideration received and the fair value of any retained non-controlling investment in the former subsidiary at the date when the Company loses control; and (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. 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.

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

b. 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, 2016
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
AUO	Space Money Inc. (SMI)	Sale of TFT-LCD panels; leasing (Taiwan ROC)	100.00	100.00
AUO	U-Fresh Technology Inc. (UTI)	Planning, design and development of construction project for environmental protection and project management (Taiwan ROC)	100.00 ⁽¹⁾	-
AUO, Konly and Ronly	Darwin Precisions Corporation (DPTW)	Manufacturing, design and sale of TFT-LCD modules, TV set, backlight modules and related parts (Taiwan ROC)	41.05 ⁽²⁾	51.04
AUO, Konly and Ronly	Sanda Materials Corporation (SDMC)	Holding company (Taiwan ROC)	99.99	99.99
AUO, Konly and Ronly	AUO Crystal Corp. (ACTW)	Manufacturing and sale of ingots and solar wafers (Taiwan ROC)	96.03	96.31
Konly	Fargen Power Corporation (FGPC)	Renewable energy power generation (Taiwan ROC)	-(³)	100.00
Konly	LiGen Power Corporation (LGPC)	Renewable energy power generation (Taiwan ROC)	100.00	100.00
Konly	TronGen Power Corporation (TGPC)	Renewable energy power generation (Taiwan ROC)	-(³)	100.00 ⁽¹⁾
Konly	ChampionGen Power Corporation (CGPC)	Renewable energy power generation (Taiwan ROC)	100.00 ⁽¹⁾	-
ACTW	AUO Crystal (Malaysia) Sdn. Bhd. (ACMK)	Manufacturing and sale of solar wafers (Malaysia)	100.00	100.00
SDMC	M.Setek Co., Ltd. (M.Setek)	Manufacturing and sale 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 Europe B.V. (AUNL)	Sales support of TFT-LCD panels (Netherlands)	100.00	100.00
AULB	AU Optronics Korea Ltd. (AUKR)	Sales support of TFT-LCD panels (South Korea)	100.00	100.00

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, 2016
AULB	AU Optronics Singapore Pte. Ltd. (AUSG)	Holding company and sales support of TFT-LCD panels (Singapore)	100.00	100.00
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
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; injecting and stamping parts; manufacturing and sale of mold (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 sale 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)	Manufacturing and sale of solar modules (PRC)	100.00	100.00
AUSG	AUO Green Energy America Corp. (AEUS)	Sale 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 sale of liquid crystal products and related parts (PRC)	100.00	100.00 ⁽⁴⁾
AUSH	AUO Care Management (Suzhou) Co., Ltd. (A-Care)	Design, development and sales of software and hardware for health care industry (PRC)	100.00 ⁽¹⁾	-
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

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, 2016
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)	Holding company (Mauritius)	100.00	100.00
FRVI	Forefront Corporation (FFMI)	Holding company (Mauritius)	100.00	100.00
FFMI	Forthouse Electronics (Suzhou) Co., Ltd. (FHWJ)	Manufacturing of motorized treadmills (PRC)	100.00	100.00
FTMI	Fortech Electronics (Suzhou) Co., Ltd. (FTWJ)	Manufacturing and sale of light guide plates, backlight modules and related parts (PRC)	100.00	100.00
FTMI	Fortech Optronics (Xiamen) Co., Ltd. (FTXM) ⁽⁵⁾	Manufacturing and sale of light guide plates, backlight modules and related parts (PRC)	100.00	100.00
FWSA and FTMI	Suzhou Forplax Optronics Co., Ltd. (FPWJ)	Manufacturing and sale of precision plastic parts (PRC)	100.00	100.00
PMSA	Fortech Electronics (Kunshan) Co., Ltd. (FTKS)	Manufacturing and sale of light guide plates, backlight modules and related parts (PRC)	100.00	100.00
FLMI	Full Luck (Wujiang) Precisions Co., Ltd. (FLWJ) ⁽⁵⁾	Manufacturing and sales of precision metal parts (PRC)	100.00	100.00
DPLB	Darwin Precisions (Hong Kong) Limited (DPHK)	Holding company (Hong Kong)	100.00	100.00
DPLB	Darwin Precisions (Slovakia) s.r.o. (DPSK)	Manufacturing, assembly and sale of automotive parts (Slovakia Republic)	100.00	100.00 ⁽¹⁾
DPHK	Darwin Precisions (Suzhou) Corp. (DPSZ)	Manufacturing and sale of backlight modules and related parts (PRC)	100.00	100.00
DPHK	Darwin Precisions (Xiamen) Corp. (DPXM)	Manufacturing and sale of backlight modules and related parts (PRC)	100.00	100.00
DPHK	Darwin Precisions (Chengdu) Corp. (DPCD) ⁽⁵⁾	Manufacturing and sale of backlight modules and related parts (PRC)	100.00	100.00
BVLB	BriView (Hefei) Co., Ltd. (BVHF)	Manufacturing and sale of liquid crystal products and related parts (PRC)	100.00	100.00

Note 1: TGPC was incorporated in April 2016. DPSK was incorporated in May 2016. UTI was incorporated in January 2017. CGPC was incorporated in May 2017. A-Care was incorporated in September 2017.

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Note 2: As at December 31, 2017, 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 operating policies of DPTW. As a result, DPTW was accounted for as a subsidiary of the Company. Please refer to note 6(9) for further details.

Note 3: The Company disposed all its shareholdings in FGPC and TGPC to Star Shining Energy Corporation ("SSEC"), an associate of the Company, in December 2017. Please refer to note 6(10) for further details.

Note 4: As part of a business restructuring, BVLB disposed all its shareholdings in wholly owned subsidiary, BVXM, to AUXM in March 2016. This was treated as an equity transaction with no change in control of BVXM by the Company.

Note 5: As part of a business restructuring, DPCD, FLWJ and FTXM have been resolved by their respective boards of directors for liquidation. The liquidation is still in process for these entities as of December 31, 2017.

(4) Foreign currency

In preparing the financial statements of each individual consolidated entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized 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.

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 within equity.

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(5) Classification of current and non-current assets and liabilities

An asset is classified as current when:

- a. The asset expected to realize, or intends to sell or consume, in its normal operating cycle;
- b. The asset primarily held for the purpose of trading;
- c. The asset expected to realize within twelve months after the reporting date; or
- d. 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:

- a. The liability expected to settle in its normal operating cycle;
- b. The liability primarily held for the purpose of trading;
- c. The liability is due to be settled within twelve months after the reporting date; or
- d. The Company does not have an unconditional right to defer settlement of the liability for at least twelve months 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.

(6) Cash and cash equivalents

Cash comprise cash balances and demand deposits. Cash equivalents comprise short-term highly liquid investments that are readily convertible into known amounts of cash and are subject to an insignificant risk of changes in their fair value. Deposits with short-term maturity but not for investments and other purposes and are qualified with the aforementioned criteria are classified as cash equivalent.

(7) Financial Instruments

Financial assets and financial liabilities are initially recognized when the Company becomes a party to the contractual provisions of the instruments.

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

a. Financial assets

- (i) The Company classifies financial assets into the following categories: financial assets measured at fair value through profit or loss, receivables and available-for-sale financial assets.

(a) Financial assets measured at fair value through profit or loss

The Company has certain financial assets classified in this category to hedge its exposure to foreign exchange and interest rate risks arising from operating and financing activities. When a derivative financial instrument is not effective as a hedge the Company accounts for it as a financial asset or liability measured at fair value through profit or loss. See note 4(7)c. for further detail of the Company's derivative financial instruments and hedge accounting policy.

(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 measured 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 and presented under non-operating income and expenses. 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 and presented under the heading of financial assets carried at cost.

Cash dividends on equity instruments are recognized under non-operating income and expenses on the date that the Company's right to receive dividends is established.

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(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.

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.

If no impairment exists for receivables individually assessed, the Company further assesses those receivables for impairment on a collective basis. 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. Any subsequent recovery of receivable previously written off is credited against the allowance account. Changes in the amount of the allowance accounts are recognized in profit or loss.

When a financial asset carried at cost is considered to be impaired, an impairment loss for this financial asset is recognized and reduced directly from its carrying amount. Such 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 under non-operating income and expenses.

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(iii) De-recognition of financial assets

The Company derecognizes financial assets when the contractual rights of the cash inflow from the asset are terminated, 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.

b. Financial liabilities

(i) The Company classifies financial liabilities into the following categories: financial liabilities measured at fair value through profit or loss and other financial liabilities.

(a) Financial liabilities measured at fair value through profit or loss

The Company designates financial liabilities in this category as held for trading for the purpose of hedging exposure to foreign exchange and interest rate risks arising from operating and financing activities. When a derivative financial instrument is not effective as a hedge the Company accounts for it as a financial asset or liability measured at fair value through profit or loss. See note 4(7)c. for further detail of the Company's derivative financial instruments and hedge accounting policy.

The Company designates financial liabilities, other than the one mentioned above, as measured 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 and presented under non-operating income and expenses.

(b) Other financial liabilities

Financial liabilities not classified as held for trading, or not designated as measured 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 trade payables. Interest expense not capitalized as an asset cost is recognized in profit or loss and presented under non-operating income and expenses.

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(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 and presented under non-operating income and expenses.

(iii) Offsetting of financial assets and liabilities

The Company presents financial assets and liabilities on a net basis 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.

c. Derivative financial instruments and hedge accounting

The Company holds derivative financial instruments to hedge its foreign currency and interest rate exposures. Derivatives are recognized initially at fair value, and attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in profit or loss and presented under non-operating income and expenses. When a derivative is designated as a hedging instrument, its timing of recognition in profit or loss is determined based on the nature of the hedging relationship. When the fair value of a derivative instrument is positive, it is classified as a financial asset, and when the fair value is negative, it is classified as a financial liability.

When a derivative is designated as a cash flow hedge, the changes in the fair value of the derivative that is determined to be effective is recognized in other comprehensive income. Any ineffective portion of changes in the fair value of the derivative is recognized in profit or loss and presented under non-operating income and expenses.

When the hedged item is recognized in profit or loss, amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the same period or periods during which the hedged item affects profit or loss, and it is presented in the same accounting caption with the hedged item recognized in the consolidated statements of comprehensive income. When a cash flow hedge is expected to recognize as a non-financial asset or liability, amounts previously recognized in other comprehensive income and accumulated in other components of equity are reclassified as the initial cost of the non-financial asset or liability.

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(8) Inventories

The cost of inventories includes all necessary expenditures and charges for bringing the inventory to a stable, useable and marketable condition and location. Inventories are recorded at cost, and cost is determined using the weighted-average method. The production overhead is allocated based on the normal capacity of the production facilities. Inventories are measured at the lower of cost or net realizable value. 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 necessary selling costs.

(9) 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.

(10) 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.

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.

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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 remain 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.

When the Company subscribes to 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, the proportionate amount of the gains or losses previously recognized in other comprehensive income relating to that associate or joint venture shall be reclassified to profit or loss on the same basis as would be required if the associate or joint venture had directly disposed of the related assets or liabilities.

At the end of each reporting period, if there is any indication of impairment, the entire carry 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.

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Unrealized profits or losses resulting from the transactions between the Company and associates are eliminated to the extent of the Company's interest in the associate.

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 contractual obligation, or has made payments on behalf of the investee.

