

AU OPTRONICS CORP
Form 20-F
March 30, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

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

OR

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

For the fiscal year ended December 31, 2016

OR

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

For the transition period from to

OR

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

Date of event requiring this shell company report

Commission file number: 001-31335

(Exact name of Registrant as specified in its charter)

AU OPTRONICS CORP. TAIWAN, REPUBLIC OF CHINA
(Translation of Registrant's name into English) (Jurisdiction of incorporation or organization)

**1 LI-HSIN ROAD 2
HSINCHU SCIENCE PARK
HSINCHU, TAIWAN
REPUBLIC OF CHINA**
(Address of principal executive offices)

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

E-mail: IR@auo.com
(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

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

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

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

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

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

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

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

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

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

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

Large Accelerated Filer Accelerated Filer Non-accelerated Filer

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

Edgar Filing: AU OPTRONICS CORP - Form 20-F

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

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

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

table of contentsPage

| | |
|--|-----------|
| <u>SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS</u> | <u>1</u> |
| <u>CERTAIN CONVENTIONS</u> | <u>3</u> |
| <u>REFERENCES</u> | <u>4</u> |
| <u>PART I</u> | <u>5</u> |
| <u>ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS</u> | <u>5</u> |
| <u>ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE</u> | <u>5</u> |
| <u>ITEM 3. KEY INFORMATION</u> | <u>6</u> |
| 3.A. <u>Selected Financial Data</u> | <u>6</u> |
| 3.B. <u>Capitalization and Indebtedness</u> | <u>8</u> |
| 3.C. <u>Reason for the Offer and Use of Proceeds</u> | <u>8</u> |
| 3.D. <u>Risk Factors</u> | <u>8</u> |
| <u>ITEM 4. INFORMATION ON THE COMPANY</u> | <u>31</u> |
| 4.A. <u>History and Development of the Company</u> | <u>31</u> |
| 4.B. <u>Business Overview</u> | <u>32</u> |
| 4.C. <u>Organizational Structure</u> | <u>39</u> |
| 4.D. <u>Property, Plants and Equipment</u> | <u>43</u> |
| <u>ITEM 4A. UNRESOLVED STAFF COMMENTS</u> | <u>46</u> |
| <u>ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS</u> | <u>46</u> |
| 5.A. <u>Operating Results</u> | <u>46</u> |
| 5.B. <u>Liquidity and Capital Resources</u> | <u>57</u> |
| 5.C. <u>Research and Development</u> | <u>60</u> |
| 5.D. <u>Trend Information</u> | <u>61</u> |
| 5.E. <u>Off-Balance Sheet Arrangements</u> | <u>61</u> |
| 5.F. <u>Tabular Disclosure of Contractual Obligations</u> | <u>62</u> |
| <u>ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES</u> | <u>62</u> |
| 6.A. <u>Directors and Senior Management</u> | <u>62</u> |
| 6.B. <u>Compensation</u> | <u>66</u> |
| 6.C. <u>Board Practices</u> | <u>67</u> |
| 6.D. <u>Employees</u> | <u>67</u> |
| 6.E. <u>Share Ownership</u> | <u>68</u> |
| <u>ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS</u> | <u>69</u> |
| 7.A. <u>Major Shareholders</u> | <u>69</u> |
| 7.B. <u>Related Party Transactions</u> | <u>70</u> |
| 7.C. <u>Interests of Experts and Counsel</u> | <u>71</u> |
| <u>ITEM 8. FINANCIAL INFORMATION</u> | <u>71</u> |
| 8.A. <u>Consolidated Statements and Other Financial Information</u> | <u>71</u> |
| 8.B. <u>Significant Changes</u> | <u>74</u> |
| <u>ITEM 9. THE OFFER AND LISTING</u> | <u>74</u> |
| 9.A. <u>Offering and Listing Details</u> | <u>74</u> |

| | | |
|-----------------|---|-----------|
| <u>9.B.</u> | <u>Plan of Distribution</u> | <u>74</u> |
| <u>9.C.</u> | <u>Markets</u> | <u>75</u> |
| <u>9.D.</u> | <u>Selling Shareholders</u> | <u>75</u> |
| <u>9.E.</u> | <u>Dilution</u> | <u>75</u> |
| <u>9.F.</u> | <u>Expenses of the Issue</u> | <u>75</u> |
| <u>ITEM 10.</u> | <u>ADDITIONAL INFORMATION</u> | <u>75</u> |
| <u>10.A.</u> | <u>Share Capital</u> | <u>75</u> |
| <u>10.B.</u> | <u>Memorandum and Articles of Association</u> | <u>75</u> |
| <u>10.C.</u> | <u>Material Contracts</u> | <u>80</u> |
| <u>10.D.</u> | <u>Exchange Controls</u> | <u>80</u> |
| <u>10.E.</u> | <u>Taxation</u> | <u>81</u> |
| <u>10.F.</u> | <u>Dividends and Paying Agents</u> | <u>85</u> |
| <u>10.G.</u> | <u>Statement by Experts</u> | <u>85</u> |
| <u>10.H.</u> | <u>Documents on Display</u> | <u>86</u> |

| | | |
|---|---|------------|
| <u>10.I.</u> | <u>Subsidiary Information</u> | <u>86</u> |
| <u>ITEM 11.</u> | <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u> | <u>86</u> |
| <u>ITEM 12.</u> | <u>DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES</u> | <u>90</u> |
| <u>12.A.</u> | <u>Debt Securities</u> | <u>90</u> |
| <u>12.B.</u> | <u>Warrants and Rights</u> | <u>90</u> |
| <u>12.C.</u> | <u>Other Securities</u> | <u>90</u> |
| <u>12.D.</u> | <u>American Depositary Shares</u> | <u>90</u> |
| <u>PART II</u> | | |
| <u>ITEM 13.</u> | <u>ITEM DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES</u> | <u>92</u> |
| <u>ITEM 14.</u> | <u>MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS</u> | <u>92</u> |
| <u>ITEM 15.</u> | <u>CONTROLS AND PROCEDURES</u> | <u>92</u> |
| <u>ITEM 16.</u> | <u>[RESERVED]</u> | <u>94</u> |
| <u>16.A.</u> | <u>Audit Committee Financial Expert</u> | <u>94</u> |
| <u>16.B.</u> | <u>Code of Ethics</u> | <u>94</u> |
| <u>16.C.</u> | <u>Principal Accountant Fees and Services</u> | <u>94</u> |
| <u>16.D.</u> | <u>Exemptions from the Listing Standards for Audit Committees</u> | <u>95</u> |
| <u>16.E.</u> | <u>Purchases of Equity Securities by the Issuer and Affiliated Purchasers</u> | <u>95</u> |
| <u>16.F.</u> | <u>Change in Registrant’s Certifying Accountant</u> | <u>95</u> |
| <u>16.G.</u> | <u>Corporate Governance</u> | <u>95</u> |
| <u>16.H.</u> | <u>Mine Safety Disclosure</u> | <u>96</u> |
| <u>PART III</u> | | |
| <u>ITEM 17.</u> | <u>FINANCIAL STATEMENTS</u> | <u>97</u> |
| <u>ITEM 18.</u> | <u>FINANCIAL STATEMENTS</u> | <u>97</u> |
| <u>ITEM 19.</u> | <u>EXHIBITS</u> | <u>97</u> |
| <u>SIGNATURES</u> | | <u>99</u> |
| <u>INDEX TO CONSOLIDATED FINANCIAL STATEMENTS</u> | | <u>100</u> |

Table of Contents

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

our ability to compete effectively;

our dependence on the outsourcing of manufacturing by brand companies to original equipment manufacturing service providers;

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

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

our dependence on key personnel;

our relationship with our affiliates;

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

changes in technology and competing products;

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

Table of Contents

- general political, economic, financial and regulatory conditions;
- fluctuations in foreign currency exchange rates; and
- other factors in the “Risk Factors” section in this annual report. Please see “Item 3. Key Information—3.D. Risk Factors.”

Table of Contents

CERTAIN CONVENTIONS

We publish our financial statements in New Taiwan dollars (“NT dollars”), the lawful currency of the Republic of China (“ROC”). This annual report contains translations of NT dollar amounts, Renminbi (“RMB” or “CNY”) amounts, Japanese Yen (“JPY”) amounts and Euro (“EUR”) amounts, into United States dollars (“U.S. dollars”), at specific rates solely for the convenience of the reader. For convenience only and unless otherwise noted, all translations between NT dollars and U.S. dollars, between RMB and U.S. dollars, between JPY and U.S. dollars and between EUR and U.S. dollars in this annual report were made at a rate of NT\$32.4 to US\$1.00, RMB6.9430 to US\$1.00, JPY116.78 to US\$1.00 and EUR0.9477 to US\$1.00, respectively, the exchange rates set forth in the H.10 weekly statistical release of the Federal Reserve System of the United States (the “Federal Reserve Board”) on December 30, 2016. No representation is made that the NT dollar, RMB, JPY, EUR or U.S. dollar amounts referred to herein could have been or could be converted into U.S. dollars, RMB, JPY, EUR or NT dollars, as the case may be, at any particular rate or at all. On March 13, 2017, the exchange rates set forth in the H.10 weekly statistical release of the Federal Reserve Board were NT\$30.99 to US\$1.00, RMB6.9050 to US\$1.00, JPY114.61 to US\$1.00 and EUR0.9372 to US\$1.00, respectively. Any discrepancies in any table between totals and sums of the amounts listed are due to rounding.

Table of Contents

REFERENCES

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

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

The International Financial Reporting Standards as issued by the International Accounting Standards Board

“Investment Regulations” The ROC Regulations Governing Securities Investment by Overseas Chinese and Foreign Nationals

“Israeli Court” District Court of the Central District in Israel

“large-size panels” Panels ten inches and above in diagonal length

“LTPS” Low temperature poly-silicon method

“LG Display” or “LGD” LG Display Co., Ltd.

4

Table of Contents

| | |
|-----------------------------|--|
| “M.Setek” | M.Setek Co., Ltd. |
| “MERS” | Middle East Respiratory Syndrome |
| “mm” | Millimeters |
| “MOEAIC” | Investment Commission of Ministry of Economic Affairs |
| “mobile PC” | Primarily includes notebooks, tablets, etc. |
| “NYSE” | The New York Stock Exchange |
| “non-ROC resident” | A person who is not a resident of the ROC |
| “Northern California Court” | The United States District Court for the Northern District of California |
| “OLED” | Organic light emitting diode, a light emitting display technology |
| “our company”, “us” or “we” | AU Optronics Corp. and/or its consolidated subsidiaries, unless the context suggests otherwise |
| “PFIC” | A passive foreign investment company |
| “Pre-release” | American depositary shares are released before delivery of shares to the depository |
| “QCSZ” | Qisda (Suzhou) Co., Ltd. |
| “QDI” | Quanta Display Inc. |
| “QDIIs” | Qualified domestic institutional investors |
| “Qisda” | Qisda Corporation |
| “Raydium” | Raydium Semiconductor Corporation |
| “ROC” or “Taiwan” | The island of Taiwan and the areas under the effective control of the Republic of China |
| “ROC GAAP” | The generally accepted accounting principles in the ROC |
| “ROC government” | The government of the ROC |
| “Samsung” | Samsung Electronics Co., Ltd. |
| “Samsung Display” | Samsung Display Co., Ltd. |
| “Samsung Group” | Samsung Electronics Co., Ltd. and its subsidiaries |
| “SEC” | The United States Securities and Exchange Commission |
| “Seiko Epson” | Seiko Epson Corporation |
| “SID” | Society for Information Display |
| “Sharp” | Sharp Corporation |
| “subsidiary” | A company owned directly or indirectly by AU Optronics Corp., unless the context suggests otherwise |
| “SPTL” | SunPower Technology, Ltd., a subsidiary of SunPower Corporation |
| “Taiwan IFRS” | The International Financial Reporting Standards as issued by the International Accounting Standards Board and endorsed by the FSC, which are required to be adopted by applicable companies in the ROC |
| “U.S. DOJ” | The United States Department of Justice |
| “U.S. GAAP” | The generally accepted accounting principles in the United States |
| “Unipac” | Unipac Optoelectronics Corp. |
| “VR” | Virtual Reality |

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

5

Table of Contents

ITEM 3.

KEY INFORMATION

3.A. Selected Financial Data

The selected consolidated financial data set forth below as of December 31, 2015 and 2016 and for the years ended December 31, 2014, 2015 and 2016 have been derived from our audited consolidated financial statements and the related notes, which have been prepared in accordance with IFRS, included elsewhere in this annual report. The selected consolidated statement of financial position data as of December 31, 2012, 2013 and 2014 and selected consolidated statement of comprehensive income data for the years ended December 31, 2012 and 2013 have been derived from our audited consolidated financial statements prepared in accordance with IFRS that are not included herein. The selected financial data set forth below should be read in conjunction with “Item 5. Operating and Financial Review and Prospects” and our consolidated financial statements and the accompanying notes included elsewhere in this annual report.

We prepare our consolidated financial statements in accordance with IFRS. Until and including our consolidated financial statements included in our annual report on Form 20-F for the year ended December 31, 2012, we prepared our consolidated financial statements in accordance with generally accepted accounting principles in the ROC (“ROC GAAP”), with reconciliations to U.S. GAAP.

Beginning on January 1, 2013, we have adopted Taiwan IFRS for reporting our annual and interim consolidated financial statements in the ROC in accordance with the requirements of the FSC. Meanwhile, we have adopted and will continue to adopt IFRS, which differs from Taiwan IFRS, for certain filings with the SEC, including this annual report and future annual reports on Form 20-F. Following our adoption of IFRS for SEC filing purposes since 2013, pursuant to the rule amendments adopted by the SEC which became effective on March 4, 2008, we are no longer required to reconcile our consolidated financial statements with U.S. GAAP. Historical financial results as of and for the year ended December 31, 2012 have been adjusted based on IFRS, which differ from the results included in our annual report on Form 20-F for the year ended December 31, 2012.

We are not required to separately present operating profit or loss in our consolidated statements of comprehensive income prepared in accordance with IFRS. Therefore, the consolidated financial statements included in this annual report, which are prepared in accordance with IFRS, do not present a measure of operating profit or loss.

Year Ended and As of December 31,

| 2012 | 2013 | 2014 | 2015 | 2016 | |
|-------------|-------------|-------------|-------------|-------------|------|
| NT\$ | NT\$ | NT\$ | NT\$ | NT\$ | US\$ |

(in millions, except percentages and earnings per share and per ADS data)

Consolidated Statement of
Comprehensive Income (Loss) Data:

Edgar Filing: AU OPTRONICS CORP - Form 20-F

| | | | | | | |
|--|-------------|------------|------------|------------|------------|----------|
| Net revenue | 378,470.9 | 416,363.0 | 408,178.7 | 360,346.5 | 329,089.0 | 10,157.0 |
| Gross profit (loss) | (13,122.9) | 33,984.1 | 48,510.6 | 39,837.1 | 34,491.0 | 1,064.5 |
| Selling and distribution expenses | (6,377.2) | (7,470.0) | (7,799.0) | (4,206.1) | (3,895.1) | (120.2) |
| General and administrative expenses | (9,203.9) | (9,691.1) | (9,389.6) | (9,206.0) | (9,176.7) | (283.2) |
| Research and development expenses | (9,904.3) | (8,530.5) | (9,156.6) | (8,903.8) | (9,080.8) | (280.3) |
| Profit (loss) before income tax | (51,494.1) | 5,236.0 | 19,980.4 | 7,598.9 | 11,185.9 | 345.2 |
| Income tax expense | 1,124.0 | 1,359.1 | 3,243.2 | 384.9 | 2,432.5 | 75.0 |
| Profit (loss) for the year | (52,618.1) | 3,876.9 | 16,737.2 | 7,214.0 | 8,753.4 | 270.2 |
| Total comprehensive income (loss) for the year | (54,201.9) | 6,875.4 | 18,914.9 | 6,482.3 | 1,423.5 | 44.0 |
| Profit (loss) for the year attributable to: | | | | | | |
| Shareholders of AU Optronics Corp. | (51,327.1) | 3,804.2 | 16,366.6 | 7,242.2 | 9,965.1 | 307.6 |
| Non-controlling interests | (1,291.0) | 72.7 | 370.6 | (28.2) | (1,211.7) | (37.4) |

Table of Contents

| | Year Ended and As of December 31, | | | | | |
|--|---|-------------|-------------|-------------|-------------|-------------|
| | 2012 | 2013 | 2014 | 2015 | 2016 | US\$ |
| | NT\$ | NT\$ | NT\$ | NT\$ | NT\$ | NT\$ |
| | (in millions, except percentages and earnings per share and per ADS data) | | | | | |
| Total comprehensive income (loss) for the year attributable to: | | | | | | |
| Shareholders of AU Optronics Corp. | (52,751.7) | 6,367.5 | 18,125.7 | 7,185.7 | 4,502.5 | 139.0 |
| Non-controlling interests | (1,450.2) | 507.9 | 789.2 | (703.4) | (3,079.0) | (95.0) |
| Earnings (loss) per share—Basic | (5.81) | 0.41 | 1.70 | 0.75 | 1.04 | 0.03 |
| Earnings per share—Diluted | — | 0.40 | 1.69 | 0.70 | 1.02 | 0.03 |
| Earnings (loss) per ADS equivalent—Basic | (58.15) | 4.07 | 17.01 | 7.52 | 10.35 | 0.32 |
| Earnings per ADS equivalent—Diluted | — | 4.04 | 16.88 | 6.98 | 10.24 | 0.32 |
| Consolidated Statement of Financial Position Data: | | | | | | |
| Total current assets | 174,072.2 | 169,604.1 | 185,614.5 | 161,992.1 | 163,346.2 | 5,041.6 |
| Property, plant and equipment | 315,518.2 | 270,269.0 | 231,814.7 | 208,785.6 | 222,741.8 | 6,874.7 |
| Total assets | 515,008.5 | 464,835.9 | 442,344.3 | 399,237.1 | 405,860.8 | 12,526.6 |
| Total current liabilities | 192,221.7 | 181,338.6 | 174,143.1 | 141,867.7 | 118,031.6 | 3,643.0 |
| Total noncurrent liabilities | 186,638.0 | 130,507.1 | 94,214.3 | 76,708.3 | 110,992.9 | 3,425.7 |
| Total liabilities | 378,859.7 | 311,845.7 | 268,357.4 | 218,576.0 | 229,024.5 | 7,068.7 |
| Common stock | 88,270.5 | 96,242.5 | 96,242.5 | 96,242.5 | 96,242.5 | 2,970.4 |
| Non-controlling interests in subsidiaries | 14,062.6 | 14,036.5 | 19,329.2 | 22,648.6 | 18,388.2 | 567.5 |
| Total equity attributable to shareholders of AU Optronics Corp. | 122,086.2 | 138,953.7 | 154,657.7 | 158,012.5 | 158,448.1 | 4,890.4 |
| Other Financial Data: | | | | | | |
| Gross margin ⁽²⁾ | (3.5 %) | 8.2 % | 11.9 % | 11.1 % | 10.5 % | 10.5 % |
| Net margin ⁽³⁾ | (13.9 %) | 0.9 % | 4.1 % | 2.0 % | 2.7 % | 2.7 % |
| Capital expenditures | 43,332.6 | 25,457.8 | 16,971.0 | 33,440.2 | 46,220.1 | 1,426.5 |
| Depreciation and amortization | 75,276.4 | 63,637.7 | 56,902.7 | 47,745.8 | 39,693.2 | 1,225.1 |
| Net cash flows provided by operating activities | 35,747.9 | 49,642.4 | 63,392.7 | 62,003.4 | 36,695.8 | 1,132.6 |
| Net cash flows used in investing activities | (43,181.7) | (23,223.8) | (13,106.8) | (31,734.7) | (42,267.3) | (1,304.5) |
| Net cash flows provided by (used in) financing activities | (5,940.4) | (26,785.4) | (45,041.5) | (34,277.0) | 10,721.2 | 330.9 |
| Segment Data: | | | | | | |
| Net revenue | | | | | | |
| Display business | 367,120.3 | 398,836.2 | 384,335.2 | 333,392.3 | 304,826.7 | 9,408.2 |
| Solar business | 11,350.6 | 17,526.8 | 23,843.5 | 26,954.2 | 24,262.3 | 748.8 |

Edgar Filing: AU OPTRONICS CORP - Form 20-F

| | | | | | | |
|--------------------------------------|-------------|------------|------------|------------|----------|---------|
| Segment profit (loss) ⁽⁴⁾ | | | | | | |
| Display business | (30,330.8) | 12,017.9 | 24,422.5 | 19,226.0 | 12,703.5 | 392.1 |
| Solar business | (8,277.5) | (3,725.4) | (2,257.1) | (1,704.8) | (365.1) | (11.3) |

Diluted earnings per share in 2012 was not applicable due to the anti-dilutive effect on the basic net loss per share.
 (1) The convertible bonds were not included for the calculation of diluted earnings per share in 2013 and 2014 due to its anti-dilutive effect but were included for the calculation of diluted earnings per share in 2015.

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

Table of Contents

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

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

Exchange Rate

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

The following table sets forth, for the periods indicated, information concerning the number of NT dollars for which one U.S. dollar could be exchanged. The exchange rates reflect the exchange rates set forth in the H.10 statistical release of the Federal Reserve Board.

| | Exchange Rate | | | |
|--------------------------------|--|-------|-------|------------|
| | Average | High | Low | Period-End |
| | (or month-end rates for years) | | | |
| 2012 | 29.56 | 30.28 | 28.96 | 29.05 |
| 2013 | 29.68 | 30.20 | 28.93 | 29.83 |
| 2014 | 30.30 | 31.80 | 29.85 | 31.60 |
| 2015 | 31.74 | 33.17 | 30.37 | 32.79 |
| 2016 | 32.23 | 33.74 | 31.05 | 32.40 |
| September | 31.46 | 31.77 | 31.18 | 31.27 |
| October | 31.59 | 31.79 | 31.36 | 31.54 |
| November | 31.75 | 32.01 | 31.41 | 31.92 |
| December | 32.00 | 32.42 | 31.72 | 32.40 |
| 2017 | | | | |
| January | 31.65 | 32.37 | 31.19 | 31.19 |
| February | 30.85 | 31.17 | 30.61 | 30.64 |
| March (through March 13, 2017) | 30.94 | 31.03 | 30.76 | 30.99 |

3.B. Capitalization and Indebtedness

Not applicable.

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

Not applicable.

3.D. Risk Factors

Risks Relating to Our Financial Condition, Business and Industry

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

The display panel industry in general is characterized by cyclical market conditions. From time to time, the industry has been subject to imbalances between excess supply and a slowdown in demand, and in certain periods, resulting in declines in selling prices. For example, the average selling price of our large-size panels decreased in the first half of 2016 by 12.6% from the second half of 2015. In addition, capacity expansion anticipated in the display panel industry may lead to excess capacity. It is anticipated that capacity expansion in the display panel industry is due to scheduled ramp-up of new fabs, and any large increases in capacity as a result of such expansion could further drive down the selling prices of our panels, which would affect our results of operations. We cannot assure you that any continuing or further decrease in selling prices or future downturns resulting from excess capacity or other factors affecting the industry will not be severe or that any such continuation, decrease or downturn would not seriously harm our business, financial condition and results of operations.

Table of Contents

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

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

The selling prices of our products have declined in general and are expected to continually decline with time irrespective of industry-wide cyclical fluctuations as a result of, among other factors, technology advancements and cost reductions. Although we may be able to take advantage of the higher selling prices typically associated with new products and technologies when they are first introduced into the market, the prices decline over time and in certain cases, very rapidly as a result of market competition. If we are unable to anticipate effectively and counter the price erosion that accompanies our products, or if the selling prices of our products decrease faster than the rate at which we are able to reduce our manufacturing costs, our profit margins will be affected adversely and our results of operations and financial condition may be affected materially and adversely.

Our results of operations have fluctuated in the past. If we are unable to achieve profitability in 2017 or beyond, the value of the ADSs and our shares may be adversely affected.

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

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

Our results of operations have fluctuated in the past. Our net revenue decreased by approximately 8.7% to NT\$329.1 billion (US\$10.2 billion) in 2016 compared to net revenue of NT\$360.3 billion in 2015, while our net profit for the year increased from NT\$7.2 billion in 2015 to NT\$8.8 billion (US\$0.3 billion) in 2016. We cannot assure you that we will be profitable in 2017 or beyond. In addition, we expect that selling prices for many of our existing products will

continue to decline over the long term. If we are unable to reduce our production cost to offset the declines in selling prices and maintain a high capacity utilization rate, our gross margin will decline, which could seriously harm our business and reduce the value of our equity securities. If we are unable to achieve profitability in 2017 or beyond, the value of the ADSs and our shares may be adversely affected.

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

- our ability to develop and introduce new products to meet customers' needs in a timely manner;
- our ability to develop or acquire and implement new manufacturing processes and product technologies;
 - our ability to control our fixed and variable costs and operating expenses;
 - our ability to reduce production cost, such as raw materials and components;

Table of Contents

- our ability to manage our product mix;
- our ability to obtain raw materials and components at acceptable prices and in a timely manner;
- lower than expected growth in demand resulting in oversupply in the market;
- our ability to obtain adequate external financing on satisfactory terms; and
- fines and penalties payable relating to the alleged violation of antitrust, competition laws and other regulations.

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

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

If we breach our financial or other covenants, our financial condition will be adversely affected to the extent we are not able to cure such breaches or repay the relevant debt. We have on occasion failed to comply with certain financial covenants in some of our loan agreements. Although in the past we have either obtained waivers for such noncompliance from the relevant banks or fully repaid the facility, we cannot assure you that we will always be able to do that in the future.

We are involved in a number of legal proceedings concerning matters arising from our business and operations, and as a result we may face significant liabilities. If we or our employees are found to have violated any applicable law,

including antitrust and competition laws in pending actions or new claims, or if our appeals regarding such violations are not successful, we may be subject to severe fines or penalties that would have a material adverse effect on our business and operations.

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

Table of Contents

In particular, there were numerous antitrust proceedings and investigations, criminal, civil and/or administrative, concerning the alleged price fixing by manufacturers of TFT-LCD panels, including us. Since December 2006, we and certain of our overseas subsidiaries had become involved in antitrust investigations, including but not limited to, investigations by the United States Department of Justice (“U.S. DOJ”), the European Commission Directorate-General for Competition and certain regulatory authorities in other countries concerning the allegations of price fixing by manufacturers of TFT-LCD panels. For example, the U.S. DOJ had brought charges against us, our U.S. subsidiary and certain of our executives. In September 2012, the United States District Court for Northern District of California (“Northern California Court”) rendered a judgment and imposed a fine of US\$500 million against us to be payable over three years and sentenced two of our former executives to imprisonment and imposed a fine on them. The US\$500 million fine had been fully paid by us in September 2015.

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

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

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

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

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

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

- the speed at which we and our competitors expand production capacity;

- access to raw materials and components, equipment, electricity, water and other required utilities on a timely and economical basis;

· technological changes;

· the loss of a key customer or the postponement, rescheduling or cancellation of large orders from customers;

· the outcome of ongoing and future litigation and government investigations;

· changes in end-users' spending patterns;

· changes to our management team;

· access to funding on satisfactory terms;

· our customers' adjustments in their inventory;

· changes in general political, economic, financial and legal conditions; and

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

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

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

Table of Contents

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

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

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

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

Currently, our total sales are derived principally from customers using our products in televisions, monitors, mobile PCs, mobile devices and commercial and other applications with display devices. For example, a substantial percentage of our sales are derived from our panels and other related products for televisions, which accounted for approximately 42.0%, 44.3% and 42.7% of our net revenue in 2014, 2015 and 2016, respectively. We will continue to be dependent on the growth of the televisions, monitors, mobile PCs, mobile devices and commercial and other applications for a substantial portion of our net revenue, and any downturn in these industries would result in reduced demand for our products, reduced net revenue, lower selling prices and/or reduced margins and our business prospects and results of operations may be materially and adversely affected.

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

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

competitive prices.

From time to time, our results of operations in the past have been adversely affected by low capacity utilization rates. We cannot assure you that we will be able to achieve high capacity utilization rates in 2017 or beyond. If we are unable to efficiently ramp-up our production facilities for advanced technology or demand for our products does not meet our expectations, our capacity utilization rates will decrease, our gross margins will suffer and our results of operations will be materially and adversely affected.

We may experience losses on inventories.

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

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

Table of Contents

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

We depend on a small number of customers for a substantial portion of our business. In 2014, 2015 and 2016, our five largest customers accounted for approximately 33.4%, 36.5% and 36.3%, respectively, of our net revenue. In addition, certain customers individually accounted for more than 10% of our net revenue in the last three years. For example, Samsung Group accounted for approximately 10.2%, 11.7% and 11.3% of our net revenue in 2014, 2015 and 2016, respectively.

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

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

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

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

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

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

Table of Contents

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

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

- our growth plan and strategy;
- manufacturing process and product technologies;
- market conditions;
- prices of equipment;
- costs of construction and installation;
- market conditions for financing activities of display panel and solar manufacturers;
- interest rates and foreign exchange rates; and
- social, economic, financial, political and other conditions in Taiwan and elsewhere.

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

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

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

The principal elements of competition in the display industry include:

price;

product performance features and quality;

customer service, including product design support;

ability to reduce production cost;

Table of Contents

· ability to provide sufficient quantity of products to fulfill customers' needs;

· research and development, including the ability to develop new technologies;

· time-to-market; and

· access to capital and financing ability.

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

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

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

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

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

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

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

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

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

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

Table of Contents

- problems integrating the acquired operations, technologies or products into our existing business and products;
- diversion of management's time and attention from our core business;
- conflicts with joint venture partners;
- adverse effect on our existing business relationships with customers;
- need for financial resources above our planned investment levels;
- failures in realizing anticipated synergies;
- difficulties in retaining business relationships with suppliers and customers of the acquired company;
- risks associated with entering markets in which we lack experience;
- potential loss of key employees of the acquired company; and
- potential write-offs of acquired assets.

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

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

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

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

Any disagreement between applicable tax authorities and us with respect to our tax estimates and any noncompliance with changes in tax laws or their application could adversely affect our results of operations.

We are subject to income taxes in Taiwan and many foreign jurisdictions and might be under tax audit by local tax authorities within certain assessment periods. Although we believe our tax estimates are reasonable, the final determination of tax audits could be materially different from our recorded income tax accruals. For example, our taxable income in any jurisdiction depends on the acceptance of our operational practices and intercompany transfer pricing by local tax authorities as being on an arm's length basis. Due to inconsistencies in the application of the arm's length standard among taxing authorities, as well as a lack of adequate treaty-based protection, challenges to transfer pricing by tax authorities could, if successful, substantially increase our income tax liability and interest expense. In addition, many countries where we are conducting business may amend their tax laws in accordance with the Base Erosion and Profit Shifting project of the Organization for Economic Co-operation and Development due to economic and political pressures. We cannot assure you that we will always stay on top of the latest changes in the tax laws and we may fail to meet our compliance obligations and thus be subject to penalties.

Table of Contents

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

Under IFRS, we are required to evaluate our investments and long-term non-financial assets, such as property, plant and equipment and long-term purchase agreements, for impairment whenever triggering events or changes in circumstances indicate that the asset may be impaired and carrying value may not be recoverable. If certain criteria are met, we are required to recognize an impairment charge. For example, we recognized an impairment charge of NT\$6,755.2 million on M.Setek's long-term assets in relation to the cessation of polysilicon production of M.Setek. Such impairment charge was recognized in the fourth quarter of 2015.

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

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

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

From time to time, we evaluate possible divestments and may, if a suitable opportunity or condition arises, make divestments or decisions to dispose of certain businesses or assets. We may reduce our holdings of equity securities or dispose of certain of our businesses or assets in order to reduce financial or operational risks. As part of our ongoing strategic plan, we have selectively divested, and may in the future continue to pursue divestitures of certain of our businesses or assets as part of our portfolio optimization strategy. We make divestments based on, among other considerations, management's evaluation of or changes in business strategies and performance and valuation of divested businesses or assets. For example, we sold all of the shareholding in AUSB held by one of our subsidiaries to SPTL in September 2016 for total selling price of US\$170.1 million and recorded a loss from the disposal of approximately US\$12.0 million. These divestment activities may result in either gains or losses and we cannot assure you that we can always make divestment with a gain. We may be subject to continuing financial obligations for a

period of time following the divestments, and any claims such as warranty or indemnification claims, if determined against us, would negatively affect our financial performance. Moreover, divestures may require us to separate integrated assets and personnel from our retained businesses and devote our resources to transitioning assets and services to purchasers, resulting in disruptions to our ongoing business and distraction of management. Any losses due to our divestments of businesses or disposal of assets could adversely affect our financial performance and may affect the market price of our shares and ADSs.

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

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

We do not carry "key person" life insurance on any of our senior management personnel. If we lose the services of key senior management personnel, we may not be able to find suitable replacements or integrate replacement personnel in a timely manner or at all, which would seriously harm our business. In addition, our continuing growth will, to a large extent, depend on the attention of key management personnel to our daily affairs. If any of them is unable to devote enough time to our company, our operations may be affected adversely.

Table of Contents

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

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

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

We face potential conflicts of interest with our affiliates, such as Qisda Corporation (“Qisda”) and its subsidiaries, including BenQ Corporation. Qisda is our largest shareholder, owning directly 6.9% of our outstanding shares as of February 28, 2017 and is also one of our large customers. Qisda and its subsidiaries accounted for approximately 2.9%, 3.4% and 3.9% of our net revenue in 2014, 2015 and 2016, respectively. Qisda and its subsidiaries’ substantial interest in our company may lead to conflicts of interest affecting our sales decisions or allocations. In addition, as of February 28, 2017, one of our nine directors is a representative of Qisda. Mr. Kuen-Yao (K.Y.) Lee, our former Chairman, is also the Chairman of Qisda and BenQ Corporation. See “Item 6. Directors, Senior Management and Employees—6.A. Directors and Senior Management.” As a result, conflicts of interest between their duties to Qisda and/or its subsidiaries and us may arise. We cannot assure you that when conflicts of interest arise with respect to representatives of Qisda and/or its subsidiaries, the conflicts of interest will be resolved in our favor. These conflicts may result in lost corporate opportunities, including opportunities that are never brought to our attention, or actions that may prevent us from taking advantage of opportunities to expand and improve our operations.

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

The SEC, as required by Section 404 of the Sarbanes-Oxley Act of 2002, adopted rules requiring every public company to include a management report on such company’s internal controls over financial reporting in its annual report, which contains management’s assessment of the effectiveness of the company’s internal controls over financial reporting. In addition, an independent registered public accounting firm must report on the effectiveness of the company’s internal controls over financial reporting unless the company is exempt from such requirement. Our management may conclude that our internal controls over our financial reporting are not effective. Moreover, even if our management concludes that our internal controls over financial reporting are effective, our independent registered public accounting firm may conclude that our internal controls over financial reporting are not effective. Furthermore,

during the course of the evaluation, documentation and attestation, we may identify deficiencies that we may not be able to remedy in a timely manner. If we fail to achieve and maintain the adequacy of our internal controls, we may not be able to conclude that we have effective internal controls, on an ongoing basis, over financial reporting in accordance with the Sarbanes-Oxley Act of 2002. Moreover, effective internal controls are necessary for us to produce reliable financial reports and are important to help prevent fraud. As a result, our failure to achieve and maintain effective internal controls over financial reporting could result in the loss of investor confidence in the reliability of our financial statements, which in turn could harm our business and negatively impact the trading price of our ADSs.

Table of Contents

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

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

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

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

Risks Relating to Manufacturing

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

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

Table of Contents

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

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

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

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

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

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

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

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

Table of Contents

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

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

Increasing climate change and environmental concerns would affect the results of our operations if any of our customers would request us to exceed any standards set for environmentally compliant products and services. If we are unable to offer such products or offer products that are compliant but are not as reliable due to the lack of reasonably available alternative technologies, it may harm our results of operations.