(11) 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 decisions about the relevant activities of the arrangement. Investments in joint venture are accounted for in the Company's consolidated financial statements under the equity method.

(12) 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 at initial acquisition cost less any subsequent accumulated depreciation. 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.

(13) Property, plant and equipment

a. 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.

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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.

b. 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 is recognized in profit or loss as incurred.

c. Depreciation

Excluding land, depreciation is 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. The depreciation charge is recognized in profit or loss.

Leased assets are depreciated over their useful lives, provided that it is reasonably certain that the Company will obtain ownership by the end of the lease term; otherwise 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.

d. 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.

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Notes to Consolidated Financial Statements

(14) Long-term prepaid rent

Long-term prepaid rent is for the use right of land (classified as other noncurrent assets), which is amortized over the shorter of economic useful life or covenant period on a straight-line basis.

(15) Leases

a. 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.

b. 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.

(16) Intangible assets

a. 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.

Investor-level 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.

b. 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;

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- (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.

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.

c. Other intangible assets

Other intangible assets acquired are measured at cost less accumulated amortization and any accumulated impairment losses.

d. 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.

e. 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.

(17) 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 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.

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In performing an impairment test for the aforementioned 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.

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 diminished, 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 increase in the carrying amount shall not exceed the carrying amount (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.

Goodwill acquired in a business combination is allocated to CGUs that are expected to benefit from the synergies of the combination. Impairment losses recognized in respect of a CGU are 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 and intangible assets with indefinite useful lives is not reversed.

(18) Provisions

A provision is recognized for a legal or constructive obligation arising from a past event, if there is probable outflow of resources and the amount 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.

a. 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.

b. 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.

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c. 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.

d. 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.

Provisions recognized are the best estimates of the consideration for settling the present obligation at each reporting date.

(19) Revenue recognition

a. Goods sold

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.

b. Government grants

Grants that compensate the Company for research and development expenses incurred are recognized as other income in profit or loss on a systematic basis in the periods in which the expenses are recognized.

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Notes to Consolidated Financial Statements

(20) Employee benefits

a. 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.

b. 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.

c. 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.

(21) 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 performance and/or service conditions are being fulfilled. The cumulative expense recognized for share-based payment arrangements at each reporting date reflects the extent to which the vesting period has passed and the Company's estimate of the quantity of equity instruments that will ultimately vest.

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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.

(22) Income taxes

Income tax expense comprises current and deferred taxes.

a. 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 tax rates enacted or substantively enacted 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 10% surtax. The 10% tax on unappropriated earnings is expensed in the year the shareholders approved the distributions which is the year subsequent to the year the earnings arise.

b. 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 it is probable that future taxable profits will be available against which they can be utilized.

Deferred tax assets are reviewed at each reporting date, by considering nature of industry cycles, statutory tax deduction years and projected future taxable income, and reduced to the extent that it is no longer probable that future taxable profits will be available to allow all or part of the deferred tax asset to be recovered. 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 are recognized for taxable temporary differences related to investments in subsidiaries, associates and joint arrangements, however, if 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 taxes are not recognized.

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Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when the reverse, using tax rates enacted or substantively enacted 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.

(23) Business combinations

The Company accounts for business combinations using the acquisition method. 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 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, 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 securities.

Each identifiable asset and liability is measured at its acquisition-date fair value. 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 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 TIFRSs.

(24) 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 and capital surplus to common stock.

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(25) Operating segments

An operating segment is a component of an entity 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). Operating results are reviewed regularly by the Company's chief operating decision maker ("CODM") to make decisions pertaining to the allocation of resources to the segment and to assess its performance. Meanwhile, discrete financial information for operating results is available.

5. Critical Accounting Judgments and Key Sources of Estimation and Assumption Uncertainty

The preparation of the consolidated financial statements in conformity with the Regulations and TIFRSs 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 most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

(1) 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.

(2) 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 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.

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(3) 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.

(4) 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.

(5) 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 economic environment, the industry trends and relevant laws and regulations may result in adjustments to the deferred tax assets.

(6) Estimate of allowance for sales returns and discounts

The Company estimates 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.

(7) 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.

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

6. Description of Significant Accounts

(1) Cash and Cash Equivalents

	December 31,	
	2017	2016
	(in thousands)	
Cash on hand, demand deposits and checking accounts	\$ 40,871,878	42,389,461
Time deposits	57,438,459	37,676,746
Government bonds with reverse repurchase agreements	6,710,279	125,041
	\$ <u>105,020,616</u>	<u>80,191,248</u>

Refer to note 6(31) for the disclosure of credit risk, currency risk and sensitivity analysis of the financial assets and liabilities of the Company.

As at December 31, 2017 and 2016, no cash and cash equivalents were pledged with banks as collaterals.

(2) Derivative Financial Instruments and Hedging Instruments

a. Derivative Financial Instruments

	December 31,	
	2017	2016
	(in thousands)	
Financial assets measured at fair value through profit or loss – current:		
Foreign currency forward contracts	\$ <u>70,366</u>	<u>65,669</u>
Financial liabilities measured at fair value through profit or loss – current:		
Foreign currency forward contracts	\$ <u>106,597</u>	<u>896,998</u>
Hedging derivative financial liabilities – current:		
Interest rate swap contracts	\$ <u>-</u>	<u>3,540</u>

Refer to note 6(31) for the disclosure of the Company's credit, currency and interest rate risks related to financial instruments.

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of December 31, 2017 and 2016, 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

December 31, 2016		
Contract item	Maturity date	Contract amount
		(in thousands)
Sell USD / Buy NTD	Jan. 2017 – Feb. 2017	USD711,000 / NTD22,687,304
Sell USD / Buy JPY	Jan. 2017 – Mar. 2017	USD126,730 / JPY13,860,716
Sell NTD / Buy JPY	Mar. 2017	NTD1,474,085 / JPY5,400,000
Sell USD / Buy CNY	Jan. 2017 – Jun. 2017	USD96,000 / CNY662,180
Sell EUR / Buy JPY	Mar. 2017	EUR90,000 / JPY10,693,738
Sell EUR / Buy CZK	Jan. 2017 – Feb. 2017	EUR3,190 / CZK85,791
Sell EUR / Buy USD	Mar. 2017	EUR41,000 / USD44,148
Sell USD / Buy MYR	Jan. 2017 – Mar. 2017	USD741 / MYR3,296
Sell JPY / Buy NTD	Mar. 2017	JPY50,000 / NTD13,725
Sell CNY / Buy USD	Jan. 2017 – Apr. 2017	CNY359,763 / USD52,189
Sell EUR / Buy NTD	Jan. 2017	EUR5,000 / NTD171,967
Sell CNY / Buy JPY	Jan. 2017 – Jul. 2017	CNY588,583 / JPY9,068,273
Sell USD / Buy SGD	Jan. 2017	USD170,157 / SGD245,680

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Net gains (losses) of foreign currency forward contracts were as follows:

	For the years ended December 31,	
	2017	2016
	(in thousands)	
Unrealized gains (losses)	\$ 795,098	(491,860)
Realized gains	850,936	80,423
	\$ <u>1,646,034</u>	<u>(411,437)</u>

AUO entered into interest rate swap contracts with several banks to manage interest rate risk exposure arising from financing activities. As at December 31, 2017, there was no outstanding interest rate swap contract. As at December 31, 2016, AUO's total notional amount of outstanding interest rate swap contracts amounted to \$1,760,000 thousand which were related to effective hedges. For the years ended December 31, 2017 and 2016, no unrealized gains or losses resulting from change in fair value of interest rates swap contracts were recognized in profit and loss.

b. Hedge accounting

The Company entered into Plain Vanilla type interest rate swap contracts as the primary hedging instrument. The Company paid interest based on fixed rate and received market floating-rate from the counterparty. The aforementioned hedging contracts were intended to protect the Company from the risk of future cash flow fluctuation of debt bearing floating interest rate. These contracts were designated as cash flow hedges and met the criteria for hedge accounting.

Details of hedged items designated as cash flow hedges and their respective hedging derivative financial instruments were as follows:

December 31, 2016				
Hedged item	Hedging instrument	Fair value of hedging instrument	Expected period of cash flows	Expected period of recognition in comprehensive income
		(in thousands)		
Long-term borrowings with floating interest rate	Interest rate swap contracts	\$ (3,540)	Jan. 2017 – Aug. 2017	Jan. 2017 – Aug. 2017

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(3) Available-for-sale Financial Assets—noncurrent

	December 31,	
	2017	2016
	(in thousands)	
Equity securities – listed company	\$ <u>4,170,319</u>	<u>2,836,696</u>

Available-for-sale securities held by the Company were publicly listed 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 \$417,032 thousand and \$283,670 thousand for the years ended December 31, 2017 and 2016, respectively.

(4) Financial Assets Carried at Cost—noncurrent

	December 31,	
	2017	2016
	(in thousands)	
Equity securities – unlisted company	\$ <u>177,815</u>	<u>193,582</u>

Given that the probabilities for each assumption in the range of estimated fair value of the aforementioned investments held by the Company cannot be reasonably determined, the Company had determined that the fair value thereof cannot be reliably measured and therefore were measured at cost less any impairment loss at year-end.

(5) Notes and Accounts Receivable, net (Including Related and Unrelated Parties)

	December 31,	
	2017	2016
	(in thousands)	
Notes and accounts receivable	\$ 42,021,402	49,201,632
Less: allowance for doubtful accounts	(93,053)	(104,617)
allowance for sales returns and discounts	(1,337,076)	(853,614)
	<u>\$ 40,591,273</u>	<u>48,243,401</u>
Notes and accounts receivable, net	<u>\$ 38,738,211</u>	<u>45,710,177</u>
Accounts receivable from related parties, net	<u>\$ 1,853,062</u>	<u>2,533,224</u>

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Aging analysis of notes and accounts receivable, which were past due but not impaired, was as follows:

	December 31,	
	2017	2016
	(in thousands)	
Past due less than 60 days	\$ 560,016	531,327
Past due 61~180 days	12,790	9,505
Past due over 180 days	-	1,020
	<u>\$ 572,806</u>	<u>541,852</u>

The movement in the allowance for doubtful accounts was as follows:

	For the years ended December 31,			
	2017		2016	
	Individually assessed for impairment	Collectively assessed for impairment	Individually assessed for impairment	Collectively assessed for impairment
	(in thousands)			
Balance at beginning of the year	\$ 41,812	62,805	11,714	58,183
Provisions (reversals) charged to (against) expense	(28,236)	18,396	31,360	12,938
Write-offs	(6)	-	-	(7,385)
Effect of changes in foreign currency exchange rates	(805)	(913)	(1,262)	(931)
Balance at end of the year	<u>\$ 12,765</u>	<u>80,288</u>	<u>41,812</u>	<u>62,805</u>

The payment terms granted to customers are generally 30 to 60 days from the end of the month during which the invoice is issued. The Company evaluates possible uncollected amounts and uses allowance for doubtful accounts to record its doubtful receivable expenses. When evaluating the allowances, the Company considers the historical experience, the customer credits and the account aging analysis. While it is determined a receivable is uncollectible, receivable balances is offset against the allowance for doubtful accounts.

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Information about the Company's exposure to credit risk is included in note 6(31).

As of December 31, 2017 and 2016, the Company entered into financing facilities with banks to factor certain of its accounts receivable without recourse, details of which were as follows:

December 31, 2017				
Underwriting bank	Factoring limit	Amount advanced (in thousands)	Amount sold and derecognized	Principle terms
Chinatrust Commercial Bank	USD 200,000	-	-	See notes(a)~(c) and (e)
Taishin Bank	USD 80,000	-	-	See notes(a)~(c) and (e)
Bank of Taiwan	USD 250,000	-	-	See notes(a)~(c) and (e)
Taipei Fubon Bank	USD 120,000	-	-	See notes(a)~(c) and (e)
E. Sun Bank	USD 50,000	-	-	See notes(a)~(c) and (e)
DBS Bank	USD 154,000	-	-	See notes(a)~(c) and (e)
Taishin Bank	USD 35,000	-	USD 6,382	See notes(a)~(d) and (f)

December 31, 2016				
Underwriting bank	Factoring limit	Amount advanced (in thousands)	Amount sold and derecognized	Principle terms
Chinatrust Commercial Bank	USD 230,000	-	-	See notes(a)~(c) and (e)
Taishin Bank	USD 80,000	-	-	See notes(a)~(c) and (e)
Bank of Taiwan	USD 250,000	-	-	See notes(a)~(c) and (e)
Taipei Fubon Bank	USD 120,000	-	-	See notes(a)~(c) and (e)
E. Sun Bank	USD 100,000	-	-	See notes(a)~(c) and (e)
DBS Bank	USD 184,000	-	-	See notes(a)~(c) and (e)
Taishin Bank	USD 35,000	-	USD 8,780	See notes(a)~(d) and (f)

Note (a): Under these facilities, the Company transferred accounts receivable to the respective underwriting banks, which are without recourse.

Note (b): The Company informed its customers pursuant to the respective facilities to make payment directly to the respective underwriting banks.

Note (c): As of December 31, 2017 and 2016, total outstanding receivables after the above assignment transactions, net of fees charged by underwriting banks, of \$190,451 thousand and \$283,694 thousand, respectively, were classified under other current financial assets.

Note (d): To the extent of the amount transferred to the underwriting banks, risks of non-collection or potential payment default by customers in the event of insolvency are borne by respective banks. The Company is not responsible for the collection of receivables subject to these facilities, or for any legal proceedings and costs thereof in collecting these receivables.

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Note (e): To the extent of the amount transferred to the underwriting banks, risks of non-collection or potential payment default by customers in the event of insolvency are borne by respective banks. The Company is not responsible for the collection of receivables subject to these facilities, or for any legal proceedings and costs thereof in collecting these receivables. In case any commercial dispute between the Company and customers or other reasons results in the Company's failure to perform the obligation under these facilities, the banks have requested the Company to issue promissory notes in the amounts equal to 10 percent of respective facilities or to transfer receivables in the amounts equal to 10 percent of respective facilities. Other than such arrangements, no collaterals were provided by the Company.

Note (f): The Company bears all risks deriving from the customers except credit risk.

(6) Inventories

	December 31,	
	2017	2016
	(in thousands)	
Finished goods	\$ 10,095,820	9,532,199
Work-in-progress	9,405,677	11,100,347
Raw materials	5,352,826	7,046,789
	\$ <u>24,854,323</u>	<u>27,679,335</u>

For the years ended December 31, 2017 and 2016, the amounts of inventories that were charged to cost of sales were \$279,914,056 thousand and \$296,661,898 thousand, respectively, and the net of provisions (reversals) that charged to (against) cost of sales in the consolidated statement of comprehensive income for inventories written down to net realizable value amounted to \$72,466 thousand and \$(2,063,881) thousand for the years ended December 31, 2017 and 2016, respectively.

As at December 31, 2017 and 2016, none of the Company's inventories was pledged as collateral.

(7) 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 balance sheet as of December 31, 2016. Disposal transactions of aforementioned land and buildings were completed between March 2017 to August 2017. The 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 District to dispose its land use right, plant buildings and related appendages with consideration amounting to RMB215,527 thousand. The relevant procedures are expected to be completed within twelve months.

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

In December 2017, in relation to asset revitalization plan and to increase 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 related appendages with consideration amounting to RMB512,770 thousand. The relevant procedures are expected to be completed within twelve months.

The abovementioned land use right, plant buildings and its related appendages have been reclassified as noncurrent assets held for sale and presented separately in the consolidated balance sheet. No impairment loss was recognized during the reclassification as the expected fair value less cost to sell is higher than the carrying value of the relevant assets.

Noncurrent assets held for sale as of December 31, 2017 and 2016 consisted of the following:

	December 31,	
	2017	2016
	(in thousands)	
Property, plant and equipment	\$ 1,963,370	228,015
Noncurrent prepaid rental	444,610	-
	<u>\$ 2,407,980</u>	<u>228,015</u>

(8) Investments in equity-accounted Investees

Investments in equity-accounted investees at the reporting dates consisted of the following:

	December 31,	
	2017	2016
	(in thousands)	
Associates	\$ 5,286,487	4,853,325
Joint ventures	310,800	325,012
	<u>\$ 5,597,287</u>	<u>5,178,337</u>

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, 2016	
			Amount	Ownership interest	Amount	Ownership interest
			(in thousands)	%	(in thousands)	%
Lextar Electronics Corp. ("Lextar")	Manufacturing and sales of Light Emitting Diode	Taiwan ROC	\$ 3,104,955	27	\$ 3,082,856	25
Raydium Semiconductor Corporation ("Raydium")	IC design	Taiwan ROC	678,908	18	712,829	18
Star River Energy Corp. ("SREC")	Holding company	Taiwan ROC	533,840	34	531,805	34
Daxin Materials Corp. ("Daxin")	Research, manufacturing, and sales of display related chemicals	Taiwan ROC	573,571	25	525,835	25
SSEC	Holding company	Taiwan ROC	369,153	37	-	-
Others			26,060		-	
			<u>\$ 5,286,487</u>		<u>\$ 4,853,325</u>	

On October 1, 2016, Raydium, the associate of the Company, issued its new shares in exchange for all outstanding shares of another associate of the Company, Dazzo Technology Corporation ("Dazzo"). Subsequent to the share exchange, the Company held approximately 18% ownership interest in Raydium. The transaction did not result in any material impact on the Company's consolidated financial statements.

There is no individually significant associate for the Company. The following table summarized the amount recognized by the Company at its share of those associates.

	For the years ended	
	December 31,	
	2017	2016
	(in thousands)	
The Company's share of:		
Profit for the year	\$ 251,699	18,644
Other comprehensive loss for the year	(62,084)	(29,460)
Total comprehensive income (loss) for the year	<u>\$ 189,615</u>	<u>(10,816)</u>

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

b. Joint ventures

AUO, through its subsidiary AUSG, entered into a joint venture agreement with SunPower Technology, Ltd. (“SPTL”) which is 100% owned by SunPower Corporation. In accordance with the joint venture agreement, the Company acquired its 50% ownership interests of AUO SunPower Sdn. Bhd. (“AUSP”) on July 5, 2010 (co-investment date) by contributing technology with an estimated fair value of US\$30,000 thousand and agreed to contribute additional cash over time. The total cash payments made by the Company amounted to US\$180,069 thousand. In September 2016, AUSG disposed of its entire 50% interest in AUSP to SPTL 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 2016, the outstanding selling price amounting to US\$61,100 thousand, which will be received in cash at US\$1,100 thousand, US\$30,000 thousand and US\$30,000 thousand in year 2018, 2019 and 2020, respectively, are classified under other current assets and other noncurrent assets, respectively, by its liquidity.

Additionally, in September 2016, AUO entered into a long-term Module Supply Agreement with SunPower Systems Sarl (“SPSW”), a subsidiary of SunPower Corporation, under which, SPSW agreed to supply AUO with commercial terms of SunPower’s E-Series solar modules. AUO has prepaid in full to SPSW in September 2016 and classified the prepayment under other current assets and other noncurrent assets, respectively, by its liquidity. In August 2017, AUO and SPSW have agreed to make amendment for the long-term Supply Agreement whereby SPSW will replace the supply of E-Series solar modules with solar cells without additional consideration.

There is no individually significant joint venture for 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,	
	2017	2016
	(in thousands)	
The Company’s share of:		
Profit (loss) for the year	\$ (12,693)	82,134
Other comprehensive loss for the year	-	(314,710)
Total comprehensive loss for the year	<u>\$ (12,693)</u>	<u>(232,576)</u>

As at December 31, 2017 and 2016, none of the Company’s investments in equity-accounted investees was pledged as collateral.

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(9) 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 from non-controlling interests	\$ 1,776,984
Carrying value 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 subsidiaries	\$ 518,196

(10) Disposal of Subsidiaries

The Company disposed all its shareholdings in FGPC and TGPC 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
Accounts receivable and other receivables	4,513
Other current assets	38,649
Property, plant and equipment	260,828
Other assets	54,397
Payable for equipment	(71,076)
Accrued expense and other current liabilities	(3,062)
Long-term borrowings	(84,187)
Net assets disposed of	\$ 403,669

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(11) Property, Plant and Equipment

For the year ended December 31, 2017					
	Balance, Beginning of Year	Additions	Disposal or write off (in thousands)	Reclassification and effect of change in exchange rate	Balance, End of Year
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	<u>32,419,736</u>	<u>4,140,108</u>	<u>(7,900,925)</u>	<u>700,229</u>	<u>29,359,148</u>
	<u>969,935,995</u>	<u>7,266,521</u>	<u>(27,207,560)</u>	<u>12,548,030</u>	<u>962,542,986</u>
Accumulated depreciation and impairment loss:					
Land	173,397	-	(54,186)	(119,211)	-
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	<u>26,154,173</u>	<u>5,655,026</u>	<u>(7,883,150)</u>	<u>(208,469)</u>	<u>23,717,580</u>
	<u>760,466,534</u>	<u>36,817,898</u>	<u>(26,417,931)</u>	<u>(5,989,135)</u>	<u>764,877,366</u>
Prepayments for purchase of land and equipment, and construction in progress	<u>13,272,371</u>	<u>36,289,529</u>	<u>(29,206)</u>	<u>(22,265,225)</u>	<u>27,267,469</u>
Net carrying amounts	\$ <u>222,741,832</u>				<u>224,933,089</u>
For the year ended December 31, 2016					
	Balance, Beginning of Year	Additions	Disposal or write off (in thousands)	Reclassification and effect of change in exchange rate	Balance, End of Year
Cost:					
Land	\$ 9,112,286	-	(14,455)	(223,850)	8,873,981
Buildings	122,156,354	1,086	(580,089)	9,018,493	130,595,844
Machinery and equipment	779,019,328	2,424,626	(24,033,087)	40,635,567	798,046,434
Other equipment	<u>34,248,005</u>	<u>4,532,365</u>	<u>(6,462,949)</u>	<u>102,315</u>	<u>32,419,736</u>
	<u>944,535,973</u>	<u>6,958,077</u>	<u>(31,090,580)</u>	<u>49,532,525</u>	<u>969,935,995</u>
Accumulated depreciation and impairment loss:					
Land	184,889	-	(14,487)	2,995	173,397
Buildings	32,791,946	3,107,870	(132,589)	261,074	36,028,301
Machinery and equipment	694,955,031	30,329,428	(23,846,019)	(3,327,777)	698,110,663
Other equipment	<u>30,215,702</u>	<u>5,130,524</u>	<u>(6,430,868)</u>	<u>(2,761,185)</u>	<u>26,154,173</u>
	<u>758,147,568</u>	<u>38,567,822</u>	<u>(30,423,963)</u>	<u>(5,824,893)</u>	<u>760,466,534</u>
Prepayments for purchase of land and equipment, and construction in progress	<u>22,397,204</u>	<u>48,931,054</u>	<u>(29,246)</u>	<u>(58,026,641)</u>	<u>13,272,371</u>
Net carrying amounts	\$ <u>208,785,609</u>				<u>222,741,832</u>

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of December 31, 2017 and 2016, 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 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 2017 and 2016, the Company wrote down certain long-term assets with lower capacity utilization associated with its solar segment and recognized impairment losses of \$120,714 thousand and \$34,047 thousand, respectively.