Furthermore, energy costs in general could increase significantly due to climate change regulations. Therefore, our energy costs may increase substantially if utility or power companies pass on their costs, fully or partially, such as those associated with carbon taxes, emission cap and carbon credit trading programs.

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

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

affect adversely our business operations.

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

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

Table of Contents

Risks Relating to Our Technologies and Intellectual Property

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

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

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

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

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

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

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

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

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

Table of Contents

discontinue using disputed manufacturing process technologies;

pay substantial monetary damages;

seek to develop non-infringing technologies, which may not be feasible;

stop shipment to certain areas; and/or

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

If our products or manufacturing processes are found to infringe third-party rights, we may be subject to significant liabilities and be required to change our manufacturing processes or products. This could restrict us from making, using, selling or exporting some of our products, which in turn could affect materially and adversely our business and financial condition. In addition, any litigation, whether to enforce our patents or other intellectual property rights or to defend ourselves against claims that we have infringed the intellectual property rights of others, could affect materially and adversely our results of operations because of the management attention required and legal costs incurred.

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

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

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

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

Table of Contents

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

We rely upon trade secrets, unpatented proprietary know-how and information, as well as continuing technological innovation in our business. The information we rely upon includes price forecasts, core technology and key customer information. Our current standard employment agreement with our employees contains a confidentiality provision which generally provides that all inventions, ideas, discoveries, improvements and copyrightable material made or conceived by the individual arising out of the employment relationship and all confidential information developed or made known to the individual during the term of the relationship is our exclusive property. We cannot assure the enforceability of these types of agreements, or that they will not be breached. We also cannot be certain that we will have adequate remedies for any breach. The disclosure of our trade secrets or other know-how as a result of such a breach could adversely affect our business. Also, our competitors may come to know about or determine our trade secrets and other proprietary information through a variety of methods. Disputes may arise concerning the ownership of intellectual property or the applicability or enforceability of the relevant agreements and there can be no assurance that any such disputes would be resolved in our favor. Furthermore, others may acquire or independently develop similar technology, or if patents are not issued with respect to products arising from research, we may not be able to maintain information pertinent to such research as proprietary technology or trade secrets and that could have an adverse effect on our competitive position within the industry.

Political, Geographical and Economic Risks

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

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

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

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

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

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

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

Table of Contents

Therefore, we cannot predict whether changes in the PRC's political, economic and social conditions, laws, regulations and policies will have any adverse effect on our current or future investments and operations in the PRC. In addition, we cannot assure you that changes in such laws and regulations, or in their interpretation and enforcement, will not have a material adverse effect on our investments, businesses and operations in the PRC.

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

There are current restrictions imposed by the ROC government on investments by Taiwan companies in the PRC, including but not limited to the generation of manufacturing technology of TFT-LCD in the PRC. As a result, our ability to invest in the PRC has been restricted compared to those display panel manufacturers that have been less regulated by their domestic regulators and are permitted to establish display panel production operations in the PRC. During recent years, ROC government has loosened some restrictions. Under the current Taiwan regulations, subject to meeting certain requirements, including but not limited to making investment and research in next generation of display panel, TFT-LCD manufacturers in the ROC may apply to the Investment Commission of Ministry of Economic Affairs ("MOEAIC") for investing in 6-generation or more advanced TFT-LCD manufacturing fabs in the PRC (up to three fabs) with the technology which is the same generation or one generation behind the technology then used in the ROC. Moreover, the MOEAIC also allowed ROC TFT- LCD manufacturers to make equity investments or merge with companies in the PRC.

Many of our customers and competitors have expanded their businesses and operations to the PRC. In order to take advantage of the fast growth of China's market, the lower production costs in China and to establish a presence in this market, we began our investment in China with the establishment of a module-assembly facility in 2002. During the past few years, our investment and presence in the PRC gradually and significantly increased. As of December 31, 2016, we had 17 subsidiaries incorporated in the PRC. For further information of our PRC investments, see "Item 4. Information on the Company—4.C. Organizational Structure."

However, due to certain restrictions imposed by the ROC government that are still effective, we cannot assure you that any future applications to the MOEAIC to make further investments in the PRC will be successful and timely approved. We also do not know when and whether the remaining restrictions under ROC laws and regulations governing investment in the PRC will be amended or repealed and we cannot assure you that any such amendments to those regulations will permit us to invest in operations in the PRC. Restrictions under ROC laws on our ability to make investments in the PRC may materially and adversely affect our business prospects.

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

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

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

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

Table of Contents

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

Disruptions in Taiwan’s political environment could seriously harm our business and the market price of our shares and ADSs.

Most of our assets and operations are located in Taiwan and approximately 31.6% of our net revenue was derived from customers in Taiwan in 2016. Accordingly, our business and financial condition may be affected by changes in local governmental policies and political and social instability.

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

If economic conditions in Taiwan change drastically, our current business and future growth could be affected materially and adversely.

In recent years, the currencies of many East Asian countries, including Taiwan, have experienced considerable volatility. Our business, financial condition and results of operations may be affected by changes in ROC government policies, taxation, inflation, interest rates and general economic conditions in Taiwan, as well as the global economies. For example, the banking and financial sectors in Taiwan have been harmed by the general economic downturn in recent years. As a result, financial institutions are more cautious in providing credit to certain businesses in Taiwan. We cannot assure you that we will continue to have access to credit at commercially reasonable rates of interest or at all.

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

The trading price of our ADSs may be affected by the trading price of our shares on the Taiwan Stock Exchange. The Taiwan Stock Exchange is smaller and more volatile than the securities markets in the United States and a number of stock exchanges in Europe. The Taiwan Stock Exchange has experienced substantial fluctuations in the prices and volumes of trading of securities, and there are currently limits on the range of daily price fluctuations on the Taiwan Stock Exchange. During the period from January 1, 2016 to December 31, 2016, the Taiwan Stock Exchange Index peaked at 9,392.68 on December 9, 2016, and reached a low of 7,664.01 on January 21, 2016. Over the same period, daily closing values of our shares ranged from NT\$8.26 per share to NT\$13.6 per share. On March 13, 2017, the Taiwan Stock Exchange Index closed at 9,697.34, and the closing value of our shares was NT\$11.85 per share.

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

Table of Contents

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

We have significant foreign currency exposure and are affected by fluctuations in exchange rates among the U.S. dollar, the Japanese yen, the NT dollar, the Renminbi and other currencies. Our sales, raw materials and components, capital expenditures and certain assets are denominated mainly in U.S. dollars, Japanese yen, NT dollars and Renminbi in varying amounts. For example, in 2016, approximately 89.2% of our net revenue was denominated in U.S. dollars. During the same period, approximately 70.5%, 17.8% and 10.1% of our raw materials and component costs were denominated in U.S. dollars, Japanese yen and NT dollars, respectively. In addition, in 2016, approximately 33.8%, 22.7%, 21.4% and 21.4% of our total capital expenditures (principally for the purchase of equipment) were denominated in Japanese yen, NT dollars, U.S. dollars and Renminbi, respectively. Also, results of operation of our foreign subsidiaries are accounted for in foreign currencies before their consolidation into our financial result. During periods of weakening foreign currencies, the value of certain assets of our foreign subsidiaries could be substantially reduced in NT dollars. Although from time to time, we enter into forward foreign currency contracts to hedge our foreign currency exposure, we may not be able to hedge all of the exposure, including foreign exchange exposure relating to the value of our foreign currency-denominated assets. We cannot assure you that we will fully minimize the risk against exchange rate fluctuations and the impact on our financial condition and results of operations.

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

A majority of our net revenue is derived from sales to customers located outside of Taiwan. In 2014, 2015 and 2016, sales to our overseas customers accounted for approximately 66.8%, 66.8% and 68.4%, respectively, of our net revenue. In addition, a significant portion of our sales to customers in Taiwan and PRC is made to major brand customers or their procurement entities located in Taiwan and the PRC. We expect sales to customers outside of Taiwan to continue to represent a significant portion of our net revenue. As a result, our business will continue to be vulnerable to disruptions in the international trading environment, including those caused by adverse changes in foreign government regulations, political unrest, international economic downturns, terrorist attacks and military unrest. These disruptions in the international trading environment may affect the demand for our products and change the terms upon which we sell our products overseas, which could seriously decrease our international sales.

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

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

In the recent years, there have been reports of outbreaks of highly pathogenic diseases caused by H1N1 virus, H5N1 virus and H7N9 virus and highly deadly diseases named Ebola Virus Diseases (“EVD”) and Middle East Respiratory Syndrome (“MERS”) in Asia and other parts of the world. The outbreak of such contagious diseases in the human population could result in a widespread health crisis that could adversely affect the economies and financial markets of many countries. Since most of our operations and customers and suppliers are based in Asia (mainly Taiwan and PRC), an outbreak of H1N1 influenza, H5N1 influenza, H7N9 influenza, EVD, MERS or other contagious diseases in Asia or elsewhere, or the perception that such an outbreak could occur, and the measures taken by the governments of countries affected, including the ROC and the PRC, could adversely affect our business, financial condition or results of operations.

Table of Contents

Risks Related to Our ADSs and Our Trading Market

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

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

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

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

- (1) we pay stock dividends on our shares;
- (2) we make a free distribution of shares;
- (3) ADS holders exercise preemptive rights in the event of capital increases for cash; or

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

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

the depositary from time to time, which restrictions may specify blackout periods (during which deposits may not be made), minimum and maximum amounts and frequencies of deposits.

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

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

Table of Contents

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

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

Our equity holders may experience dilution if we issue remunerations in the form of stock and stock options to employees or sell additional equity or equity-linked securities.

Similar to other technology companies in Taiwan, from time to time we may issue remunerations to our employees in the form of shares. The issuance of these shares may have a dilutive effect on our ADSs. We did not issue shares to our employees in 2014, 2015 or 2016. In addition, we did not grant any stock options to our employees in 2014, 2015 or 2016. If we issue remunerations in the form of stock or stock options to employees in the future, our equity holders may experience dilution.

In addition, the sale of additional equity or equity-linked securities may result in additional dilution to our shareholders. As of the date of this report, we have no outstanding equity-linked securities. However, any future issuance of additional equity or equity-linked securities could each cause dilution to ADS holders.

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

Under current ROC law, if you are a non-ROC person (other than a PRC person) and wish to withdraw and hold our shares from a depository receipt facility, you will be required to obtain a foreign investor investment identification, or the Foreign Investor Investment I.D., issued in accordance with the ROC Regulations Governing Securities Investment by Overseas Chinese and Foreign Nationals (the "Investment Regulations"). You also will be required to appoint an eligible agent in the ROC to open a securities trading account and a Taiwan Depository & Clearing Corporation book-entry account and a bank account, to pay ROC taxes, remit funds, exercise shareholders' rights and perform such other functions as you may designate upon such withdrawal. In addition, you will be required to appoint a custodian bank to hold the securities in safekeeping, make confirmation and settle trades and report all relevant information. Without obtaining such Foreign Investor Investment I.D. under the Investment Regulations and opening

such accounts, the non-ROC withdrawing holder would be unable to hold or subsequently sell our shares withdrawn from the depositary receipt facility on the Taiwan Stock Exchange or otherwise. There can be no assurance that such withdrawing holder would be able to obtain the Foreign Investor Investment I.D. and open such accounts in a timely manner.

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

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

Table of Contents

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

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

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

Our corporate affairs are governed by our Articles of Incorporation and by the laws governing ROC corporations. The rights and responsibilities of our shareholders and members of our board of directors under ROC law are different from those that apply to a U.S. corporation. Directors of ROC corporations are required to conduct business faithfully and act with the care of good administrators. However, the duty of care required of an ROC corporation’s directors may not be the same as the fiduciary duty of a director of a U.S. corporation. In addition, controlling shareholders of U.S. corporations owe fiduciary duties to minority shareholders, while controlling shareholders in ROC corporations do not. The ROC Company Act also requires that a shareholder continuously hold at least 3% of our issued and outstanding shares for at least a year in order to request that our audit committee institute an action against a director on the company’s behalf. Therefore, our public shareholders may have more difficulty protecting their interests against actions of our management, members of our board of directors or controlling shareholders than they would as shareholders of a U.S. corporation.

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

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

the evaluation standards for director’s independence;

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

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

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

Table of Contents

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

The market price of our ADSs could decline as a result of sales of ADSs or shares or the perception that these sales could occur. As of February 28, 2017, we had an aggregate of 9,624 million shares issued and outstanding, most of which were freely tradable. If we, our senior management, directors or our shareholders, sell ADSs or shares, the market price for our shares or ADSs could decline. For example, in May 2013, we issued 797,199,580 common shares for cash to sponsor the issuance of US\$350.8 million ADSs. Future sales, or the perception of future sales, of ADSs or shares by us, our senior management, directors or major shareholders could cause the market price of our ADSs to decline. Moreover, if the offering price of any of the sales of shares by us is substantially lower than the then existing marketing price or net tangible value per share, our existing shareholders may experience substantial dilution.

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

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

ITEM 4.

INFORMATION ON THE COMPANY

4.A. History and Development of the Company

We were incorporated as Acer Display Technology, Inc. (“Acer Display”) under the laws of the ROC as a company limited by shares in 1996. The shares of Acer Display were listed on the Taiwan Stock Exchange on September 8, 2000.

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

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

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

At the end of 2008, we entered the solar business and formed our Solar Photovoltaic Business Unit in October 2009. In connection with this expansion, we obtained a controlling interest in M.Setek, a major polysilicon, ingot and solar wafer manufacturer in Japan, through equity investments in 2009. Furthermore, in May 2010, we formed a joint venture named AUO SunPower Sdn. Bhd. (“AUSP”) with SunPower Technology, Ltd. (“SPTL”), a subsidiary of SunPower Corporation, to construct and operate a solar cell manufacturing facility in Malaysia. Since 2011, in order to expand our operation in the supply chain of the solar industry, we have also operated ingot and solar wafer related business through our subsidiary AUO Crystal Corp. The manufacturing facilities of AUO Crystal Corp. are located in Taiwan and Malaysia. In January 2016, in order to focus on producing products with more added value, we decided to cease the production of polysilicon considering the volatile market condition, over-supply of polysilicon and lack of competitive advantages in producing polysilicon. In September 2016, we sold all of our interest in AUSP to SPTL for a consideration of US\$170.1 million.

Table of Contents

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

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

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

4.B. Business Overview

Introduction

We are one of the world's leading TFT-LCD panel providers. We operate in two business segments: display business and solar business.

Display business. We design, develop, manufacture, assemble and market flat panel displays and most of our products are TFT-LCD panels. TFT-LCD is currently the most widely used flat panel display technology. Our panels are primarily used in televisions, monitors, mobile PCs, mobile devices and commercial and other applications (such as displays for automobiles, industrial PCs, automated teller machines, point of sale terminals and pachinko machines, etc.)

Solar business. We entered into the solar business at the end of 2008. We are capable of manufacturing products such as ingots, solar wafers, solar cells and solar modules. We are also able to build solar systems and provide various value-added services for solar systems projects.

For the year ended December 31, 2016, net revenue generated from our display business and solar business was NT\$304.8 billion (US\$9.4 billion) and NT\$24.3 billion (US\$0.7 billion), respectively, representing approximately 92.6% and 7.4% of our total net revenue, respectively. For more information on the financial performance of our two operating segments, see "Item 5. Operating and Financial Review and Prospects" and Note 39 to our consolidated financial statements.

Display Business

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

We currently manufacture TFT-LCD panels at fabrication facilities commonly known as "fabs". With production facilities utilizing 3.5-, fourth-, 4.5-, fifth-, sixth-, 7.5- and 8.5-generation technologies, we have the flexibility to produce a large number of panels of various sizes. As of February 28, 2017, all the fabs listed under "—4.D. Property, Plants and Equipment" have commenced commercial production. See "Item 4. Information on the Company—4.D. Property, Plants and Equipment" for information on our principal manufacturing and module assembly sites for the display business.

Principal Products

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

Table of Contents

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

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

Mobile PCs, which utilize display panels ranging mainly from 6 inches to 17.3 inches, including products such as notebooks and tablets.

Mobile devices, which utilize display panels ranging mainly from 1.4 inches to 6 inches, including products such as mobile phones.

Commercial and other applications, which utilize display panels ranging mainly from 1.2 inches to 22 inches or above for use in products such as displays for automobiles, industrial PCs, automated teller machines, point of sale terminals, pachinko machines and others.

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

| | Year Ended December 31, | | |
|--|-------------------------|-----------|-----------|
| | 2014 | 2015 | 2016 |
| | (Panels in thousands) | | |
| Products for Televisions | 31,793.3 | 30,076.3 | 31,815.3 |
| Products for Monitors | 28,561.7 | 26,483.7 | 26,951.0 |
| Products for Mobile PCs | 66,148.5 | 54,130.0 | 64,835.7 |
| Products for Mobile Devices | 102,642.1 | 114,843.5 | 89,622.6 |
| Products for Commercial and Other Applications | 58,478.5 | 52,929.6 | 51,224.9 |
| Total | 287,624.1 | 278,463.1 | 264,449.5 |

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

| | Year Ended December 31, | | | | | | |
|---|---------------------------------------|------|-----------|------|-----------|---------|------|
| | 2014 | | 2015 | | 2016 | | |
| | NT\$ | % | NT\$ | % | NT\$ | US\$ | % |
| | (in millions, except for percentages) | | | | | | |
| Products for Televisions | 171,399.6 | 42.0 | 159,534.8 | 44.3 | 140,519.9 | 4,337.0 | 42.7 |
| Products for Monitors | 57,549.0 | 14.1 | 48,234.5 | 13.4 | 44,668.0 | 1,378.6 | 13.6 |
| Products for Mobile PCs | 75,353.6 | 18.5 | 52,488.1 | 14.6 | 52,721.5 | 1,627.2 | 16.0 |
| Products for Mobile Devices | 34,412.5 | 8.4 | 23,622.5 | 6.5 | 14,170.6 | 437.4 | 4.3 |
| Products for Commercial and Others ⁽¹⁾ | 45,620.5 | 11.2 | 49,512.4 | 13.7 | 52,746.6 | 1,628.0 | 16.0 |

Edgar Filing: AU OPTRONICS CORP - Form 20-F

| | | | | | | | |
|----------------|-----------|-------|-----------|-------|-----------|----------|-------|
| Solar Products | 23,843.5 | 5.8 | 26,954.2 | 7.5 | 24,262.4 | 748.8 | 7.4 |
| Total | 408,178.7 | 100.0 | 360,346.5 | 100.0 | 329,089.0 | 10,157.0 | 100.0 |

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

Products for Televisions

Our current portfolio of products for televisions consists of 19.5-inch to 85-inch panels. In 2016, approximately 59.4% of the sales of products for televisions we produced were 50 inches and above. In 2014, 2015 and 2016, sales of products for televisions accounted for 42.0%, 44.3% and 42.7%, respectively, of our net revenue.

Products for Monitors

In recent years, demand for monitors has continued to migrate to larger sizes. In 2016, 21.5-, 24- and 27-inch panels were the major sizes produced by us for monitors. In 2014, 2015 and 2016, sales of products for monitors accounted for 14.1%, 13.4% and 13.6%, respectively, of our net revenue.

Table of Contents

Products for Mobile PCs

In 2014, 2015 and 2016, sales of products for mobile PCs accounted for 18.5%, 14.6% and 16.0%, respectively, of our net revenue. In 2016, 14.0-inch and 15.6-inch panels with an aspect ratio of 16:9 were the major sizes produced by us for notebooks, while 7-inch and to 10.1-inch panels were the major sizes produced by us for tablets.

Products for Mobile Devices

Our products for mobile devices are used in products such as mobile phones. In 2014, 2015 and 2016, sales of products for mobile devices accounted for 8.4%, 6.5% and 4.3%, respectively, of our net revenue.

Products for Commercial and Others

Our products for commercial and others are used in products such as displays for automobiles, industrial PCs, automated teller machines, point of sale terminals, pachinko machines and others. In 2014, 2015 and 2016, sales of products for commercial and others accounted for 11.2%, 13.7% and 16.0%, respectively, of our net revenue.

Customers, Sales and Marketing

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

| Region | Year Ended December 31, 2014 | | 2015 | | 2016 | | US\$ | % |
|-----------------------|---------------------------------------|------|-----------|------|-----------|---------|------|------|
| | NT\$ | % | NT\$ | % | NT\$ | | | |
| | (in millions, except for percentages) | | | | | | | |
| Taiwan | 135,420.4 | 33.2 | 119,626.4 | 33.2 | 104,059.3 | 3,211.7 | | 31.6 |
| PRC | 135,102.4 | 33.1 | 123,476.5 | 34.3 | 115,110.1 | 3,552.8 | | 35.0 |
| Japan | 37,410.4 | 9.1 | 37,903.9 | 10.5 | 33,346.0 | 1,029.2 | | 10.1 |
| Singapore | 34,237.7 | 8.4 | 30,210.6 | 8.4 | 31,776.3 | 980.7 | | 9.7 |
| Malaysia | 12,952.0 | 3.2 | 10,456.0 | 2.9 | 9,168.1 | 283.0 | | 2.8 |
| Others ⁽¹⁾ | 53,055.8 | 13.0 | 38,673.1 | 10.7 | 35,629.2 | 1,099.6 | | 10.8 |

| | | | | | | | |
|-------|-----------|-------|-----------|-------|-----------|----------|-------|
| Total | 408,178.7 | 100.0 | 360,346.5 | 100.0 | 329,089.0 | 10,157.0 | 100.0 |
|-------|-----------|-------|-----------|-------|-----------|----------|-------|

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

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

We market our panels to, and negotiate prices with, both our original equipment manufacturing service provider customers and brand customers, as display panels often constitute a significant part of the end product. A significant portion of our net revenue is attributable to a small number of our customers. In 2014, 2015 and 2016, our five largest customers accounted for approximately 33.4%, 36.5% and 36.3%, respectively, of our net revenue. In addition, some customers individually accounted for more than 10% of our net revenue for each of the last three years. For example, Samsung Group accounted for 10.2%, 11.7% and 11.3% of our net revenue in 2014, 2015 and 2016, respectively.

We focus our sales activities on a number of large customers with whom we seek to build close relationships. We appoint a sales manager to serve as the main contact person with each of our major customers.

Each product category has its own sales and marketing division, and is further subdivided into smaller teams dedicated to each of our major customers. Each dedicated customer team is headed by an account manager who is primarily responsible for our relationship with that specific customer.

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

Table of Contents

We generally provide a limited warranty to our customers, including the provision of replacement parts and after-sale service for our products. In connection with these warranty policies, based on our historical experience, we set aside an amount as a reserve to cover these warranty obligations. As of December 31, 2016, our reserve for warranties totaled NT\$1,528.9 million (US\$47.2 million). In addition, we are required under several of our sales contracts to provide replacement parts for our products, at agreed prices, for a specified period of time.

We price our products in accordance with prevailing market conditions, giving consideration to factors such as the complexity of the product, the order size, the strength and history of our relationship with the customer and our capacity utilization. Selling prices and payment terms for sales to related parties are not significantly different from those for other customers. Our credit policy for sales to related parties and other customers typically requires payment within 30 to 60 days. From time to time, we may extend longer credit terms to our large customers as compared to our smaller customers. The average number of collection days extended for sales to our customers for the years ended December 31, 2014, 2015 and 2016 was 46 days, 48 days and 46 days, respectively. We believe the terms for customers and products are comparable to the terms offered by our industry peers.

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

The TFT-LCD Manufacturing Process

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

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

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

Raw Materials and Components and Suppliers

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

Table of Contents

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

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

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

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

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

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

Equipment and Suppliers

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

In 2016, we raised our equipment purchases from 2015 primarily due to the expansion at our 8.5-generation fab in Taiwan and the installation of our 6-generation LTPS fab in China. Going forward, we expect to maintain investments in advanced technology and new capacity based on market conditions. See “Item 5. Operating and Financial Review and Prospects—5.B. Liquidity and Capital Resources.” We purchase equipment from a small number of qualified vendors to assure consistent quality and performance. We typically order equipment four to six months or longer in advance of our planned installation.

Competition

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

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

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

product features and quality;

Table of Contents

- customer service, including product design support;
- ability to keep production costs low by maintaining high yield and operating at full capacity;
- ability to provide sufficient quantity of products to meet customer demand;
- quality of the research and development team;
- time-to-market;
- superior logistics; and
- access to capital.

Solar Business

Through our subsidiaries AUO Crystal Corp. and M.Setek, we mainly focus on research, production and sales of solar materials, such as ingots and solar wafers. Our principal manufacturing sites for ingots and solar wafers are located in Taiwan, Japan and Malaysia. In addition, we are among the few companies in Taiwan and worldwide which are capable of producing both mono-crystalline solar wafers and multi-crystalline solar wafers as a result of our comprehensive product line ranging from ingots to solar wafers.

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

We sell our ingot and solar wafer products primarily to solar cell manufacturers. We are also dedicated to reach out new clients in emerging markets to enlarge our current customer base. We sell our solar modules primarily to overseas customers, including installers, solar system integrators, property developers and other value-added resellers, which incorporate our solar modules into large on-grid integrated solar systems with inverters, mounting structures and wiring systems. We have commenced mass production of back-contact mono-crystalline modules with conversion

efficiencies over 20% since 2011.

In 2016, revenues generated from our solar business amounted to approximately NT\$24,262.3 million (US\$748.8 million), representing 7.4% of our total net revenue for 2016.

Quality Management

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

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

Table of Contents

Our quality management system has received accredited International Standard of ISO 9001 and QC080000 certifications, as well as qualifications from our customers. We also received the ISO/TS16949 for most of our factories that design and manufacture the flat panel displays. In addition, all of our facilities have been certified as meeting the International Organization for Standardization ISO 14001 environmental protection standards and OHSAS 18001 occupational health and safety standard and certain of our facilities have completed ISO 50001 certification for energy management. The International Standard assessment process involves subjecting our manufacturing processes and quality management systems to periodic reviews and observations. We believe that certification also provides independent verification to our customers regarding the quality control employed in our manufacturing and assembly processes.

Insurance

We mostly maintain insurance policies on our production facilities, buildings, machinery and inventories covering property damage and damage due to fire, earthquakes, floods and other natural and accidental perils. Our insurance policies cover factory maintenance and replacement costs for our sixth generation fabs and above, while for our fifth generation fabs and below, most of our insurance policies cover the amount equal to the book value of assets. As of December 31, 2016, our insurance also included protection from covered losses, including property damage up to maximum coverage of NT\$34.8 billion (US\$1.1 billion) for all of our inventories and NT\$711.2 billion (US\$21.9 billion) for our equipment and facilities. In addition, as of December 31, 2016, we had insurance coverage for business interruptions in the aggregate amount of NT\$43.8 billion (US\$1.4 billion).

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

Environmental Matters

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

Our operations can expose us to the risk of environmental claims which could result in damages awarded or fines imposed against us. We have identified certain factors associated with climate change that would have an impact on our operation, including the uncertainty surrounding new regulation, cap and trade schemes, change in precipitation patterns, change in weather conditions and fuel/energy taxes and regulations. We have taken the necessary steps to ensure the proper operation of our facilities to meet the necessary standards and strengthened the monitoring mechanisms against further violations, as well as obtained the appropriate permits, and believe that we are in compliance with the existing environmental laws and regulations in all material aspects in the ROC.

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

Intellectual Property

Overview

As of February 28, 2017, we had filed more than 23,000 patent applications in various jurisdictions, including Taiwan, the United States, the PRC, Japan, United Kingdom, European Union, Korea and others. These patent applications include patents for TFT-LCD manufacturing processes and products, and more than 17,000 patents were issued as of February 28, 2017. Most of these patents have a term of 20 years. In addition, we have registered “AU Optronics” as a trademark in some countries and jurisdictions where we operate, including the ROC, United States, European Union and Korea and registered our corporate logo, “AUO” as a trademark in the ROC, PRC, United States, European Union, Japan, Korea, Malaysia and Singapore.

Table of Contents

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

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

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

License Agreements

We have entered into patent and intellectual property license and cross-license agreements, some of which require periodic royalty payments. For example: (i) we have license agreements with each of FDTC (subsequently assumed by Fujitsu Limited) and Idemitsu Kosan Co., Ltd., effective as of March 31, 2003, which provides for the non-transferable and non-exclusive license under certain patents to manufacture certain LCD and OLED panels at our facilities, (ii) we entered into cross-license agreements with each of Sharp, LG Display Co., Ltd. (“LGD”), Samsung Electronics Co., Ltd. (“Samsung”) and Hydis Technologies Co., Ltd. (“Hydis,” E Ink’s Korean subsidiary), respectively. Under each of these agreements, each party granted to the other non-transferable and non-exclusive licenses in relation to certain patents involving LCD related technologies, (iii) we have a cross-license agreement with Japan Display Inc. (formerly known as Japan Display East Inc./Hitachi Displays Ltd.) and Panasonic Liquid Crystal Display Co., Ltd. (formerly known as IPS Alpha Technology Ltd.), under which each party granted to the other non-transferrable and non-exclusive licenses under certain patents to manufacture certain TFT-LCD and OLED panels and modules, (iv) we have a license agreement with Semiconductor Energy Laboratory Co., Ltd., which provides for the non-transferable and non-exclusive license under certain patents to manufacture certain LCD and certain OLED products and (v) we have a cross-license agreement with Seiko Epson Corporation (“Seiko Epson”), under which AUO granted to Seiko Epson non-transferrable and non-exclusive licenses under certain patents involving certain technologies, and Seiko Epson granted to AUO a non-transferrable and non-exclusive license under certain patents involving LCD related technologies.

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

4.C. Organizational Structure

The following chart sets forth our corporate structure and ownership interest in each of our principal operating subsidiaries as of December 31, 2016.

Table of Contents

- (1) 35.55% held directly by us, 9.40% held indirectly through Konly Venture Corp. and 6.09% held indirectly through Ronly Venture Corp., respectively.
- (2) 82.20% held directly by us, 13.29% held indirectly through Konly Venture Corp. and 0.82% held indirectly through Ronly Venture Corp., respectively.
- (3) 70.29% held indirectly through AU Optronics (L) Corp. and 29.71% held indirectly through Darwin Precisions Corporation, respectively.
- (4) 99.99% held directly by us, 0.0005% held indirectly through Konly Venture Corp. and 0.0003% held indirectly through Ronly Venture Corp., respectively.
- (5) In the process of liquidation.

Table of Contents

The following table sets forth summary information for our subsidiaries as of December 31, 2016.

| Subsidiary | Main Activities | Jurisdiction of Incorporation | Percentage of Ownership Interest |
|---|---|-------------------------------|----------------------------------|
| a. u. Vista Inc. | Research and development and IP related business | United States | 100.00% ⁽¹⁾ |
| AFPD Pte., Ltd. | Manufacturing TFT-LCD panels based on low temperature polysilicon technology | Singapore | 100.00% ⁽¹⁾ |
| AU Optronics (Czech) s.r.o. | Assembly of solar modules | Czech Republic | 100.00% ⁽¹⁾ |
| AU Optronics (Kunshan) Co., Ltd. | Manufacturing and sale of TFT-LCD panels | PRC | 51.00% ⁽¹⁾ |
| AU Optronics (L) Corp. | Holding and trading company | Malaysia | 100.00% |
| AU Optronics (Shanghai) Co., Ltd. | Sales support of TFT-LCD panels | PRC | 100.00% ⁽¹⁾ |
| AU Optronics (Slovakia) s.r.o. | Repairing of TFT-LCD modules; injecting and stamping parts; manufacturing and sale of molds | Slovakia Republic | 100.00% ⁽¹⁾ |
| AU Optronics (Suzhou) Corp., Ltd. | Manufacturing and assembly of TFT-LCD modules | PRC | 100.00% ⁽¹⁾ |
| AU Optronics (Xiamen) Corp. | Manufacturing and assembly of TFT-LCD modules | PRC | 100.00% ⁽¹⁾ |
| AU Optronics Corporation America | Sales support of TFT-LCD panels | United States | 100.00% ⁽¹⁾ |
| AU Optronics Corporation Japan | Sales support of TFT-LCD panels | Japan | 100.00% ⁽¹⁾ |
| AU Optronics Europe B.V. | Sales support of TFT-LCD panels | Netherlands | 100.00% ⁽¹⁾ |
| AU Optronics Korea Ltd. | Sales support of TFT-LCD panels | South Korea | 100.00% ⁽¹⁾ |
| AU Optronics Manufacturing (Shanghai) Corp. | Manufacturing and assembly of TFT-LCD modules | PRC | 100.00% ⁽¹⁾ |
| AU Optronics Singapore Pte. Ltd. | Holding company and sales support of TFT-LCD panels | Singapore | 100.00% ⁽¹⁾ |
| AUO Crystal (Malaysia) Sdn. Bhd. | Manufacturing and sale of solar wafers | Malaysia | 100.00% ⁽⁸⁾ |
| AUO Crystal Corp. | Manufacturing and sale of ingots and solar wafers | ROC | 96.31% ⁽¹⁰⁾ |
| AUO Energy (Tianjin) Corp. | Manufacturing and sale of solar modules | PRC | 100.00% ⁽¹²⁾ |
| AUO Green Energy America Corp. | Sales and sales support of solar-related products | United States | 100.00% ⁽¹²⁾ |
| AUO Green Energy Europe B.V. | Sales support of solar modules | Netherlands | 100.00% ⁽¹²⁾ |
| BriView (Hefei) Co., Ltd. | Manufacturing and sale of liquid crystal products and related parts | PRC | 100.00% ⁽⁵⁾ |
| BriView (L) Corp. | Holding company | Malaysia | 100.00% ⁽¹¹⁾ |
| BriView (Xiamen) Corp. | Manufacturing and sale of liquid crystal products and related parts | PRC | 100.00% ⁽⁹⁾ |

Edgar Filing: AU OPTRONICS CORP - Form 20-F

| | | | |
|---------------------------------------|--|-------------------|----------------------------|
| Darwin Precisions (Chengdu) Corp. | Manufacturing and sale of backlight modules and related parts | PRC | 100.00% ⁽⁴⁾⁽²²⁾ |
| Darwin Precisions (Hong Kong) Limited | Holding company | Hong Kong | 100.00% ⁽³⁾ |
| Darwin Precisions (L) Corp. | Holding company | Malaysia | 100.00% ⁽²⁾ |
| Darwin Precisions (Slovakia) s.r.o. | Manufacturing, assembly and sale of automotive parts | Slovakia Republic | 100.00% ⁽³⁾ |
| Darwin Precisions (Suzhou) Corp. | Manufacturing and sale of backlight modules and related parts | PRC | 100.00% ⁽⁴⁾ |
| Darwin Precisions (Xiamen) Corp. | Manufacturing and sale of backlight modules and related parts | PRC | 100.00% ⁽⁴⁾ |
| Darwin Precisions Corporation | Manufacturing, design and sale of TFT-LCD modules, TV set, backlight modules and related parts | ROC | 51.04% ⁽⁶⁾ |

Table of Contents

| Subsidiary | Main Activities | Jurisdiction of Incorporation | Percentage of Ownership Interest |
|--|---|-------------------------------|----------------------------------|
| Fargen Power Corporation | Renewable energy power generation | ROC | 100.00% ⁽⁷⁾ |
| Force International Holding Ltd. | Holding company | BVI | 100.00% ⁽²⁾ |
| Forefront Corporation | Holding company | Mauritius | 100.00% ⁽¹⁹⁾ |
| Forhouse Electronics (Suzhou) Co., Ltd. | Manufacturing of motorized treadmills | PRC | 100.00% ⁽²⁰⁾ |
| Forhouse International Holding Ltd. | Holding company | BVI | 100.00% ⁽²⁾ |
| Fortech Electronics (Kunshan) Co., Ltd. | Manufacturing and sale of light guide plates, backlight modules and related parts | PRC | 100.00% ⁽¹⁷⁾ |
| Fortech Electronics (Suzhou) Co., Ltd. | Manufacturing and sale of light guide plates, backlight modules and related parts | PRC | 100.00% ⁽¹⁶⁾ |
| Fortech International Corp. | Holding company | Mauritius | 100.00% ⁽¹⁵⁾ |
| Fortech Optronics (Xiamen) Co., Ltd. | Manufacturing and sale of light guide plates, backlight modules and related parts | PRC | 100.00% ⁽¹⁶⁾ |
| Forward Optronics International Corp. | Holding company | Samoa | 100.00% ⁽¹⁵⁾ |
| Full Luck (Wujiang) Precisions Co., Ltd. | Manufacturing and sale of precision metal parts | PRC | 100.00% ⁽¹⁸⁾⁽²²⁾ |
| Full Luck Precisions Co., Ltd. | Holding company | Mauritius | 100.00% ⁽¹⁵⁾ |
| Konly Venture Corp. | Venture capital investment | ROC | 100.00% |
| LiGen Power Corporation | Renewable energy power generation | ROC | 100.00% ⁽⁷⁾ |
| M.Setek Co., Ltd. | Manufacturing and sale of ingots | Japan | 99.9991% ⁽¹³⁾ |
| Prime Forward International Ltd. | Holding company | Samoa | 100.00% ⁽¹⁵⁾ |
| Ronly Venture Corp. | Venture capital investment | ROC | 100.00% |
| Sanda Materials Corporation | Holding company | ROC | 99.99% ⁽¹⁴⁾ |
| Space Money Inc. | Sale of TFT-LCD panels; leasing | ROC | 100.00% |
| Suzhou Forplax Optronics Co., Ltd. | Manufacturing and sale of precision plastic parts | PRC | 100.00% ⁽²¹⁾ |
| TronGen Power Corporation | Renewable energy power generation | ROC | 100.00% ⁽⁷⁾ |

(1) Indirectly, through our 100% ownership of AU Optronics (L) Corp.