The capitalized borrowing costs were \$624,235 thousand and \$542,994 thousand for the years ended December 31, 2017 and 2016, respectively. The interest rates applied for the capitalization, ranged from 1.09% to 5.24% and 1.09% to 4.66% for the years ended December 31, 2017 and 2016, respectively.

Certain property, plant and equipment were pledged as collateral, see note 8.

(12) Investment Property

For the year ended December 31, 2017				
Balance, Beginning of Year	Additions	Disposal	Reclassification and effect of change in exchange rate	Balance, End of Year
(in thousands)				
Land	\$ <u>465,868</u>	-	-	<u>251,955</u>
Fair Value	\$ <u>1,402,040</u>			<u>2,213,184</u>
For the year ended December 31, 2016				
Balance, Beginning of Year	Additions	Disposal	Reclassification and effect of change in exchange rate	Balance, End of Year
(in thousands)				
Land	\$ <u>465,868</u>	-	-	<u>465,868</u>
Fair Value	\$ <u>1,145,098</u>			<u>1,402,040</u>

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.

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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, market valuation approach and land development analysis approach with reference to available market information.

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. Market valuation 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 significant inputs in valuation techniques used are set out below:

	For the years ended December 31,	
	2017	2016
Overall capital interest rate	1.86%	2.06%
Rate of return	10.00%	10.00%
Capitalization rate	12.00%	-

Certain investment property were pledged as collateral, see note 8.

(13) Intangible Assets

For the year ended December 31, 2017				
	Balance, Beginning of Year	Additions	Effect of change in exchange rate	Balance, End of Year
	(in thousands)			
Cost:				
Goodwill	\$ 11,456,176	-	-	11,456,176
Patent and technology fee	12,078,767	196,781	-	12,275,548
	<u>23,534,943</u>	<u>196,781</u>	<u>-</u>	<u>23,731,724</u>
Accumulated amortization:				
Goodwill	175,581	-	-	175,581
Patent and technology fee	9,756,528	628,606	117	10,385,251
	<u>9,932,109</u>	<u>628,606</u>	<u>117</u>	<u>10,560,832</u>
Net carrying amounts	<u>\$ 13,602,834</u>			<u>13,170,892</u>

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

For the year ended December 31, 2016				
	Balance, Beginning of Year	Additions	Reclassification and effect of change in exchange rate	Balance, End of Year
	(in thousands)			
Cost:				
Goodwill	\$ 11,456,176	-	-	11,456,176
Patent and technology fee	11,901,662	187,020	(9,915)	12,078,767
	<u>23,357,838</u>	<u>187,020</u>	<u>(9,915)</u>	<u>23,534,943</u>
Accumulated amortization:				
Goodwill	175,581	-	-	175,581
Patent and technology fee	8,606,978	1,159,465	(9,915)	9,756,528
	<u>8,782,559</u>	<u>1,159,465</u>	<u>(9,915)</u>	<u>9,932,109</u>
Net carrying amounts	\$ <u>14,575,279</u>			<u>13,602,834</u>

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,	
	2017	2016
	(in thousands)	
Display business	\$ <u>11,280,595</u>	<u>11,280,595</u>

The Company's goodwill has been tested for impairment at least once at the end of the annual reporting period. As at December 31, 2017 and 2016, the recoverable amounts were determined based on value in use of the operating business and its fair value less costs of disposal, respectively. The aforementioned fair value less costs of disposal was calculated based on discounted cash flow forecast with unobservable inputs which categorized within level 3 of fair value measurement.

The key assumptions used in the estimation of the recoverable amount are discount rate and terminal growth rate. The annual discount rates for the year 2017 and 2016 are 11.35% and 11.70%, respectively, based on industry weighted average cost of capital. The cash flow forecast is based on the financial budgets covering the future five-year period with terminal growth rates of negative 1% and 0% for the year 2017 and 2016, respectively. 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 assessments for the years ended December 31, 2017 and 2016, no impairment losses were recognized as the recoverable amount of cash-generating unit was higher than its carrying value.

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(14) Other Current Assets and Other Noncurrent Assets

	December 31,	
	2017	2016
	(in thousands)	
Prepayment for equipment	\$ 457,201	463,910
Refundable and overpaid tax	3,291,235	3,015,534
Long-term prepaid rents	1,412,026	1,940,489
Prepayments for purchases	2,053,554	3,360,869
Long-term receivables	1,790,400	1,974,271
Refundable deposits	515,148	133,221
Others	<u>2,551,070</u>	<u>2,481,104</u>
	12,070,634	13,369,398
Less: current	<u>(6,631,130)</u>	<u>(6,330,283)</u>
Noncurrent	<u>\$ 5,439,504</u>	<u>7,039,115</u>

(15) Short-term Borrowings

	December 31,	
	2017	2016
	(in thousands)	
Unsecured borrowings	<u>\$ 3,424,376</u>	<u>526,723</u>
Unused credit facility	<u>\$ 35,866,924</u>	<u>33,877,442</u>
Interest rate	3.62%~	4.35%~
	4.35%	4.39%

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(16) Long-term Borrowings

Bank or agent bank	Durations	December 31,		
		2017	2016	
		(in thousands)		
Syndicated loans:				
Bank of Taiwan and others	From Feb. 2015 to Feb. 2020	\$ 22,704,000	25,800,000	
Bank of Taiwan and others	From Apr. 2016 to Apr. 2021	37,500,000	25,000,000	
Bank of Taiwan and others	From May 2017 to May 2022	10,000,000	-	
Bank of Taiwan and others	From Jan. 2014 to Dec. 2017	-	23,672,000	
Bank of Taiwan and others	From Feb. 2013 to Mar. 2017	-	7,596,757	
First Commercial Bank and others	From Feb. 2016 to Feb. 2019	2,395,868	3,000,000	
Standard Chartered Bank and others	From Sep. 2014 to Jun. 2017	-	2,358,776	
Bank of China and others	From Nov. 2015 to Nov. 2023	27,800,680	21,216,394	
Unsecured loans	From Apr. 2012 to Apr. 2022	10,203,390	16,005,955	
Mortgage loans	From Apr. 2016 to Apr. 2032	<u>441,035</u>	<u>95,727</u>	
		111,044,973	124,745,609	
Less: transaction costs		<u>(436,963)</u>	<u>(482,989)</u>	
		110,608,010	124,262,620	
Less: current portion		<u>(8,155,234)</u>	<u>(18,074,627)</u>	
		\$ <u>102,452,776</u>	<u>106,187,993</u>	
Unused credit facility		\$ <u>37,220,839</u>	<u>43,228,323</u>	
Interest rate range		1.25%~ 5.16%	1.09%~ 4.90%	

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, 2017.

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, leverage ratio, interest coverage ratio, tangible net worth and others as specified in the loan agreements. As of December 31, 2017 and 2016, the Company complied with all financial covenants under each of the loan agreements.

Refer to note 6(31) for detailed information of exposures to interest rate, currency, and liquidity risk. Refer to note 8 for assets pledged as collateral to secure the aforementioned long-term borrowings.

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(17) Provisions

	<u>Warranties</u>	<u>Litigation and claims</u>	<u>Others</u>	<u>Total</u>
	(in thousands)			
Balance at January 1, 2017	\$ 1,528,898	1,027,328	265,445	2,821,671
Additions (Reversals)	315,760	90,945	4,346	411,051
Usage	(297,829)	(1,025,032)	-	(1,322,861)
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	<u>\$ 821,594</u>	<u>-</u>	<u>245,137</u>	<u>1,066,731</u>
Balance at January 1, 2016	\$ 1,819,519	4,018,880	297,937	6,136,336
Additions (Reversals)	(24,699)	597,325	(25,839)	546,787
Usage	(265,917)	(3,405,923)	-	(3,671,840)
Effect of change in exchange rate	(5)	(182,954)	(6,653)	(189,612)
Balance at December 31, 2016	1,528,898	1,027,328	265,445	2,821,671
Less: current	(756,079)	(1,027,328)	-	(1,783,407)
Noncurrent	<u>\$ 772,819</u>	<u>-</u>	<u>265,445</u>	<u>1,038,264</u>

a. Provisions for warranties

The provisions for warranties for the years ended December 31, 2017 and 2016 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.

b. Provisions for litigation, claims and others

The provisions for litigation, claims and others are expected to be paid over the years in accordance with the outcome of litigation and claims and settlement agreements. See note 9(6) for further information.

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(18) Operating Leases

a. Lessees

Non-cancellable lease payments as of December 31, 2017 and 2016 were as follows:

	December 31,	
	2017	2016
	(in thousands)	
Less than one year	\$ 858,207	843,880
Between one and five years	3,070,676	3,483,532
More than five years	<u>3,491,748</u>	<u>4,011,338</u>
	<u>\$ 7,420,631</u>	<u>8,338,750</u>

AUO entered into various operating lease agreements for land with Hsinchu Science Park Administration Bureaus 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 Bureaus 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 fixed by the government from time to time.

AUO had also on February 2008 renewed its lease agreement with Hsinchu Science Park for the land in Longtan Science Park. The period covers from February 9, 2008 till December 31, 2027. The lease amount is adjusted in accordance with the land value fixed by the government from time to time.

Pursuant to the resolution of board of directors' meeting held on December 22, 2016, AUO decided to acquire the land located at Tainan Technology Industrial Park, which is originally leased from Ministry of Economic Affairs with an acquisition price of \$558,956 thousand. As of December 31, 2017, the transfer of title and payment of consideration have been completed.

In addition, the Company also entered into other operating lease agreements for operating facilities and land, under which the lease agreements will expire from March 2020 through December 2030.

Rental expense for operating leases amounted to \$1,081,731 thousand and \$1,178,774 thousand for the years ended December 31, 2017 and 2016, respectively.

b. Lessor

The Company leased its investment properties to third parties under operating lease. Refer to note 6(12) for further information on investment properties.

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Non-cancellable lease receivables as of December 31, 2017 and 2016 were as follows:

	December 31,	
	2017	2016
	(in thousands)	
Less than one year	\$ 46,538	8,052
Between one and five years	404,695	32,208
More than five years	<u>2,189,936</u>	<u>87,230</u>
	<u>\$ 2,641,169</u>	<u>127,490</u>

The Company also leased partial offices, see note 6(25) for rental income. Repair and maintenance expenses incurred from aforementioned operating leases for the years ended December 31, 2017 and 2016 amounted to \$18,396 thousand and \$449 thousand, respectively.

(19) Employee Benefits

a. Defined benefit plans

Pursuant to the ROC Labor Standards Law, AUO and DPTW have established defined benefit pension plans covering their full-time employees in the ROC. These plans provide for retirement benefits to retiring employees based on years of service and the average salary for the six-month period before the employee's retirement. The funding of these retirement plans by the companies is based on a certain percentage of employees' total salaries. The funds are 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.

AUO, DPTW and M.Setek recognized liabilities for defined benefit obligation and fair value of plan assets at the reporting date as follows:

	December 31,	
	2017	2016
	(in thousands)	
Present value of defined benefit obligation	\$ (3,128,927)	(3,027,176)
Fair value of plan assets	<u>2,213,018</u>	<u>2,105,690</u>
Net defined benefit liability	<u>\$ (915,909)</u>	<u>(921,486)</u>

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(i) Plan assets

AUO and DPTW contribute an amount based on a certain percentage of employees' total salaries paid every month to their respective pension funds (the "Funds"), which are administered by the Bureau of Labor Fund, Ministry of Labor and supervised by the Labor Pension Fund Supervisory Committee (the "Committee") and deposited in the Committee's name with Bank of Taiwan. Under the ROC Labor Standards Law, 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. As of December 31, 2017, the Funds deposited in the Committee's name in the Bank of Taiwan amounted to \$2,213,018 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.

(ii) Movements in the present value of defined benefit obligation

	For the years ended December 31,	
	2017	2016
	(in thousands)	
Balance at January 1,	\$ (3,027,176)	(2,813,072)
Benefits paid	37,528	62,516
Current service cost and interest cost	(59,866)	(72,186)
Effect of changes in exchange rates and others	2,333	(321)
Remeasurements (loss) gain:		
Actuarial (loss) gain arising from:		
- demographic assumptions	(21,054)	(51,349)
- financial assumptions	(126,708)	(244,142)
- experience adjustment	66,016	91,378
Balance at December 31,	\$ (3,128,927)	(3,027,176)

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(iii) Movements in the fair value of plan assets

		For the years ended December 31,	
		2017	2016
		(in thousands)	
Balance at January 1,	\$	2,105,690	2,059,399
Contributions paid by the employer		102,870	103,761
Benefits paid		(17,099)	(28,443)
Interest income		37,902	39,054
Others		-	(47,000)
Remeasurements (loss) gain:			
Return on plan assets excluding interest income		(16,345)	(21,081)
Balance at December 31,	\$	<u>2,213,018</u>	<u>2,105,690</u>

In 2016, DPTW reached an agreement with its employees for terminating its defined benefit plans with a withdrawal of \$47,000 thousand from the surplus of pension fund. A loss on settlement amounting to \$8,967 thousand is then recognized in profit or loss.

(iv) Expenses recognized in profit or loss

		For the years ended December 31,	
		2017	2016
		(in thousands)	
Current service costs	\$	6,242	18,227
Interest costs		15,722	14,905
	\$	<u>21,964</u>	<u>33,132</u>

(v) Remeasurement of net defined benefit liability recognized in other comprehensive income

		For the years ended December 31,	
		2017	2016
		(in thousands)	
Balance at January 1,	\$	(833,590)	(608,396)
Recognized during the period		(98,091)	(225,194)
Balance at December 31,	\$	<u>(931,681)</u>	<u>(833,590)</u>

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(vi) Principal actuarial assumptions

	December 31,	
	2017	2016
Discount rate	0.21%~1.60%	0.33%~1.80%
Rate of increase in future salary	0.77%~4.49%	1.19%~3.79%

The Company anticipates contributing \$102,869 thousand to the defined benefit plans in the next year starting from January 1, 2018.

As at December 31, 2017, the weighted-average duration of the defined benefit obligation was between 5 years to 21 years.

(vii) Sensitivity analysis

Reasonably possible changes at December 31, 2017 and 2016 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, 2016	
	Changes in assumptions		Changes in assumptions	
	+ 0.25%	- 0.25%	+ 0.25%	- 0.25%
	(in thousands)		(in thousands)	
Discount rate	\$ <u><u>(158,160)</u></u>	<u><u>167,594</u></u>	<u><u>(156,764)</u></u>	<u><u>166,453</u></u>
Rate of increase in future salary	\$ <u><u>164,867</u></u>	<u><u>(156,470)</u></u>	<u><u>164,140</u></u>	<u><u>(155,466)</u></u>

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 balance sheet.

The approach to develop the sensitivity analysis and its relevant actuarial assumptions are the same as those in previous year.

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 an employee's monthly salary 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.

AU OPTRONICS CORP. AND SUBSIDIARIES

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AUO and its subsidiaries in the ROC have set up defined contribution plans in accordance with the Act. For the years ended December 31, 2017 and 2016, these companies set aside \$1,003,063 thousand and \$936,923 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 \$892,109 thousand and \$1,127,958 thousand for the years ended December 31, 2017 and 2016, respectively, for the defined contribution plans based on their respective local government regulations.

(20) 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 2016.

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 2016.

AUO's ADSs were listed on the New York Stock Exchange. Each ADS represents 10 shares of common stock. As of December 31, 2017, AUO had issued 38,886 thousand ADSs, which represented 388,863 thousand shares of its common stock.

b. Capital surplus

Balance of capital surplus as of December 31, 2017 and 2016 were as follows:

	December 31,	
	2017	2016
	(in thousands)	
From common stock	\$ 52,756,091	52,756,091
From convertible bonds	6,049,862	6,049,862
From others	<u>1,734,373</u>	<u>1,173,770</u>
	<u>\$ 60,540,326</u>	<u>59,979,723</u>

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 used to issue common stock as stock dividends or distribute cash as cash dividends 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.

AU OPTRONICS CORP. AND SUBSIDIARIES

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c. Legal reserve

According to the ROC Company Act, 10 percent of the annual earnings after payment of income taxes due 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

In accordance with AUO's amended Articles of Incorporation approved in the annual shareholders' meeting held on June 15, 2017, where 10 percent of the annual earnings, after payment of income taxes due 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 reaches 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 does 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 subject to shareholders' approval in annual shareholders' meeting after taking into consideration factors such as finance, business and operations, etc.

Pursuant to relevant laws or regulations or as requested by the local authority, total net balance of items which are accounted for as a reduction to the other components of shareholders' 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 shareholders' equity shall be reclassified from special reserve to undistributed earnings.

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Notes to Consolidated Financial Statements

AUO's appropriations of earnings for 2015 had been approved in the shareholders' meeting held on June 16, 2016. The appropriations and dividends per share were as follows:

For fiscal year 2015		
	Appropriation of earnings	Dividends per share
	(in thousands, except for per share data)	
Legal reserve	\$ 493,196	
Cash dividends to shareholders	3,368,486	\$0.35
	\$ <u>3,861,682</u>	

The aforementioned appropriations of earnings for 2015 was consistent with the resolutions of the board of directors' meeting held on March 10, 2016.

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 of earnings	Dividends per share
	(in thousands, except for per share data)	
Legal reserve	\$ 781,894	
Cash dividends to shareholders	5,389,577	\$0.56
	\$ <u>6,171,471</u>	

The aforementioned appropriations of earnings for 2016 was consistent with the resolutions of the board of directors' meeting held on March 22, 2017.

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.

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Notes to Consolidated Financial Statements

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, 2017	\$ 536,819	224,299	18,254	779,372
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	293,394	-	3,738	297,132
Balance at December 31, 2017	\$ (1,120,969)	1,377,031	-	256,062
Balance at January 1, 2016	\$ 5,612,885	(539,653)	12,279	5,085,511
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
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	1,042,781	-	(1,224)	1,041,557
Balance at December 31, 2016	\$ 536,819	224,299	18,254	779,372

f. Non-controlling interests, net of tax

	For the years ended December 31,	
	2017	2016
	(in thousands)	
Balance at the beginning of the year	\$ 18,390,483	22,651,183
Equity attributable to non-controlling interests:		
Loss for the year	(2,100,929)	(1,212,227)
Adjustment of changes in ownership of investees	(6,262)	(191,239)
Foreign currency translation differences	(355,700)	(1,867,168)
Remeasurement of defined benefit plans	201	(98)
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	(95,834)	(161,371)
Balance at the end of the year	\$ 17,090,747	18,390,483

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(21) 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 years ended December 31,			
	2017		2016	
	Weighted- average exercise price (per share)	Number of options (shares)	Weighted- average exercise price (per share)	Number of options (shares)
Outstanding at January 1	\$ 19.04	2,913,000	\$ 19.36	3,880,000
Options expired	-	(2,913,000)	-	(967,000)
Outstanding at December 31	-	<u>-</u>	19.04	<u>2,913,000</u>
Exercisable at December 31		<u>-</u>		<u>2,913,000</u>

b. ACTW Option Plan

- (i) 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.

- (ii) The related employee benefit expenses and capital surplus recognized on ACTW's employee stock options were \$474 thousand and \$1,534 thousand for the years ended December 31, 2017 and 2016, respectively.

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- (iii) 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

- (iv) Information about ACTW's outstanding stock options is as follows:

	For the years ended December 31,			
	2017		2016	
	Weighted- average exercise price (per share)	Number of options (shares)	Weighted- average exercise price (per share)	Number of options (shares)
Outstanding at January 1	\$ 10	29,209,000	\$ 10	32,843,000
Options exercised	10	(1,162,000)	10	(959,000)
Options expired	-	(11,446,000)	-	(2,675,000)
Outstanding at December 31	10	<u>16,601,000</u>	10	<u>29,209,000</u>
Exercisable at December 31		<u>12,425,000</u>		<u>20,578,000</u>

(22) Revenue

	For the years ended December 31,	
	2017	2016
	(in thousands)	
Sale of goods	\$ 329,584,136	318,243,539
Other operating revenue	<u>11,444,131</u>	<u>10,845,497</u>
	<u>\$ 341,028,267</u>	<u>329,089,036</u>

Refer to note 13 for further revenue information by operating segment.

(23) Remuneration to Employees and Directors

According to AUO's Articles of Incorporation, AUO should distribute remuneration to employees and directors not less than 5% and not more than 1% of annual profits, respectively, after offsetting accumulated deficits, if any. Only employees, including employees of affiliate companies that meet certain conditions are subject 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.

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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, 2017 and 2016, AUO estimated the remuneration to employees amounting to \$4,062,114 thousand and \$1,107,486 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 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 2015 in the amounts of \$665,815 thousand and \$13,316 thousand, respectively, in cash for payment had been approved in the meeting of board of directors held on March 10, 2016. The aforementioned approved amounts are the same as the amounts charged against earnings of 2015.

The information about AUO's remuneration to employees and directors is available at the Market Observation Post System website.