(2) Indirectly, through our 51.04% ownership of Darwin Precisions Corporation.

(3) Indirectly, through our 100% ownership of Darwin Precisions (L) Corp.

Edgar Filing: AU OPTRONICS CORP - Form 20-F

(4) Indirectly, through our 100% ownership of Darwin Precisions (Hong Kong) Limited.

(5) Indirectly, through our 100% ownership of BriView (L) Corp.

(6) 35.55% held directly by us, 9.40% held indirectly by Konly Venture Corp. and 6.09% held indirectly by Ronly Venture Corp., respectively.

(7) Indirectly, through our 100% ownership of Konly Venture Corp.

(8) Indirectly, through our 96.31% ownership of AUO Crystal Corp.

(9) Indirectly, through our 100% ownership of AU Optronics (Xiamen) Corp.

(10) 82.20% held directly by us, 13.29% held indirectly through Konly Venture Corp. and 0.82% held indirectly through Ronly Venture Corp., respectively.

(11) 70.29% held indirectly through AU Optronics (L) Corp. and 29.71% held indirectly through Darwin Precisions Corporation, respectively.

(12) Indirectly, through our 100% ownership of AU Optronics Singapore Pte. Ltd.

(13) Indirectly, through our 99.99% ownership of Sanda Materials Corporation.

(14) 99.99% held directly by us, 0.0005% held indirectly through Konly Venture Corp., and 0.0003% held indirectly through Ronly Venture Corp., respectively.

(15) Indirectly, through our 100% ownership of Forhouse International Holding Ltd.

(16) Indirectly, through our 100% ownership of Fortech International Corp.

(17) Indirectly, through our 100% ownership of Prime Forward International Ltd.

(18) Indirectly, through our 100% ownership of Full Luck Precisions Co., Ltd.

(19) Indirectly, through our 100% ownership of Force International Holding Ltd.

- (20) Indirectly, through our 100% ownership of Forefront Corporation.

Table of Contents

(21) 65.52% held indirectly through Forward Optronics International Corp. and 34.48% held indirectly through Fortech International Corp., respectively.

(22) Darwin Precisions (Chengdu) Corp. and Full Luck (Wujiang) Precisions Co., Ltd. are in the process of liquidation as of December 31, 2016.

The following is a summary of our major organizational activities in the first quarter of 2017:

U-Fresh Technology Inc. Founded in January 2017, U-Fresh Technology Inc. is a 100%-owned subsidiary of AUO with NT\$50 million of capital invested. The company focuses on the design, development and implementation of environmentally friendly projects and solutions.

4.D. Property, Plants and Equipment

Principal Facilities

Display Business

As of December 31, 2016, we had a monthly capacity to produce approximately 2.3 to 2.7 million square meters of glass area of TFT-LCD panels. The capacity may be subject to change due to factors such as product mix, technological changes and production efficiency improvement.

As of February 28, 2017, our principal manufacturing sites were located in Taiwan, the PRC, Europe and Singapore. The following table sets forth certain information relating to our principal facilities as of February 28, 2017. The land in the Hsinchu Science Park, Lungke Science Park and Central Taiwan Science Park on which our facilities are located is leased from the ROC government. The land in the Songjiang Export Processing Zone, Xiamen Torch Hi-tech Industrial Development Zone, Kunshan Economic and Technical Development Zone and Suzhou Industrial Park, on which our facilities are located, is leased from the PRC government.

| Fab Location | Building Size | Generation | Input Substrate | Size of Commercial Production | Commencement of Primary Use | Owned or Leased |
|--------------|---------------|------------|------------------|-------------------------------|-----------------------------|-----------------|
| | (in square | | (in millimeters) | | | |

| | | | | | | | | meters) |
|-----|--|---------|-----|--------------|---------------|--------------------------------------|--|---------|
| L3C | No. 23, Li-Hsin Rd., Hsinchu Science Park, Hsinchu 30078, Taiwan, ROC | 105,127 | 3.5 | 600x720 | July 1999 | Manufacturing of TFT-LCD panels | · Building is owned · Land is leased (expires in January 2037) | |
| L3D | No. 189, Hwaya Rd. 2, Kueishan Hwaya Science Park, Kueishan Dist., Taoyuan 33383, Taiwan, ROC | | 3.5 | 620x750 | December 2001 | Manufacturing of TFT-LCD panels | · Building is owned · Land is owned | |
| L5D | | 162,826 | 5 | 1,100x 1,300 | October 2003 | | | |
| L4A | No. 1, Xinhe Rd., Aspire Park, Lungtan Dist., Taoyuan 32543, Taiwan, ROC | | 4 | 680x880 | November 2001 | Manufacturing of TFT-LCD panels; | · Building is owned | |
| L5A | | 535,528 | 5 | 1,100x1,250 | March 2003 | module and component assembly; | · Land is owned | |
| L5B | | | 5 | 1,100x1,300 | February 2004 | manufacturing of color filters | | |
| L4B | 10 Tampines Industrial Avenue 3, Singapore 528798 | 183,341 | 4.5 | 730x920 | August 2002 | Manufacturing of TFT-LCD panels | · Building is owned · Land is leased (expires in June 2059) | |

Table of Contents

| Fab | Location | Building Size (in square meters) | Generation | Input Substrate Size (in millimeters) | Commencement of Commercial Production | Primary Use | Owned or Leased | |
|-----|--|--|------------|---|---|--|---|---|
| L6A | | | 6 | 1,500x1,850 | March 2005 | Manufacturing of TFT-LCD panels; module and component assembly; manufacturing of color filters | · Building is owned | |
| L5C | No. 1, JhongKe Rd., | | 5 | 1,100x1,300 | August 2005 | | | |
| L7A | Central Taiwan Science Park, | 1,430,750 | 7.5 | 1,950x2,250 | June 2006 | | | |
| L7B | Taichung 40763, Taiwan, ROC | | 7.5 | 1,950x2,250 | March 2009 | | | · Land is leased (expires in December 2022) |
| L8A | | | 8.5 | 2,200x2,500 | March 2009 | | | |
| L6B | No. 228, Lungke St., Lungke Science Park, Lungtan Dist., Taoyuan 32542, Taiwan, ROC | 867,955 | 6 | 1,500x1,850 | August 2005 | Manufacturing of TFT-LCD panels; module and component assembly; manufacturing of color filters | · Building is owned · Land is leased (expires in December 2027) | |
| L6K | No. 6, LongTeng Road, Kunshan Economic and Technical Development Zone. P.C:215300 | 598,299 | 6 | 1,500x1,850 | November 2016 | Manufacturing of TFT-LCD panels; module and component assembly; manufacturing of color filters | · Building is owned · Land is leased (expires in 2060) | |
| L8B | No. 1, Machang Rd., Central Taiwan | 587,746 | 8.5 | 2,200x2,500 | June 2011 | Manufacturing of TFT-LCD panels; module and | · Building is owned | |

| | | | | | | | |
|-------------------------------|---|---------|-----|-----|--------------|---|---|
| | Science Park, Houli Dist., Taichung 42147, Taiwan, ROC | | | | | component assembly; manufacturing of color filters | · Land is leased (expires in December 2025) |
| Module S01, S02, S06 | No. 398, Suhong Zhong Road, Suzhou Industrial Park, Suzhou, the PRC | 413,035 | N/A | N/A | July 2002 | TFT-LCD module and component assembly | · Building is owned · Land is leased (expires in 2054) |
| Module S03 | No. 3, Lane 58, San-Zhuang Rd., Songjiang Export Processing Zone, Shanghai, the PRC | 83,508 | N/A | N/A | October 2004 | TFT-LCD module and component assembly | · Building is owned · Land is leased (expires in 2052) |
| Module S11, S16, S17 | No. 1689, North of XiangAn Rd., XiangAn Branch, Torch Hi-tech Industrial Development Zone, Xiamen, the PRC | 289,744 | N/A | N/A | April 2007 | TFT-LCD module and component assembly | · Building is owned · Land is leased (expires in 2056) |

Table of Contents

Solar Business

As of December 31, 2016, our solar business had the capacity of producing 455 megawatt of solar modules per year, 36 million pieces of wafer per month, and 700 tons of ingot per month. The actual shipment may be subject to market conditions, customer demand and capacity outsourcing.

As of February 28, 2017, our principal manufacturing sites for solar business were located in Taiwan, Japan, Europe and Malaysia. The following table sets forth certain information relating to our principal facilities for solar business as of February 28, 2017.

| Location | Building Size (in square meters) | Commencement of Commercial Production | Primary Use | Owned or Leased |
|--|-------------------------------------|---|---|--|
| No. 1, JhongKe Rd., Central Taiwan Science Park, Taichung 40763, Taiwan, ROC | 1,430,750 ⁽¹⁾ | April 2010 November 2011 | Manufacturing of solar cells and modules | · Building is owned · Land is leased (expires in December 2022) |
| No.3, Keya Rd., Xitun Dist., Taichung 40763, Taiwan, ROC | 9,559 | June 2011 | Production of wafers | · Building is owned · Land is leased (expires in December 2020) |
| No. 2, Jian 7 th Rd., Wuqi Dist., Taichung 43541, Taiwan, ROC | 19,510 | October 2011 | Production of ingots | · Building is owned · Land is leased (expires in December 2020) |
| No. 335, sec. 2, Houke Rd., Houli Dist., Taichung 42152, Taiwan, ROC | 44,225 | June 2012 | Production of ingots and wafers | · Building is owned · Land is leased (expires in December 2030) |

| | | | | |
|---|---|---|---|---|
| <p>Kochi Site 1: 378, Myoken-cho, Susaki-shi, Kochi-ken, Japan</p> | <p>36,587 (including Kochi Site 1 and Kochi Site 2)</p> | <p>Kochi Site 1: April 2004</p> <p>Kochi Site 2: January 2009</p> | <p>Production of ingots</p> | <ul style="list-style-type: none"> · Building is owned · Land is owned |
| <p>Kochi Site 2: 1117-1, Otani, Susaki-shi, Kochi-ken, Japan</p> | | | | <ul style="list-style-type: none"> · Building is leased (expires in December 2021) |
| <p>Turanka 859/98d, Slatina, 627 00 Brno, Czech Republic</p> | <p>17,765</p> | <p>July 2010</p> | <p>Manufacturing of solar modules</p> | <ul style="list-style-type: none"> · Land is leased (expires in December 2021) |
| <p>Melaka World Solar Valley, 78000 Alor Gajah, Melaka, Malaysia</p> | <p>7,719</p> | <p>March 2011</p> | <p>Production of wafers</p> | <ul style="list-style-type: none"> · Building is leased · Land is leased |

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

Expansion Projects

To further capture the market of mobile devices, we established a 6-generation LTPS fab in Kunshan, PRC. We already commenced commercial production at this fab in the fourth quarter of 2016. We expect to fully ramp up the 25 thousand substrates per month of capacity in the second half of 2017.

Table of Contents

Furthermore, in order to sustain our long-term profit model, we plan to invest in capacity expansion, new facilities and technology upgrades for the purpose of manufacturing competitive products to differentiate ourselves against our competitors.

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

8.5-Generation Capacity Expansion. To cater to the expected strong demand in large-size panels, we added 27 thousand substrates per month of capacity at our 8.5-generation facilities in Houli District, Taichung City. The expanded capacity has already been fully ramped up in the second quarter of 2016. Subject to market conditions, we plan to further increase production capacity at these facilities in 2017 by 25 thousand to 30 thousand substrates per month and to begin commercial production in the second half of 2018.

We estimate our capital expenditures in 2017 to be around NT\$55.0 billion for purposes including the technology upgrades, subsequent payments in the 6-generation LTPS fab in Kunshan and the above-mentioned new capacity expansion at our 8.5-generation fab in Taiwan. Our principal sources of funds include cash on hand, cash flow from operations and financing activities, for instance the issuance of equity securities, long-term borrowings, and the issuance of convertible and other debt securities. For further descriptions with regard to our capital expenditures and source of funding, see “Item 5. Operating and Financial Review and Prospects—5.B.—Liquidity and Capital Resources—Capital Expenditures.”

ITEM 4A.

UNRESOLVED STAFF COMMENTS

None.

ITEM 5.

OPERATING AND FINANCIAL REVIEW AND PROSPECTS

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

5.A. Operating Results

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

General Market Conditions

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

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

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

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

Table of Contents

In the past year, the United States, Europe, China and Japan remain the primary markets of solar products. In the meantime, other emerging markets have gradually become the growth engine of the industry.

Despite the higher tariffs imposed on our solar products in certain countries, the demand for alternative energy resources might keep the continuous growth of the solar industry.

Operating Efficiency

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

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

We measure the capacity of a fab in terms of the number of substrates and the glass area of substrates that can be produced. As of December 31, 2016, we had a monthly capacity to produce approximately 2.3 to 2.7 million square meters of glass area of TFT-LCD panels. Our production capacity has been affected by the process of construction and the schedule of commencement of operation of our fabs. Once the design of a new fab is completed, it typically takes six to eight quarters before the fab commences commercial production, during which time we construct the building, install the machinery and equipment and conduct trial production at the fab. An additional two to four quarters are required for the fab to be in a position to produce at the installed capacity and with high production yield, where production yield is the number of good panels produced expressed as a percentage of the total number of panels produced. This process is commonly referred to as “ramp-up.” At the beginning of the ramp-up process, fixed costs, such as depreciation and amortization, other overhead expenses, labor, general and administrative and other expenses, are relatively high on a per panel basis, primarily due to the low output. Variable costs, particularly raw materials and component costs, are also relatively high on a per panel basis since production yield is typically low in the early stages of the ramp-up of a fab, resulting in greater waste of raw materials and components. In general, upon the completion of the ramp-up process, a fab is capable of producing at its installed capacity, leading to lower fixed costs per panel as a result of higher output, as well as lower raw material and component costs per panel as a result of higher production yield. We typically construct our new fabs in phases in order to allocate our aggregate capital expenditure across a greater period of time. As a result, the installed capacity in the early phases of production at a new fab is typically lower than the maximum capacity that can be installed at a fab.

Product Mix

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

Table of Contents

Critical Accounting Policies and Estimates

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

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

Revenue Recognition

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

The movements of the allowance for sales returns and discounts are as follows:

| | 2014 | 2015 | 2016 | |
|------------------------------|----------------|-------------|-------------|------------|
| | NT\$ | NT\$ | NT\$ | US\$ |
| | (in thousands) | | | |
| Balance beginning of year | 595,767 | 825,355 | 1,524,144 | 47,041.5 |
| Provision charged to revenue | 1,584,730 | 2,485,510 | 472,397 | 14,580.1 |
| Utilized | (1,355,142) | (1,786,721) | (1,142,927) | (35,275.5) |
| Balance at end of year | 825,355 | 1,524,144 | 853,614 | 26,346.1 |

Allowance for Doubtful Accounts Receivables

We periodically evaluate our outstanding accounts receivables for collectability purposes on an individual and a collective basis. We first assess whether objective evidence of impairment exists for outstanding accounts receivables that are individually significant. If there is objective evidence indicating that an impairment loss has occurred, the amount of impairment loss is assessed individually. For accounts receivables other than those aforementioned, we group those assets and assess their impairment collectively. Our evaluation on a collective basis includes an analysis of the number of days outstanding for each outstanding accounts receivable account. When appropriate, we provide a provision that is based on the number of days for which the account has been outstanding. The provision provided on each aged account is primarily based on our average historical collection experience and current trends in the credit quality of our customers. We also carry accounts receivable insurance for potential defaults. There have been no changes in this policy for the last three years.

Provisions of Warranty Obligations

We make a provision for warranty obligations based on the estimated costs that we expect to incur. These liabilities are accrued when product revenue are recognized. We make the provisions based on the quantities within the warranty period, the historical and anticipated warranty claims rate associated with similar products and services, and the projected unit cost of maintenance. We regularly review the basis of the accrual and, if necessary, amend it as appropriate at the end of reporting period. There could be a significant impact on provisions for warranty obligations for any changes of the basis of the accrual. We recognized provisions for warranty obligations amounting to NT\$1,819.5 million and NT\$1,528.9 million (US\$47.2 million) as of December 31, 2015 and 2016, respectively.

Table of Contents

Realization of Inventory

Provisions for inventory obsolescence and devaluation are recorded when we determine that the amounts expected to be realized are less than their cost basis or when we determine that inventories cannot be liquidated without price concessions, which may be affected by the number of months in which inventory items remain unsold and their prevailing market prices. Additionally, our analyses of the amount we expect to ultimately realize are based partially upon forecasts of demand for our products and any change to these forecasts. There have been no changes in this policy for the last three years.

Inventories write-downs to net realizable value, which are amounts charged to cost of sales, were NT\$4,731.3 million, NT\$5,661.3 million and NT\$3,673.2 million (US\$113.4 million) for the years ended December 31, 2014, 2015 and 2016, respectively. The provision made in 2016 decreased mainly due to a rise in the market price of most products resulting from a favorable demand/supply condition in the second half of 2016. The provision made in 2015 increased mainly due to the inventory write-downs on certain products after considering their prevailing market prices.

Recoverability of Long-Lived Assets

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

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

We performed the impairment assessment over the solar CGU’s long-lived assets with lower capacity utilization, which is an indicator of potential impairment. In 2014, 2015 and 2016, we wrote down our property, plant and equipment by NT\$2,296.1 million, NT\$101.8 million and NT\$34.0 million (US\$1.1 million), respectively, as certain equipment was extremely low in utilization of which the fair value is expected to be minimal.

In addition, polysilicon in the solar industry has experienced significant downturns including a sharp decline in pricing due to oversupply capacity worldwide. Therefore, we decided to cease the production of polysilicon in January 2016. We performed the impairment assessment on the polysilicon CGU's long-lived assets in the fourth quarter of 2015. The recoverable amount was determined based on the relevant asset's estimated fair value less cost of disposal. The fair value of long-lived assets was determined by management with reference to the sales prices of recent transactions of similar assets in the same geographical area.

The following table shows the valuation technique used in the determination of fair value of the polysilicon CGU's long-lived assets as well as the significant inputs used in the valuation model.

| Description of Valuation Technique | Significant inputs | Inter-relationship between significant inputs and fair value measurement |
|---|---|--|
| <p>Sales comparison approach: Sales price of comparable property in close proximity are adjusted for differences in key attributes such as property size. The expected sales price is adjusted with sales discount based on land size. The significant inputs into this valuation approach are price per square meter of comparable properties and sales discount.</p> | <ul style="list-style-type: none"> · Price per square meter (JPY8,000). · Sales discount (15%). | <p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> · the price per square meter is higher (lower); or · the sales discount rates are lower (higher). |

Table of Contents

Based on management assessment, the carrying amount of the polysilicon CGU was determined to be higher than its estimated recoverable amount; consequently, we recognized an impairment loss of NT\$6,755.2 million in 2015.

Investments in equity-accounted Investees

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

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

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

In 2014, 2015 and 2016, we did not recognize any impairment loss on our investments in equity-accounted investees.

Income Taxes Uncertainties and Recognition of Deferred Taxes

We are subject to the continuous examination of our income tax returns by the tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for

income taxes. A change in the outcome of the assessment could materially affect our consolidated financial statements.

We have recognized deferred tax assets for the carryforward of unused tax losses and unused tax investment credits to the extent that it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilized. At each reporting date, the deferred tax assets are reviewed for recoverability and reduced to the extent that it is no longer probable that the related tax benefit will be realized, by considering nature of industry cycles, projected future taxable income and expiration years of unused tax losses carryforwards and tax investment credits. As of December 31, 2015 and 2016, our unrecognized deferred tax assets were NT\$42,571.8 million and NT\$39,992.3 million (US\$1,234.3 million), respectively. Besides, we also have unrecognized deferred tax liabilities associated with investments in subsidiaries amounting to NT\$673.0 million and NT\$448.5 million (US\$13.8 million) as of December 31, 2015 and 2016, respectively.

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

Table of Contents

Legal Contingencies

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

When we determine it is more likely than not our defense in a legal claim will be unsuccessful and therefore it is also more likely than not it will result in an outflow of our resources and our management can reasonably estimate the amount or range of such outflow, we make appropriate provisions in our consolidated financial statements. In making this assessment we consider factors such as the nature of the litigation or claims, the materiality of the amount of possible loss, the progress of the case and the opinions or views of legal counsel and other advisors. In determining the appropriate amount of the provision to be recognized, we develop an estimated amount or range of such loss. Where there is a continuous range of possible outcomes, and each point in that range is as likely as any other, we use the midpoint of the range to measure and recognize the provision. Such estimates are based on our assessment of the facts and circumstances at each reporting date and are subject to change based upon new information and intervening events. We had provisions for litigation and claims amounting to NT\$4,018.9 million and NT\$1,027.3 million (US\$31.7 million) in the consolidated statements of financial position as of December 31, 2015 and 2016, respectively. See Note 20 and 38 to our consolidated financial statements included elsewhere in this annual report. However, our actual liability may be materially different from the estimates as of December 31, 2016 and may have a material adverse effect on our operating results, cash flows or financial condition.

Measurement of Defined Benefit Obligations

We use the Projected Unit Credit Cost Method for accrued pension liabilities and the resulting pension expenses under defined benefit pension plans. Actuarial assumptions comprise the discount rate, rate of employee turnover, and long-term average future salary increase, etc. The discount rate is determined by reference to the yield rate on Taiwan government bonds at the reporting date. Changes in economic circumstances and market conditions will affect these assumptions and may have a material impact on the amount of the expense and the liability. As of December 31, 2015 and 2016, the accrued pension liabilities for our defined benefit obligations were NT\$753.7 million and NT\$921.5 million (US\$28.4 million), respectively.

Consolidated Results of Operations

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

Edgar Filing: AU OPTRONICS CORP - Form 20-F

| | Year Ended December 31, | | 2015 | | 2016 | | US\$ | % |
|--|---------------------------------------|--------|-------------|--------|-------------|-----------|------|--------|
| | 2014 | | NT\$ | % | NT\$ | % | | |
| | NT\$ | % | NT\$ | % | NT\$ | | | |
| | (in millions, except for percentages) | | | | | | | |
| Net revenue | 408,178.7 | 100.0 | 360,346.5 | 100.0 | 329,089.0 | 10,157.0 | | 100.0 |
| Cost of sales | (359,668.1) | (88.1) | (320,509.4) | (88.9) | (294,598.0) | (9,092.5) | | (89.5) |
| Gross profit | 48,510.6 | 11.9 | 39,837.1 | 11.1 | 34,491.0 | 1,064.5 | | 10.5 |
| Selling and distribution expenses | (7,799.0) | (1.9) | (4,206.1) | (1.2) | (3,895.1) | (120.2) | | (1.2) |
| General and administrative expenses | (9,389.6) | (2.3) | (9,206.0) | (2.6) | (9,176.7) | (283.2) | | (2.8) |
| Research and development expenses | (9,156.6) | (2.2) | (8,903.8) | (2.5) | (9,080.8) | (280.3) | | (2.7) |
| Other income | 2,162.1 | 0.5 | 2,197.6 | 0.6 | 2,380.2 | 73.5 | | 0.7 |
| Other gains and losses | (801.8) | (0.2) | (9,978.3) | (2.7) | (925.6) | (28.6) | | (0.3) |
| Finance costs | (4,045.1) | (1.0) | (2,591.0) | (0.7) | (2,707.9) | (83.6) | | (0.8) |
| Share of profit of equity-accounted investees | 499.8 | 0.1 | 449.4 | 0.1 | 100.8 | 3.1 | | 0.0 |
| Profit before income tax | 19,980.4 | 4.9 | 7,598.9 | 2.1 | 11,185.9 | 345.2 | | 3.4 |
| Income tax expense | 3,243.2 | 0.8 | 384.9 | 0.1 | 2,432.5 | 75.0 | | 0.7 |
| Profit for the year | 16,737.2 | 4.1 | 7,214.0 | 2.0 | 8,753.4 | 270.2 | | 2.7 |
| Other comprehensive income (loss) for the year, net of taxes | 2,177.7 | 0.5 | (731.7) | (0.2) | (7,329.9) | (226.2) | | (2.3) |
| Total comprehensive income for the year | 18,914.9 | 4.6 | 6,482.3 | 1.8 | 1,423.5 | 44.0 | | 0.4 |

Table of Contents

In 2016, our gross margin slightly decreased by 0.6% compared to 2015, primarily due to a decrease in the average selling price resulting from a decline in panel prices, offset by our effective cost control. Despite panel prices rebounding in the second half of 2016 due to favorable demand/supply condition, the average selling prices of our products still declined on a year-over-year basis owing to a sharp decline of panel prices in the second half of 2015 continuing through the first half of 2016. However, we had higher net margin in 2016 compared to 2015 primarily due to an asset impairment associated with the cessation of polysilicon production occurred in 2015.

In 2015, despite of an improved product mix, we had lower gross margin compared to 2014, primarily due to a decline in panel prices resulting from less demand and macroeconomic fluctuations. In the meanwhile, we had lower net margin in 2015 compared to 2014 primarily due to lower gross margin and an asset impairment associated with the cessation of polysilicon production. Please see below for further analysis of our results of operations for the years ended December 31, 2014, 2015 and 2016.

For the Years Ended December 31, 2016 and 2015

Net Revenue

Net revenue decreased 8.7% to NT\$329,089.0 million (US\$10,157.0 million) in 2016 from NT\$360,346.5 million in 2015.

Net revenue of large-size panels decreased 8.1% to NT\$248,193.6 million (US\$7,660.3 million) in 2016 from NT\$270,008.2 million in 2015 primarily due to a decrease in the average selling price. The average selling price per panel decreased by 12.1% from NT\$2,555.6 in 2015 to NT\$2,246.6 (US\$69.3) in 2016 mainly due to a soft market condition starting from the second half of 2015 continuing through the first half of 2016. Although panel prices rebounded in the second half of 2016, the average selling prices of our large-size panels in 2016 stayed lower compared to 2015.

Net revenue of small- to medium-size panels decreased 13.1% to NT\$47,448.4 million (US\$1,464.5 million) in 2016 from NT\$54,624.2 million in 2015. The average selling price per panel decreased by 2.5% from NT\$316.1 in 2015 to NT\$308.2 (US\$9.5) in 2016. The decrease was primarily due to a decline in market prices in the first half of 2016 for certain products and a change of product mix to shift to products with higher margins.

Cost of sales

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

Cost of sales decreased 8.1% from NT\$320,509.4 million in 2015 to NT\$294,598.0 million (US\$9,092.5 million) in 2016. This decrease in cost of sales was primarily due to our effective cost control and a significant reduction in depreciation. However, the decrease in average selling price outpaced the decrease in cost of sales per panel, as a percentage of net revenue, cost of sales increased from 88.9% in 2015 to 89.5% in 2016.

Gross Profit

Gross profit was NT\$34,491.0 million (US\$1,064.5 million) in 2016 compared to gross profit of NT\$39,837.1 million in 2015. Gross margin mainly fluctuates, among other factors, with our capacity utilization rate, the yield rate of our products, market price change of our products and our product mix. The gross margin in 2016 and 2015 was 10.5% and 11.1%, respectively. The slight decrease was primarily due to a decrease in the average selling price resulting from a decline in panel prices, offset by our effective cost control. Despite panel prices rebounding in the second half of 2016 due to favorable demand/supply condition, the average selling prices of our products still declined on a year-over-year basis owing to a sharp decline of panel prices in the second half of 2015 continuing through the first half of 2016.

Selling and Distribution Expenses

Selling and distribution expenses decreased 7.4% to NT\$3,895.1 million (US\$120.2 million) in 2016 from NT\$4,206.1 million in 2015. The lower expenses in 2016 were primarily due to a decline in freight expenses in 2016 resulting from the decrease of international oil price. As a percentage of net revenue, selling and distribution expenses remained flat at 1.2% in both 2016 and 2015.

Table of Contents

General and Administrative Expenses

General and administrative expenses decreased 0.3% to NT\$9,176.7 million (US\$283.2 million) in 2016 from NT\$9,206.0 million in 2015. The lower expenses in 2016 were primarily due to a decrease in professional service expenses, which were partially offset by ramp-up expenses incurred in our 6-generation LTPS fab in China before it was ready for commercial production. However, due to a decrease in net revenue, as a percentage of net revenues, general and administrative expenses increased to 2.8% in 2016 from 2.6% in 2015.

Research and Development Expenses

Research and development expenses increased 2.0% to NT\$9,080.8 million (US\$280.3 million) in 2016 from NT\$8,903.8 million in 2015. The increase in 2016 was primarily due to an increase in purchase of tools in response to our increased research and development activities in 2016. As a percentage of net revenue, research and development expenses increased to 2.7% in 2016 from 2.5% in 2015.

Other Gains and Losses

Other gains and losses primarily include gains or losses on disposal of assets, impairment loss on assets, foreign exchange gains or losses, gains or losses on valuation of financial assets and liabilities measured at fair value through profit or loss, gain on bargain purchase and provisions related to legal proceedings or claims and others. Total net other losses significantly decreased to NT\$925.6 million (US\$28.6 million) in 2016 from NT\$9,978.3 million in 2015, primarily due to an asset impairment associated with the cessation of polysilicon production in our subsidiary M.Setek in 2015.

Finance Costs

Finance costs consist of interest expenses, which have been primarily attributable to our bank loans. Finance costs increased 4.5% to NT\$2,707.9 million (US\$83.6 million) in 2016 from NT\$2,591.0 million in 2015, primarily due to an increase in our long-term bank borrowings.

Income Tax Expense

Income tax expense significantly increased to NT\$2,432.5 million (US\$75.0 million) in 2016 from NT\$384.9 million in 2015, primarily due to increased profits, a higher surtax on undistributed retained earnings in 2016 and an adjustment of prior-year tax returns. As a result, our effective tax rate was 21.7% in 2016 compared to 5.1% in 2015.

Net Profit for the Year

As a result of the foregoing, we had a net profit of NT\$8,753.4 million (US\$270.2 million) in 2016 or basic earnings per share of NT\$1.04 (US\$0.03) and diluted earnings per share of NT\$1.02 (US\$0.03) in 2016 compared to a net profit of NT\$7,214.0 million or basic and diluted earnings per share of NT\$0.75 and NT\$0.70, respectively, in 2015.

For the Years Ended December 31, 2015 and 2014

Net Revenue

Net revenue decreased 11.7% to NT\$360,346.5 million in 2015 from NT\$408,178.7 million in 2014.

Net revenue of large-size panels decreased 12.6% to NT\$270,008.2 million in 2015 from NT\$309,093.8 million in 2014 primarily due to a decrease in the average selling price and sales volume. The average selling price per panel decreased by 3.3% from NT\$2,643.7 in 2014 to NT\$2,555.6 in 2015 mainly due to a decline in the market price. The sales volume decreased by 9.6% from 116.9 million in 2014 to 105.7 million in 2015 mainly due to a decline in sales volume of notebook, monitors and TV panels.

Table of Contents

Net revenue of small- to medium-size panels decreased 20.5% to NT\$54,624.2 million in 2015 from NT\$68,738.0 million in 2014. The decrease was primarily due to a decrease in the average selling price for mobile devices and small-sized tablets. The average selling price per panel decreased by 21.5% from NT\$402.7 in 2014 to NT\$316.1 in 2015 mainly due to a change in product mix and a decline in the market price.

Cost of sales

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

Cost of sales decreased 10.9% from NT\$359,668.1 million in 2014 to NT\$320,509.4 million in 2015. This decrease in cost of sales was primarily due to our continuous enhanced cost control and lower depreciation expenses. However, due to a decrease of 11.7% in net revenue, as a percentage of net revenue, cost of sales increased from 88.1% in 2014 to 88.9% in 2015.

Gross Profit

Gross profit was NT\$39,837.1 million in 2015 compared to gross profit of NT\$48,510.6 million in 2014. Gross margin, which is gross profit divided by net revenue, mainly fluctuates, among other factors, with our capacity utilization rate, the yield rate of our products, market price change of our products and our product mix. The gross margin in 2015 and 2014 was 11.1% and 11.9%, respectively. The decrease was primarily due to a decline in panel prices resulting from less demand and macroeconomic fluctuations.

Selling and Distribution Expenses

Selling and distribution expenses decreased 46.1% to NT\$4,206.1 million in 2015 from NT\$7,799.0 million in 2014. The lower expenses in 2015 were primarily due to a decrease in overall expenditures related to our marketing activities. As a percentage of net revenue, selling and distribution expenses decreased to 1.2% in 2015 from 1.9% in 2014.

General and Administrative Expenses

General and administrative expenses decreased 2.0% to NT\$9,206.0 million in 2015 from NT\$9,389.6 million in 2014. The decrease in 2015 was primarily due to a decrease in compensation and benefit costs. Such decreases were partially offset by an increase in professional service expense. However, due to a decrease in net revenue, as a percentage of net revenue, general and administrative expenses increased to 2.6% in 2015 from 2.3% in 2014.

Research and Development Expenses

Research and development expenses decreased 2.8% to NT\$8,903.8 million in 2015 from NT\$9,156.6 million in 2014. The decrease in 2015 was primarily due to a decrease in compensation and benefit costs, partially offset by an increase in costs of tools and materials used for our research and development activities. However, due to a decrease in net revenue, as a percentage of net revenue, research and development expenses increased to 2.5% in 2015 from 2.2% in 2014.

Other Gains and Losses

Other gains and losses include primarily gains or losses on disposal of assets, impairment loss on assets, foreign exchange gains or losses, gains or losses on valuation of financial assets and liabilities measured at fair value through profit or loss, gain on bargain purchase and provisions related to legal proceedings or claims and others. Total net other losses significantly increased to NT\$9,978.3 million in 2015 from NT\$801.8 million in 2014, primarily due to an asset impairment associated with the cessation of polysilicon production in our subsidiary M.Setek in 2015 and the gain on bargain purchase in relation to merger of subsidiaries in 2014.

Finance Costs

Finance costs consist of interest expenses, which have been primarily attributable to our bank loans, other loans and convertible bonds. Finance costs decreased 35.9% to NT\$2,591.0 million in 2015 from NT\$4,045.1 million in 2014, primarily due to we had reduced our borrowing in 2015 through repayment of long-term borrowings and the purchase and redemption of convertible bonds payable.