(24) Additional Information of Expenses by Nature

	For the years ended December 31,					
	2017			2016		
	Recognized in cost of sales	Recognized in operating expenses	Total	Recognized in cost of sales	Recognized in operating expenses	Total
	(in thousands)					
Employee benefits expenses:						
Salaries and wages	28,979,871	8,838,450	37,818,321	25,434,347	7,849,292	33,283,639
Labor and health insurances	1,477,522	490,166	1,967,688	1,331,724	473,176	1,804,900
Retirement benefits	1,556,374	360,762	1,917,136	1,724,329	373,684	2,098,013
Other employee benefits	2,689,812	507,512	3,197,324	2,460,214	564,158	3,024,372
Depreciation	31,660,279	4,140,951	35,801,230	34,305,760	4,228,015	38,533,775
Amortization	628,606	-	628,606	1,159,465	-	1,159,465

AU OPTRONICS CORP. AND SUBSIDIARIES

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(25) Other Income

	For the years ended December 31,	
	2017	2016
	(in thousands)	
Interest income on bank deposits	\$ 591,995	491,160
Interest income on government bonds with reverse repurchase agreements and others	20,215	3,382
Rental income, net	531,442	527,381
Dividend income	248,514	107,141
Grants	1,801,585	631,750
Others	636,146	619,414
	<u>\$ 3,829,897</u>	<u>2,380,228</u>

(26) Other Gains and Losses

	For the years ended December 31,	
	2017	2016
	(in thousands)	
Foreign exchange gains (losses), net	\$ (1,364,929)	770,325
Gains (losses) on valuation of financial assets (liabilities) measured at fair value through profit or loss, net	1,646,034	(411,437)
Gains (losses) on disposals of investments and financial assets, net	42,788	(333,858)
Gains on disposals of property, plant and equipment, net	330,814	24,278
Impairment losses on assets	(1,046,668)	(34,733)
Litigation losses and others	(584,599)	(940,248)
	<u>\$ (976,560)</u>	<u>(925,673)</u>

(27) Finance Costs

	For the years ended December 31,	
	2017	2016
	(in thousands)	
Interest expense on bank borrowings	\$ 2,519,839	2,072,458
Interest expense on others	348,022	635,429
	<u>\$ 2,867,861</u>	<u>2,707,887</u>

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(28) Income Taxes

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. Income tax expenses

The components of income tax expense for the years ended December 31, 2017 and 2016 were as follows:

	For the years ended December 31,	
	2017	2016
	(in thousands)	
Current income tax expense:		
Current year	\$ 936,960	953,966
Adjustment to prior years and others	<u>766,122</u>	<u>1,279,690</u>
	<u>1,703,082</u>	<u>2,233,656</u>
Deferred tax expense (benefit):		
Temporary differences	(102,892)	572,509
Investment tax credit and tax losses carryforwards	<u>7,504,928</u>	<u>1,773,026</u>
	<u>7,402,036</u>	<u>2,345,535</u>
Total income tax expense	<u>\$ 9,105,118</u>	<u>4,579,191</u>

Income taxes expense (benefit) recognized directly in other comprehensive income for the years ended December 31, 2017 and 2016 were as follows:

	For the years ended December 31,	
	2017	2016
	(in thousands)	
Items that will never be reclassified to profit or loss:		
Remeasurement of defined benefit obligations	\$ <u>(16,675)</u>	<u>(38,283)</u>
Items that are or may be reclassified subsequently to profit or loss:		
Foreign operations – foreign currency translation differences	(310,559)	(1,064,788)
Cash flow hedges	(3,738)	1,224
Equity-accounted investees – share of other comprehensive income	-	(98,538)
	<u>\$ (314,297)</u>	<u>(1,162,102)</u>

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Reconciliation of the expected income tax expense calculated based on the ROC statutory income tax rate compared with the actual income tax expense as reported in the consolidated statements of comprehensive income for the years ended December 31, 2017 and 2016, was as follows:

	For the years ended December 31,	
	2017	2016
	(in thousands)	
Income tax expense at AUO's statutory tax rate	\$ 6,691,813	1,901,603
Tax on undistributed earnings, net	167,517	118,002
Effect of different subsidiaries income tax rate	348,192	285,661
Share of profit of equity-accounted subsidiaries	(702,601)	(434,256)
Net of non-taxable income and non-deductible expense	(43,470)	109,315
Effect of change of unrecognized deductible temporary differences, tax losses carryforwards, and investment tax credits	1,847,601	1,302,383
Adjustments to prior year	765,113	1,296,215
Others	30,953	268
Income tax expense	\$ 9,105,118	4,579,191
Effective tax rate	23.13%	40.94%

The above reconciliation is prepared based on each individual entity of the Company and presented on an aggregate basis.

b. Deferred tax assets and liabilities

Deferred tax assets had not been recognized were as follows:

	December 31,	
	2017	2016
	(in thousands)	
Deductible temporary differences	\$ 2,770,941	5,383,968
Unused investment tax credits	706,648	47,268
Unused tax losses carryforwards	25,868,554	22,068,113
	\$ 29,346,143	27,499,349

The unused investment tax credits with no expiration for the year ended December 31, 2017 from AUST and ACMK were \$677,257 thousand and \$29,391 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.

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As of December 31, 2017, the expiration period for abovementioned unrecognized deferred tax assets of unused tax losses carryforwards were as follows:

Year of assessment	Unrecognized deferred tax assets (in thousands)	Expiration in year
2009	\$ 427,346	2018 ~ 2019
2010	620,885	2019
2011	1,313,095	2020 ~ 2021
2012	9,583,402	2021 ~ 2022
2013	1,723,631	2018 ~ 2023
2014	2,058,670	2019 ~ 2024
2015	3,851,129	2020 ~ 2025
2016	4,100,117	2021 ~ 2026
2017 (estimated)	2,190,279	2022 ~ 2027
	\$ <u>25,868,554</u>	

As of December 31, 2016, the aggregate taxable temporary differences associated with investments in subsidiaries not recognized as deferred tax liabilities amounted to \$448,513 thousand.

The components of deferred tax assets and liabilities were as follows:

	Deferred tax assets		Deferred tax liabilities		Total	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
	(in thousands)					
Investment tax credits	\$ 656,480	840,112	-	-	656,480	840,112
Tax losses carryforwards	3,942,012	11,324,417	-	-	3,942,012	11,324,417
Unrealized loss and expenses	284,084	370,586	(61,345)	(3,495)	222,739	367,091
Inventories write-down	644,887	587,346	-	-	644,887	587,346
Foreign investment gains under the equity method	-	-	(890,153)	(1,091,023)	(890,153)	(1,091,023)
Accumulated amortization of goodwill in accordance with local tax laws	-	-	(1,881,415)	(1,881,415)	(1,881,415)	(1,881,415)
Remeasurement of defined benefit plans	155,930	139,255	-	-	155,930	139,255
Cash flow hedges	-	-	-	(3,738)	-	(3,738)
Others	<u>1,385,621</u>	<u>1,103,029</u>	<u>(686,729)</u>	<u>(725,629)</u>	<u>698,892</u>	<u>377,400</u>
	\$ <u>7,069,014</u>	<u>14,364,745</u>	<u>(3,519,642)</u>	<u>(3,705,300)</u>	<u>3,549,372</u>	<u>10,659,445</u>

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	January 1, 2016	Recognized in profit or loss	Recognized in other comprehensive income	Effect of change in consolidated entities, exchange rate and others	December 31, 2016	Recognized in profit or loss	Recognized in other comprehensive income	Effect of change in consolidated entities, exchange rate and others	December 31, 2017
	(in thousands)								
Investment tax credits	\$ 859,300	-	-	(19,188)	840,112	(121,696)	-	(61,936)	656,480
Tax losses carryforwards	13,097,443	(1,773,026)	-	-	11,324,417	(7,383,232)	-	827	3,942,012
Unrealized loss and expenses	559,316	(179,276)	-	(12,949)	367,091	(140,760)	-	(3,592)	222,739
Inventories write-down	867,333	(277,416)	-	(2,571)	587,346	57,791	-	(250)	644,887
Foreign investment losses (gains) under the equity method	(1,174,733)	83,710	-	-	(1,091,023)	200,870	-	-	(890,153)
Accumulated amortization of goodwill in accordance with local tax laws	(1,766,052)	(115,363)	-	-	(1,881,415)	-	-	-	(1,881,415)
Remeasurement of defined benefit plans	103,770	-	38,283	(2,798)	139,255	-	16,675	-	155,930
Cash flow hedges	(2,514)	-	(1,224)	-	(3,738)	-	3,738	-	-
Unrealized gains on available-for-sale financial assets	(903)	-	-	903	-	-	-	-	-
Others	(646,982)	(84,164)	1,163,326	(54,780)	377,400	(15,009)	310,559	25,942	698,892
	<u>\$ 11,895,978</u>	<u>(2,345,535)</u>	<u>1,200,385</u>	<u>(91,383)</u>	<u>10,659,445</u>	<u>(7,402,036)</u>	<u>330,972</u>	<u>(39,009)</u>	<u>3,549,372</u>

c. Assessments by the tax authorities

As of December 31, 2017, the tax authorities have completed the examination of income tax returns of AUO through 2015.

d. The integrated income tax system

	December 31,	
	2017	2016
	(in thousands)	
Unappropriated earnings generated after 1998	\$ <u>47,675,843</u>	<u>21,585,361</u>
Balance of the imputation credit account (ICA)	\$ <u>3,072,019</u>	<u>3,878,285</u>
	(Estimated)	(Actual)
Creditable ratios for distribution of AUO's earnings for ROC resident shareholders	<u>6.44%</u>	<u>19.27%</u>

The abovementioned integrated income tax information is prepared in accordance with Decree No. 10204562810 announced on October 17, 2013 by the ROC Ministry of Finance.

According to the amendment to the ROC Income Tax Act passed by the Legislature of ROC on January 18, 2018, effective from January 1, 2018, the Company will no longer be required to establish, record, calculate and distribute its imputation credit account due to the abolishment of the imputation tax system. The information presented above is for reference only.

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Notes to Consolidated Financial Statements

(29) Earnings per Share

	For the years ended December 31,	
	2017	2016
	(in thousands, except for per share data)	
Basic earnings per share		
Profit attributable to AUO's shareholders	\$ <u>32,359,417</u>	<u>7,818,938</u>
Weighted-average number of common shares outstanding during the year	<u>9,624,245</u>	<u>9,624,245</u>
Basic earnings per share	\$ <u>3.36</u>	<u>0.81</u>
Diluted earnings per share		
Profit attributable to AUO's shareholders	\$ <u>32,359,417</u>	<u>7,818,938</u>
Weighted-average number of common shares outstanding during the year	9,624,245	9,624,245
Effect of employee remuneration in stock	<u>347,903</u>	<u>107,547</u>
	<u>9,972,148</u>	<u>9,731,792</u>
Diluted earnings per share	\$ <u>3.24</u>	<u>0.80</u>

(30) Financial Instruments

a. Fair value and carrying amount

The carrying amount of the Company's non-derivative financial instruments—current, including cash and cash equivalents, receivables or payables (including related parties), other current financial assets, and short-term borrowings, were considered to approximate their fair value due to their short-term nature.

Except for aforementioned financial instruments, the carrying amount and fair value of other financial instruments of the Company as of December 31, 2017 and 2016 were as follows:

	December 31, 2017		December 31, 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in thousands)			
Financial assets:				
Financial assets at fair value through profit or loss:				
Foreign currency forward contracts	\$ 70,366	70,366	65,669	65,669
Available-for-sale financial assets—noncurrent	4,170,319	4,170,319	2,836,696	2,836,696
Loans and receivables:				
Long-term receivables	1,790,400	1,790,400	1,974,271	1,974,271
Refundable deposits	515,148	515,148	133,221	133,221

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	December 31, 2017		December 31, 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in thousands)			
Financial liabilities:				
Financial liabilities at fair value through profit or loss:				
Foreign currency forward contracts	106,597	106,597	896,998	896,998
Derivative financial liabilities for hedging:				
Interest rate swap contracts	-	-	3,540	3,540
Financial liabilities measured at amortized cost:				
Long-term borrowings (including current installments)	110,608,010	110,608,010	124,262,620	124,262,620
Guarantee deposits received	838,482	838,482	838,263	838,263

b. 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 interest rate swap contract is measured based on reasonable valuation model and assumptions with reference to market valuation information provided by counterparties, i.e. financial institutions.