Table of Contents

Income Tax Expense

Income tax expense decreased 88.1% to NT\$384.9 million in 2015 from NT\$3,243.2 million in 2014, primarily due to a decrease in current tax expense in 2015 resulting from a decline in the profit and a lower surtax on undistributed retained earnings in 2015. As a result, our effective tax rate was 5.1% in 2015 compared to 16.2% in 2014.

Net Profit for the Year

As a result of the foregoing, we had a net profit of NT\$7,214.0 million in 2015 or basic earnings per share of NT\$0.75 and diluted earnings per share of NT\$0.70 in 2015 compared to a net profit of NT\$16,737.2 million or basic and diluted earnings per share of NT\$1.70 and NT\$1.69, respectively, in 2014.

Segment Information

General

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

| | For the Year Ended December 31 | | | |
|-----------------------|--------------------------------|------------|-----------|----------|
| | 2014 | 2015 | 2016 | US\$ |
| | NT\$ | NT\$ | NT\$ | |
| | (in millions) | | | |
| Net revenue | | | | |
| Display business | 384,335.2 | 333,392.3 | 304,826.7 | 9,408.2 |
| Solar business | 23,843.5 | 26,954.2 | 24,262.3 | 748.8 |
| Total | 408,178.7 | 360,346.5 | 329,089.0 | 10,157.0 |
| Segment profit (loss) | | | | |
| Display business | 24,422.5 | 19,226.0 | 12,703.5 | 392.1 |
| Solar business | (2,257.1) | (1,704.8) | (365.1) | (11.3) |

| | | | | |
|-------|----------|----------|----------|-------|
| Total | 22,165.4 | 17,521.2 | 12,338.4 | 380.8 |
|-------|----------|----------|----------|-------|

Display business

For the Years Ended December 31, 2016 and 2015

Net revenue from our display business segment decreased 8.6% to NT\$304,826.7 million (US\$9,408.2 million) in 2016 from NT\$333,392.3 million in 2015, primarily due to a decrease in the average selling price resulting from a decline in panel prices. Despite panel prices rebounding in the second half of 2016 due to favorable demand/supply condition, the average selling prices of our products still declined on a year-over-year basis owing to a sharp decline of panel prices in the second half of 2015 continuing through the first half of 2016.

The aggregate selling, administrative and research and development expenses in our display business segment increased 1.1% to NT\$20,717.2 million (US\$63.9 million) in 2016 from NT\$20,498.1 million in 2015, primarily due to ramp-up expenses incurred in our 6-generation LTPS fab in China before it was ready for commercial production and an increase in purchase of tools in response to our increased research and development activities in 2016, partially offset by a decrease in professional service expenses.

Table of Contents

Our segment profit was NT\$12,703.5 million (US\$392.1 million) in 2016 compared to segment profit of NT\$19,226.0 million in 2015. The decrease in segment profit in 2016 was primarily due to a decrease in the average selling price as a result of a soft market condition starting from the second half of 2015 continuing through the first half of 2016.

For the Years Ended December 31, 2015 and 2014

Net revenue from our display business segment decreased 13.3% to NT\$333,392.3 million in 2015 from NT\$384,335.2 million in 2014, primarily due to a decrease in the average selling price resulting from a decline in market prices and a decrease in sales volume of notebooks, monitors and TV panels.

The aggregate selling, administrative and research and development expenses in our display business segment decreased 17.7% to NT\$20,498.1 million in 2015 from NT\$24,909.6 million in 2014, primarily due to a decrease in selling and distribution expenses, resulting from a decrease in overall expenditures related to our marketing activities.

Our segment profit was NT\$19,226.0 million in 2015 compared to segment profit of NT\$24,422.5 million in 2014. The decrease in segment profit in 2015 was primarily due to a decline in panel prices resulting from less demand and macroeconomic fluctuations.

Solar business

For the Years Ended December 31, 2016 and 2015

Net revenue from our solar business segment decreased 10.0% to NT\$24,262.3 million (US\$748.8 million) in 2016 from NT\$26,954.2 million in 2015. The decrease in solar segment revenue was primarily due to a decline in the selling prices of ingots, wafers and modules as a result of unfavorable market conditions for the solar industry in the second half of 2016.

Segment loss decreased to NT\$365.1 million (US\$11.3 million) in 2016 from NT\$1,704.8 million in 2015, primarily due to a change of our product mix and the cessation of unprofitable polysilicon production starting from 2016.

For the Years Ended December 31, 2015 and 2014

Net revenue from our solar business segment increased 13.0% to NT\$26,954.2 million in 2015 from NT\$23,843.5 million in 2014. The increase in solar segment revenue was primarily due to the increase in sales of ingots, wafers and modules as a result of the improved market demand.

Segment loss decreased to NT\$1,704.8 million in 2015 from NT\$2,257.1 million in 2014. The decrease of the segment loss in 2015 was primarily due to the improvement of our cost structure as well as the enhancement of our product mix.

Inflation

We do not believe that inflation in any of our key markets has had a material impact on our results of operations in 2016. However, we cannot provide assurance that in the event of significant variations in the nature, extent or scope of inflation within any of our key markets in the future would not have a material impact on our results of operations.

Taxation

The corporate income tax rate in ROC is 17% in 2014, 2015 and 2016 and our subsidiaries outside ROC are subject to their country's juridical tax rate.

In the past, we had been granted exemptions from taxable income in Taiwan for construction and capacity expansions of production facilities according to the ROC Statute for Upgrading Industries. The exemption period may begin at any time within four to five years following the completion of a construction or expansion. However, given that the ROC Statute for Upgrading Industries expired at the end of 2009, such taxable income exemption, after specified period, may be subject to additional ROC Income Basic Tax Act (the "IBT Act") taxes. Therefore, the Company may not use the granted exemptions.

Table of Contents

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

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

5.B. Liquidity and Capital Resources

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

As of December 31, 2016, we had net current assets of NT\$45,314.6 million (US\$1,398.6 million) as our current assets of NT\$163,346.2 million (US\$5,041.6 million) exceeded our current liabilities of NT\$118,031.6 million (US\$3,643.0 million). We expect to meet our present working capital requirements through cash flow from operations, bank loans and borrowings and by financing activities from capital markets from time to time.

As of December 31, 2016, we had cash and cash equivalents of NT\$80,191.2 million (US\$2,475.0 million). As of December 31, 2016, we had total short-term credit lines of NT\$34,404.2 million (US\$1,061.9 million), of which we had borrowed NT\$526.7 million (US\$16.3 million). All of our short-term facilities are revolving with a term of one year, which may be extended for terms of one year each with lender consent. Our repayment obligations under our

short-term loans are unsecured. We believe that our existing credit lines under our short-term loans, together with cash generated from our operations, are sufficient to liquidity needs.

We also entered into reverse repurchase agreements with securities firms or banks in Taiwan covering government bonds for short-term yield enhancement purposes. The terms of these reverse repurchase agreements are typically less than one month. As of December 31, 2014, 2015 and 2016, we held government bonds with reverse repurchase agreements in amounts of NT\$9,473.6 million, NT\$1,295.1 million and NT\$125.0 million (US\$3.9 million), respectively; and these bonds yielded interest at rates ranging from 0.33% to 0.55%, 0.26% to 0.38% and at 0.22%, respectively.

As of December 31, 2016, we had outstanding long-term borrowings of approximately NT\$124.7 billion (US\$3.8 billion). The interest rates in respect of these long-term borrowings are variable, and as of December 31, 2016 ranged between 1.09% and 4.90% per year.

Table of Contents

Below is a summary of our major outstanding borrowings and loans. Please also see Note 19 to our consolidated financial statements for further information.

In January 2011, we entered into a NT\$45.0 billion five-year syndicated credit facility, for which the Bank of Taiwan acted as the agent bank, for the purpose of funding medium-term working capital and repaying existing debts. The agreement for this syndicated facility contains covenants that require us to maintain certain financial ratios. Our obligations under this facility are secured by certain of our building, equipment and machinery. We fully repaid this credit facility in May 2016.

In January 2013, we entered into a NT\$17.3 billion four-and-a-half-year syndicated credit facility, for which the Bank of Taiwan acted as the agent bank, for the purpose of repaying existing debts. The agreement for this syndicated facility contains covenants that require us to maintain certain financial ratios. Our obligations under this facility are secured by certain of our building, equipment and machinery. As of December 31, 2016, NT\$7.6 billion (US\$234.5 million) was outstanding under this credit facility.

In October 2013, we entered into a NT\$26.9 billion five-year syndicated credit facility, for which the Bank of Taiwan acted as the agent bank, for the purpose of repaying existing debts. The agreement for this syndicated facility contains covenants that require us to maintain certain financial ratios. Our obligations under this facility are secured by certain of our land, building, equipment and machinery. As of December 31, 2016, NT\$23.7 billion (US\$730.6 million) was outstanding under this credit facility.

In August 2014, our subsidiary AFPD entered into a US\$110 million four-and-a-half-year syndicated credit facility, for which Standard Chartered Bank (Hong Kong) Limited, acted as agent bank, for the purpose of repaying AFPD's existing loan and financing AFPD's general corporate purposes. The agreement for this syndicated facility is guaranteed by us. Under the agreement, AFPD and we are required to maintain certain financial ratios. Following a request by us in January 2015 to reduce the amount of this credit facility, the syndicated banks cancelled US\$9 million under this syndicated credit facility effective February 13, 2015. As of December 31, 2016, US\$73.0 million was outstanding under this credit facility.

In September 2014, we entered into a NT\$25.8 billion five-year syndicated credit facility, for which the Bank of Taiwan acted as the agent bank, for the purpose of repaying existing debts. The agreement for this syndicated facility contains covenants that require us to maintain certain financial ratios. Our obligations under this facility are secured by certain of our building, equipment and machinery. As of December 31, 2016, NT\$25.8 billion (US\$796.3 million) was outstanding under this credit facility.

In May 2015, our subsidiary AU Optronics (Kunshan) Co., Ltd. ("AUKS") entered into an RMB3,985 million and US\$326 million eight-year syndicated credit facility, for which the Bank of China (Suzhou) acted as the agent bank, for the purpose of funding the construction and purchase of machinery and equipment for our 6-generation LTPS fab in Kunshan, PRC. The agreement for this syndicated facility is guaranteed by AUKS's shareholders, Kunshan Economic & Technical Development Zone Assets Operation Co., Ltd. and us, in accordance with the shareholding percentages, respectively. Under the guarantee, we are required to maintain certain financial ratios. As of December 31, 2016, RMB4.6 billion (US\$658.7 million) was outstanding under this credit facility.

In September 2015, we entered into a NT\$37.5 billion five-year syndicated credit facility, for which the Bank of Taiwan acted as the agent bank, for the purpose of funding medium-term working capital and repaying existing debts. The agreement for this syndicated facility contains covenants that require us to maintain certain financial ratios. Our obligations under this facility are secured by certain of our building, equipment and machinery. As of December 31, 2016, NT\$25.0 billion (US\$771.6 million) was outstanding under this credit facility.

In February 2016, our subsidiary AUO Crystal Corp. entered into a NT\$3.0 billion three-year syndicated credit facility, for which First Commercial Bank acted as the agent bank, for the purpose of repaying AUO Crystal Corp.'s existing loan. The agreement for this syndicated facility contains covenants that require AUO Crystal Corp. to maintain certain financial ratios. As of December 31, 2016, NT\$3.0 billion (US\$92.6 million) was outstanding under this credit facility.

Table of Contents

In November 2016, we entered into a NT\$10.0 billion five-year syndicated credit facility, for which the Bank of Taiwan acted as the agent bank, for the purpose of funding purchase of machinery and equipment for 8.5-generation fab expansion. The agreement for this syndicated facility contains covenants that require us to maintain certain financial ratios. Our obligations under this credit facility are secured by certain of our equipment and machinery. As of December 31, 2016, no amount had been drawn down under this credit facility.

The carrying amount of our assets pledged as collateral to secure our obligations under our long-term borrowings, including land, building, machinery and equipment was NT\$79.1 billion (US\$2.4 billion) as of December 31, 2016.

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

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

Cash Flows

Net cash provided by operating activities was NT\$63,392.7 million in 2014, NT\$62,003.4 million in 2015 and NT\$36,695.8 million (US\$1,132.6 million) in 2016. The decrease in net cash provided by operating activities in 2016 compared to 2015 was primarily due to decreased cash collections from our ordinary business as a result of a decline in net revenue in 2016. The decrease in net cash provided by operating activities in 2015 compared to 2014 was primarily due to decreased cash collections from our ordinary business as a result of a decline in net revenue in 2015, partially offset by less cash outflow relating to our ordinary operations as a result of effective cost control.

Net cash used in investing activities were NT\$13,106.8 million in 2014, NT\$31,734.7 million in 2015 and NT\$42,267.3 million (US\$1,304.5 million) in 2016. Net cash used in investing activities primarily reflected capital expenditures for property, plant and equipment of NT\$16,971.0 million in 2014, NT\$33,440.2 million in 2015 and NT\$46,220.1 million (US\$1,426.5 million) in 2016. These capital expenditures were primarily funded with net cash provided by operating activities and proceeds from long-term bank borrowings.

Net cash used in financing activities was NT\$45,041.5 million in 2014, reflecting primarily in the repayment of long-term and short-term borrowings for NT\$70,458.0 million and the purchase of convertible bonds payable for NT\$5,978.9 million, partially offset by the proceeds from long-term borrowings for NT\$32,956.8 million. Net cash used in financing activities was NT\$34,277.0 million in 2015, reflecting primarily in the repayment of long-term borrowings for NT\$50,849.7 million and the purchase of convertible bonds payable for NT\$14,799.7 million, partially offset by the proceeds from long-term borrowings for NT\$30,634.0 million. Net cash provided by financing activities was NT\$10,721.2 million (US\$330.9 million) in 2016, reflecting primarily in the proceeds from long-term borrowings for NT\$61,799.6 million (US\$1,907.4 million), partially offset by the repayment of long-term borrowings for NT\$45,651.0 million (US\$1,409.0 million).

Table of Contents

Capital Expenditures

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

We are sometimes required to prepay our purchases of equipment. Prepayments for purchases of equipment result from contractual agreements involving down payments to suppliers when the equipment is ordered by us. As of December 31, 2014, 2015 and 2016, prepayments for purchases of equipment were NT\$3,436.2 million, NT\$16,332.9 million and NT\$13,535.5 million (US\$417.8 million), respectively.

Our capital expenditures paid in 2016 were approximately NT\$46.2 billion (US\$1.4 billion), primarily for the expansion at our 8.5-generation fab in Taiwan and the installation of our 6-generation LTPS fab in China. Our capital expenditures in 2017 are expected to be approximately NT\$55.0 billion, which, depending on cash flow generated from our operations, the progress of our planned growth, and market conditions, may be adjusted later. Our capital expenditures in 2017 are planned to be used primarily for the subsequent payments in the 6-generation LTPS fab in Kunshan and the new capacity expansion at our 8.5-generation fab in Taiwan.

5.C. Research and Development

We incurred research and development costs of NT\$9,156.6 million, NT\$8,903.8 million and NT\$9,080.8 million (US\$280.3 million) in 2014, 2015 and 2016, respectively, which represented approximately 2.2%, 2.5% and 2.7%, respectively, of our net revenue.

Our research and development activities are principally directed toward advancing our technologies in key components, manufacturing processes and product development, with the objective of improving the features of our products and services to bring added value to our customers in addition to design products that meet their specific requirements. We have a product development team dedicated to each of our primary product categories. Each of these teams focuses on the development of our existing and potential new products. In addition, we have several research and development teams to develop new and advanced display technologies, such as UHD 4K, curved display, OLED, wide color gamut, HDR, Bezel-less, and touch technologies. Monetary incentives are provided to our employees if research projects result in successful patents. As of December 31, 2016, we employed approximately 2,366 research and development engineers.

We established a dedicated flat panel research and development center, the AUO Technology Center, in 2002, which we believe is one of Taiwan's largest optoelectronics research and development centers. The research activities at the AUO Technology Center initially have been divided into several general areas, including advanced technology development in new liquid crystal materials, new system electronics, new backlight unit technologies, image and color processing, LTPS and new TFT devices. In addition to new product development and module processing, the AUO Technology Center also focuses on improving our current TFT-LCD panel product and manufacturing process technologies. In 2005, we expanded the AUO Technology Center to the Central Taiwan Science Park. In 2008, we established the Advance Research Center under the AUO Technology Research Center to focus on the development of new technologies and mid to long-term technologies.

In 2014, we announced and exhibited a series of new developments of advanced display technologies. For example, we showcased mobile device applications including 5.7-inch WQHD AMOLED panel, ultra-slim 1.63-inch in-cell touch AMOLED panels for use in wearable devices and 12.3-inch AHVA LCD (1920 x 720 pixel) panel technology, which was then the largest in size and highest in resolution for dashboards, and on-cell touch panel integrated touch solutions. We presented 43- to 85-inch UHD 4K curved LCD TV displays with wide color gamut of over 100% NTSC color saturation, and debuted 27- and 32-inch LCD panels, wide viewing angle AHVA technology and narrow bezel designs. Furthermore, we also initiated development of a new 35-inch 21:9 144 Hz Ultra Wide Curve (curvature 2000 mm) panel with wide viewing angle Advanced Multi-domain Vertical Alignment ("AMVA") technology and narrow bezel designs to capture the gaming market and presented a new 27-inch WQHD 144Hz panel to capture the gaming market.

Table of Contents

In 2015, we announced and exhibited a series of new developments of advanced display technologies. For example, we introduced the ALCD (Advanced LCD) TV panels incorporating numerous pioneering display technologies, including UHD 4K ultra high resolution, curved design, quantum dot wide color gamut and HDR technologies; this new product can provide true colors and images in exquisite details, and also create dazzling and breathtaking scenes. We showcased light and power-saving displays for wearable devices, including 1.3/2.6-inch transfective LCD, 1.5/1.6-inch square AMOLED displays employing a glass thinning method to trim panel thickness down to 0.45 mm and 4.3-inch Full HD ultra-thin LTPS display. The 1.4-inch full circle AMOLED display was honored as 2015 Society for Information Display (SID) Best in Show Award. In addition, we debuted slim UHD 4K ultra high resolution displays for smartphone, notebooks, oTP-Lite (on-cell) touch panel with wide color gamut and high contrast ratio to present colors in more precision which can meet the demand for professional graphic stylus. We also presented a complete series of ultra-high resolution car displays, including 12.3-inch LCD (2880 x 1080 pixel) with high resolution display for instrument cluster and 8/10.1-inch HD resolution LCD panels for center information display. In addition, the 8-inch WVGA LCD combines oTP and full lamination technologies to obtain low reflection and excellent touch performance. Furthermore, we developed a 55-inch Full HD super-narrow border panel for public information display TV wall application.

In 2016, we announced and exhibited a series of new developments of advanced display technologies, including but not limited to:

The brand-new 4 side bezel-less ALCD TV panels, which not only demonstrate the advanced technologies (4K/Curved/quantum dot wide color gamut /HDR) but also reflected a stylish and fashionable design where consumers can barely see the bezels.

The world first bezel-less 65-inch 8K4K (7680 x 4320 pixel) ultra-high resolution TV panel with curved display feature. In addition, high transmittance and quantum dot materials are adopted to achieve low power consumption and true color presentation.

A series of high-end products to capture the gaming market, including a 25-inch FHD (1920 x 1080 pixel) panel with 240Hz refresh rate, and a 27-inch UHD 4K panel with 144Hz refresh rate.

The 24.9-inch UHD 4K free-form curved car display in Consumer Electronics Show. The touch function is imbedded, and the free-form panel is more suitable for car application.

13.3-inch UHD 4K LTPS notebook panel at Touch Taiwan. LTPS panels have the advantages of the low power consumption, high resolution and slim border. The 331ppi UHD4K panel can fit into high-end customer product line. The panel left/right/up side border can be 2.0mm, and the power consumption is close to a current a-Si FHD panel.

High resolution AMOLED display technologies being applied to smartwatches and virtual reality (VR) devices. In terms of smartwatch applications, 1.5- and 1.6-inch high resolution square AMOLED displays and 1.2- and 1.4-inch full circle AMOLED displays were showcased. The ultra-narrow border, high resolution and power-saving full circle

AMOLED displays apply a special cut and driver IC design to create a full circular display area. In terms of VR headset displays, we presented a 3.8-inch AMOLED display with high pixel density of 423 ppi. A set of two displays are designed together to offer a resolution as high as 2K (2160 x 1200 pixel) for both eyes. High color saturation, high contrast with ultimate black state performance, and fast response time altogether offer even smoother and more vivid images, which is expected to offer the most life-like immersive VR experience possible.

5.D. Trend Information

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

5.E. Off-Balance Sheet Arrangements

We have, from time to time, entered into non-derivative financial instruments, including letters of credit, to finance or secure our purchase payment obligations. As of December 31, 2016, we had off-balance sheet outstanding letters of credit of US\$5.2 million and JPY7,052.6 million.

Table of Contents

5.F. Tabular Disclosure of Contractual Obligations

The following table sets forth our contractual obligations with definitive payment terms as of December 31, 2016, which will require significant cash outlays in the future.

| | Payments Due by Period | | | | |
|--|------------------------|---------------------|-----------|-----------|----------------------|
| | Total | Less than 1 year | 1-3 years | 3-5 years | More than 5 years |
| Contractual Obligations | NT\$ | NT\$ | NT\$ | NT\$ | NT\$ |
| | (in millions) | | | | |
| Long-term borrowings ⁽¹⁾ | 133,125.7 | 21,116.9 | 75,423.5 | 27,662.2 | 8,923.1 |
| Operating lease obligations ⁽²⁾ | 8,338.8 | 843.9 | 1,786.5 | 1,697.0 | 4,011.4 |
| Purchase obligations ⁽³⁾ | 20,056.9 | 20,056.9 | - | - | - |
| Other obligations ⁽⁴⁾ | 2,174.4 | 1,269.6 | 452.4 | 452.4 | - |
| Total | 163,695.8 | 43,287.3 | 77,662.4 | 29,811.6 | 12,934.5 |

(1) Includes estimated relevant interest payments in any given period in the future. See Note 19 to our consolidated financial statements for further information regarding interest rates.

(2) Represents our obligations to make lease payments to use the land on which our fabs and module-assembly facilities are located.

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

(4) Includes certain settlement agreements regarding certain antitrust civil actions and certain alleged patent infringements with definitive payment terms as of December 31, 2016. See “Item 8. Financial Information—8.A.7. Litigation” for further information relating to certain antitrust civil actions.

In addition to the contractual obligations set forth above, we also have continuing obligations to make cash royalty payments under our technology license agreements, the amounts of which are determined based on our use of certain technology and/or patents. Furthermore, pursuant to relevant regulatory requirements, we estimate that we will contribute approximately NT\$103.8 million (US\$3.2 million) to our pension fund maintained with the Bank of Taiwan in 2017.

We have not entered into any financial guarantees or similar commitments to guarantee the payment obligations of non-affiliated third parties. Our long-term loan and lease agreements include provisions that require early payment under certain conditions. The terms of our credit facilities for long-term borrowings also contain financial covenants, including current ratio, leverage ratio, interest coverage ratio, tangible net worth and other technical requirements. Our

debt under these facilities may be accelerated if there is a default, including defaults triggered by failure to comply with these financial covenants and other technical requirements. Please refer to “Item 5. Operating and Financial Review and Prospects—5.B. Liquidity and Capital Resources” for further information about our major outstanding borrowings and loans.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

6.A. Directors and Senior Management

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

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

Table of Contents

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

Directors

Nine directors, including five independent directors, were elected at the 2016 Annual General Shareholders Meeting. The following table sets forth information regarding all of our directors as of February 28, 2017. The business address of all of our directors is the company's principal executive office.

| Name | Age | Position | Term Expires | Years on Our Board | Principal Business Activities Performed Outside Our Company |
|--|-----|---|--------------|--------------------|---|
| Shuang-Lang (Paul) Peng | 59 | Chairman and Chief Executive Officer | 2019 | 7 | <ul style="list-style-type: none"> · N/A · Chairman, Qisda Corporation |
| Kuen-Yao (K.Y.) Lee | 65 | Director | 2019 | 21 | <ul style="list-style-type: none"> · Director, Darfon Corporation · Director, BenQ Materials Corp. |
| Kuo-Hsin (Michael) Tsai (representing BenQ Foundation) | 53 | Director, President and Chief Operating Officer | 2019 | 1 | <ul style="list-style-type: none"> · N/A |
| Peter Chen (representing Qisda) ⁽¹⁾ | 56 | Director | 2019 | 1 | <ul style="list-style-type: none"> · Director and President, Qisda Corp. · Director, Darfon Electronics Corp. · Director, BenQ Materials Corp. · Director, DFI Inc. |

| | | | | | |
|-------------------------|----|----------------------|------|----|--|
| | | | | | <ul style="list-style-type: none"> · Chairman, BenQ Medical Technology Corporation |
| | | | | | <ul style="list-style-type: none"> · Chairman, Partner Tech Corp. |
| Vivien Huey-Juan Hsieh | 64 | Independent Director | 2019 | 13 | <ul style="list-style-type: none"> · Director, Crystalvue Medical Corporation · N/A · Independent Director and member of Compensation Committee and Audit Committee, Bank of Kaohsiung, Ltd. · Independent Director and member of Compensation Committee and Audit Committee, KINPO Electronics Inc. |
| Mei-Yueh Ho | 66 | Independent Director | 2019 | 7 | <ul style="list-style-type: none"> · Independent Director and member of Audit Committee, Advanced Semiconductor Engineering, Inc. |
| Ding-Yuan Yang | 69 | Independent Director | 2019 | 7 | <ul style="list-style-type: none"> · Independent Director and member of Audit Committee, Ausnutria Dairy Corporation Ltd. · Chairman, UniSVR Global Information Technology Corp. · Director and President, iD SoftCapital · Director, ACER Incorporated |
| Chin-Bing (Philip) Peng | 64 | Independent Director | 2019 | 4 | <ul style="list-style-type: none"> · Director, Wistron NeWeb Corporation · Director, AOPEN Inc. · Director, Wistron Information Technology & Services Corp. |

Table of Contents

| Name | Age | Position | Term Expires | Years on Our Board | Principal Business Activities Performed | |
|-----------------|-----|----------------------|--------------|--------------------|---|--|
| | | | | | Inside Our Company | Outside Our Company |
| Yen-Shiang Shih | 67 | Independent Director | 2019 | 1 | | · Chair Professor, Chung Yuan Christian University |
| | | | | | | · Council Minister and the Convener of the Group of Energy, Petroleum & Chemical, and Accouterments, Cross-Strait CEO Summit |
| | | | | | | · Policy Advisor, Taiwan Electrical and Electronic Manufacturer's Association |
| | | | | | | · Chairman, Sustainable Circulation Economy Development Association |

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

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

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

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

Peter Chen. Mr. Chen has been a director of our company since June 2016 and has been the President of Qisda Corp. since January 1, 2014. Prior to his current position, Mr. Chen was Executive Vice President of Technology Product Center of BenQ Corp. from September 2007 to December 2013. Mr. Chen received his Bachelor's degree in Electrical

Engineering from the National Cheng Kung University in Taiwan in 1985 and his EMBA from the Thunderbird American Graduate School in the United States in 2001.

Vivien Huey-Juan Hsieh. Dr. Hsieh has been our director since 2004. Dr. Hsieh received a Ph.D. in Finance from the Graduate School of Business Administration, University of Houston, University Park, Texas in the United States.

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

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

Table of Contents

Chin-Bing (Philip) Peng. Mr. Peng has been a director of our company since 2013. Mr. Peng is also Director and President of iD SoftCapital Inc. Mr. Peng served as Senior Vice President and Chief Financial Officer of ACER Incorporated from 2001 to 2004. Mr. Peng received his Master's degree in Business Administration from National ChengChi University in 1980.

Yen-Shiang Shih. Dr. Shih has been a director of our company since 2016. Dr. Shih is a Chair Professor of Business Management at Chung Yuan Christian University. Dr. Shih was Chairman of Sinotech Engineering Consultants Inc. from 2014 to 2016 and served as Minister of Economic Affairs, Chairman of CPC Corporation, Director General of the Taiwan Tobacco & Wine Bureau, Director General of the Industrial Development Bureau, Director General of the Small and Medium Enterprise Administration and in other posts from 1986 to 2013. Dr. Shih was a professor at National Taiwan University of Science and Technology from 1979 to 1986. Dr. Shih received his bachelor's degree from National Taiwan University and his Ph.D. degree from the Massachusetts Institute of Technology in the United States.

Table of Contents

Senior Management

The following table sets forth information regarding key executives as of February 28, 2017.

| Name | Age | Position | Years with Us |
|-------------------------|-----|--|---------------|
| Shuang-Lang (Paul) Peng | 59 | Chairman and Chief Executive Officer | 21 |
| Kuo-Hsin (Michael) Tsai | 53 | President and Chief Operation Officer | 19 |
| Wei-Lung Liao | 46 | General Manager of the Video Solutions Business Group | 18 |
| Hong-Shiung (Sean) Chen | 48 | General Manager of the Mobile Solutions Business Group | 18 |
| Benjamin Tseng | 49 | Chief Financial Officer | 8 |

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

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

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

Hong-Shiung (Sean) Chen. Mr. Chen has been the General Manager of our Mobile Solutions Business Group since November 1, 2015. Prior to his current position, Mr. Chen was the Senior Associate Vice President of our Mobile Solutions Business Group from 2014 to October 2015, Associate Vice President of our Video Solutions Product Business Unit from 2011 to 2014, Associate Vice President of our IT Display Product Business Unit from 2010 to 2011, Director of our IT display product marketing unit from 2008 to 2010 and Director of the Suzhou module plant from 2003 to 2008. Mr. Chen received his Bachelor’s degree in Mechanical and Electro-Mechanical Engineering from Tamkang University in Taiwan in 1991. He also received a dual Master’s degree in Operation Research and Industrial Engineering and in Mechanical Engineering from Cornell University in the United States in 1997.

Benjamin Tseng. Mr. Tseng has been our Chief Financial Officer since November 1, 2015. Prior to his current position, Mr. Tseng was the Financial Associate Vice President of our Finance Center in China from 2011 to October

2015 and Director of our Finance Management Division from 2008 to 2011. Prior to joining AUO in 2008, Mr. Tseng served as the Director of Corporate Development at Coretronic Corporation from 2006 to 2008, and as Vice President in the Corporate Clients Department of ABN AMRO Bank from 1995 to 2006. Mr. Tseng received his Bachelor's degree in Business Administration from Huntington College in the United States in 1993, and obtained his Master's degree in Business Administration from the University of Rochester in the United States in 1995.

6.B. Compensation

The aggregate compensation paid or payable to the directors and executives for their services rendered in 2016 was approximately NT\$324.8 million (US\$10.0 million). According to our Articles of Incorporation approved by our annual shareholders' meeting in June 2016, which are applicable to the distribution of compensation to our directors for the year 2015, where we have a profit before tax for each fiscal year, we shall first reserve a certain amount of the profit to recover the loss for preceding years, and then distribute no more than 1% of the remaining profit to our directors as remuneration. In the event that a director serves as a representative of a legal entity, such compensation is paid to the legal entity. See "Item 10. Additional Information—10.B. Memorandum and Articles of Association—Dividends and Distributions."

Table of Contents

We have a defined benefit pension plan covering our regular employees in the ROC. Retirement benefits are based on years of service and average salaries or wages in the last six months before retirement. We make monthly contributions, at a certain percentage of salaries and wages, to a pension fund that is deposited in the name of, and administered by, the employees' pension plan committee. Beginning on July 1, 2005, pursuant to the ROC Labor Pension Act, we are required to make a monthly contribution for employees in the ROC that elected to participate in a defined contribution plan at a rate of no less than 6% of the employees' monthly salaries or wages to the employees' individual pension fund accounts at the ROC Bureau of Labor Insurance. The total pension cost for our executives for the year ended December 31, 2016 was NT\$1.9 million (US\$0.06 million). Our directors did not receive any pension as part of their remuneration.

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

6.C. Board Practices

General

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

Audit Committee

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

Remuneration Committee

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

6.D. Employees

Employees

The following table provides a breakdown of our employees by function as of December 31, 2014, 2015 and 2016.

| Function | As of December 31, | | |
|-------------------------------|--------------------|-----------------------|--------|
| | 2014 | 2015 | 2016 |
| Production | 53,289 | 45,846 | 43,831 |
| Technical ⁽¹⁾ | 9,277 | 9,331 | 8,992 |
| Sales and marketing | 958 | 938 | 898 |
| Management and administration | 4,309 | 3,968 | 3,858 |
| Total | 67,833 | 60,083 ⁽²⁾ | 57,579 |

(1) Includes research and development personnel.

(2) The decrease in the number of our employees in 2015 compared to that of 2014 is mainly due to less manpower demand resulting from a change in our product mix.

Table of Contents

The following table provides a breakdown of our employees by geographic location as of December 31, 2014, 2015 and 2016. Please refer to “Item 4. Information on the Company—Item 4.C. Organizational Structure” for information about our subsidiaries incorporated in different geographic locations.

| | As of December 31, | | |
|----------|--------------------|--------|--------|
| Location | 2014 | 2015 | 2016 |
| Taiwan | 24,155 | 24,996 | 25,227 |
| PRC | 41,474 | 32,753 | 30,125 |
| Others | 2,204 | 2,334 | 2,227 |
| Total | 67,833 | 60,083 | 57,579 |

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

According to our Articles of Incorporation approved by our annual shareholders’ meeting in June 2016, provided that where we have a profit before tax for each fiscal year, we shall first recover the loss for preceding years, if any, and then distribute no less than 5% of the remaining profit to employees as remuneration. Employees are entitled to receive remuneration in the form of stock, cash or a combination of stock and cash to be determined by our board of directors. Prior to January 1, 2008, the amount allocated in shares is subject to the resolution of the shareholders’ meeting and determined by valuing the shares at their par value, or NT\$10.00 per share. Effective on January 1, 2008, the amount allocated in shares is determined by valuing the shares at the closing price on the last trading day before the date of the shareholders’ meeting. Effective on January 30, 2016, the amount allocated in shares to employees is determined by valuing the shares at the closing price on the last trading day before the date of the board meeting. In addition, ROC law generally requires that our employees be given a preemptive right to subscribe for between 10% and 15% of any of our share offerings.

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

The Hsinchu Science Park Administration offers a variety of employee-related services, including medical examinations, health insurance, career planning advice and other services for our employees in Taiwan. In addition to the services provided by the Hsinchu Science Park Administration, we have established a welfare committee, a pension fund committee, and other employee committees and a variety of employee benefit programs.

We do not have any collective bargaining arrangement with our employees. We consider our relations with our employees to be good.

We do not employ a significant number of temporary employees.

6.E. Share Ownership

The table below sets forth the information with respect to the beneficial ownership of our common shares for each of our directors and key executives as of February 28, 2017. Share ownership information will include the common shares held by the legal entities represented by our directors and key executives.

| Name | Number of Shares Beneficially Owned | Percentage of Shares Beneficially Owned |
|---|--|--|
| Shuang-Lang (Paul) Peng, Chairman and Chief Executive Officer | 4,700,509 ⁽¹⁾ | * |
| Kuen-Yao (K.Y.) Lee, Director | 11,727,466 ⁽²⁾ | * |
| Kuo-Hsin (Michael) Tsai, Director** and President & Chief Operation Officer | 2,225,660 ⁽³⁾ | * |
| Peter Chen, Director*** | 663,741,525 ⁽⁴⁾ | 6.9% |
| Vivien Huey-Juan Hsieh, Independent Director | | |
| Mei-Yueh Ho, Independent Director | | |
| Ding-Yuan Yang, Independent Director | | |

68

Table of Contents

| Name | Number of Shares Beneficially Owned | Percentage of Shares Beneficially Owned |
|---|--|--|
| Chin-Bing (Philip) Peng, Independent Director | 96,670 | * |
| Yen-Shiang Shih, Independent Director | | |
| Wei-Lung Liao, General Manager of the Video Solutions Business Group | 723,483 | * |
| Hong-Shiung (Sean) Chen, General Manager of the Mobile Solutions Business Group | 496,928 | * |
| Benjamin Tseng, Chief Financial Officer | 190,403 | * |

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

**Representative of BenQ Foundation.

Representative of Qisda.

(1) Including 4,288,730 shares directly held and 411,779 shares beneficially owned by spouse and minor children.

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

(3) Including 1,016,061 shares directly held and 1,109,599 shares beneficially owned through spouse and minor children. 100,000 shares beneficially owned as a representative of BenQ Foundation.

Including 0 shares directly held and 142,905 shares beneficially owned through spouse and minor children.
(4) 663,598,620 shares beneficially owned as a representative of Qisda. 421,115,000 shares beneficially owned were pledged and 89,315,690 pledged shares have no voting rights under the ROC Company Act.

As of February 28, 2017, none of our directors or key executives held any employee stock options from our company, AU Optronics Corp. None of our directors or key executives has voting rights different from those of other shareholders.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

7.A. Major Shareholders

Qisda is one of our major shareholders. In September 2007, BenQ Corporation completed its reorganization to separate its branded and manufacturing businesses. After the reorganization, BenQ Corporation was renamed Qisda, and its subsidiary BenQ Asia Pacific became known as the BenQ Corporation. As of February 28, 2017, Qisda beneficially owned 6.9% of our outstanding shares. As of February 28, 2017, one of our nine directors is a representative of Qisda.

The following table sets forth information known to us with respect to the beneficial ownership of our shares as of February 28, 2017 or the most recent practicable date, unless otherwise noted, by (1) each shareholder known by us to beneficially own more than 5% of our shares and (2) all directors as a group.

| Name of Beneficial Owner | Number of Shares Beneficially Owned | Percentage of Shares Beneficially Owned | Percentage of Shares Beneficially Owned (Fully Diluted) |
|--|--|--|--|
| Qisda 157, Shan-Ying Road, Gueishan, Taoyuan 333, Taiwan, ROC | 663,598,620 ⁽¹⁾ | 6.9 % | 6.9 % |
| All directors as a group ⁽²⁾ | 682,491,830 | 7.1 % | 7.1 % |

As of February 28, 2017, Qisda directly owned 663,598,620 of our common shares, representing approximately 6.9% of the outstanding shares. Of the 663,598,620 common shares directly owned by Qisda, 574,282,930 shares ⁽¹⁾ have sole voting power and 89,315,690 shares have no voting rights pursuant to the ROC Company Act. All 663,598,620 common shares directly owned by Qisda have sole dispositive power.

Calculated as the sum of (a) with respect to directors who are serving in their personal capacity, the number of shares beneficially held by such director and (b) with respect to directors who are serving in the capacity as legal ⁽²⁾representatives, the number of shares owned by such institutional or corporate shareholder for which such director is a legal representative and the number of shares beneficially held by such director in his or her personal capacity. This information is as of February 28, 2017.

Table of Contents

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

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

As of February 28, 2017, approximately 9,624.2 million of our shares were issued and outstanding. Citibank, N.A. has advised us that, as of February 28, 2017, approximately 74.4 million ADSs representing 743.6 million common shares were held of record by Cede & Co. and 11 other registered shareholders domiciled in and outside of the United States.

7.B. Related Party Transactions

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

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

The following table sets forth a summary of our material transactions with related parties in 2016. Please also see Note 36 to our consolidated financial statements for further information.

| | Net Revenue | | | | Accounts Receivables | | |
|-----------------------|---------------------------------|----------|----------|-------|-----------------------------|---------|------|
| | For the Year Ended December 31, | | | | As of December 31, | | |
| | 2014 | 2015 | 2016 | | 2015 | 2016 | |
| | NT\$ | NT\$ | NT\$ | US\$ | NT\$ | NT\$ | US\$ |
| | (in millions) | | | | (in millions) | | |
| Associates | 18,187.6 | 8,745.7 | 554.9 | 17.1 | 37.2 | 58.7 | 1.8 |
| Joint Ventures | 4,484.1 | 5,453.1 | 4,105.4 | 126.7 | 435.0 | - | - |
| Others ⁽¹⁾ | - | 6,005.2 | 12,767.1 | 394.1 | 2,020.3 | 2,474.5 | 76.4 |
| | 22,671.7 | 20,204.0 | 17,427.4 | 537.9 | 2,492.5 | 2,533.2 | 78.2 |
| | Net Purchases | | | | Notes and Accounts Payables | | |

Edgar Filing: AU OPTRONICS CORP - Form 20-F

| | For the Year Ended December 31, | | | | As of December 31, | | |
|-----------------------|---------------------------------|----------|----------|-------|--------------------|---------|-------|
| | 2014 | 2015 | 2016 | US\$ | 2015 | 2016 | US\$ |
| | NT\$ | NT\$ | NT\$ | | NT\$ | NT\$ | US\$ |
| | (in millions) | | | | (in millions) | | |
| Associates | 42,772.4 | 19,563.6 | 9,886.5 | 305.1 | 4,089.4 | 3,734.9 | 115.3 |
| Joint Ventures | 2,854.7 | 4,786.3 | 3,754.4 | 115.9 | 373.2 | - | - |
| Others ⁽¹⁾ | - | 10,587.1 | 18,317.4 | 565.4 | 4,863.6 | 5,088.2 | 157.0 |
| | 45,627.1 | 34,937.0 | 31,958.3 | 986.4 | 9,326.2 | 8,823.1 | 272.3 |

Qisda ceased to be an associate of us in May 2015. However, Qisda and its subsidiaries are still related parties of (1) us, and amounts for the related transactions between Qisda and its subsidiaries and us starting from June 2015 are set forth in the “Others” category above.

Our major related party transactions were conducted with the following companies in 2016:

BenQ Corporation (“BenQ”)

BenQ is a subsidiary of Qisda as of December 31, 2016. We sold panels for monitors and television sets to BenQ.

Table of Contents

AUO SunPower Sdn. Bhd. (“AUSP”)

AUSP was a joint venture by SunPower Corporation and AU Optronics Corp. prior to September 2016. We sold solar wafers to AUSP and purchased polysilicon and solar cells from AUSP. In September 2016, we disposed all shareholdings in AUSP to SunPower Technology, Ltd., and AUSP is no longer a related party of us starting from October 2016.

Qisda (Suzhou) Co., Ltd. (“QCSZ”)

QCSZ is a subsidiary of Qisda as of December 31, 2016. We sold panels for monitors to QCSZ.

BenQ Materials Corp. (“BMC”)

BMC is a subsidiary of Qisda as of December 31, 2016. We purchased polarizers from BMC.

Qisda Corporation (“Qisda”)

We directly and indirectly owned 9.54% of Qisda as of December 31, 2016. Qisda provides module-assembly services to us.

Raydium Semiconductor Corporation (“Raydium”)

We indirectly owned 17.91% of Raydium as of December 31, 2016. We purchased driver ICs from Raydium.

7.C. Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

8.A. Consolidated Statements and Other Financial Information

8.A.1. See Item 18 for our audited consolidated financial statements and pages F-1 through F-96.

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

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

8.A.4. Not applicable.

8.A.5. Not applicable.

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

8.A.7. Litigation

Investigation for Alleged Violation of Antitrust and Competition Laws

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

Table of Contents

United States

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

Brazil

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

Antitrust Civil Actions Lawsuits in the United States and other Jurisdictions

There were also over 100 civil lawsuits filed against us and/or AUUS in the United States and Canada alleging, among other things, antitrust violations. We and AUUS have reached settlement agreements with the relevant plaintiffs, including a settlement with the state of Illinois in April 2016 and a settlement with the Costco Wholesale Corporation in September 2016.

In addition to the above cases in the United States and Canada, a lawsuit was filed by certain consumers in Israel against certain LCD manufacturers, including us, in the District Court of the Central District in Israel (“Israeli Court”). The defendants contested various issues, including whether the lawsuit was properly served. In March 2016, the Israeli Court issued an order stating that the case may proceed in Israel. We and other defendants appealed the Israeli Court’s decision. The Israeli Court ordered that except the appellate proceedings, all the other court proceedings be stayed. The first-level appellate court heard the appeal in December 2016. In December 2016, the Israeli Court overturned the original decision and revoked the permission for this case to be served outside of Israeli jurisdiction. The decision of the Israeli Court is appealable but subject to the permission of the Supreme Court. Our management is reviewing the merits of this matter on an on-going basis.

We will make certain provisions with respect to some, but not all, civil lawsuits as the management deems appropriate. See Note 38 of our consolidated financial statements for further details. The provisions may ultimately be proven to be under- or over-estimated. We will reassess the adequacy and reasonableness of the said provisions and make adjustments as we deem necessary. Any penalties, fines, damages or settlements made in connection with these legal proceedings and/or lawsuits may have a material adverse effect on our business, results of operations and future prospects.

Other Litigation

In July and August of 2014, SunPower Technology, Ltd. (“SPTL”), we and AU Optronics Singapore Pte. Ltd. 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.

On February 22, 2017, one of our subsidiaries in the PRC received an administrative complaint filed by a competitor alleging that our subsidiary infringes two PRC patents, and the complaint requests that our subsidiary cease the alleged infringing act. Based on our initial investigation, we believe that our 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, our subsidiary has filed a request to invalidate the two PRC patents accordingly. While our subsidiary intends to defend against the complaint vigorously, the ultimate outcome of this matter is uncertain and will depend on further proceedings, and the amount of possible loss, if any, is currently not estimable. Our management is reviewing the merits of this matter on an on-going basis.

Table of Contents

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

Proceedings Related to Our Directors and Senior Management

None.

Environmental Proceedings

There have been environmental proceedings relating to the development project of the Central Taiwan Science Park in Houli, Taichung, where our second 8.5-generation fab is located and which has been established since 2010. The proceedings were initiated by six residents in Houli District, Taichung City (the “Plaintiffs”) to object the administrative dispositions of the environmental assessment and development approval issued in 2010 by the Environmental Protection Administration (“EPA”) of the Executive Yuan of Taiwan to the third-phase development area in the Central Taiwan Science Park (the “Project”). On August 8, 2014, the Plaintiffs reached a settlement with the defendants (i.e. the governmental authorities, including the Environmental Protection Administration 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. Primarily in light of the settlement and the relevant approvals issued by the government to us and based on the principle under the Administrative law of protection of reliance, currently we do not believe that this event will have a material adverse effect on our operations. We will continue to monitor if there will be any material adverse effect on our operations as the event develops.

8.A.8. Dividends and Dividend Policy

On June 2, 2015, our annual shareholders’ meeting approved the board of directors’ proposal to distribute a cash dividend of NT\$0.50 per share for the year ended December 31, 2014. On June 16, 2016, our annual shareholders’ meeting approved the board of directors’ proposal to distribute a cash dividend of NT\$0.35 per share for the year ended December 31, 2015. On March 22, 2017, our board of directors passed a resolution to distribute a cash dividend of NT\$0.56 per share for the year ended December 31, 2016, which is subject to the resolution of our annual shareholders’ meeting to be held in June 2017 for the year ended December 31, 2016.

Our Articles of Incorporation provide that the cash portion of any dividend shall not be less than 10% of the annual dividend. The form, frequency and amount of future dividends will depend upon our earnings, cash flow, financial condition, reinvestment opportunities and other factors.

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

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

Table of Contents

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

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

8.B. Significant Changes

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

ITEM 9. THE OFFER AND LISTING

9.A. Offering and Listing Details

Our shares have been listed on the Taiwan Stock Exchange since September 8, 2000 under the number “2409.” Our ADSs have been listed on the New York Stock Exchange under the symbol “AUO” since May 2002. The table below sets forth, for the periods indicated, the high and low closing prices and the average daily volume of trading activity on the Taiwan Stock Exchange for the shares and the high and low closing prices and the average daily volume of trading activity on the New York Stock Exchange for the shares represented by ADSs.

| Taiwan Stock Exchange | | | New York Stock Exchange ⁽¹⁾ | | |
|--------------------------------|--------|------------------------------|--|--------|------------------------------|
| Closing Price per Common Share | | Average Daily Trading Volume | Closing Price per ADS | | Average Daily Trading Volume |
| High | Low | Volume | High | Low | Volume |
| (NT\$) | (NT\$) | | (US\$) | (US\$) | |

| | | | (in thousands of Common Shares) | | | (in thousands of ADSs) |
|--------------------------------|-------|-------|---|------|------|------------------------------|
| 2012 | 17.40 | 8.21 | 77,985.9 | 5.89 | 2.74 | 1,190.7 |
| 2013 | 14.00 | 8.44 | 81,594.3 | 4.89 | 2.82 | 1,146.2 |
| 2014 | 16.55 | 8.80 | 74,525.9 | 5.42 | 2.73 | 480.1 |
| 2015 | 18.90 | 8.11 | 76,047.5 | 6.01 | 2.40 | 1,870.4 |
| First Quarter | 18.90 | 15.05 | 95,463.4 | 6.01 | 4.66 | 2,417.1 |
| Second Quarter | 17.10 | 13.25 | 73,012.0 | 5.74 | 4.33 | 1,486.5 |
| Third Quarter | 14.00 | 8.60 | 81,948.7 | 4.47 | 2.66 | 1,929.5 |
| Fourth Quarter | 10.45 | 8.11 | 56,747.7 | 3.26 | 2.40 | 1,668.2 |
| 2016 | 13.60 | 8.26 | 67,023.1 | 4.38 | 2.44 | 745.5 |
| First Quarter | 10.05 | 8.26 | 70,336.6 | 3.06 | 2.44 | 713.8 |
| Second Quarter | 10.95 | 8.41 | 51,948.5 | 3.49 | 2.49 | 548.5 |
| Third Quarter | 13.60 | 10.90 | 90,285.4 | 4.38 | 3.37 | 1,061.9 |
| Fourth Quarter | 13.10 | 11.35 | 55,904.9 | 4.18 | 3.46 | 654.9 |
| October | 13.10 | 11.60 | 78,852.8 | 4.18 | 3.61 | 658.8 |
| November | 12.25 | 11.35 | 50,783.6 | 3.91 | 3.48 | 553.2 |
| December | 12.10 | 11.35 | 40,164.4 | 3.80 | 3.46 | 752.8 |
| 2017 (through March 13, 2017) | 13.40 | 11.75 | 76,173.8 | 4.29 | 3.63 | 1,097.1 |
| January | 13.05 | 11.95 | 66,809.9 | 4.21 | 3.63 | 611.2 |
| February | 13.40 | 11.75 | 95,192.1 | 4.29 | 3.65 | 1,519.6 |
| March (through March 13, 2017) | 12.20 | 11.85 | 54,783.8 | 3.94 | 3.75 | 1,331.9 |

(1)

Each ADS represents 10 common shares.

9.B. Plan of Distribution

Not applicable.

Table of Contents

9.C. Markets

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

9.D. Selling Shareholders

Not applicable.

9.E. Dilution

Not applicable.

9.F. Expenses of the Issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

10.A. Share Capital

Not applicable.

10.B. Memorandum and Articles of Association

On June 16, 2016, our shareholders approved the nineteenth amendment to our Articles of Incorporation, a copy of which is filed as Exhibit 1.1 hereto.

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

Objects and Purpose

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

Directors

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

Table of Contents

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

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

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

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

Shares

As of February 28, 2017, our authorized share capital was NT\$120 billion, divided into 12 billion common shares, of which 100 million shares are reserved for the issuance of shares for employee stock options, and 9,624,245,115 common shares were issued.

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

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

New Shares and Preemptive Rights

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

Register of Shareholders and Record Date

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

Table of Contents

Transfer of Shares

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

Shareholders' Meetings

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

· any amendment to our articles of incorporation;

· our dissolution or amalgamation;

· a merger or spin-off;

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

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

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

the distribution of any stock dividend; or

the removal of directors.

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

Voting Rights

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

Table of Contents

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

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

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

Dividends and Distributions

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

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

In addition to permitting dividends to be paid out of accumulated earnings after deducting losses, we are permitted under the ROC Company Act to make distributions to our shareholders based on Taiwan IFRS financials for ROC

reporting purposes in the form of shares or in cash from the legal reserve and certain capital surplus. However, where legal reserve is distributed by issuing new shares or by cash, only the portion of legal reserve which exceeds 25% of our paid-in capital may be distributed.

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

Acquisition of Shares by Our Company

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

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

· to transfer shares to our employees;

Table of Contents

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

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

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

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

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

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

Liquidation Rights

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

Rights to Bring Shareholder Suits

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

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

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

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

Shareholders who have continuously held 3% or more of the total number of issued and outstanding shares for a period of one year or longer may request in writing that an audit committee institute an action against a director on our behalf. In case the audit committee fails to institute an action within 30 days after receiving such request, the shareholders may institute an action on our behalf. In the event that shareholders institute an action, a court may, upon motion of the defendant, order such shareholders to furnish appropriate security.

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

Table of Contents

Financial Statements

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

Transfer Restrictions

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

Other Rights of Shareholders

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

Transfer Agent and Registrar

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

10.C. Material Contracts

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

10.D. Exchange Controls

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

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

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

Table of Contents

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

10.E. Taxation

ROC Tax Considerations

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

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

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

Dividends

Dividends, whether in cash or shares, declared by us out of retained earnings and paid out to a holder that is a non-ROC resident in respect of shares represented by ADSs or shares are subject to ROC withholding tax. The current rate of withholding for non-ROC residents is 20% of the amount of the distribution, in the case of cash dividends, or of the par value of the shares distributed, in the case of stock dividends. As discussed below in “Retained Earnings Tax,” our after-tax earnings will be subject to an undistributed retained earnings tax. To the extent dividends are paid out of retained earnings that have been subject to the retained earnings tax, the amount of such tax will be used by us to offset the withholding tax liability on dividends distributed to non-resident shareholders, and consequently, the effective rate of withholding on dividends paid out of retained earnings previously subject to the retained earnings tax will be less than 20%.

Capital Gains

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

Securities Transaction Tax

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

Estate and Gift Tax

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

Preemptive Rights

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

Table of Contents

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

Retained Earnings Tax

Under the ROC Income Tax Act, since January 1, 1998, if retained earnings of the current year are not distributed by the company in the next fiscal year, an additional retained earnings tax will be levied at the rate of 10% on such retained earnings. The 10% retained earnings tax may be credited against the dividend withholding tax once the company distributes dividends from the corresponding retained earnings in subsequent years. According to Article 73-2 of the ROC Income Tax Act, from taxable year 2015, only 50% retained earning tax paid can be credited against the dividend withholding tax on dividends distributed to non-resident shareholders.

Tax Treaty

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

United States Federal Income Tax Considerations for United States Holders

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

a citizen or individual resident of the United States;

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

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

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

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

Table of Contents

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

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

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

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

the creditability of ROC taxes and the availability of the preferential rates applicable to dividends received by certain non-corporate U.S. Holders, each described below, could be affected by actions that may be taken by parties to whom the ADSs are pre-released.

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

This discussion assumes that we were not a passive foreign investment company for our 2016 taxable year, as discussed below.

Taxation of Dividends

Distributions you receive on your ADSs or shares, other than certain pro rata distributions of shares, including amounts withheld in respect of ROC withholding taxes, will generally be treated as dividend income to you to the extent the distributions are made from our current or accumulated earnings and profits (as determined under U.S. federal income tax principles). Distributions in excess of our current and accumulated earnings and profits will be treated first as a tax-free return of capital to the extent of your tax basis in your ADSs or shares and then as capital gain. Because we do not maintain calculations of our earnings and profits under U.S. federal income tax principles, we expect that distributions will generally be reported to U.S. Holders as dividends. The amount of a dividend will include any amounts withheld by us or our paying agent in respect of ROC taxes (which may be reduced by any credit against such withholding tax as a result of the 10% retained earnings tax previously paid by us, as discussed above under “ROC Tax Considerations—Retained Earnings Tax”). The amount will be treated as foreign source dividend income to you and will not be eligible for the dividends-received deduction generally allowed to U.S. corporations under the Code.

Table of Contents

Subject to applicable limitations that may vary depending upon a U.S. Holder's individual circumstances and the concerns expressed by the U.S. Treasury described above, under current law, dividends paid to certain non-corporate U.S. Holders will be taxable at the preferential rates applicable to long-term capital gain if the dividends constitute qualified dividend income. Dividends will constitute qualified dividend income if the stock or ADSs with respect to which such dividends are paid is readily tradable on an established securities market in the United States, such as the New York Stock Exchange where our ADSs are traded, and we are not a passive foreign investment company in the year the dividend is paid (and were not in the prior year). We believe we were not a passive foreign investment company for our 2016 taxable year, as discussed below under "Passive Foreign Investment Company Rules." Even if dividends on the ADSs or shares would otherwise be eligible for qualified dividend income treatment, individual U.S. holders nevertheless will not be eligible for the preferential rates (a) if they have not held our ADSs or shares for at least 61 days of the 121-day period beginning on the date which is 60 days before the ex-dividend date or (b) to the extent they are under an obligation to make related payments with respect to positions in substantially similar or related property. U.S. Holders should consult their own tax advisors regarding the availability of the preferential rates in light of their particular circumstances.

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

Subject to limitations that may vary depending upon your circumstances and the concerns expressed by the U.S. Treasury described above, you may be entitled to a credit against your U.S. federal income taxes for the amount of ROC income taxes that are withheld from dividend distributions made to you. In determining the amounts withheld in respect of ROC taxes, any portion of the amount withheld that is reduced by reason of the ROC credit in respect of the 10% retained earnings tax is not considered a withholding tax. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, dividends distributed by us generally should constitute "passive category income." The rules governing the foreign tax credit are complex. We therefore urge you to consult your own tax advisor regarding the availability of the foreign tax credit in your particular circumstances. Instead of claiming a credit, you may, at your election, deduct foreign taxes, including otherwise creditable ROC taxes, in computing your taxable income, subject to generally applicable limitations. An election to deduct foreign taxes instead of claiming foreign tax credits applies to all taxes paid or accrued in the taxable year.

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

Taxation of Capital Gains

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

Table of Contents

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

Passive Foreign Investment Company Rules

We believe that we were not a “passive foreign investment company,” or PFIC, for U.S. federal income tax purposes for our 2016 taxable year. However, since PFIC status depends upon the composition of a company’s income and assets and the market value of its assets (including, among others, goodwill) from time to time, there can be no assurance that we will not be a PFIC for any taxable year. If we were a PFIC for any taxable year during which you held ADSs or shares, certain adverse tax consequences could apply to you.

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

In addition, if we were a PFIC with respect to a particular U.S. Holder for the taxable year in which we pay a dividend or the prior taxable year, the preferential rates discussed above with respect to dividends paid to certain non-corporate U.S. Holders would not apply.

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

Information Reporting and Backup Withholding

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

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

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

10.F. Dividends and Paying Agents

Not applicable.

10.G. Statement by Experts

Not applicable.

Table of Contents

10.H. Documents on Display

It is possible to read and copy documents referred to in this annual report that have been filed with the SEC at the SEC's public reference rooms in Washington, D.C., New York and Chicago, Illinois. Please call the SEC at 1-800-SEC-0330 for further information on the reference rooms.

10.I. Subsidiary Information

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk

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

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

As of December 31, 2016, we had U.S. dollar- and Japanese yen-denominated savings and checking accounts of US\$358.4 million and JPY24,073.3 million (US\$206.1 million), respectively. We also had certificates of deposit denominated in U.S. dollars, Renminbi and Japanese yen in the amount of US\$615.4 million, RMB2,924.6 million (US\$421.2 million) and JPY4,000.0 million (US\$34.3 million), respectively. Since export sales are primarily conducted in U.S. dollars, we had U.S. dollar-denominated accounts receivables of US\$1,430.4 million as of December 31, 2016, which represents 95.8% of the total accounts receivables balance at that date. In addition, we had U.S. dollar- and Japanese yen-denominated accounts payables of US\$1,358.6 million and JPY27,427.0 million (US\$234.9 million), respectively, relating to our overseas vendors.

As of December 31, 2015, we had U.S. dollar- and Japanese yen-denominated savings and checking accounts of US\$609.4 million and JPY37,757.2 million, respectively. We also had certificates of deposit denominated in U.S. dollars, Renminbi and Japanese yen in the amount of US\$167.7 million, RMB3,336.5 million and JPY16,500.3 million, respectively. Since export sales are primarily conducted in U.S. dollars, we had U.S. dollar-denominated accounts receivables of US\$1,016.8 million as of December 31, 2015, which represents 96.5% of the total accounts receivables balance at that date. In addition, we had U.S. dollar- and Japanese yen-denominated accounts payables of US\$1,377.8 million and JPY28,246.4 million, respectively, relating to our overseas vendors.

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

Interest Rate Risk

Our exposure to market risk for changes in interest rates relates primarily to our long-term debt obligations. We incur debt obligations primarily to support general corporate purposes, including capital expenditures and working capital needs. We use interest rate swaps to modify our exposure to interest rate movements and reduce the volatility of borrowing costs. Interest rate swaps limit the risks of fluctuating interest rates by allowing us to convert a portion of the interest on our borrowings from a variable rate to a fixed rate.

As of December 31, 2016, we had six outstanding interest rate swap agreements with five major international financial institutions, having a total notional principal amount of NT\$1,760.0 million (US\$54.3 million). As of December 31, 2015, we had six outstanding interest rate swap agreements with five major international financial institutions, having a total notional principal amount of NT\$3,040.0 million.

Table of Contents

The tables set forth below provide information about our derivative financial instruments and other financial instruments that are sensitive to changes in interest rates, including interest rate swaps, debt obligations and certain assets, that are held by us as of December 31, 2016 and 2015, respectively. For debt obligations, the tables set forth principal cash flows and related weighted average interest rates by expected maturity date. For interest rate swaps, the tables present notional amounts and weighted average interest rates by contractual maturity date. Notional amounts are used to calculate the contractual payments to be exchanged under a contract. Weighted average variable rates are based on implied forward rates in the yield curve at the reporting date and management's expectations for future interest rates. The information is presented in the currencies in which the instruments are denominated.

| | Expected Maturity Date | | | | | | Total | Fair Value at December 31, 2016 |
|---------------------------------|------------------------|------------|------------|------------|-----------|------------|-------------|---------------------------------------|
| | 2017 (in thousands) | 2018 | 2019 | 2020 | 2021 | Thereafter | | |
| Assets | | | | | | | | |
| Certificates of Deposit: | | | | | | | | |
| Fixed rate (US\$) | 615,446 | — | — | — | — | — | 615,446 | 615,446 |
| Average interest rate | 0.395% | — | — | — | — | — | 0.395% | — |
| Fixed rate (NT\$) | 3,150,000 | — | — | — | — | — | 3,150,000 | 3,150,000 |
| Average interest rate | 0.005% | — | — | — | — | — | 0.005% | — |
| Fixed rate (JPY) | 4,000,000 | — | — | — | — | — | 4,000,000 | 4,000,000 |
| Average interest rate | 0.300% | — | — | — | — | — | 0.300% | — |
| Fixed rate (CNY) | 2,924,560 | — | — | — | — | — | 2,924,560 | 2,924,560 |
| Average interest rate | 0.645% | — | — | — | — | — | 0.645% | — |
| Long-term Loans: | | | | | | | | |
| Variable rate (NT\$) | 18,074,627 | 29,504,743 | 43,957,398 | 14,831,279 | 9,891,005 | 8,486,557 | 124,745,609 | 124,745,609 |
| Average interest rate | 2.398% | 2.697% | 3.119% | 3.956% | 4.550% | 5.438% | 2.953% | — |
| Interest Rate Swaps | | | | | | | | |
| (1) | | | | | | | | |
| Variable to fixed (NT\$) | 1,760,000 | — | — | — | — | — | 1,760,000 | (3,540) |
| Pay rate | 1.090% | — | — | — | — | — | 1.090% | — |

(1) Three months fixing rate of Taipei Interbank Offered Rate settled quarterly (0.65922% on December 30, 2016).

Table of Contents

| | Expected Maturity Date | | | | | | Total | Fair Value at December 31, 2015 |
|---------------------------------|------------------------|------------|------------|------------|-----------|------------|-------------|---------------------------------------|
| | 2016 (in thousands) | 2017 | 2018 | 2019 | 2020 | Thereafter | | |
| Assets | | | | | | | | |
| Certificates of Deposit: | | | | | | | | |
| Fixed rate (US\$) | 217,490 | — | — | — | — | — | 217,490 | 217,490 |
| Average interest rate | 0.754% | — | — | — | — | — | 0.754% | — |
| Fixed rate (NT\$) | 1,480,300 | — | — | — | — | — | 1,480,300 | 1,480,300 |
| Average interest rate | 0.575% | — | — | — | — | — | 0.575% | — |
| Fixed rate (JPY) | 16,500,253 | — | — | — | — | — | 16,500,253 | 16,500,253 |
| Average interest rate | 0.257% | — | — | — | — | — | 0.257% | — |
| Fixed rate (CNY) | 4,976,055 | — | — | — | — | — | 4,976,055 | 4,976,055 |
| Average interest rate | 1.929% | — | — | — | — | — | 1,929% | — |
| Fixed Rate (CZK) | 80,000 | — | — | — | — | — | 80,000 | 80,000 |
| Average interest rate | 0.045% | — | — | — | — | — | 0.045% | — |
| Long-term Loans: | | | | | | | | |
| Variable rate (NT\$) | 39,107,738 | 23,210,807 | 26,000,271 | 15,376,488 | 4,429,764 | 89,291 | 108,214,359 | 108,214,359 |
| Average interest rate | 1.837% | 2.063% | 2.273% | 2.593% | 2.635% | 5.767% | 2.059% | — |
| Interest Rate Swaps | | | | | | | | |
| (1) | | | | | | | | |
| Variable to fixed (NT\$) | 1,280,000 | 1,760,000 | — | — | — | — | 3,040,000 | (10,739) |
| Pay rate | 1.090% | 1.090% | — | — | — | — | 1.090% | — |

(1) Three months fixing rate of Taipei Interbank Offered Rate settled quarterly (0.75244% on December 31, 2015).

Table of Contents

Foreign Currency Risk

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

The tables below set forth our outstanding foreign currency forward contracts as of December 31, 2016 and 2015:

| | December 31, 2016 (in thousands) |
|-----------------------------------|-------------------------------------|
| Contracts to sell EUR/Buy JPY | |
| Aggregate contract amount | EUR90,000 |
| Average contractual exchange rate | JPY118.82 per EUR |
| Contracts to sell EUR/Buy CZK | |
| Aggregate contract amount | EUR3,190 |
| Average contractual exchange rate | CZK26.89 per EUR |
| Contracts to sell EUR/Buy NT\$ | |
| Aggregate contract amount | EUR5,000 |
| Average contractual exchange rate | NT\$34.39 per EUR |
| Contracts to sell EUR/Buy US\$ | |
| Aggregate contract amount | EUR41,000 |
| Average contractual exchange rate | US\$1.08 per EUR |
| Contracts to sell NT\$/Buy JPY | |
| Aggregate contract amount | NT\$1,474,085 |
| Average contractual exchange rate | JPY3.66 per NT\$ |
| Contracts to sell US\$/Buy JPY | |
| Aggregate contract amount | US\$126,730 |
| Average contractual exchange rate | JPY109.37 per US\$ |
| Contracts to sell US\$/Buy CNY | |
| Aggregate contract amount | US\$96,000 |
| Average contractual exchange rate | CNY6.90 per US\$ |
| Contracts to sell US\$/Buy MYR | |
| Aggregate contract amount | US\$741 |
| Average contractual exchange rate | MYR4.45 per US\$ |
| Contracts to sell US\$/Buy NT\$ | |
| Aggregate contract amount | US\$711,000 |
| Average contractual exchange rate | NT\$31.91 per US\$ |
| Contracts to sell US\$/Buy SGD | |
| Aggregate contract amount | US\$170,157 |

| | |
|--|------------------|
| Average contractual exchange rate | SGD1.44 per US\$ |
| Contracts to sell JPY/Buy NT\$ | |
| Aggregate contract amount | JPY50,000 |
| Average contractual exchange rate | NT\$0.27 per JPY |
| Contracts to sell CNY/Buy US\$ | |
| Aggregate contract amount | CNY359,763 |
| Average contractual exchange rate | US\$0.15 per CNY |
| Contracts to sell CNY/Buy JPY | |
| Aggregate contract amount | CNY588,583 |
| Average contractual exchange rate | JPY15.41 per CNY |
| Fair value of all forward contracts ⁽¹⁾ | NT\$(831,329) |

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

Table of Contents

| | December 31, 2015 (in thousands) |
|--|-------------------------------------|
| Contracts to sell EUR/Buy JPY | |
| Aggregate contract amount | EUR65,000 |
| Average contractual exchange rate | JPY131.98 per EUR |
| Contracts to sell EUR/Buy CZK | |
| Aggregate contract amount | EUR3,000 |
| Average contractual exchange rate | CZK27.05 per EUR |
| Contracts to sell NT\$/Buy JPY | |
| Aggregate contract amount | NT\$3,484,954 |
| Average contractual exchange rate | JPY3.72 per NT\$ |
| Contracts to sell US\$/Buy JPY | |
| Aggregate contract amount | US\$289,645 |
| Average contractual exchange rate | JPY121.90 per US\$ |
| Contracts to sell US\$/Buy CNY | |
| Aggregate contract amount | US\$308,700 |
| Average contractual exchange rate | CNY6.44 per US\$ |
| Contracts to sell US\$/Buy MYR | |
| Aggregate contract amount | US\$496 |
| Average contractual exchange rate | MYR4.30 per US\$ |
| Contracts to sell US\$/Buy NT\$ | |
| Aggregate contract amount | US\$203,000 |
| Average contractual exchange rate | NT\$32.52 per US\$ |
| Contracts to sell JPY/Buy NT\$ | |
| Aggregate contract amount | JPY51,000,000 |
| Average contractual exchange rate | NT\$0.27 per JPY |
| Contracts to sell NT\$/Buy US\$ | |
| Aggregate contract amount | NT\$101,300 |
| Average contractual exchange rate | US\$0.03 per NT\$ |
| Contracts to sell EUR/Buy US\$ | |
| Aggregate contract amount | EUR47,000 |
| Average contractual exchange rate | US\$1.09 per EUR |
| Fair value of all forward contracts ⁽¹⁾ | NT\$(339,469) |

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

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

12.A. Debt Securities

Not applicable.

12.B. Warrants and Rights

Not applicable.

12.C. Other Securities

Not applicable.

12.D. American Depositary Shares

Depository Fees and Charges

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

Table of Contents

| Service | Fees |
|--|-----------------------------------|
| (1) Issuance of ADSs | Up to US\$0.05 per ADS issued |
| (2) Cancellation of ADSs | Up to US\$0.05 per ADSs cancelled |
| (3) Distribution of cash dividends or other cash distributions | Up to US\$0.02 per ADSs held |
| (4) Distributions of ADSs pursuant to stock dividends, free stock distributions or other exercises of rights | Up to US\$0.05 per ADSs held |
| (5) Distribution of securities other than ADSs or rights to purchase additional ADSs | Up to US\$0.05 per ADSs held |

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

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

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

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

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

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

Payment received by us

In 2016, we received the following payments from Citibank, N.A, the Depositary Bank for our ADR program:

| | |
|--|----------------|
| Reimbursement of Proxy Process Expenses | US\$49,057.42 |
| Reimbursement of ADR holders identification expenses | US\$22,061.35 |
| Reimbursement to Issuer | US\$344,958.11 |
| Tax Payment to the IRS | US\$178,211.52 |
| Total | US\$594,288.40 |

Table of Contents

PART II

ITEM 13. ITEM DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

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

None.

ITEM 15. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

Management's Annual Report on Internal Control Over Financial Reporting

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

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

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

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

provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

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

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2016 based on the criteria set forth in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on the assessment, our management believes that our internal control over financial reporting was effective as of December 31, 2016.

Our independent registered public accounting firm has issued an audit report on the effectiveness of our internal control over financial reporting as of December 31, 2016, which is included below.