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 received 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.

The Company refers to the quoted spot rates from Reuters quote system for US Dollar's closing price and other currencies' buy rates, which has been applied consistently to all periods presented and served as the basis for retranslation of the fair value of abovementioned financial instruments that denominated in foreign currencies.

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c. Fair value measurements recognized in the consolidated balance sheets

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.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	(in thousands)			
December 31, 2017				
Financial assets at fair value through profit or loss:				
Foreign currency forward contracts	\$ -	70,366	-	70,366
Available-for-sale financial assets — noncurrent	4,170,319	-	-	4,170,319
Loans and receivables:				
Long-term receivables	-	1,790,400	-	1,790,400
Financial liabilities at fair value through profit or loss:				
Foreign currency forward contracts	-	106,597	-	106,597
December 31, 2016				
Financial assets at fair value through profit or loss:				
Foreign currency forward contracts	-	65,669	-	65,669
Available-for-sale financial assets — noncurrent	2,836,696	-	-	2,836,696
Loans and receivables:				
Long-term receivables	-	1,974,271	-	1,974,271
Financial liabilities at fair value through profit or loss:				
Foreign currency forward contracts	-	896,998	-	896,998
Derivative financial liabilities for hedging:				
Interest rate swap contracts	-	3,540	-	3,540

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There were no transfers between Level 1 and 2 for the years ended December 31, 2017 and 2016.

(31) 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:

(i) 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:

- (a) The carrying amount of financial assets recognized in the consolidated balance sheets.
- (b) The amount of contingent liabilities as a result from the Company providing financial guarantee to its customers.

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.

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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 2016, the Company's five largest customers accounted for 39.0% and 36.3%, respectively, of the Company's consolidated net revenue. There is no other significant concentration of credit risk.

Refer to note 6(5) for aging analysis of accounts receivable and the movement in the allowance of doubtful accounts receivable.

For credit of guarantee, the Company's policy is to provide financial guarantees only to wholly-owned subsidiaries.

(ii) Liquidity risk

Liquidity risk is the risk that the Company has no sufficient working capital and unused credit facilities to meet its obligations associated with matured financial liabilities, that may resulting from an economic downturn or uneven demand and supply in the market and cause a significant decrease in product selling prices and market demands.

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. As at December 31, 2017, the Company's working capital together with existing unused credit facilities under its existing loan agreements will be sufficient to fulfill all of its contractual obligations. Therefore, management believes that there is no liquidity risk resulting from incapable of financing to fulfill the contractual obligations.

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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.

	<u>Contractual cash flows</u>	<u>2018.1.1~ 2018.12.31</u>	<u>2019.1.1~ 2020.12.31</u>	<u>2021.1.1~ 2022.12.31</u>	<u>2023 and thereafter</u>
			(in thousands)		
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	<u>22,170,245</u>	<u>22,170,245</u>	<u>-</u>	<u>-</u>	<u>-</u>
	\$ <u>123,653,473</u>	<u>14,445,249</u>	<u>68,465,403</u>	<u>33,892,568</u>	<u>6,850,253</u>
	<u>Contractual cash flows</u>	<u>2017.1.1~ 2017.12.31</u>	<u>2018.1.1~ 2019.12.31</u>	<u>2020.1.1~ 2021.12.31</u>	<u>2022 and thereafter</u>
			(in thousands)		
December 31, 2016					
Non-derivative financial liabilities					
Short-term borrowings	\$ 526,723	526,723	-	-	-
Long-term borrowings (including current installments)	133,125,692	21,116,908	75,423,482	27,662,194	8,923,108
Refundable deposits	838,263	75,970	3,078	7,275	751,940
Derivative financial instruments					
Foreign currency forward contracts — inflows	(37,819,838)	(37,819,838)	-	-	-
Foreign currency forward contracts — outflows	38,625,310	38,625,310	-	-	-
Interest rate swap contracts	<u>3,446</u>	<u>3,446</u>	<u>-</u>	<u>-</u>	<u>-</u>
	\$ <u>135,299,596</u>	<u>22,528,519</u>	<u>75,426,560</u>	<u>27,669,469</u>	<u>9,675,048</u>

The Company is not expecting that the cash flows included in the maturity analysis could occur significantly earlier or at significantly different amounts.

(iii) 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 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.

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(a) 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.

I. Exposure of currency risk

The Company's significant exposure to foreign currency risk was as follows:

December 31, 2017				December 31, 2016			
	Foreign currency amounts	Exchange rate	NTD	Foreign currency amounts	Exchange rate	NTD	
	(in thousands)		(in thousands)	(in thousands)		(in thousands)	
Financial assets							
Monetary items							
USD	\$ 2,084,406	29.840	62,198,675	2,287,148	32.312	73,902,326	
JPY	10,228,194	0.2644	2,704,334	20,236,416	0.2773	5,611,558	
EUR	46,517	35.632	1,657,494	106,660	33.895	3,615,241	
Non-monetary items							
USD	3,300	29.840	98,472	3,000	32.312	96,936	
RMB	19,426	4.5697	88,771	20,758	4.6391	96,298	
Financial liabilities							
Monetary items							
USD	1,048,371	29.840	31,283,391	1,099,799	32.312	35,536,705	
JPY	27,100,546	0.2644	7,165,384	26,820,343	0.2773	7,437,281	
EUR	418	35.632	14,894	987	33.895	33,454	

II. Sensitivity analysis

The Company's exposure to foreign currency risk arises 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 2016, 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 2016 as follows:

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		For the years ended December 31,	
		2017	2016
		(in thousands)	
1% of depreciation	\$	280,968	401,217
1% of appreciation		(280,968)	(401,217)

III. 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, 2017 and 2016 were \$(1,364,929) thousand and \$770,325 thousand, respectively.

(b) 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 enters into and designates interest rate swaps as hedges of the variability in cash flows attributable to interest rate risk.

The following sensitivity analysis is determined based on the exposure to interest rate risk. For floating-rate debts, the analysis assumes that the balances of outstanding debts at the end of the reporting period had been outstanding for the entire year.

For the Company's floating-rate debts, assuming 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, 2017 and 2016 by \$277,612 thousand and \$307,464 thousand, respectively.

(c) Equity price risk

See note 6(3) for disclosure of equity price risk analysis.

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(32) 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,	
	2017	2016
	(in thousands)	
Total liabilities	\$ 216,206,169	230,134,069
Total equity	225,245,115	199,635,182
Interest-bearing debts	114,032,386	124,789,343
Debt-to-equity ratio	96%	115%
Interest-bearing debt-to-equity ratio	51%	63%
Net debt-to-equity ratio ⁽¹⁾	4%	22%

(1) Net debt-to-equity ratio is defined as interest-bearing debts less cash and cash equivalents divided by total equity.

7. Related-party Transactions

All inter-company transactions and balances between AUO and its subsidiaries are eliminated in the consolidated financial statements and are not disclosed in the note. The transactions between the Company and its related parties are set out as follows:

(1) Name and relationship of related parties

Name of related party	Relationship with the Company
Lextar Electronics Corporation (“Lextar”)	Associate of the Company
Lextar Electronics (Suzhou) Co., Ltd. (“LESZ”)	Subsidiary of Lextar
Lextar Electronics (Xiamen) Co., Ltd. (“LEXM”)	Subsidiary of Lextar
Wellypower Optronics (Suzhou) Corporation (“AOC”)	Subsidiary of Lextar
Raydium Semiconductor Corporation (“Raydium”)	Associate of the Company
Dazzo Technology Corporation (“Dazzo”)	Subsidiary of Raydium ⁽ⁱ⁾
Star River Energy Corp. (“SREC”)	Associate of the Company
Sungen Power Corporation (“SGPC”)	Subsidiary of SREC
Evergen Power Corporation (“EGPC”)	Subsidiary of SREC ⁽ⁱⁱ⁾
Star Shining Energy Corporation (“SSEC”)	Associate of the Company
Fargen Power Corporation (“FGPC”)	Subsidiary of SSEC ⁽ⁱⁱⁱ⁾
TronGen Power Corporation (“TGPC”)	Subsidiary of SSEC ⁽ⁱⁱⁱ⁾
Daxin Materials Corp. (“Daxin”)	Associate of the Company

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Name of related party	Relationship with the Company
Ichijo Seisakusyo Co., Ltd. (“Ichijo”)	Associate of the Company
AUO SunPower Sdn. Bhd. (“AUSP”)	Joint venture of the Company ^(iv)
BVCH Optronics (Sichuan) Corp. (“BVCH”)	Joint venture of the Company
Evonik Forhouse Optical Polymers Corp. (“EFOP”)	Joint venture of the Company
Wibase Industrial Solutions Inc. (“WIS”) (formerly iSAFE Technology Inc.)	DPTW represented as a director of WIS
Qisda Corporation (“Qisda”)	AUO’s director
Qisda Japan Co., Ltd. (“QJTO”)	Subsidiary of Qisda
BenQ Corporation (“BenQ”)	Subsidiary of Qisda
BenQ Materials Corp. (“BMC”)	Subsidiary of Qisda
Qisda (Suzhou) Co., Ltd. (“QCSZ”)	Subsidiary of Qisda
Qisda Electronics (Suzhou) Co., Ltd. (“QCES”)	Subsidiary of Qisda
Qisda Optronics (Suzhou) Co., Ltd. (“QCOS”)	Subsidiary of Qisda
BenQ Europe B.V. (“BQE”)	Subsidiary of Qisda
BenQ Asia Pacific Corp. (“BQP”)	Subsidiary of Qisda
BenQ America Corporation (“BQA”)	Subsidiary of Qisda
Mainteq Europe B.V. (“MQE”)	Subsidiary of Qisda
BenQ Medical Technology Corp. (“TMC”)	Subsidiary of Qisda
BenQ Australia Pty Ltd. (“BQau”)	Subsidiary of Qisda
BenQ Co., Ltd. (“BQC”)	Subsidiary of Qisda
BenQ Logistic (Shanghai) Co., Ltd. (“BQls”)	Subsidiary of Qisda
BenQ Guru Software Co., Ltd. (“GSS”)	Subsidiary of Qisda
BenQ Guru Corporation (“GST”)	Subsidiary of Qisda
BenQ Material (Suzhou) Co., Ltd. (“BMS”)	Subsidiary of Qisda
Daxon Biomedical (Suzhou) Co., Ltd. (“DTB”)	Subsidiary of Qisda
Nanjing BenQ Hospital Co., Ltd. (“QCHN”)	Subsidiary of Qisda
Suzhou BenQ Hospital Co., Ltd. (“QCHS”)	Subsidiary of Qisda
BenQ Foundation	Substantive related party

- (i) On October 1, 2016, Raydium, the associate of the Company, issued its new shares in exchange for all outstanding shares of another associate of the Company, Dazzo. Refer to note 6(8) for the related disclosures.
- (ii) The Company disposed all its shareholdings in EGPC to SREC, an associate of the Company, in October 2016.
- (iii) The Company disposed all its shareholdings in FGPC and TGPC to SSEC, an associate of the Company, in December 2017. Refer to note 6(10) for the related disclosures.
- (iv) In September 2016, the Company disposed of its entire 50% interest in AUSP to SPTL. Refer to note 6(8) for the related disclosures.