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

AU Optronics Corp.:

We have audited the internal control over financial reporting of AU Optronics Corp. and subsidiaries (“the Company”) as of December 31, 2016, based on the criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management’s Report on Internal Control over Financial Reporting*. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

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

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

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial position of AU Optronics Corp. and subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of comprehensive income, changes in equity and cash flows for each of the years in the three-year period ended December 31, 2016, and our report dated March 22, 2017 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG

Hsinchu, Taiwan (Republic of China)
March 22, 2017

Table of Contents

Changes in Internal Control Over Financial Reporting

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

ITEM 16. [RESERVED]

16.A. Audit Committee Financial Expert

Our board of directors has determined that Vivien Huey-Juan Hsieh is an audit committee financial expert and is independent as defined under NYSE Section 303A.02. Ms. Hsieh received a Ph.D. in Finance and has acquired financial expertise through her role as a supervisor at a company where her responsibilities include examining the business and financial condition of the company and supervising certified public accountants in their examination of the same.

16.B. Code of Ethics

We have adopted a code of ethical conduct, which applies to directors and senior management. Our code of ethics covers the specific ethical operating method and the schemes to prevent unethical conduct, such as operation procedures, conduct guide, educational training, etc. Besides, our code of ethics contains provisions covering conflicts of interest, corporate opportunities, confidentiality, fair dealing, protection and proper use of company assets, compliance with laws, rules and regulations (including insider trading laws, money laundering prevention, personal information protection) and encouraging the reporting of any illegal or unethical behavior, as well as compliance standards and procedures that will facilitate the operation of the code and ensure the prompt and consistent action against violations of the code. We will address violations of the code of ethical conduct. A copy of our Codes of Ethical Conduct for Directors and Senior Management is available on our website at <http://www.auo.com/?sn=1418&lang=en-US>.

16.C. Principal Accountant Fees and Services

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

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

Auditor Fees

The following are fees for professional services to KPMG for the years ended December 31, 2015 and 2016.

| Services | Year Ended December 31, | |
|-----------------------------------|----------------------------|--------|
| | 2015 | 2016 |
| | NT\$ | NT\$ |
| | (in thousands) | |
| Audit-Related Fees ⁽¹⁾ | 50,990 | 46,425 |
| Tax Fees ⁽²⁾ | 6,073 | 6,642 |
| Other Fees ⁽³⁾ | 3,000 | 1,963 |
| Total | 60,063 | 55,030 |

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

Table of Contents

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

(3) *Other Fees.* This category includes professional services related to review over the consolidation platform migration and training provided by KPMG Advisory Services Co., Ltd. in 2015. Also, this category includes fees incurred from professional services related to assurance for corporate and social responsibility reporting and professional services related to tax advice in 2016.

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

Not applicable.

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

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

16.F. Change in Registrant’s Certifying Accountant

Not applicable.

16.G. Corporate Governance

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

Under Section 303A of the NYSE Listed Company Manual, NYSE-listed non-US companies may, in general, follow their home country corporate governance practices in lieu of most of the new NYSE corporate governance

requirements. However, all NYSE-listed foreign private issuers must comply with NYSE Sections 303A.06, 303A.11, 303A.12(b) and 303A.12(c).

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

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

NYSE Standards for US Listed Companies
under Listed Company Manual
Section 303A

Our Corporate Governance Practices

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

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

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

Table of Contents

NYSE Standards for US Listed Companies
under Listed Company Manual
Section 303A

Our Corporate Governance Practices

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

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

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

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

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

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

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

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

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

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

16.H. Mine Safety Disclosure

Not applicable.

96

Table of Contents

PART III

ITEM 17. FINANCIAL STATEMENTS

Not applicable.

ITEM 18. FINANCIAL STATEMENTS

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

- (a) Report of Independent Registered Public Accounting Firm.
- (b) Consolidated Statements of Financial Position of AU Optronics Corp. and subsidiaries as of December 31, 2015 and 2016.
- (c) Consolidated Statements of Comprehensive Income of AU Optronics Corp. and subsidiaries for the years ended December 31, 2014, 2015 and 2016.
- (d) Consolidated Statements of Changes in Equity of AU Optronics Corp. and subsidiaries for the years ended December 31, 2014, 2015 and 2016.
- (e) Consolidated Statements of Cash Flows of AU Optronics Corp. and subsidiaries for the years ended December 31, 2014, 2015 and 2016.
- (f) Notes to Consolidated Financial Statements of AU Optronics Corp. and subsidiaries.

ITEM 19. EXHIBITS

1.1 Articles of Incorporation (English translation).

Edgar Filing: AU OPTRONICS CORP - Form 20-F

2.1 Deposit Agreement, dated May 29, 2002, among AU Optronics Corp., Citibank, N.A. as depositary, and Holders and Beneficial Owners of American depositary shares evidenced by American depositary receipts issued thereunder, including the form of American depositary receipt (incorporated herein by reference to Exhibit 2(A) to our annual report on Form 20-F as filed with the SEC on June 30, 2003).

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

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

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

4.3 Lease Agreement with Hsinchu Science Park Administration in relation to government-owned land located at Hsinchu Science Park, No. 77 Ke-Yuan Small Section, Hsinchu, Taiwan, Republic of China, with respect to part of the site of L1 fab (incorporated herein by reference to Exhibit 4(k) to our annual report on Form 20-F as filed with the SEC on June 30, 2003).

Table of Contents

- 4.4 Lease Agreement with Hsinchu Science Park Administration in relation to government-owned land located at Hsinchu Science Park, Nos. 114-4 Gin-Shan Section, Hsin-Chu, Taiwan, Republic of China, the L3B site of one of our 3.5-generation fabs (incorporated herein by reference to Exhibit 4(m) to our annual report on Form 20-F as filed with the SEC on June 30, 2003).
- 4.5 Lease Agreement with Hsinchu Science Park Administration in relation to government-owned land located at Hsinchu Science Park, Nos. 472 etc., Gin-Shan Section, Hsinchu, Taiwan, Republic of China, the site of one of our 3.5-generation fabs (incorporated herein by reference to Exhibit 4(n) to our annual report on Form 20-F as filed with the SEC on June 30, 2003).
- 4.6 Lease Agreement by and between AU Optronics (Suzhou) Corp., Ltd. and Chinese-Singapore Suzhou Industrial Park Development Co., Ltd. for No. 398, Suhong Zhong Road, Suzhou Industrial Park, Suzhou, The People's Republic of China, the site of two of our module-assembly plants (incorporated herein by reference to Exhibit 4(q) to our annual report on Form 20-F as filed with the SEC on June 30, 2003).
- 8.1 List of Subsidiaries.
- 12.1 Certification of Shuang-Lang (Paul) Peng, Chairman and Chief Executive Officer of AU Optronics Corp., pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 12.2 Certification of Benjamin Tseng, Chief Financial Officer of AU Optronics Corp., pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 13.1 Certification of Shuang-Lang (Paul) Peng, Chairman and Chief Executive Officer of AU Optronics Corp., pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 13.2 Certification of Benjamin Tseng, Chief Financial Officer of AU Optronics Corp., pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 98

Table of Contents

SIGNATURES

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

AU OPTRONICS CORP.

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

Date: March 30, 2017

Table of Contents

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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

Table of Contents

**AU OPTRONICS CORP.
AND SUBSIDIARIES**

Consolidated Financial Statements

December 31, 2016, 2015 and 2014

(With Report of Independent Registered Public Accounting Firm)

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

AU Optronics Corp.:

We have audited the accompanying consolidated statements of financial position of AU Optronics Corp. and subsidiaries (the “Company”) as of December 31, 2016 and 2015 and the related consolidated statements of comprehensive income, changes in equity and cash flows for each of the years in the three-year period ended December 31, 2016. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of AU Optronics Corp. and subsidiaries as of December 31, 2016 and 2015 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2016, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of December 31, 2016, based on the criteria established in Internal Control Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 22, 2017, expressed an unqualified opinion on the effectiveness of AU Optronics Corp.’s internal control over financial reporting.

/s/ KPMG

Hsinchu, Taiwan (Republic of China)

March 22, 2017

F-1

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Consolidated Statements of Financial Position

December 31, 2016 and 2015

(Expressed in thousands of New Taiwan dollars)

| | Notes | December 31, 2016 | December 31, 2015 |
|--|----------------|----------------------|-------------------------|
| Assets | | | |
| Current assets: | | | |
| Cash and cash equivalents | 6 | \$80,191,248 | 78,880,700 |
| Financial assets measured at fair value through profit or loss - current | 7 | 65,669 | 214,194 |
| Notes and accounts receivable, net | 9 | 45,710,177 | 32,319,986 |
| Accounts receivable from related parties, net | 9, 36 | 2,533,224 | 2,492,479 |
| Other receivables from related parties | 36 | 34,288 | 27,958 |
| Income taxes receivable | | 14,057 | 28,571 |
| Inventories | 10 | 27,679,335 | 31,795,525 |
| Other current financial assets | 6, 9, 37 | 559,946 | 11,734,252 |
| Noncurrent assets held for sale | 13 | 228,015 | 702,390 |
| Other current assets | 11, 16 | 6,330,283 | 3,796,085 |
| Total current assets | | 163,346,242 | 161,992,140 |
| Noncurrent assets: | | | |
| Available-for-sale financial assets - noncurrent | 8 | 3,030,278 | 2,148,141 |
| Investments in equity-accounted investees | 8, 11 | 5,178,337 | 12,401,725 |
| Property, plant and equipment | 13, 21, 36, 37 | 222,741,832 | 208,785,609 |
| Investment property | 14, 21, 37 | 465,868 | 465,868 |
| Intangible assets | 15 | 2,322,239 | 3,294,684 |
| Deferred tax assets | 31 | 1,736,854 | 1,987,853 |
| Other noncurrent assets | 11, 16, 37 | 7,039,115 | 8,161,111 |
| Total noncurrent assets | | 242,514,523 | 237,244,991 |
| Total Assets | | \$405,860,765 | 399,237,131 |

(See accompanying notes to the consolidated financial statements)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES**

Consolidated Statements of Financial Position (continued)

December 31, 2016 and 2015

(Expressed in thousands of New Taiwan dollars, except for par value)

| | Notes | December 31, 2016 | December 31, 2015 |
|---|--------|----------------------|----------------------|
| Liabilities | | | |
| Current liabilities: | | | |
| Short-term borrowings | 17 | \$526,723 | 1,593,714 |
| Current installments of long-term borrowings | 19, 37 | 18,074,627 | 39,107,738 |
| Financial liabilities measured at fair value through profit or loss - current | 7 | 896,998 | 553,663 |
| Hedging derivative financial liabilities - current | 7 | 3,540 | - |
| Notes and accounts payable | | 51,148,055 | 52,087,584 |
| Notes and accounts payable to related parties | 36 | 8,823,065 | 9,326,171 |
| Equipment and construction payable | | 12,647,041 | 7,622,160 |
| Other payables to related parties | 36 | 27,341 | 29,014 |
| Current tax liabilities | | 1,715,309 | 2,980,258 |
| Provisions - current | 20 | 1,783,407 | 5,012,361 |
| Other current liabilities | | 22,385,488 | 23,555,082 |
| Total current liabilities | | 118,031,594 | 141,867,745 |
| Noncurrent liabilities: | | | |
| Hedging derivative financial liabilities - noncurrent | 7 | - | 10,739 |
| Long-term borrowings, excluding current installments | 19, 37 | 106,187,993 | 68,537,430 |
| Provisions - noncurrent | 20 | 1,038,264 | 1,123,975 |
| Deferred tax liabilities | 31 | 1,830,264 | 2,268,256 |
| Other noncurrent liabilities | 22 | 1,936,337 | 4,767,913 |
| Total noncurrent liabilities | | 110,992,858 | 76,708,313 |
| Total liabilities | | 229,024,452 | 218,576,058 |
| Equity | 23 | | |
| Common stock, \$10 par value | | 96,242,451 | 96,242,451 |
| Capital surplus | | 59,977,743 | 60,247,848 |
| Retained earnings (accumulated deficit) | | 1,450,618 | (4,493,166) |
| Other components of equity | | 777,297 | 6,015,336 |
| Equity attributable to shareholders of AU Optronics Corp. | | 158,448,109 | 158,012,469 |
| Non-controlling interests | | 18,388,204 | 22,648,604 |
| Total equity | | 176,836,313 | 180,661,073 |
| Total Liabilities and Equity | | \$405,860,765 | 399,237,131 |

(See accompanying notes to the consolidated financial statements)

F-3

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2016, 2015 and 2014

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

| | Notes | 2016 | 2015 | 2014 |
|---|------------------------------------|---------------|---------------|---------------|
| Net revenue | 25, 36 | \$329,089,036 | 360,346,494 | 408,178,750 |
| Cost of sales | 10, 26, 27, 36 | (294,598,017) | (320,509,439) | (359,668,105) |
| Gross profit | | 34,491,019 | 39,837,055 | 48,510,645 |
| Selling and distribution expenses | 26, 27, 36 | (3,895,089) | (4,206,101) | (7,798,965) |
| General and administrative expenses | 12, 26, 27, 36 | (9,176,683) | (9,205,987) | (9,389,601) |
| Research and development expenses | 26, 27, 36 | (9,080,791) | (8,903,819) | (9,156,656) |
| Other income | 28, 36 | 2,380,228 | 2,197,593 | 2,162,107 |
| Other gains and losses | 7, 8, 11, 12, 13, 14, 29, 36 | (925,673) | (9,978,320) | (801,803) |
| Finance costs | 13, 30 | (2,707,887) | (2,591,023) | (4,045,133) |
| Share of profit of equity-accounted investees | 11 | 100,778 | 449,452 | 499,865 |
| Profit before income tax | | 11,185,902 | 7,598,850 | 19,980,459 |
| Income tax expense | 31 | 2,432,545 | 384,841 | 3,243,220 |
| Profit for the year | | 8,753,357 | 7,214,009 | 16,737,239 |
| Other comprehensive income | 11, 22, 23, 31 | | | |
| Items that will never be reclassified to profit or loss | | | | |
| Remeasurement of defined benefit obligations | | (225,194) | (251,401) | 47,827 |
| Equity-accounted investees – share of other comprehensive income (loss) | | 574 | (2,381) | 2,660 |
| Related tax | | - | 681 | 622 |
| | | (224,620) | (253,101) | 51,109 |
| Items that are or may be reclassified subsequently to profit or loss | | | | |
| Foreign operations – foreign currency translation differences | | (7,500,071) | (294,749) | 2,309,610 |
| Net change in fair value of available-for-sale financial assets | | 766,534 | (521,173) | (224,646) |
| Effective portion of changes in fair value of cash flow hedges | | 7,199 | (3,647) | 9,969 |
| | | (609,071) | 324,928 | 117,885 |

Edgar Filing: AU OPTRONICS CORP - Form 20-F

| | | | |
|---|--------------|------------|------------|
| Equity-accounted investees – share of other comprehensive income (loss) | | | |
| Related tax | 230,202 | 16,050 | (86,211) |
| | (7,105,207) | (478,591) | 2,126,607 |
| Other comprehensive income, net of tax | (7,329,827) | (731,692) | 2,177,716 |
| Total comprehensive income for the year | \$1,423,530 | 6,482,317 | 18,914,955 |
| Profit (loss) attributable to: | | | |
| Shareholders of AU Optronics Corp. | \$9,965,129 | 7,242,170 | 16,366,629 |
| Non-controlling interests | (1,211,772) | (28,161) | 370,610 |
| Profit for the year | \$8,753,357 | 7,214,009 | 16,737,239 |
| Total comprehensive income (loss) attributable to: | | | |
| Shareholders of AU Optronics Corp. | \$4,502,568 | 7,185,693 | 18,125,736 |
| Non-controlling interests | (3,079,038) | (703,376) | 789,219 |
| Total comprehensive income for the year | \$1,423,530 | 6,482,317 | 18,914,955 |
| Earnings per share | 32 | | |
| Basic earnings per share | \$1.04 | 0.75 | 1.70 |
| Diluted earnings per share | \$1.02 | 0.70 | 1.69 |

(See accompanying notes to the consolidated financial statements)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the years ended December 31, 2016, 2015 and 2014

(Expressed in thousands of New Taiwan dollars)

| | Equity attributable to shareholders of AU Optronics Corp. | | | | | Other components of equity | | | |
|--|---|-----------------|---------------|--|--------------|------------------------------------|--|---|-----------|
| | Common stock | Capital surplus | Legal reserve | Retained earnings (Accumulated deficit) Accumulated deficit | 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, 2014 | \$96,242,451 | 60,503,012 | - | (21,897,673) | (21,897,673) | 3,836,530 | 260,909 | 8,471 | 4,103,482 |
| Appropriation of earnings | | | | | | | | | |
| Legal reserve | - | - | 401,750 | (401,750) | - | - | - | - | - |
| Cash dividends distributed to shareholders | - | - | - | (96,242) | (96,242) | - | - | - | - |
| Cash distributed from capital surplus | - | (1,347,395) | - | - | - | - | - | - | - |
| Profit for the year | - | - | - | 16,366,629 | 16,366,629 | - | - | - | - |
| Other comprehensive income, net of tax | - | - | - | 51,308 | 51,308 | 1,929,632 | (231,802) | 9,969 | 1,757,797 |
| Total comprehensive income for the year | - | - | - | 16,417,937 | 16,417,937 | 1,929,632 | (231,802) | 9,969 | 1,757,797 |
| Adjustments to capital surplus and accumulated deficit for | - | 102,424 | - | (1,080,545) | (1,080,545) | - | - | - | - |

Edgar Filing: AU OPTRONICS CORP - Form 20-F

| | | | | | | | | | | |
|--|------------|------------|-----------|--------------|--------------|-----------|-----------|----------|---|---|
| changes in investees' equity | | | | | | | | | | |
| Changes in non-controlling interests | - | - | - | - | - | - | - | - | - | - |
| Balance at December 31, 2014 | 96,242,451 | 59,258,041 | 401,750 | (7,058,273) | (6,656,523) | 5,766,162 | 29,107 | 18,440 | 5 | |
| Appropriation of earnings | | | | | | | | | | |
| Legal reserve | - | - | 1,762,846 | (1,762,846) | - | - | - | - | - | - |
| Cash dividends distributed to shareholders | - | - | - | (4,812,123) | (4,812,123) | - | - | - | - | - |
| Profit for the year | - | - | - | 7,242,170 | 7,242,170 | - | - | - | - | - |
| Other comprehensive income, net of tax | - | - | - | (258,104) | (258,104) | 774,034 | (568,760) | (3,647) | 2 | |
| Total comprehensive income for the year | - | - | - | 6,984,066 | 6,984,066 | 774,034 | (568,760) | (3,647) | 2 | |
| Adjustments to capital surplus and accumulated deficit for changes in investees' equity | - | 172,616 | - | (8,586) | (8,586) | - | - | - | - | - |
| Differences between acquisition price and carrying amount arising from acquisition of subsidiaries | - | 817,191 | - | - | - | - | - | - | - | - |
| Changes in non-controlling interests | - | - | - | - | - | - | - | - | - | - |
| Balance at December 31, 2015 | 96,242,451 | 60,247,848 | 2,164,596 | (6,657,762) | (4,493,166) | 6,540,196 | (539,653) | 14,793 | 6 | |
| Appropriation of earnings | | | | | | | | | | |
| Legal reserve | - | - | 493,196 | (493,196) | - | - | - | - | - | - |
| Cash dividend distributed to | - | - | - | (3,368,486) | (3,368,486) | - | - | - | - | - |

Edgar Filing: AU OPTRONICS CORP - Form 20-F

| | | | | | | | | | |
|---|--------------|------------|-----------|--------------|------------|-------------|---------|--------|----|
| shareholders | | | | | | | | | |
| Profit for the year | - | - | - | 9,965,129 | 9,965,129 | - | - | - | - |
| Other comprehensive income, net of tax | - | - | - | (224,522) | (224,522) | (6,009,190) | 763,952 | 7,199 | (5 |
| Total comprehensive income for the year | - | - | - | 9,740,607 | 9,740,607 | (6,009,190) | 763,952 | 7,199 | (5 |
| Adjustments to capital surplus and accumulated deficit for changes in investees' equity | - | (290,111) | - | (428,337) | (428,337) | - | - | - | - |
| Group reorganization | - | 20,006 | - | - | - | - | - | - | - |
| Changes in non-controlling interests | - | - | - | - | - | - | - | - | - |
| Balance at December 31, 2016 | \$96,242,451 | 59,977,743 | 2,657,792 | (1,207,174) | 1,450,618 | 531,006 | 224,299 | 21,992 | 7 |

(See accompanying notes to the consolidated financial statements)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2016, 2015 and 2014

(Expressed in thousands of New Taiwan dollars)

| | 2016 | 2015 | 2014 |
|--|---------------|--------------|--------------|
| Cash flows from operating activities: | | | |
| Profit before income tax | \$ 11,185,902 | 7,598,850 | 19,980,459 |
| Adjustments for: | | | |
| Depreciation | 38,533,775 | 46,851,487 | 56,064,469 |
| Amortization | 1,159,465 | 894,362 | 838,259 |
| Interest expense | 2,707,887 | 2,591,023 | 4,045,133 |
| Interest income | (494,542) | (672,638) | (468,390) |
| Dividend income | (107,141) | (112,661) | (4,350) |
| Share of profit of equity-accounted investees | (100,778) | (449,452) | (499,865) |
| Losses (gains) on disposals of property, plant and equipment, net | (24,278) | (585,196) | 307,630 |
| Gains on disposals of investment properties | - | - | (279,729) |
| Losses (gains) on disposals of investments and financial assets, net | 333,858 | 10,618 | (713,222) |
| Gain on bargain purchase | - | - | (2,883,913) |
| Write-downs of inventories | 3,673,213 | 5,661,266 | 4,731,319 |
| Impairment losses on assets | 34,733 | 7,026,226 | 2,371,034 |
| Losses (gains) on purchase of convertible bonds payable | - | 87,984 | (63,445) |
| Effect of exchange rates on purchase and redemption of convertible bonds payable | - | 576,167 | (176,823) |
| Changes in fair values of financial instruments | 491,860 | 240,002 | (264,181) |
| Unrealized foreign currency exchange losses (gains) | (1,386,370) | 107,556 | 1,605,972 |
| Others | (37,295) | 10,671 | (90,702) |
| | 44,784,387 | 62,237,415 | 64,519,196 |
| Change in operating assets and liabilities: | | | |
| - notes and accounts receivable | (13,023,581) | 22,073,800 | (13,817,621) |
| - receivables from related parties | (47,075) | 1,150,032 | 2,402,424 |
| - inventories | 112,708 | (1,498,601) | (3,266,062) |
| - other current assets | 7,312,751 | (7,567,250) | 3,975,103 |
| - notes and accounts payable | (601,488) | (10,266,543) | (4,357,288) |
| - payables to related parties | (504,779) | (2,165,658) | (3,632,457) |
| - net defined benefit liability | (57,382) | (86,866) | (101,552) |
| - provisions | (3,125,053) | (4,012,891) | (1,440,234) |
| - other current liabilities | (4,454,647) | (2,967,282) | 2,438,673 |
| | (14,388,546) | (5,341,259) | (17,799,014) |
| Cash generated from operations | 41,581,743 | 64,495,006 | 66,700,641 |
| Cash received from interest income | 501,076 | 595,475 | 442,638 |
| Cash received from dividend income | 311,492 | 380,589 | 322,236 |

Edgar Filing: AU OPTRONICS CORP - Form 20-F

| | | | |
|--|--------------|--------------|--------------|
| Cash paid for interest | (2,105,285) | (2,474,887) | (3,145,859) |
| Cash paid for income taxes | (3,593,180) | (992,795) | (926,924) |
| Net cash provided by operating activities | 36,695,846 | 62,003,388 | 63,392,732 |
| Cash flows from investing activities: | | | |
| Acquisitions of available-for-sale financial assets | (66,948) | (33,593) | (1,681) |
| Proceeds from disposals of available-for-sale financial assets | 9,917 | 99,517 | 1,574,669 |
| Proceeds from return of capital by available-for-sale financial assets | - | 1,497 | - |
| Acquisitions of equity-accounted investees | (240,500) | (51,700) | (2,529,360) |
| Proceeds from disposals of equity-accounted investees | 3,522,610 | - | 25,473 |
| Proceeds from return of capital by equity-accounted investees | - | - | 48,258 |
| Acquisitions of property, plant and equipment | (46,220,129) | (33,440,160) | (16,970,961) |
| Proceeds from disposals of property, plant and equipment | 789,682 | 1,762,401 | 941,439 |
| Proceeds from disposals of investment properties | - | - | 1,061,297 |
| Decrease (increase) in refundable deposits | (16,955) | 3,341 | 14,735 |
| Increase in intangible assets | (187,020) | (303,282) | (291,337) |
| Decrease (increase) in other financial assets | (37,246) | 227,320 | (83,640) |
| Net cash inflows from acquisition of subsidiaries | - | - | 2,763,252 |
| Net cash inflows resulting from disposals of subsidiaries | 179,262 | - | 341,019 |
| Net cash used in investing activities | (42,267,327) | (31,734,659) | (13,106,837) |
| Cash flows from financing activities: | | | |
| Increase (decrease) in short-term borrowings | (1,065,842) | 1,212,392 | (3,075,852) |
| Purchase of convertible bonds payable | - | (14,799,715) | (5,978,884) |
| Redemption of convertible bonds payable | - | (563,999) | - |
| Proceeds from long-term borrowings | 61,799,594 | 30,633,963 | 32,956,812 |
| Repayments of long-term borrowings | (45,650,997) | (50,849,749) | (67,382,137) |
| Increase (decrease) in guarantee deposits | (30,944) | 156,994 | (87,132) |
| Cash dividends and cash distributed from capital surplus | (3,368,486) | (4,812,123) | (1,443,637) |
| Net change of non-controlling interests and others | (962,106) | 4,745,245 | (30,621) |
| Net cash provided by (used in) financing activities | 10,721,219 | (34,276,992) | (45,041,451) |
| Effect of exchange rate change on cash and cash equivalents | (3,839,190) | 923,630 | 408,617 |
| Net increase (decrease) in cash and cash equivalents | 1,310,548 | (3,084,633) | 5,653,061 |
| Cash and cash equivalents at January 1 | 78,880,700 | 81,965,333 | 76,312,272 |
| Cash and cash equivalents at December 31 | \$80,191,248 | 78,880,700 | 81,965,333 |

(See accompanying notes to the consolidated financial statements)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

For the years ended December 31, 2016, 2015 and 2014

(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 and October 1, 2006, Unipac Optoelectronics Corp. (“Unipac”) and Quanta Display Inc. (“QDI”) were merged with and into AUO, respectively. AUO is the surviving Company, whereas Unipac and QDI were dissolved.

The principal operating activities of AUO and its subsidiaries (hereinafter referred to as “the Company”) are described in note 4(c)(2).

2. The Authorization of Financial Statements

These consolidated financial statements were authorized for issue by the audit committee of the Board of Directors of AUO on March 22, 2017.

3. New Accounting Pronouncements Under International Financial Reporting Standards (“IFRS”)

- (a) New and revised standards, amendments and interpretations in issue but not yet effective

In preparing the accompanying consolidated financial statements, the Company has not adopted the following IFRS, International Accounting Standards (IASs), and Interpretations that have been issued by the International Accounting Standards Board (“IASB”) (collectively, “IFRSs”).

| New, Revised or Amended Standards and Interpretations | Effective Date (Note) |
|--|--------------------------------|
| 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 |
| 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 15, <i>Revenue from Contracts with Customers</i> | January 1, 2018 |
| Amendments to IFRS 15, <i>Revenue from Contracts with Customers - Clarifications to IFRS 15</i> | January 1, 2018 |
| IFRS 16, <i>Leases</i> | January 1, 2019 |

F-7 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

| New, Revised or Amended Standards and Interpretations | Effective Date (Note) |
|---|----------------------------------|
| 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 |
| Annual Improvements to IFRSs 2014 – 2016 Cycle: | |
| IFRS 12, <i>Disclosure of Interests in Other Entities</i> | January 1, 2017 |
| IFRS 1, <i>First-time Adoption of International Financial Reporting Standards</i> and 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 |

Note: The aforementioned new, revised and amended standards and interpretations are effective for annual periods beginning on or after the respective effective dates.

(b) Except for the items discussed below, the Company believes that the initial adoption of aforementioned standards or interpretations will not have any significant impact on its accounting policies.

(1) **IFRS 9, *Financial Instruments***

IFRS 9 replaces the existing guidance in IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including an expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements.

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). Financial liabilities are measured at amortized cost or FVTPL.

The new impairment model in IFRS 9 replaces the “incurred loss” model in IAS 39 with an “expected credit loss” model to measure the impairment of financial assets. A loss allowance for expected credit losses should be recognized on financial assets measured at amortized cost and financial assets mandatorily measured at FVOCI. Under the expected credit loss model, the Company is required to recognize and measure expected credit losses as either 12-month expected credit losses or lifetime expected credit losses, depending on the asset and the facts and circumstances.

F-8 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The main changes in hedge accounting amended the application requirements for hedge accounting. Compared with IAS 39, the main changes include: (i) enhancing types of transactions eligible for hedge accounting; (ii) changing the way hedging derivative instruments are accounted for; and (iii) replacing retrospective effectiveness assessment with the principle of economic relationship between the hedging instrument and the hedged item. The Company preliminarily assesses that its current hedge relationships will qualify as continuing hedges upon the adoption of IFRS 9 and therefore it expects that the accounting for its hedging relationships will not be significantly impacted.

The Company has performed a preliminary assessment on adoption of IFRS 9 based on its positions at December 31, 2016, and does not expect that the new requirements, if applying at December 31, 2016, would have had a material impact on the measurement and the accounting for its hedging relationships for the Company's financial instruments. As the Company has not completed its assessment, further impacts may be identified in due course and will be taken into consideration which transitional approach to take, where there are alternative approaches allowed under the new standards. In addition, the impact of adopting IFRS 9 on the Company's consolidated financial statements for the year 2018 will depend on the financial instruments that the Company holds then and the economic condition at the same time, as well as accounting judgments that the Company will make in the future.

(2) IFRS 15, *Revenue from Contracts with Customers* and related amendments

IFRS 15 establishes a five-step model framework for recognizing revenue that apply to all contracts with customers, and will supersede IAS 18, Revenue, IAS 11, Construction Contracts, and a number of revenue-related interpretations.

When applying IFRS 15, the Company shall recognize revenue when a customer obtains control of the goods and services, by applying the following steps:

- (i) Identify the contract with the customer;
- (ii) Identify the performance obligations;
- (iii) Determine the transaction price;
- (iv) Allocate the transaction price to the performance obligations in the contracts; and
- (v) Recognize revenue when the entity satisfies a performance obligation.

When IFRS 15 and related amendment become effective, 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.

The Company is currently performing an assessment of the impact resulting from the adoption of IFRS 15, and considers that it does not have significant differences and influences on the current recognition of the Company's revenue from contracts with customers. However, the impact of adopting IFRS 15 on the Company's consolidated financial statements for the year 2018 will depend on the relative contracts with customers then.

F-9 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(3)

IFRS 16, *Leases*

IFRS 16 sets out the accounting standards for leases that will supersede IAS 17, *Leases* and a number of related interpretations.

Under IFRS 16, a lessee is required to recognize a right-of-use asset and a lease liability on the statement of financial position for all leases with exception for leases of low-value assets and short-term leases which the Company may elect to apply the accounting method similar to the accounting for operating lease under IAS 17. Additionally, a depreciation expense charged on the right-of-use asset and an interest expense accrued on the lease liability, for which interest is computed by using effective interest method, are recognized separately on the statement of comprehensive income. On the statement of cash flows, cash payments for the principal amount 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.

The Company has performed a preliminary assessment and identification on whether its current operating leases are in the scope of IFRS 16, in which the main impact is that, in case a lease contract meets the lease definition in this standard, the Company shall recognize an asset and a liability. The related impact of adoption IFRS 16 by the Company will be disclosed when the Company completes the assessment.

Except for the aforementioned impact, as of the date that the accompanying consolidated financial statements were issued, the Company continues in assessing the potential impact on its financial position and results of operations as a result of the application of other standards, interpretations and amendments.

4.

Summary of Significant Accounting Policies

The significant accounting policies applied in the preparation of these consolidated financial statements are set out as below. The significant accounting policies have been applied consistently to all periods presented in these consolidated financial statements.

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with IFRS as issued by the IASB.

F-10 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(b) Basis of preparation

(1) Basis of measurement

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

(i) Financial instruments measured at fair value through profit or loss (including derivative financial instruments) (note 7);

(ii) Hedging derivative financial instruments measured at fair value (note 7);

(iii) Available-for-sale financial assets measured at fair value (note 8); 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 22).

(2) Functional and presentation currency

The functional currency of each individual consolidated entity is determined based on the primary economic environment in which the entity operates. The Company's consolidated financial statements are presented in New Taiwan Dollar ("NTD"), which is also AUO's functional currency.

All financial information presented in NTD has been rounded to the nearest thousand, unless otherwise noted.

(c) Basis of consolidation

(1) Principle of preparation of the consolidated financial statements

The Company includes in its consolidated financial statements the results of operations of all controlled entities in which the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. All significant inter-company transactions, income and expenses are eliminated in the consolidated financial statements.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Total comprehensive income (loss) in a subsidiary is allocated to the shareholders of AUO and the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Subsidiaries' financial statements are adjusted to align the accounting policies with those of the Company.

F-11 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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. Any surplus or deficit arising from the loss of control is recognized in profit or loss. The gain or loss is measured as the difference between:

(i) The aggregate of:

a. the fair value of the consideration received, and

b. the fair value of any retained non-controlling investment in the former subsidiary at the date when the Company losses control.

(ii) The aggregate of the carrying amount of the former subsidiary's assets (including goodwill), liabilities and non-controlling interests at the date when the Company losses control.

The Company shall account for all amounts previously recognized in other comprehensive income in relation to that subsidiary on the same basis as would be required if the Company had directly disposed of the related assets or liabilities.

(2) List of subsidiaries in the consolidated financial statements

The consolidated entities were as follows:

| Name of Investor | Name of Subsidiary | Main Activities and Location | Percentage of Ownership (%) | |
|------------------|---|--|-----------------------------|-----------------------|
| | | | December 31, 2016 | December 31, 2015 |
| 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 | Taiwan CFI Co., Ltd. (CFI) (Previously named as "Toppan CFI (Taiwan) Co., Ltd. (Toppan CFI)") | Manufacturing and sale of color filters (Taiwan ROC) | -(6) | 100.00 ⁽⁶⁾ |
| AUO | Space Money Inc. (SMI) | Sale of TFT-LCD panels; leasing (Taiwan ROC) | 100.00 | 100.00 ⁽²⁾ |

F-12 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

| Name of Investor | Name of Subsidiary | Main Activities and Location | Percentage of Ownership (%) | |
|----------------------|--|---|-----------------------------|-----------------------|
| | | | December 31, 2016 | December 31, 2015 |
| 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) | 51.04 | 46.16 ⁽¹⁾ |
| 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) | 96.31 | 96.54 |
| Konly | Fargen Power Corporation (FGPC) | Renewable energy power generation (Taiwan ROC) | 100.00 | 100.00 |
| Konly | Evergen Power Corporation (EGPC) | Solar power generation (Taiwan ROC) | -(7) | 100.00 |
| Konly | LiGen Power Corporation (LGPC) | Renewable energy power generation (Taiwan ROC) | 100.00 | 100.00 ⁽²⁾ |
| Konly | TronGen Power Corporation (TGPC) | Renewable energy power generation (Taiwan ROC) | 100.00 ⁽²⁾ | - |
| 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 |
| 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 |

Edgar Filing: AU OPTRONICS CORP - Form 20-F

| | | | | |
|------|--|--|--------|--------|
| 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 |

F-13 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

| Name of Investor | Name of Subsidiary | Main Activities and Location | Percentage of Ownership (%) | |
|------------------|---|--|-----------------------------|----------------------|
| | | | December 31, 2016 | December 31, 2015 |
| AULB | AFPD Pte., Ltd. (AUST) | Manufacturing TFT-LCD panels based on low temperature polysilicon technology (Singapore) | 100.00 | 100.00 |
| AULB | Huizhou Bri-King Optronics Co., Ltd. (BKHZ) | Manufacturing and sale of liquid crystal products and related parts (PRC) | .(5) | 51.00 ⁽⁵⁾ |
| 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 |
| AUXM and BVLB | BriView (Xiamen) Corp. (BVXM) | Manufacturing and sale of liquid crystal products and related parts (PRC) | 100.00 ⁽⁴⁾ | 100.00 |
| DPTW | Darwin Precisions (L) Corp. (DPLB) | Holding company (Malaysia) | 100.00 | 100.00 |
| DPTW | Forhouse International Holding Ltd. (FHVI) | Holding company (BVI) | 100.00 | 100.00 |
| DPTW | Force International Holding Ltd. (FRVI) | Holding company (BVI) | 100.00 | 100.00 |
| FHVI | Fortech International Corp. (FTMI) | Holding company (Mauritius) | 100.00 | 100.00 |
| FHVI | Forward Optronics International Corp. (FWSA) | Holding company (Samoa) | 100.00 | 100.00 |
| FHVI | Prime Forward International Ltd. (PMSA) | Holding company (Samoa) | 100.00 | 100.00 |
| FHVI | Full Luck Precisions Co., Ltd. (FLMI) | 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 | | | 100.00 | 100.00 |

Edgar Filing: AU OPTRONICS CORP - Form 20-F

| | | | | |
|------------------|--|---|--------|--------|
| | Fortech Electronics (Suzhou) Co., Ltd. (FTWJ) | Manufacturing and sale of light guide plates, backlight modules and related parts (PRC) | | |
| FTMI | Fortech Optronics (Xiamen) Co., Ltd. (FTXM) | 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 |

F-14 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

| Name of Investor | Name of Subsidiary | Main Activities and Location | Percentage of Ownership (%) | |
|------------------|---|---|-----------------------------|-----------------------|
| | | | December 31, 2016 | December 31, 2015 |
| FLMI | Full Luck (Wujiang) Precisions Co., Ltd. (FLWJ) | Manufacturing and sales of precision metal parts (PRC) | 100.00 ⁽³⁾ | 100.00 ⁽³⁾ |
| 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 ⁽²⁾ | - |
| 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) | Manufacturing and sale of backlight modules and related parts (PRC) | 100.00 ⁽³⁾ | 100.00 ⁽³⁾ |
| BVLB | BriView (Hefei) Co., Ltd. (BVHF) | Manufacturing and sale of liquid crystal products and related parts (PRC) | 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) | Holding company and sales support of solar modules (Netherlands) | 100.00 | 100.00 |
| AENL | AUO Green Energy Germany GmbH (AEDE) | Sales support of solar modules (Germany) | - ⁽⁵⁾ | 100.00 ⁽⁵⁾ |

Note 1: BriView Corp. (“BVTW”) and Forhouse Corporation (“Forhouse”) were merged on October 1, 2014. Forhouse is the legal acquirer and the surviving company while BVTW was dissolved. Forhouse was then renamed as DPTW. Although the Company did not own more than 50% of 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 12 for further details.

Note 2: SMI and LGPC were both incorporated in October 2015. TGPC was incorporated in April 2016. DPSK was incorporated in May 2016.

Note 3: As part of a business restructuring, DPCD and FLWJ have been resolved by their respective boards of directors for liquidation. The liquidation is still in process for these entities as of December 31, 2016.

F-15 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Note 4: As part of a business restructuring, BVLB has disposed all its shareholdings in wholly owned subsidiary, BVXM, to AUXM in March 2016. This transaction has no net effect on the company's consolidated financial statements as there was no change in control of BVXM by the Company.

Note 5: AEDE and BKHZ were liquidated in 2016.

Note 6: On February 12, 2015, AUO's board of directors approved the acquisition of 51% shareholdings in Toppan CFI from Toppan Printing Co., Ltd. for \$4,428,507 thousand. The transaction was completed on April 20, 2015. Toppan CFI was then renamed as CFI and the Company's ownership interest in CFI increased to 100%. The acquisition was accounted for as an equity transaction as there is no change of power over relevant activities in CFI and the Company recognized an increase in capital surplus of \$817,191 thousand in 2015. On October 1, 2016, CFI was amalgamated to AUO and dissolved on that day.

Note 7: Konly has disposed all its shareholdings in EGPC to Star River Energy Corporation ("SREC") in October, 2016.

(d) Foreign currency

(1) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the individual entities of the Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date and the resulting exchange differences are included in profit or loss for the year. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date when the fair value was determined. The resulting exchange differences are included in profit or loss for the year except for those arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income. Non-monetary items in foreign currencies that are measured at historical cost are translated using the exchange rate at the date of the transaction.

Exchange differences arising from the effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges are recognized in other comprehensive income.

F-16 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(2) Foreign operations

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Company's foreign operations are translated into NTD using the exchange rates at each reporting date. Income and expenses of foreign operations are translated at the average exchange rates for the period unless the exchange rates fluctuate significantly during the period; in that case, the exchange rates at the dates of the transactions are used. Foreign currency differences are recognized in other comprehensive income within equity, except to the extent that the translation difference is allocated to non-controlling interests.

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

An asset is classified as current when:

(1) The asset expected to realize, or intends to sell or consume, in its normal operating cycle;

(2) The asset primarily held for the purpose of trading;

(3) The asset expected to realize within twelve months after the reporting date; or

(4) Cash and cash equivalent excluding the asset restricted to be exchanged or used to settle a liability for at least twelve months after the reporting date.

All other assets are classified as non-current.

A liability is classified as current when:

(1) The liability expected to settle in its normal operating cycle;

(2) The liability primarily held for the purpose of trading;

(3) The liability is due to be settled within twelve months after the reporting date; or

The Company does not have an unconditional right to defer settlement of the liability for at least twelve months (4) after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments, do not affect its classification.

All other liabilities are classified as non-current.

F-17 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(f) 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.

(g) Financial Instruments

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

(1) Financial assets

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.

(i) 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(g)(3) for further detail of the Company's derivative financial instruments and hedge accounting policy.

(ii) 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. 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.

F-18 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Cash dividends on equity instruments are recognized in profit or loss on the date that the Company's right to receive dividends is established.

(iii) 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.

(iv) 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.

For receivables, the Company first assesses whether objective evidence of impairment exists that are individually significant. If there is objective evidence that an impairment loss has occurred, the amount of impairment loss is assessed individually. For receivables other than those aforementioned, the Company groups those assets and collectively assesses them for impairment. An impairment loss for trade receivables is reflected in an allowance account against the receivables. When it is determined a receivable is uncollectible, it is written off from the allowance account. 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.

For equity instruments without a quoted market price in an active market, the objective evidence of impairment includes the investees' financial information, current operating result, future business plans and relevant industry and public market information. An impairment loss for this kind of equity instruments is reduced from the carrying amount and any impairment loss recognized is not reversed through profit or loss in subsequent periods.

F-19 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Bad debt expenses and reversal of allowance for doubtful debts for trade receivables are recognized in general and administrative expenses while impairment losses and reversal of impairment for financial assets other than receivables are recognized in other gains and losses.

(v) 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.

(2) Financial liabilities

The Company classifies financial liabilities into the following categories: convertible bonds, financial liabilities measured at fair value through profit or loss and other financial liabilities.

(i) Convertible bonds

Convertible bonds issued by AUO give bondholders the right to convert bonds into a given number of equity instruments of AUO at a specific conversion price. The derivatives embedded in the convertible bonds are recognized initially at fair value in financial liabilities measured at fair value through profit or loss. The difference between the par value of the convertible bonds and the fair value of the derivatives is recognized in convertible bonds payable.

Subsequent to initial recognition, the liability component of the convertible bonds is measured at amortized cost using the effective interest method. Convertible option is measured at fair value using Least Square Monte Carlo simulation and changes therein are recognized in profit or loss.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and the convertible option components in proportion to their relative fair value. Transaction costs allocated to the convertible option are recognized directly in profit or loss. Transaction costs allocated to the liability component are included in the initial carrying amount of the liability component and amortized using the effective interest method.

F-20 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- (ii) 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(g)(3) 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.

- (iii) 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.

- (iv) 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.

- (v) 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.

F-21 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(3) 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.

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 and accumulated in other components of equity – unrealized gains (losses) on cash flow hedges. Any ineffective portion of changes in the fair value of the derivative is recognized in profit or loss.

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 – unrealized gains (losses) on cash flow hedges are reclassified as the initial cost of the non-financial asset or liability.

(h)

Inventories

The cost of inventories includes all necessary expenditures and charges for bringing the inventory to a stable, useable and marketable condition and location. 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 raw materials is based on replacement cost. Net realizable value for finished goods and work in process is calculated based on the estimated selling price less all estimated costs of completion and necessary selling costs.

F-22 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(i) Noncurrent assets held for sale

Noncurrent assets are classified as held for sale when their carrying amounts are expected to be recovered primarily through sale rather than through continuing use. Such noncurrent assets must be available for immediate sale in their present condition and the sale is highly probable within one year. When classified as held for sale, the assets are measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on initial classification as held for sale and subsequent gains or losses on re-measurement are recognized in profit or loss. However, subsequent gains are not recognized in excess of the cumulative impairment loss that has been recognized.

When intangible assets and property, plant and equipment are classified as held for sale, they are no longer amortized or depreciated. In addition, once an equity-accounted investee is classified as held for sale, it is no longer equity accounted.

(j) Investments in associates

Associates are those entities in which the Company has the power to exercise significant influence, but not control or joint control, over their financial and operating policies.

Investments in associates are accounted for using the equity method and are recognized initially at cost. The cost of the investment includes transaction costs. The carrying amount of the investment in associates includes goodwill, which is arising from the acquisition, less any accumulated impairment losses.

The difference between acquisition cost and fair value of associates' identifiable assets and liabilities as of the acquisition date is accounted for as goodwill. Goodwill is included in the original investment cost of acquired associates and is not amortized. If the fair value of identified assets and liabilities is in excess of acquisition cost, the remaining excess over acquisition cost is recognized as a gain in profit or loss.

If an equity security is not acquired through cash, that is, by providing services or other assets, then the fair value of such security or the fair value of the services or assets surrendered, whichever is more objectively determinable, is the purchase price of the security. If an equity investment of associates is acquired by providing subsequent services and the cost is determined based on the fair value of such services, the Company defers and recognizes revenue using a

reasonable amortization method over the future period when the service is rendered.

The consolidated financial statements include the Company's share of the profit or loss and other comprehensive income of associates, after adjustments to align the accounting policies with those of the Company, from the date that significant influence commences until the date that significant influence ceases. When an associate incurs changes in its equity not derived from profit or loss and other comprehensive income, the Company recognizes all the equity changes in proportion to its ownership interest in the associate as capital surplus provided that the ownership interest in the associate remain unchanged.

F-23 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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, but the Company continues to apply the equity method, the Company shall reclassify to profit or loss the proportion of the gain or loss that had previously been recognized in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be required to be reclassified to profit or loss on the disposal of the related assets or liabilities.

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

Unrealized profits resulting from the transactions between the Company and associates are eliminated to the extent of the Company's interest in the associate. Unrealized losses on transactions with associates are eliminated in the same way, except to the extent that the underlying asset is impaired.

F-24 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

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.

(k) Investments in joint ventures

Joint venture is a joint arrangement whereby the Company and other parties agreed to share the control of the arrangement, and have rights to the net assets of the arrangement. Unanimous consent from the parties sharing control is required when 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 which is consistent with the accounting policy for investments in associates.

(l) Investment property

Investment property is the property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost on initial recognition. Subsequent to initial recognition, investment properties are measured 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.

(m) Property, plant and equipment

(1) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributed to the acquisition of the asset, any cost directly

attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, and any borrowing cost that is eligible for capitalization. The cost of the software is capitalized as part of the equipment if the purchase of the software is necessary for the equipment to be capable of operating.

F-25 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

When part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item and the useful life or the depreciation method of the significant part is different from another significant part of that same item, it is accounted for as a separate item (significant component) of property, plant and equipment.

The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, and is recognized in profit or loss.

(2) Subsequent costs

Subsequent expenditure is capitalized only when it is probable that the future economic benefits associated with the expenditure will flow to the Company and the cost of the item can be measured reliably. The carrying amount of those parts that are replaced is derecognized to profit or loss. Ongoing repairs and maintenance is recognized in profit or loss as incurred.

(3) Depreciation

Excluding land, depreciation is recognized in profit or loss and provided over the estimated useful lives of the respective assets, considering significant components of an individual asset, on a straight-line basis less any residual value. If a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term.

The estimated useful lives of the assets, except for land are as follows:

(i) Buildings: 20~50 years

- (ii) Machinery and equipment: 3~10 years
- (iii) Other equipment: 3~6 years

Depreciation methods, useful lives, and residual values are reviewed at each annual reporting date and, if necessary, adjusted as appropriate. Any changes therein are accounted for as changes in accounting estimates.

- (4) Reclassification to investment property

A property is reclassified to investment property at its carrying amount when the use of the property changes from owner-occupied to investment purpose.

F-26 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(n) 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.

(o) Leases

(1) Lessor

Lease income from an operating lease is recognized in profit or loss on a straight-line basis over the lease term. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized as an expense on a straight-line basis over the lease term.

(2) Lessee

Payments made under operating lease (excluding insurance and maintenance expenses) are recognized in profit or loss on a straight-line basis over the term of the lease.

(p) Intangible assets

(1) Goodwill

Goodwill is recognized when the purchase price exceeds the fair value of identifiable net assets acquired in a business combination. Goodwill is measured at cost less accumulated impairment losses.

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.

(2)

Research and development

During the research phase, activities are carried out to obtain and understand new scientific or technical knowledge. Expenditures during this phase are recognized in profit or loss as incurred.

F-27 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Expenditure arising from development is capitalized as an intangible asset when the Company demonstrates all of the following:

- (i) the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- (ii) its intention to complete the intangible asset and use or sell it;
- (iii) its ability to use or sell the intangible asset;
- (iv) the probability that the intangible asset will generate probable future economic benefits;
- (v) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- (vi) its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Development expenditure which fails to meet the criteria for recognition as an intangible asset is reflected in profit or loss when incurred. Capitalized development expenditure is measured at cost less accumulated amortization and any accumulated impairment losses.

(3) Other intangible assets

Technology-related fees, including purchased patents and licenses pursuant to patent licensing agreements, and core technologies acquired in connection with a merger are measured at cost less accumulated amortization and any accumulated impairment losses.

(4) Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is

recognized in profit or loss as incurred.

(5)

Amortization

The depreciable amount of an intangible asset is the cost less its residual value. Other than goodwill and intangible assets with indefinite useful life, an intangible asset with a finite useful life is amortized over 3 to 20 years using the straight-line method from the date that the asset is made available for use. The amortization charge is recognized in profit or loss.

The residual value, amortization period, and amortization method are reviewed at least annually at each annual reporting date, and any changes therein are accounted for as changes in accounting estimates.

F-28 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(q) Impairment – non-financial assets

Other than inventories, deferred tax assets and noncurrent assets held for sale, the carrying amounts of the Company's investment property measured at cost and long-term non-financial assets (property, plant and equipment and other intangible assets with finite useful lives), are reviewed at the reporting date to determine whether there is any indication of impairment. When there is an indication of impairment exists for the aforementioned assets, the recoverable amount of the asset is estimated. If it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset has been allocated to.

In performing an impairment test for 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.

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.

(r) 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.

(1)

Warranties

A provision for warranties is recognized when the underlying products or services are sold. The provision is weighting factors based on historical experience of warranty claims rate and other possible outcomes against their associated probabilities.

F-29 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(2) Decommissioning obligation

The Company is subject to decommissioning obligations related to certain items of property, plant and equipment. Such decommissioning obligations are primarily attributable to clean-up costs, including deconstruction, transportation, and recover costs. The unwinding of the discount based on original discount rate is recognized in profit or loss as interest expense over the periods with corresponding increase in the carrying amounts of the accrued decommissioning costs. The carrying amount of the accruals at the end of the assets' useful lives is the same as the estimated decommissioning costs.

(3) Onerous contracts

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Company recognizes any impairment loss on the assets associated with that contract.

(4) Loss contingencies

Provision for loss contingencies arising from claims, assessments, litigation, fines, and penalties and other sources are recognized when it is probable the present obligation as a result of a past event will result in an outflow of resources and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred. Management periodically assesses the obligation of all litigation and claims and relative legal costs. Such provisions are adjusted as further information becomes known or circumstances change.

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

(s) Revenue recognition

(1)

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.

F-30 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The timing of the transfers of risks and rewards varies depending on the individual terms of the sales agreement.

(2) 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.

(t) Employee benefits

(1) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

(2) Defined benefit plans

The Company's net obligation in respect of defined benefit pension plans is calculated separately for each benefit plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets. Discount rate is determined by reference to the yield rate of Taiwan government bonds at the reporting date. The calculation of defined benefit obligations is performed annually by a qualified actuary using the Projected Unit Credit Cost Method.

Remeasurements of the net defined benefit liability (asset) which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized in other comprehensive income in the period in which they occur, and which then are reflected in retained earnings and will not be reclassified to profit or loss.

(3)

Short-term employee benefits

Short-term employee benefit obligations, which are due to be settled within twelve months are measured on an undiscounted basis and are expensed as the related service is provided.

The expected cost of cash bonus or profit-sharing plans, which is anticipated to be paid within one year, are recognized as a liability when the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

F-31 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(u) 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.

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.

(v) Income taxes

Income tax expense comprises current and deferred taxes.

(1) Current taxes

Current taxes comprise the expected tax payable or receivable on the taxable income or losses for the year and any adjustments to tax payable or receivable in respect of previous years. It is measured using 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 recognized during the period the earnings arise and adjusted to the extent that distributions are approved by the shareholders in the following year.

(2) Deferred taxes

Deferred taxes are recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax liabilities are recognized for temporary difference of future taxable income.

Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent 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 and reduced to the extent that it is no longer probable that the related tax benefit will be realized, by considering nature of industry cycles, statutory tax deduction years and projected future taxable income. 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.

F-32 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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.

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.

(w)

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 IFRSs.

(x) 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.

F-33 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(y) Operating segments

An operating segment is a component of an entity: (1) that engages in business activities from which it may earn revenue and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), (2) whose operating results are reviewed regularly by the entity's chief operating decision maker ("CODM") to make decisions pertaining to the allocation of resources to the segment and to assess its performance, and (3) for which discrete financial information is available. Management has determined that the Company has two operating segments: display and solar.

The accounting policies for the operating segments are the same as those used in the preparation of the consolidated financial statements of the Company. Segment profit (loss) is determined by deducting selling, administrative and research and development expenses from gross profit. Segment profit (loss) excludes long-lived asset impairments, gains and losses on disposal of assets, litigation provisions, foreign currency exchange gains or losses, finance cost, income taxes, share of profit (loss) from equity-accounted investees, and other miscellaneous income and expenses. The CODM does not receive asset and liability information by operating segment. Consequently, no operating segment asset and liability information is disclosed. Geographic net revenue information is based upon the location of customers placing orders.

5. Use of Judgments and Estimates

The preparation of the consolidated financial statements in conformity with IFRS 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:

(a)

Estimate of provisions

Provision for warranty is estimated when product revenue is recognized. The estimate has been made based on the quantities within the warranty period, the historical and anticipated warranty claims rate associated with similar products and services, and the projected unit cost of maintenance. The Company regularly reviews the basis of the estimate and if necessary, amends it as appropriate. There could be a significant impact on provision for warranty for any changes of the basis of the estimate.

F-34 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Provision for unsettled litigation and claims is recognized when it is probable that it will result in an outflow of the Company's resources and the amount can be reasonably estimated. While the ultimate resolution of litigation and claims cannot be predicted with certainty, the final outcome or the actual cash outflow may be materially different from the estimated liability.

(b) Impairment of long-term non-financial assets, other than goodwill

In the process of evaluating the potential impairment of tangible and intangible assets other than goodwill, the Company is required to make subjective judgments in determining the independent cash flows, useful lives, expected future income and expenses related to the specific asset groups with the consideration of the nature of industry. Any changes in these estimates based on changed economic conditions or business strategies could result in significant impairment charges or reversal in future years.

(c) 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.

(d) 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, tax holidays, 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.

(e) 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 and any known factors that would significantly affect the allowance, and management periodically reviews the reasonableness of the estimates.

F-35 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

(f) 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.

6. Cash and Cash Equivalents

| | December 31, | |
|---|---------------------|-------------------|
| | 2016 | 2015 |
| | (in thousands) | |
| Cash on hand, demand deposits and checking accounts | \$42,389,461 | 48,937,310 |
| Time deposits | 37,676,746 | 28,648,288 |
| Government bonds with reverse repurchase agreements | 125,041 | 1,295,102 |
| | \$80,191,248 | 78,880,700 |

Refer to note 34 for the disclosure of currency risk and sensitivity analysis of the financial assets and liabilities of the Company.

As of December 31, 2015, deposits not qualifying as cash and cash equivalents amounting to \$9,997,888 thousand were classified as other current financial assets.

As of December 31, 2016 and 2015, no cash and cash equivalents were pledged with banks as collaterals.

7. Derivative Financial Instruments and Hedging Instruments

(1) Derivative Financial Instruments

December 31,
2016
(in thousands)

2015

Financial assets
measured at fair
value through
profit or loss –
current:

| | | |
|---------------------------------------|-----------|---------|
| Foreign currency forward contracts | \$ 65,669 | 214,194 |
|---------------------------------------|-----------|---------|

Financial liabilities
measured at fair
value through
profit or loss –
current:

| | | |
|---------------------------------------|------------|---------|
| Foreign currency forward contracts | \$ 896,998 | 553,663 |
|---------------------------------------|------------|---------|

Hedging derivative
financial liabilities –
current:

| | | |
|---------------------------------|----------|---|
| Interest rate swap contracts | \$ 3,540 | - |
|---------------------------------|----------|---|

Hedging derivative
financial liabilities –
noncurrent:

| | | |
|---------------------------------|------|--------|
| Interest rate swap contracts | \$ - | 10,739 |
|---------------------------------|------|--------|

F-36 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

Refer to note 34 for the disclosure of the Company's credit, currency and interest rate risks related to financial instruments.

As of December 31, 2016 and 2015, outstanding foreign currency forward contracts were as follows:

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 |

December 31, 2015

| Contract item | Maturity date | Contract amount (in thousands) |
|----------------------|-----------------------|--|
| Sell USD / Buy NTD | Jan. 2016 – Mar. 2016 | USD203,000 / NTD6,600,968 |
| Sell USD / Buy JPY | Jan. 2016 – Mar. 2016 | USD289,645 / JPY35,307,718 |
| Sell NTD / Buy JPY | Jan. 2016 | NTD3,484,954 / JPY12,957,000 |
| Sell NTD / Buy USD | Jan. 2016 – Apr. 2016 | NTD101,300 / USD3,110 |
| Sell JPY / Buy NTD | Jan. 2016 – May 2016 | JPY51,000,000 / NTD13,702,255 |
| Sell USD / Buy MYR | Jan. 2016 – Mar. 2016 | USD496 / MYR2,132 |
| Sell USD / Buy CNY | Jan. 2016 – May 2016 | USD308,700 / CNY1,989,416 |
| Sell EUR / Buy USD | May 2016 | EUR47,000 / USD51,267 |
| Sell EUR / Buy JPY | Jan. 2016 – Feb. 2016 | EUR65,000 / JPY8,578,916 |
| Sell EUR / Buy CZK | Feb. 2016 | EUR3,000 / CZK81,150 |

F-37 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

| | For the years ended December | | |
|---|-------------------------------------|-------------|-------------|
| | 31, | | |
| | 2016 | 2015 | 2014 |
| | (in thousands) | | |
| Net gains (losses) of foreign currency forward contracts were as follows: | | | |
| Unrealized gains (losses) | \$(491,860) | (240,002) | 264,181 |
| Realized gains (losses) | 80,423 | 1,179,119 | (403,096) |
| | \$(411,437) | 939,117 | (138,915) |

AUO entered into interest rate swap contracts with several banks to manage interest rate risk exposure arising from financing activities. As of December 31, 2016 and 2015, AUO's total notional amount of outstanding interest rate swap contracts amounted to \$1,760,000 thousand and \$3,040,000 thousand, respectively, and all of which were related to effective hedges. For the years ended December 31, 2016, 2015 and 2014, no unrealized gains or losses resulting from change in fair value of interest rates swap contracts were recognized in profit and loss.

(2)

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.

F-38 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

As of December 31, 2016 and 2015, 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 (in thousands) | Expected period of cash flows | Expected period of recognition in comprehensive income |
|--|------------------------------|--|-------------------------------|--|
| Long-term borrowings with floating interest rate | Interest rate swap contracts | \$ (3,540) | Jan. 2017 – Aug. 2017 | Jan. 2017 – Aug. 2017 |

December 31, 2015

| Hedged item | Hedging instrument | Fair value of hedging instrument (in thousands) | Expected period of cash flows | Expected period of recognition in comprehensive income |
|--|------------------------------|--|-------------------------------|--|
| Long-term borrowings with floating interest rate | Interest rate swap contracts | \$ (10,739) | Jan. 2016 – Aug. 2017 | Jan. 2016 – Aug. 2017 |

8. Available-for-sale Financial Assets - noncurrent

| | December 31, 2016 | 2015 |
|-------------------|----------------------|-----------|
| Equity securities | \$3,030,278 | 2,148,141 |

(in thousands)

The Company sold part of its investments in available-for-sale securities during 2016, 2015 and 2014. The selling prices amounted to \$9,917 thousand, \$99,517 thousand and \$1,574,669 thousand, respectively, and the realized gains

on disposal amounted to \$2,877 thousand, \$99,517 thousand and \$1,294,182 thousand, respectively.

The Company determined part of its available-for-sale financial assets was impaired, and there is a remote chance of future recovery. As a result, the Company recognized an impairment loss of \$686 thousand and \$107,494 thousand for the years ended December 31, 2016 and 2014, respectively.

In May 2015, the Company ceased having significant influence over Qisda Corporation (“Qisda”) and reclassified its investment in Qisda as noncurrent available-for-sale financial asset. Please refer to note 11 for further information on the Company’s investment in Qisda.

F-39 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

Some of the 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 \$283,670 thousand, \$207,720 thousand and \$4,038 thousand for the years ended December 31, 2016, 2015 and 2014, respectively.

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

| | December 31, | |
|---|---------------------|--------------|
| | 2016 | 2015 |
| | (in thousands) | |
| Notes and accounts receivable | \$49,201,632 | 36,406,506 |
| Less: allowance for doubtful accounts | (104,617) | (69,897) |
| allowance for sales returns and discounts | (853,614) | (1,524,144) |
| | \$48,243,401 | 34,812,465 |
| Notes and accounts receivable, net | \$45,710,177 | 32,319,986 |
| Accounts receivable from related parties, net | \$2,533,224 | 2,492,479 |

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

| | December 31, | |
|----------------------------|---------------------|-------------|
| | 2016 | 2015 |
| | (in thousands) | |
| Past due less than 60 days | \$531,327 | 628,657 |
| Past due 61~180 days | 9,505 | 32,852 |
| Past due over 180 days | 1,020 | 74,906 |
| | \$541,852 | 736,415 |

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

| For the years ended December 31, | | | | | |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|
| 2016 | | 2015 | | 2014 | |
| Individually | Collectively | Individually | Collectively | Individually | Collectively |
| assessed | assessed for | assessed | assessed for | assessed | assessed for |
| for | impairment | for | impairment | for | impairment |

Edgar Filing: AU OPTRONICS CORP - Form 20-F

| | impairment | | impairment | | impairment | |
|--|-------------------|---------|-------------------|----------|-------------------|--------|
| | (in thousands) | | | | | |
| Balance at beginning of the year | \$ 11,714 | 58,183 | 10,334 | 72,906 | - | 63,652 |
| Provisions (reversals) charged to (against) expense | 31,360 | 12,938 | 3,196 | (14,864) |) 27,485 | 7,056 |
| Write-offs | - | (7,385) |) (1,814) | (383) |) (20,090) | - |
| Effect of changes in foreign currency exchange rates | (1,262) | (931) |) (2) |) 524 | 2,939 | 2,198 |
| Balance at end of the year | \$41,812 | 62,805 | 11,714 | 58,183 | 10,334 | 72,906 |

F-40 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

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.

Information about the Company's exposure to credit risk is included in note 34.

As of December 31, 2016 and 2015, 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, 2016

| Underwriting bank | Factoring limit | Amount advanced | Amount sold and derecognized | Principle terms |
|----------------------------|------------------------|------------------------|-------------------------------------|--------------------------|
| | | (in thousands) | | |
| Chinatrust Commercial Bank | USDJ30,000 | - | - | 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 | USDI20,000 | - | - | See notes(a)~(c) and (e) |
| E. Sun Bank | USDI00,000 | - | - | See notes(a)~(c) and (e) |
| DBS Bank | USDI84,000 | - | - | See notes(a)~(c) and (e) |
| Taishin Bank | USD 35,000 | - | USD 8,780 | See notes(a)~(d) and (f) |

December 31, 2015

| Underwriting bank | Factoring limit | Amount advanced | Amount sold and derecognized | Principle terms |
|----------------------------|------------------------|------------------------|-------------------------------------|--------------------------|
| | | (in thousands) | | |
| Chinatrust Commercial Bank | USDJ30,000 | NTDI,500,000 | USDM0,941 | See notes(a)~(c) and (e) |

Edgar Filing: AU OPTRONICS CORP - Form 20-F

| | | | | |
|-----------------------|-------------|--------------|------------|--------------------------|
| Taishin Bank | USD 180,000 | NTDI,500,000 | USDM0,941 | See notes(a)~(c) and (e) |
| Bank of Taiwan | USD 250,000 | USD 35,000 | USDK5,000 | See notes(a)~(c) and (e) |
| | | EUR 43,100 | EURL3,100 | |
| Taipei Fubon Bank | USD 75,000 | USD 46,400 | USDM1,659 | See notes(a)~(c) and (e) |
| E. Sun Bank | USD 60,000 | USD 11,570 | USDI2,869 | See notes(a)~(c) and (e) |
| DBS Bank | USD 96,000 | USD 15,300 | USD 15,330 | See notes(a)~(c) and (e) |
| Taishin Bank | USD 35,000 | - | USDI2,109 | See notes(a)~(d) and (f) |
| First Commercial Bank | USD 30,000 | - | - | See notes(a)~(d) and (f) |

F-41 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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, 2016 and 2015, total outstanding receivables after the above assignment transactions, net of fees charged by underwriting banks, of \$283,694 thousand and \$985,158 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.

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.

10. Inventories

| | December 31, | |
|------------------|---------------------|-------------|
| | 2016 | 2015 |
| | (in thousands) | |
| Finished goods | \$9,532,199 | 13,487,008 |
| Work-in-progress | 11,100,347 | 11,324,925 |
| Raw materials | 7,046,789 | 6,983,592 |

\$27,679,335 31,795,525

For the years ended December 31, 2016, 2015 and 2014, the amounts of inventories that were charged to cost of sales were \$296,661,898 thousand, \$319,606,448 thousand and \$360,344,022 thousand, respectively, and the charges for inventories written down to net realizable value amounted to \$3,673,213 thousand, \$5,661,266 thousand and \$4,731,319 thousand for the years ended December 31, 2016, 2015 and 2014, respectively, which were also included in the cost of sales.

As of December 31, 2016 and 2015, none of the Company's inventories was pledged as collateral.

F-42 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

11. Investments in equity-accounted Investees

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

| | December 31, | |
|----------------|---------------------|-------------|
| | 2016 | 2015 |
| | (in thousands) | |
| Associates | \$4,853,325 | 4,787,892 |
| Joint ventures | 325,012 | 7,613,833 |
| | \$5,178,337 | 12,401,725 |

(a) Associates

| Name of associate | Principal activities | Principal place of business | December 31, 2016 | | December 31, 2015 | |
|---|---|-----------------------------|--------------------|----------------|--------------------|----------------|
| | | | Ownership interest | Amount | Ownership interest | Amount |
| | | | % | (in thousands) | % | (in thousands) |
| Lextar Electronics Corp. ("Lextar") | Manufacturing and sales of Light Emitting Diode | Taiwan ROC | 25 | \$3,082,856 | 24 | \$3,337,655 |
| Raydium Semiconductor Corporation ("Raydium") | IC design | Taiwan ROC | 18 | 712,829 | 16 | 590,839 |
| SREC | Holding company | Taiwan ROC | 34 | 531,805 | 35 | 259,393 |
| Daxin Materials Corp. ("Daxin") | Research, manufacturing, and sales of display related chemicals | Taiwan ROC | 25 | 525,835 | 25 | 484,578 |
| Others | | | | - | | 115,427 |
| | | | | \$4,853,325 | | \$4,787,892 |

Prior to May 2015, the Company was able to exercise significant influence over the operating policies of Qisda, and accounted for its investments in Qisda under the equity method of accounting. Since the Company and Qisda had mutual holdings, the share of profit or loss was recognized using the treasury stock method.

In May 2015, the Company reassessed its relationships with Qisda and determined that it is no longer able to exercise significant influence over Qisda. Therefore, the Company reclassified its investment in Qisda as noncurrent available-for-sale financial asset measured at fair value. The difference between the fair value of the investment and carrying amount accounted for under the equity method as at the date of the reclassification was recognized in profit or loss. Further, previously recognized other comprehensive income or loss and other equity reserves related to the Company's investment in Qisda were also reclassified to profit or loss. In total, a loss of \$110,136 thousand was recognized under other gains and losses in the consolidated statement of comprehensive income for the year ended December 31, 2015.

F-43 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

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’s ownership in Raydium increased from approximately 16% to 18%. 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, | | |
| | 2016 | 2015 | 2014 |
| | (in thousands) | | |
| The Company’s share of profits of associates | \$ 18,644 | 248,165 | 316,721 |
| The Company’s share of other comprehensive loss of associates | (29,460) | (71,585) | (32,972) |
| The Company’s share of total comprehensive income of associates | \$(10,816) | 176,580 | 283,749 |

(b) Joint ventures

| Name of joint ventures | Principal activities | Principal place of business | December 31, 2016 | | December 31, 2015 | |
|---------------------------------|---|-----------------------------|-------------------|-------------------------------|-------------------|-------------------------------|
| | | | Ownership % | Share interest (in thousands) | Ownership % | Share interest (in thousands) |
| AUO SunPower Sdn. Bhd. (“AUSP”) | Manufacturing and sales of solar power products | Malaysia | - | \$ - | 50 | \$ 7,240,360 |
| Others | | | | 325,012 | 373,473 | |
| | | | | \$ 325,012 | | \$ 7,613,833 |

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 AUSP on July 5, 2010 (co-investment date) by contributing technology with an estimated fair value of US\$30,000 thousand (equivalents to \$966,600 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, 2016, the outstanding selling price amounting to US\$61,100 thousand is classified as long-term receivables under other noncurrent assets, 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.

F-44 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

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.

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, | | |
| | 2016 | 2015 | 2014 |
| | (in thousands) | | |
| The Company’s share of profits of joint ventures | \$82,134 | 201,287 | 183,144 |
| The Company’s share of other comprehensive income (loss) of joint ventures | (314,710) | 394,132 | 153,517 |
| The Company’s share of total comprehensive income (loss) of joint ventures | \$(232,576) | 595,419 | 336,661 |

As of December 31, 2016 and 2015, none of the Company’s investments in equity-accounted investees was pledged as collateral.