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Notes to Consolidated Financial Statements

(2) Compensation to key management personnel

Key management personnel's compensation comprised:

	For the years ended December 31,	
	2017	2016
	(in thousands)	
Short-term employee benefits	\$ 566,231	354,883
Post-employment benefits	2,244	1,937
	\$ <u>568,475</u>	<u>356,820</u>

(3) Except for otherwise disclosed in other notes to the consolidated financial statements, the Company's significant related party transactions and balances were as follows:

a. Sales

	Sales		Accounts receivable from related parties	
	For the years ended December 31,		December 31,	
	2017	2016	2017	2016
	(in thousands)			
Associates	\$ 1,216,868	554,889	184,948	58,755
Joint ventures	-	4,105,390	-	-
Others	11,959,720	12,767,161	1,668,114	2,474,469
	\$ <u>13,176,588</u>	<u>17,427,440</u>	<u>1,853,062</u>	<u>2,533,224</u>

The collection terms for sales to related parties were month-end 30 to 55 days. The pricing for sales to related parties were not materially different from those with third parties.

b. Purchases

	Purchases		Notes and accounts payable to related parties	
	For the years ended December 31,		December 31,	
	2017	2016	2017	2016
	(in thousands)			
Associates	\$ 8,667,555	9,886,487	3,233,050	3,734,927
Joint ventures	1,057,106	3,754,404	-	-
Others	17,549,228	18,317,386	4,431,681	5,088,138
	\$ <u>27,273,889</u>	<u>31,958,277</u>	<u>7,664,731</u>	<u>8,823,065</u>

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.

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c. Acquisition of property, plant and equipment

	For the years ended December 31,	
	2017	2016
	(in thousands)	
Associates	\$ 1,549	7,391
Others	2,801	-
	\$ 4,350	7,391

d. Disposal of property, plant and equipment and others

	Proceeds from disposal For the years ended December 31,		Gains on disposal For the years ended December 31,	
	2017	2016	2017	2016
	(in thousands)			
Associates	\$ -	926	-	22
Others	3,352	-	2,212	-
	\$ 3,352	926	2,212	22

e. Other related party transactions

	Other receivables due from related parties December 31,	
	2017	2016
	(in thousands)	
Associates	\$ 47,746	10,970
Others	6,347	23,318
	\$ 54,093	34,288

	Other payables due to related parties (including equipment payable) December 31,	
	2017	2016
	(in thousands)	
Associates	\$ 9,009	16,218
Joint ventures	292	406
Others	15,137	10,717
	\$ 24,438	27,341

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		Rental income	
		For the years ended	
		December 31,	
		2017	2016
		(in thousands)	
Associates	\$	48,223	31,858
Joint ventures		6,611	6,611
Others:			
BMC		62,787	63,314
Others		19,640	26,718
	\$	<u>137,261</u>	<u>128,501</u>

		Administration and other	
		income	
		For the years ended	
		December 31,	
		2017	2016
		(in thousands)	
Associates	\$	14,311	15,083
Joint ventures		-	8,301
Others		9,246	5,174
	\$	<u>23,557</u>	<u>28,558</u>

		Rental and other expenses	
		For the years ended	
		December 31,	
		2017	2016
		(in thousands)	
Associates	\$	28,017	36,499
Joint ventures		1,389	21,821
Others		35,040	55,131
	\$	<u>64,446</u>	<u>113,451</u>

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, 2017 and 2016, cash dividends declared by related parties of \$420,547 thousand and \$307,481 thousand, respectively, were received by the Company.

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8. 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	2016
(in thousands)			
Restricted cash in banks ⁽ⁱ⁾	R&D projects, oil purchases and guarantees for foreign labors and customs duties	\$ 87,105	93,379
Land and building (including investment property)	Long-term borrowings	42,031,020	52,076,840
Machinery, equipment and prepayments for equipment	Long-term borrowings	<u>17,143,591</u>	<u>27,058,442</u>
		<u>\$ 59,261,716</u>	<u>79,228,661</u>

(i) Classified as other current financial assets and other noncurrent assets by its liquidity.

9. Significant Contingent Liabilities and Unrecognized Commitments

The significant commitments and contingencies of the Company as of December 31, 2017, in addition to those disclosed in other notes to the consolidated financial statements, were as follows:

- (1) As at December 31, 2017, the Company had the following outstanding letters of credit for the purpose of purchasing machinery and equipment and materials:

Currency	December 31, 2017
	(in thousands)
USD	15,029
JPY	2,761,778

- (2) 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.
- (3) 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.

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- (4) Starting from 2006, DPTW has entered into a long-term materials supply agreement with EFOP, under which, DPTW and EFOP agreed on the supply of certain optical-grade molding compounds at negotiated prices and quantities.
- (5) As at December 31, 2017, significant outstanding purchase commitments for construction in progress, property, plant and equipment totaled \$25,561,337 thousand.
- (6) Since December 2006, AUO and certain of its subsidiaries, along with various competitors in the TFT-LCD industry, were under investigation for alleged violation of antitrust and competition laws of certain jurisdictions. Set forth below is a list of the material antitrust proceedings against AUO and certain of its subsidiaries.

United States

In 2012, the Northern California Court rendered judgment against AUO and AUUS regarding the alleged violations of Section 1 of the Sherman Act and imposed a fine of US\$500 million against AUO. Such fine was fully paid by AUO as of December 31, 2015. The Northern California Court also placed AUO and AUUS on probation as well as assigned a monitor and required AUO to adopt an effective antitrust compliance program. The probationary period and monitorship ended in December 2016.

Antitrust Civil Actions Lawsuits

There were over 100 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 February 6, 2018, 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.

- (7) In July and August of 2014, SunPower Technology, Ltd. ("SPTL"), AUO and AUSG submitted certain disputes for arbitration in the International Court of Arbitration of the International Chamber of Commerce in San Francisco, U.S. in connection with the joint venture agreement among the parties. The arbitration was amicably settled by the parties in September 2016. AUSG sold all of its shares in the joint venture company AUSE to SPTL at the price of US\$170,100 thousand. Please see note 6(8)b. for further details. The shares purchase price shall be paid by SPTL in accordance with the agreement and guaranteed by SunPower Corporation, SPTL's parent company. The parties have reached amicable agreements regarding the relevant issues, including terminations of the joint venture agreement and relevant agreements and agreed to terminate the arbitration.

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- (8) 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 initial investigation, 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 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.

As of February 6, 2018, 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. 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. The ultimate amount cannot be ascertained until the relevant cases are closed. 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. 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.

10. Significant Disaster Losses: None.

11. Subsequent Events

FLWJ was resolved by its board of directors for liquidation in October 2012. As of December 31, 2017, the liquidation was still in process. In January 2018, FLMI has received the proceeds of USD7,905 thousand as return of capital from FLWJ.

According to the amendment to the ROC Income Tax Act passed by the Legislature of ROC on January 18, 2018, an increase in the corporate income tax rate from 17% to 20% is applicable upon filing the corporate income tax return starting from fiscal year 2018 onwards. This increase does not affect the amounts of the current and deferred taxes recognized on December 31, 2017. However, this amendment will increase the Company's current and deferred tax charge accordingly in the future. Assuming the new tax rate is applied in calculating the taxable temporary differences and unused tax losses carryforwards recognized on December 31, 2017,

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the deferred tax assets and deferred tax liabilities would increase by \$998,697 thousand and \$546,504 thousand, respectively.

12. 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. The Central Taiwan Science Park Bureau is now reviewing the comments and conclusion of the review meeting and will reply to the Environmental Impact Assessment Committee of the EPA for further discussion. After approval, the Project will be submitted to the Environmental Impact Assessment General Meeting for review. 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.

13. Segment Information

(1) Operating segment information

The Company has two operating segments: display and 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 solar 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.

Segment results are excluding non-operating income and expenses and income tax expense (benefit). There are no differences between the consolidated financial statements for the years ended December 31, 2017 and 2016 with the financial results received by the Company's chief operating decision maker. The accounting policies for the operating segments are the same as those used in preparation of the consolidated financial statements of the Company. The Company uses the net revenue, profit (loss) from operations and segment profit (loss) excluding depreciation and amortization as the basis of segment performance assessment.

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	For the year ended December 31, 2017			
	Display	Solar	Adjustment and elimination	Total segments
			(in thousands)	
Net revenue from external customers	\$ <u>322,335,330</u>	<u>18,692,937</u>	<u>-</u>	<u>341,028,267</u>
Segment profit (loss)	\$ <u>39,971,375</u>	<u>(832,251)</u>	<u>-</u>	39,139,124
Net non-operating income and expenses				224,482
Consolidated profit before income tax				\$ <u>39,363,606</u>
Segment profit (loss) excluding depreciation and amortization	\$ <u>74,787,838</u>	<u>781,122</u>	<u>-</u>	<u>75,568,960</u>
Segment assets				\$ <u>441,451,284</u>

	For the year ended December 31, 2016			
	Display	Solar	Adjustment and elimination	Total segments
			(in thousands)	
Net revenue from external customers	\$ <u>304,826,682</u>	<u>24,262,354</u>	<u>-</u>	<u>329,089,036</u>
Segment profit (loss)	\$ <u>12,703,548</u>	<u>(365,092)</u>	<u>-</u>	12,338,456
Net non-operating income and expenses				(1,152,554)
Consolidated profit before income tax				\$ <u>11,185,902</u>
Segment profit (loss) excluding depreciation and amortization	\$ <u>50,563,978</u>	<u>1,467,718</u>	<u>-</u>	<u>52,031,696</u>
Segment assets				\$ <u>429,769,251</u>

(2) Geographic information

a. Net revenue from external customers

Region	For the years ended December 31,	
	2017	2016
	(in thousands)	
PRC (including Hong Kong)	\$ 125,341,648	115,110,137
Taiwan	108,288,387	104,059,325
Japan	32,739,262	33,346,041
Singapore	35,939,290	31,776,305
Others	38,719,680	44,797,228
	\$ <u>341,028,267</u>	<u>329,089,036</u>

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

b. Consolidated noncurrent assets⁽ⁱ⁾

<u>Region</u>	December 31,	
	2017	2016
	(in thousands)	
Taiwan	\$ 165,377,866	160,109,961
PRC (including Hong Kong)	67,846,109	68,356,214
Others	11,037,333	15,383,473
	\$ <u>244,261,308</u>	<u>243,849,648</u>

(i) Noncurrent assets are not inclusive of financial instruments, deferred tax assets, and prepaid pension.

(3) Major customer information

	For the years ended December 31,			
	2017	% of consolidated net revenue	2016	% of consolidated net revenue
	(in thousands)			
Customer A	\$ <u>43,645,518</u>	<u>13</u>	<u>37,306,348</u>	<u>11</u>

(4) Product information

Information of the Company's consolidated net revenue from external customers was as follows:

	For the years ended December 31,	
	2017	2016
	(in thousands)	
Products for Televisions	\$ 152,442,198	140,519,923
Products for Mobile PCs	56,209,501	52,721,494
Products for Mobile Devices	14,858,803	14,170,637
Products for Monitors	45,696,144	44,668,054
Products for Commercial and Others ⁽ⁱⁱ⁾	53,128,684	52,746,574
Solar Products	18,692,937	24,262,354
	\$ <u>341,028,267</u>	<u>329,089,036</u>

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