12. Business Combinations

(a) Acquisition of subsidiaries

On October 1, 2014, BVTW, a subsidiary of the Company, merged with and into Forhouse, an associate of the Company prior to the merger. Forhouse offered 0.85 share of its common stock for one share of outstanding BVTW ex-dividend common stock and issued a total of 429,476 thousand new shares for the merger. Forhouse is the legal acquirer and the surviving company while BVTW was dissolved upon completion of the merger on October 1, 2014. On December 24, 2014, Forhouse changed its name to Darwin Precisions Corporation (“DPTW”). In accordance with IFRS 3, *Business Combinations*, the merger of BVTW and Forhouse has been accounted for as a reverse acquisition of Forhouse by the Company, with BVTW deemed to be the acquirer for accounting purposes.

Upon completion of the merger, the Company is the largest shareholder of DPTW with 43.48% ownership interests, while the other shareholdings of DPTW are widely dispersed with no other individual owner having a significant equity and voting interest. In addition, the Company holds more than half of the board seats of DPTW and a majority of DPTW's revenues are generated from the Company. Consequently, the Company has concluded that it has the current ability to direct the relevant activities of and control over DPTW. DPTW and its subsidiaries therefore are consolidated by the Company.

F-45 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

Through the merger, the Company's goal is to improve its operating performance and business competitiveness by integrating its resources and enhancing the scale of the Company's operations.

(b) Impact of acquisition on the operating results of the Company

From October 1, 2014, the date of acquisition, to December 31, 2014, Forhouse and its subsidiaries contributed revenue of \$439,496 thousand to the Company's operating results. If the acquisition had taken place on January 1, 2014, management estimated that the Company's consolidated revenue and net profit for the year ended December 31, 2014 would have been \$13,290,872 thousand (unaudited) and \$794,230 thousand (unaudited), respectively. In determining these amounts, management had assumed that the fair value adjustments, determined provisionally, on the acquisition date would have been the same if the acquisition had taken place on January 1, 2014. The aforementioned pro-forma information is presented for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Company that would have been achieved had the acquisition been completed on January 1, 2014, nor is it intended to be a projection of future results.

(c) Consideration transferred and identifiable assets acquired and liabilities assumed at the acquisition date

The total consideration for the acquisition amounted to \$5,635,970 thousand which includes the fair value of the Company's previously held interests in Forhouse of \$1,539,160 thousand as at the date of acquisition. The merger agreement includes no arrangement of contingent considerations and share-based payments award.

The following table summarizes the fair value of the assets acquired and liabilities assumed recognized at the acquisition date:

| | Fair value (in thousands) |
|--|--|
| Cash and cash equivalents | \$2,763,252 |
| Accounts receivable and other current assets | 4,812,335 |

Edgar Filing: AU OPTRONICS CORP - Form 20-F

| | |
|--|-------------|
| Accounts payable and other current liabilities | (4,873,057) |
| Available-for-sale financial assets – non-publicly traded equity | 428,298 |
| Investments in equity-accounted investees | 399,916 |
| Property, plant and equipment | 5,956,972 |
| Prepaid lease payment – noncurrent | 295,369 |
| Other net liabilities | (663,202) |
| Long-term loans | (600,000) |
| Total identifiable net assets acquired | \$8,519,883 |

F-46 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

The valuation techniques used for measuring the fair value of material assets acquired were as follows.

| Assets acquired | Valuation techniques |
|-------------------------------|---|
| Property, plant and equipment | Market comparison technique and cost technique: The valuation model considers quoted market prices for similar items when available, and depreciated replacement cost when appropriate. Depreciated replacement cost reflects adjustments for physical deterioration as well as functional and economic obsolescence. |
| (d) | Gain on bargain purchase arising from the acquisition |

Gain on bargain purchase arising from the acquisition was recognized as follows:

| | Amount |
|---|-------------------|
| | (in thousands) |
| Total consideration for the acquisition | \$5,635,970 |
| Less: Fair value of identifiable net assets | (8,519,883) |
| Gain on bargain purchase | \$(2,883,913) |

Prior to the acquisition date, the Company held 27.31% ownership interests in Forhouse. As a result of the acquisition, the Company recognized a loss from deemed disposal of \$606,433 thousand determined based on the fair value of the previously held equity interests of \$1,539,160 thousand at the acquisition date. The gain on bargain purchase and the loss from deemed disposal both were recognized under other gains and losses in the consolidated statements of comprehensive income.

| | |
|-----|---------------------------|
| (e) | Acquisition-related costs |
|-----|---------------------------|

Acquisition-related costs of \$400 thousand on legal fees and due diligence fees were expensed as incurred and included in general and administrative expenses in the consolidated statements of comprehensive income.

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

13. Property, Plant and Equipment

| | For the year ended December 31, 2016 | | | | |
|---|--------------------------------------|------------|--------------------------|---|----------------------------|
| | Balance, Beginning of Year | Additions | Disposal or write off | Reclassification and effect of change in exchange rate | Balance, End of Year |
| | (in thousands) | | | | |
| Cost: | | | | | |
| Land | \$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 | 34,248,005 | 4,532,365 | (6,462,949) | 102,315 | 32,419,736 |
| | 944,535,973 | 6,958,077 | (31,090,580) | 49,532,525 | 969,935,995 |
| 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 | 30,215,702 | 5,130,524 | (6,430,868) | (2,761,185) | 26,154,173 |
| | 758,147,568 | 38,567,822 | (30,423,963) | (5,824,893) | 760,466,534 |
| Prepayments for purchase of land and equipment, and construction in progress | 22,397,204 | 48,931,054 | (29,246) | (58,026,641) | 13,272,371 |
| Net carrying amounts | \$208,785,609 | | | | 222,741,832 |

| | For the year ended December 31, 2015 | | | | |
|--|--------------------------------------|-----------|--------------------------|---|----------------------------|
| | Balance, Beginning of Year | Additions | Disposal or write off | Reclassification and effect of change in exchange rate | Balance, End of Year |
| | (in thousands) | | | | |
| Cost: | | | | | |
| Land | \$9,238,072 | 200,006 | (513,574) | 187,782 | 9,112,286 |
| Buildings | 130,481,487 | 22,234 | (1,512,232) | (6,835,135) | 122,156,354 |
| Machinery and equipment | 781,274,965 | 2,855,605 | (29,667,810) | 24,556,568 | 779,019,328 |
| Other equipment | 37,480,550 | 3,464,238 | (7,037,238) | 340,455 | 34,248,005 |
| | 958,475,074 | 6,542,083 | (38,730,854) | 18,249,670 | 944,535,973 |
| Accumulated depreciation and impairment loss: | | | | | |
| Land | 179,227 | – | – | 5,662 | 184,889 |

Edgar Filing: AU OPTRONICS CORP - Form 20-F

| | | | | | |
|--|---------------|------------|--------------|---------------|-------------|
| Buildings | 33,490,096 | 5,309,628 | (1,244,735) | (4,763,043) | 32,791,946 |
| Machinery and equipment | 673,810,520 | 43,794,880 | (29,282,299) | 6,631,930 | 694,955,031 |
| Other equipment | 32,993,554 | 4,773,205 | (7,027,110) | (523,947) | 30,215,702 |
| | 740,473,397 | 53,877,713 | (37,554,144) | 1,350,602 | 758,147,568 |
| Prepayments for purchase of land and equipment, and construction in progress | 13,813,047 | 25,422,448 | (495) | (16,837,796) | 22,397,204 |
| Net carrying amounts | \$231,814,724 | | | | 208,785,609 |

F-48 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of December 31, 2016 and 2015, 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.

ACTW sold its lands located in Chang Hua Coastal Industrial Park, Taiwan, during 2015 and 2014. The selling price amounted to \$790,342 thousand and \$810,000 thousand, respectively and gains on disposal amounted to \$276,769 thousand and \$77,121 thousand, respectively.

According to the resolution of board of directors' meeting held on August 10, 2015, AUO decided to sell part of its plants and has entered into an agreement with Wistron NeWeb Corporation. This transaction was completed in December 2015, and the selling price and gain on disposal (net of costs of disposal) were \$808,504 thousand and \$558,206 thousand, respectively.

Pursuant to the resolution of AETJ's board of directors' meeting held on December 9, 2015, AETJ decided to sell its use right of land and plants to Tianjin Binhai Hi-tech Development Area Asset Management Ltd. The assets were classified as noncurrent assets held for sale in the consolidated statement of financial position as of December 31, 2015. This transaction was completed in June 2016, and the selling price and gain on disposal (net of costs of disposal) were \$683,078 thousand (RMB141,117 thousand) and \$14,717 thousand, respectively.

In 2015, the Company recognized an impairment loss relating to its display segment of \$172,530 thousand, for certain machineries and equipments with low utilization resulting from the decline in the application for certain products.

Some indications of impairment existed in the Company's solar segment; therefore, the Company performed its impairment assessment over the solar CGU's long-term assets with lower capacity utilization. In 2016, 2015 and 2014, the Company wrote down certain long-term assets with lower capacity utilization and recognized impairment losses of \$34,047 thousand, \$101,764 thousand and \$2,296,081 thousand, respectively.

Polysilicon in the solar industry has experienced significant downturns including sharp decline in pricing because of oversupply capacity worldwide; therefore, the management of M.Setek, the Company's subsidiary in Japan, decided to

cease the production of polysilicon which was approved by the board of directors of M.Setek on January 8, 2016. The Company performed its impairment assessment over the polysilicon CGU's long-term assets in the fourth quarter of 2015. The recoverable amount was determined based on the relevant assets' estimated fair value less cost of disposal. The fair value of long-term assets was determined by management with reference to the sales prices of recent transactions of similar asset in the same geographical area.

The fair value measurement was categorised as a Level 3 fair value based on inputs in the valuation techniques used.

F-49 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

The following table shows the valuation technique used in the determination of fair value of the polysilicon CGU's long-term assets within Level 3, as well as the significant inputs used in the valuation model.

| Description of Valuation Technique | Significant inputs | Inter-relationship between significant inputs and fair value measurement The estimated fair value would increase (decrease) if: |
|--|---------------------------------------|--|
| Sales comparison approach: | 1 Price per square meter (JPY 8,000). | 1 the price per square meter is higher (lower); or |
| Sales price of comparable property in close proximity are adjusted for differences in key attributes such as property size. The expected sales price is adjusted with sales discount based on land size. The significant inputs into this valuation approach are price per square meter of comparable properties and sales discount. | 1 Sales discount (15%). | 1 the sales discount rates are lower (higher). |

Based on management assessment, the carrying amount of the polysilicon CGU was determined to be higher than its estimated recoverable amount; consequently, an impairment loss of \$6,755,157 thousand was recognized during the year ended December 31, 2015.

Impairment losses as mentioned above are recognized as other gains and losses in the consolidated statements of comprehensive income.

In December 2016, M.Setek entered into sales agreements and letter of intent with TAKEEI Corporation and other companies, respectively, to dispose part of its land and buildings with selling price amounted to JPY3,084,000 thousand. Under which, transactions with selling amount of JPY1,210,000 thousand have not completed as of the

reporting date, the underlying assets are presented as noncurrent assets held for sale. The remaining assets did not meet the requirements of IFRS 5 and are presented as property, plant and equipment as of December 31, 2016.

The capitalized borrowing costs were \$542,994 thousand, \$186,025 thousand and \$210,882 thousand for the years ended December 31, 2016, 2015 and 2014, respectively. The interest rates applied for the capitalization, ranged from 1.09% to 4.66%, 1.29% to 6.73% and 1.00% to 6.89% for the years ended December 31, 2016, 2015 and 2014, respectively.

Certain property, plant and equipment were pledged as collateral, see note 37.

F-50 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

14.

Investment Property

| | For the year ended December 31, 2016 | | | |
|------------|---|------------------|-----------------|---------------|
| | Balance, | | Balance, | |
| | Beginning | Additions | Disposal | End of |
| | of Year | | | Year |
| | (in thousands) | | | |
| Land | \$465,868 | – | – | 465,868 |
| Fair Value | \$1,402,040 | | | 1,402,040 |

| | For the year ended December 31, 2015 | | | |
|------------|---|------------------|-----------------|---------------|
| | Balance, | | Balance, | |
| | Beginning | Additions | Disposal | End of |
| | of Year | | | Year |
| | (in thousands) | | | |
| Land | \$465,868 | – | – | 465,868 |
| Fair Value | \$1,145,098 | | | 1,402,040 |

AUO decided to sell all its plants and land located in Jhunan, Taiwan to Lextar on August 13, 2014. The transfer was completed in November 2014 and the selling price and gain on disposal were \$1,061,297 thousand and \$279,729 thousand, respectively.

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

The fair value measurement was categorized as a level 3 fair value based on the inputs in the valuation techniques used. 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 inputs in valuation techniques are overall capital interest rate and rate of return of 2.06% and 10.00%, respectively.

Certain investment property were pledged as collateral, see note 37.

F-51 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

15. Intangible Assets

| | 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: | | | | |
| Patent and technology fee | \$11,901,662 | 187,020 | (9,915) | 12,078,767 |
| Accumulated amortization: | | | | |
| Patent and technology fee | 8,606,978 | 1,159,465 | (9,915) | 9,756,528 |
| Net carrying amounts | \$3,294,684 | | | 2,322,239 |

| | For the year ended December 31, 2015 | | | |
|---------------------------|--------------------------------------|-----------|--|----------------------------|
| | Balance, Beginning of Year | Additions | Effect of change in exchange rate | Balance, End of Year |
| | (in thousands) | | | |
| Cost: | | | | |
| Patent and technology fee | \$11,597,995 | 303,282 | 385 | 11,901,662 |
| Accumulated amortization: | | | | |
| Patent and technology fee | 7,712,240 | 894,362 | 376 | 8,606,978 |
| Net carrying amounts | \$3,885,755 | | | 3,294,684 |

16. Other Current Assets and Other Noncurrent Assets

| | December 31, | |
|-----------------------------|---------------------|-------------|
| | 2016 | 2015 |
| | (in thousands) | |
| Prepayment for equipment | \$463,910 | 4,817,842 |
| Refundable and overpaid tax | 3,015,534 | 2,551,114 |
| Long-term prepaid rents | 1,940,489 | 2,158,758 |
| Prepayments for purchases | 3,360,869 | 1,041,314 |

| | | |
|-----------------------|--------------|--------------|
| Long-term receivables | 1,974,271 | – |
| Refundable deposits | 133,221 | 128,727 |
| Others | 2,481,104 | 1,259,441 |
| | 13,369,398 | 11,957,196 |
| Less: current | (6,330,283) | (3,796,085) |
| Noncurrent | \$7,039,115 | 8,161,111 |

F-52 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

17. Short-term Borrowings

| | December 31, 2016 | 2015 |
|------------------------|------------------------------|----------------------|
| | (in thousands) | |
| Unsecured borrowings | \$526,723 | 1,593,714 |
| Unused credit facility | \$33,877,442 | 29,219,632 |
| Interest rate | 4.35% ~ 4.39% | 1.25% ~ 1.30% |

18. Convertible Bonds Payable

AUO issued unsecured overseas convertible corporate bonds (hereinafter referred to as “ECB”) on October 13, 2010 with par value of US\$800,000 thousand and coupon rate at 0%. The duration period is five years commencing from the issuance date.

AUO purchased the outstanding ECB starting from 2011. In 2015 and 2014, AUO purchased the outstanding ECB with par value of US\$399,700 thousand and US\$180,800 thousand, respectively, at costs of US\$461,015 thousand and US\$198,519 thousand, respectively. The remaining outstanding balance of ECB with par value of US\$14,500 thousand was fully redeemed by AUO at the redemption price equal to 115.34% of the remaining par value of ECB on the maturity date of October 13, 2015, with no exercise of conversion rights.

19. Long-term Borrowings

| Bank or agent bank | Durations | December 31, 2016 (in thousands) | December 31, 2015 |
|----------------------------------|-----------------------------|-------------------------------------|-------------------|
| Syndicated loans: | | | |
| Bank of Taiwan and others | From Feb. 2015 to Feb. 2020 | \$25,800,000 | 20,000,000 |
| Bank of Taiwan and others | From Apr. 2016 to Apr. 2021 | 25,000,000 | – |
| Bank of Taiwan and others | From Jan. 2014 to Jan. 2019 | 23,672,000 | 26,900,000 |
| Bank of Taiwan and others | From Feb. 2013 to Aug. 2017 | 7,596,757 | 13,132,757 |
| Bank of Taiwan and others | From Dec. 2009 to Oct. 2016 | – | 11,881,032 |
| Bank of Taiwan and others | From Sep. 2011 to Sep. 2016 | – | 14,860,950 |
| First Commercial Bank and others | From Feb. 2016 to Feb. 2019 | 3,000,000 | – |

Edgar Filing: AU OPTRONICS CORP - Form 20-F

| | | | |
|------------------------------------|-----------------------------|----------------------|----------------------|
| First Commercial Bank and others | From Feb. 2012 to Feb. 2016 | – | 3,139,247 |
| Standard Chartered Bank and others | From Sep. 2014 to Mar. 2019 | 2,358,776 | 3,172,800 |
| Bank of China and others | From Nov. 2015 to Nov. 2023 | 21,216,394 | 148,818 |
| Unsecured loans | From Jul. 2011 to Nov. 2019 | 16,005,955 | 14,978,755 |
| Mortgage loans | From Apr. 2016 to Apr. 2021 | 95,727 | – |
| | | 124,745,609 | 108,214,359 |
| Less: transaction costs | | (482,989 |) (569,191) |
| | | 124,262,620 | 107,645,168 |
| Less: current portion | | (18,074,627 |) (39,107,738) |
| | | \$ 106,187,993 | 68,537,430 |
| Unused credit facility | | \$ 43,228,323 | 83,531,440 |
| Interest rate range | | 1.09% ~ 1.90% | 1.17% ~ 5.00% |

F-53 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The Company entered into the aforementioned long-term loan arrangements with banks and financial institutions to finance capital expenditures on construction projects and the 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, 2016.

These credit facilities contain covenants that require the Company to maintain certain financial ratios, calculating based on the Company's annual consolidated financial statements prepared in accordance with Taiwan Financial Reporting Standards, such as current ratio (defined as current assets divided by current liabilities excluding (a) current portion of long-term debt or (b) current portion of long-term debt and equipment and construction payable), leverage ratio (calculated as the sum of short-term borrowings plus current portion of long-term debt and long-term debt to consolidated tangible net worth), interest coverage ratio, tangible net worth and others as specified in the loan agreements.

As of December 31, 2015, AUO was in compliance with the covenants under each of the loan

agreements except for one of AUO's subsidiaries which failed to comply with tangible net worth covenants in its loan agreements. Failure to comply with financial covenants is not considered an event of default under the loan agreements until a resolution is made by majority of the banks and financial institutions to refuse for granting a waiver of the covenants. These loans were voluntarily repaid in advance by the subsidiary in the first quarter of 2016. As of December 31, 2016, the Company complied with all financial covenants under each of the loan agreements.

Refer to note 34 for detailed information of exposures to interest rate, currency, and liquidity risk. Refer to note 37 for assets pledged as collateral to secure the aforementioned long-term borrowings.

F-54 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

20. Provisions

Movements in provisions for the years ended December 31, 2016 and 2015 were as follows:

| | Warranties | Litigation and claims | Others | Total |
|-----------------------------------|-------------------|----------------------------------|---------------|--------------|
| | (in thousands) | | | |
| Balance at January 1, 2016 | \$1,819,519 | 4,018,880 | 297,937 | 6,136,336 |
| Additions | 309,475 | 597,325 | – | 906,800 |
| Usage | (265,917) | (3,405,923) | – | (3,671,840) |
| Reversals | (334,174) | – | (25,839) | (360,013) |
| 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 | \$772,819 | – | 265,445 | 1,038,264 |

| | Warranties | Litigation and claims | Others | Total |
|-----------------------------------|-------------------|----------------------------------|---------------|--------------|
| | (in thousands) | | | |
| Balance at January 1, 2015 | \$2,668,512 | 7,318,092 | 286,362 | 10,272,966 |
| Additions | 65,501 | 4,848,442 | – | 4,913,943 |
| Usage | (619,845) | (8,012,397) | – | (8,632,242) |
| Reversals | (294,592) | – | – | (294,592) |
| Effect of change in exchange rate | (57) | (135,257) | 11,575 | (123,739) |
| Balance at December 31, 2015 | 1,819,519 | 4,018,880 | 297,937 | 6,136,336 |
| Less: current | (993,481) | (4,018,880) | – | (5,012,361) |
| Noncurrent | \$826,038 | – | 297,937 | 1,123,975 |

(a) Provisions for warranties

The provisions for warranties were estimated based on historical experience of warranty claims rate associated with similar products and services. The Company expects most warranty claims will be made within two years from the date of the sale of the product.

(b) Provisions for litigation and claims

The provisions for litigation and claims pertain to current litigation and settlement agreements. See note 38(d) for further information.

F-55 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

21. Operating Leases

(a) Lessees

Non-cancellable lease payments as of December 31, 2016 and 2015 were as follows:

| | December 31, | |
|----------------------------|---------------------|------------------|
| | 2016 | 2015 |
| | (in thousands) | |
| Less than one year | \$843,880 | 863,465 |
| Between one and five years | 3,483,532 | 2,614,891 |
| More than five years | 4,011,338 | 3,020,500 |
| | \$8,338,750 | 6,498,856 |

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 is to acquire the land located at Tainan Technology Industrial Park, which is originally leased from Ministry of Economic Affairs with an acquisition price approximately at \$559,000 thousand. The approval was granted by Ministry of Economic Affairs in January 2017.

In addition, the Company's subsidiaries, including ACTW, DPTW and AUCZ, also entered into 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 \$1,178,774 thousand, \$1,115,570 thousand and \$1,143,750 thousand for the years ended December 31, 2016, 2015 and 2014, respectively.

The Company's subsidiaries in China have obtained the land use rights which were recognized as long-term prepaid rents.

F-56 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

(b) Lessor

The Company leased its investment properties to third parties under operating lease. Refer to note 14 for further information on investment properties.

Non-cancellable lease receivables as of December 31, 2016 and 2015, were as follows:

| | December 31, | |
|----------------------------|---------------------|-------------|
| | 2016 | 2015 |
| | (in thousands) | |
| Less than one year | \$8,052 | 8,052 |
| Between one and five years | 32,208 | 32,208 |
| More than five years | 87,230 | 95,282 |
| | \$127,490 | 135,542 |

The Company also leased partial offices, see note 28 for rental income. Repair and maintenance expenses incurred from aforementioned operating leases for the years ended December 31, 2016, 2015 and 2014 amounted to \$449 thousand, \$403 thousand and \$11,935 thousand, respectively.

22. 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.

(1) Recognized liabilities for defined benefit obligation at the reporting date were as follows:

| | December 31, | |
|---|---------------------|-------------|
| | 2016 | 2015 |
| | (in thousands) | |
| Present value of defined benefit obligation | \$(3,027,176) | (2,813,072) |
| Fair value of plan assets | 2,105,690 | 2,059,399 |
| Net defined benefit liability | \$(921,486) | (753,673) |

F-57 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

(2) Movement in net defined benefit liability

The following table shows a reconciliation for net defined benefit liability and its components.

| | Defined benefit obligation | | Fair value of plan assets | | Net defined benefit liability | |
|---|----------------------------|-------------|---------------------------|-----------|-------------------------------|-----------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| | (in thousands) | | | | | |
| Balance at January 1, | \$ (2,813,072) | (2,510,735) | 2,059,399 | 1,919,312 | (753,673) | (591,423) |
| Included in profit or loss | | | | | | |
| Service cost | (18,227) | (10,887) | – | – | (18,227) | (10,887) |
| Interest cost | (53,959) | (55,193) | – | – | (53,959) | (55,193) |
| Expected return on plan assets | – | – | 39,054 | 43,048 | 39,054 | 43,048 |
| | (72,186) | (66,080) | 39,054 | 43,048 | (33,132) | (23,032) |
| Included in OCI | | | | | | |
| Remeasurements (loss) gain: | | | | | | |
| Actuarial (loss) gain arising from: | | | | | | |
| - demographic assumptions | (51,349) | (79,154) | – | – | (51,349) | (79,154) |
| - financial assumptions | (244,142) | (88,709) | – | – | (244,142) | (88,709) |
| - experience adjustment | 91,378 | (90,997) | – | – | 91,378 | (90,997) |
| Return on plan assets excluding interest income | – | – | (21,081) | 7,459 | (21,081) | 7,459 |
| | (204,113) | (258,860) | (21,081) | 7,459 | (225,194) | (251,401) |
| Other | | | | | | |
| Contributions paid by the employer | – | – | 103,761 | 105,145 | 103,761 | 105,145 |
| Benefits paid | 62,516 | 25,240 | (28,443) | (15,565) | 34,073 | 9,675 |
| Effect of changes in exchange rates and others | (321) | (2,637) | (47,000) | – | (47,321) | (2,637) |
| | 62,195 | 22,603 | 28,318 | 89,580 | 90,513 | 112,183 |
| Balance at December 31, | \$ (3,027,176) | (2,813,072) | 2,105,690 | 2,059,399 | (921,486) | (753,673) |

(3) 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. The government is not only responsible for the determination of the investment strategies and policies, but also for any shortfall in the event that the rate of return is less than the required rate of return.

F-58 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of December 31, 2016, the Funds deposited in the Committee’s name in the Bank of Taiwan amounted to \$2,153,148 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.

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.

(4) Defined benefit obligation

(i) Principal actuarial assumptions

| | As of December 31, | |
|-----------------------------------|---------------------------|-------------|
| | 2016 | 2015 |
| Discount rate | 0.33%~1.80% | 0.53%~2.00% |
| Rate of increase in future salary | 1.19%~3.79% | 1.19%~3.79% |

The Company anticipates contributing \$103,761 thousand to the defined benefit plans in the next year starting from January 1, 2017.

As at December 31, 2016, the weighted-average duration of the defined benefit obligation was between 9 years to 22 years.

(ii) Sensitivity analysis

Reasonably possible changes at December 31, 2016 and 2015 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, 2016 | | December 31, 2015 | |
|-----------------------------------|--------------------------|------------------|--------------------------|------------------|
| | Changes in assumptions | | Changes in assumptions | |
| | + 0.25% | - 0.25% | + 0.25% | - 0.25% |
| | (in thousands) | | (in thousands) | |
| Discount rate | \$(156,764) | 166,453 | (146,656) | 156,049 |
| Rate of increase in future salary | \$164,140 | (155,466) | 154,530 | (146,035) |

In practical, the relevant actuarial assumptions are correlated to each other. The approach to develop the sensitivity analysis as above is the same approach to recognize the net defined benefit liability in the statement of financial position. The approach to develop the sensitivity analysis and its relevant actuarial assumptions are the same as those in previous year.

F-59 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(b) Defined contribution plans

Commencing July 1, 2005, pursuant to the ROC Labor Pension Act (the “Act”), employees who elected to participate in the Act or joined the Company after July 1, 2005, are subject to a defined contribution plan under the Act. Under the defined contribution plan, AUO and its subsidiaries located in the ROC contribute monthly at a rate of no less than six percent of 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.

AUO and its subsidiaries in the ROC have set up defined contribution plans in accordance with the Act. For the years ended December 31, 2016, 2015 and 2014, these companies set aside \$936,923 thousand, \$927,083 thousand and \$873,889 thousand, respectively, of the pension costs under the pension plan to the ROC Bureau of the Labour Insurance. Except for the aforementioned companies, other foreign subsidiaries recognized pension expenses of \$1,127,958 thousand, \$1,400,994 thousand and \$1,276,125 thousand for the years ended December 31, 2016, 2015 and 2014, respectively, for the defined contribution plans based on their respective local government regulations.

23. 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 of December 31, 2016 and 2015.

AUO’s issued and outstanding common stock, with par value of \$10 per share, both amounted to \$96,242,451 thousand as of December 31, 2016 and 2015.

AUO’s ADSs were listed on the New York Stock Exchange. Each ADS represents 10 shares of common stock. As of December 31, 2016, AUO had issued 77,673 thousand ADSs, which represented 776,729 thousand shares of its common stock.

(b)

Capital surplus

Balance of capital surplus as of December 31, 2016 and 2015 were as follows:

| | December 31, | |
|------------------------|-----------------------|-------------------|
| | 2016 | 2015 |
| | (in thousands) | |
| From common stock | \$52,756,091 | 52,756,091 |
| From convertible bonds | 6,049,862 | 6,049,862 |
| From others | 1,171,790 | 1,441,895 |
| | \$59,977,743 | 60,247,848 |

F-60 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

According to the ROC Company Act, capital surplus, including premium from stock issuing and donations received, shall be applied to offset accumulated deficits before it can be 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.

(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 and dividend policy

The amendments to AUO's Articles of Incorporation had been approved pursuant to resolution of the shareholders' meeting held on June 16, 2016, 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.

Pursuant to relevant laws or regulations or as requested by the local authority, a special reserve equivalent to the total amount of items that are accounted for as deductions to the equity shall be set aside from current earnings, and not distributed. The special reserve shall be made available for appropriation to the extent of reversal of deductions to equity in subsequent periods.

AUO's appropriations of earnings for 2014 had been approved in the shareholders' meeting held on June 2, 2015. The appropriations and dividends per share were as follows:

For fiscal year 2014

Appropriation of earnings **Dividends per share**

(in thousands, except for per share data)

| | | |
|--------------------------------|-------------|---------|
| Legal reserve | \$1,762,846 | |
| Cash dividends to shareholders | 4,812,123 | \$ 0.50 |
| | \$6,574,969 | |

F-61 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

AUO had on June 2, 2015, through its shareholders' meeting approved profit sharing to employees of \$1,189,922 thousand, bonus to employees of \$1,189,921 thousand and remuneration to directors of \$47,597 thousand. The aforementioned distribution of profit sharing to employees, bonus to employees and remuneration to directors for 2014 was consistent with the resolutions of the board of directors' meeting held on March 17, 2015, and the amount has been charged against earnings of 2014.

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 | Dividends |
| | of earnings per share | |
| | (in thousands, except for per share data) | |
| Legal reserve | \$493,196 | |
| Cash dividends to shareholders | 3,368,486 | \$ 0.35 |
| | \$3,861,682 | |

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 have been approved in the meeting of the board of directors held on March 22, 2017. The appropriations and dividends per share were as follows:

| | For fiscal year 2016 | |
|--------------------------------|--|------------------|
| | Appropriation of | Dividends |
| | earnings per share | |
| | (in thousands, except for per share data) | |
| Legal reserve | \$781,894 | |
| Cash dividends to shareholders | 5,389,577 | \$ 0.56 |
| | \$ 6,171,471 | |

The appropriations of earnings for 2016 are to be presented for approval in AUO's 2017 annual shareholders' meeting.

Information on the approval of board of directors and shareholders for AUO's appropriations of earnings are available at the Market Observation Post System website.

F-62 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****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, 2016 | \$6,540,196 | (539,653) | 14,793 | 6,015,336 |
| Foreign operations – foreign currency translation differences | (5,510,836) | – | – | (5,510,836) |
| Effective portion of changes in fair value of cash flow hedges | – | – | 7,199 | 7,199 |
| Net change in fair value of available-for-sale financial assets | – | 769,410 | – | 769,410 |
| Equity-accounted investees – share of other comprehensive income | (342,162) | (2,582) | – | (344,744) |
| Realized gain on sales of securities reclassified to profit or loss | (265,849) | (2,876) | – | (268,725) |
| Related tax | 109,657 | – | – | 109,657 |
| Balance at December 31, 2016 | \$531,006 | 224,299 | 21,992 | 777,297 |
| Balance at January 1, 2015 | \$5,766,162 | 29,107 | 18,440 | 5,813,709 |
| Foreign operations – foreign currency translation differences | 405,731 | – | – | 405,731 |
| Effective portion of changes in fair value of cash flow hedges | – | – | (3,647) | (3,647) |
| Net change in fair value of available-for-sale financial assets | – | (521,173) | – | (521,173) |
| Equity-accounted investees – share of other comprehensive income | 470,545 | 22,070 | – | 492,615 |
| Realized gain on sales of securities reclassified to profit or loss | (104,905) | (69,657) | – | (174,562) |
| Related tax | 2,663 | – | – | 2,663 |
| Balance at December 31, 2015 | \$6,540,196 | (539,653) | 14,793 | 6,015,336 |
| Balance at January 1, 2014 | \$3,836,530 | 260,909 | 8,471 | 4,105,910 |
| Foreign operations – foreign currency translation differences | 1,846,221 | – | – | 1,846,221 |
| Effective portion of changes in fair value of cash flow hedges | – | – | 9,969 | 9,969 |
| Net change in fair value of available-for-sale financial assets | – | 89,288 | – | 89,288 |
| Equity-accounted investees – share of other comprehensive income (loss) | 125,920 | (8,036) | – | 117,884 |
| Realized gain on sales of securities reclassified to profit or loss | (5,025) | (313,054) | – | (318,079) |
| Related tax | (37,484) | – | – | (37,484) |
| Balance at December 31, 2014 | \$5,766,162 | 29,107 | 18,440 | 5,813,709 |

F-63 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

(f) Non-controlling interests, net of tax

| | For the years ended December 31, | | |
|---|---|--------------|-------------|
| | 2016 | 2015 | 2014 |
| | (in thousands) | | |
| Balance at the beginning of the year | \$22,648,604 | 19,329,254 | 14,036,520 |
| Equity attributable to non-controlling interests: | | | |
| Profit (loss) for the year | (1,211,772) | (28,161) | 370,610 |
| Adjustment of changes in ownership of investees | (191,394) | (262,229) | 418,495 |
| Foreign currency translation differences | (1,867,168) | (680,218) | 419,687 |
| Unrealized losses on available-for-sale financial assets | — | — | (880) |
| Remeasurement of defined benefit plans | (98) | 5,003 | (198) |
| Cash dividends from subsidiaries | (87,749) | (328,234) | (256,050) |
| Proceeds from subsidiaries capital increase | 9,590 | 10,086,575 | 28,740 |
| Proceeds from capital return upon dissolution of subsidiary | (83,208) | — | — |
| Redemption of subsidiary treasury shares | (865,633) | (227,676) | (353,242) |
| Effect of acquisition of non-controlling interests | 37,036 | (5,245,698) | — |
| Effect of acquisition of subsidiaries and others | (4) | (12) | 4,665,572 |
| Balance at the end of the year | \$18,388,204 | 22,648,604 | 19,329,254 |

F-64 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

24. Share-based Payments

The Company's employee stock option plans were as follows:

(a) DPTW Option Plan

In connection with the acquisition of DPTW during the year ended December 31, 2014 (see note 12), the Company (1) assumed the DPTW stock option plan. As of December 31, 2016, the key terms and conditions related to the grants under DPTW'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 | Original exercise price (per share) | Adjusted exercise price (per share) |
|---------------------------------|--------------|---|-----------------------------|--------------------|-------------------------------------|-------------------------------------|
| 2011 Employee stock option plan | Jan. 6, 2011 | 10,000 | Jan. 6, 2011 – Jan. 6, 2017 | After Jan 6, 2013 | \$ 29.2 | \$ 19.04 |

(2) The related employee benefit expense recognized on DPTW employee stock options was \$956 thousand for the year ended December 31, 2014.

(3) Fair value of stock options

The fair value of the employee stock option granted by DPTW was measured at the date of grant using the Black-Scholes option pricing model. The valuation information was as follows:

| | 2011 Employee Stock Option Plan |
|---------------|--|
| Dividend rate | -% |

| | |
|------------------------------|-------------------|
| Expected volatility | 29% |
| Risk-free interest rate | 1.00% |
| Expected duration | 6 years |
| Fair value at the grant date | NT\$7.49/per unit |

The expected volatility is calculated based on the weighted-average historical volatility and adjusted by the expected change due to publicly available information. The expected duration of stock option is according to the terms of the plan. The expected dividend rate and risk-free interest rate are determined based on the ROC government bonds. When determining the fair value of the stock option, service and non-market performance conditions are not taken into consideration.

F-65 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

- (4) Information about DPTW's outstanding stock options is as follows:

| | For the years ended December 31, | | 2015 | |
|----------------------------|--|----------------------------------|--|----------------------------------|
| | 2016 | | 2015 | |
| | Weighted-average exercise price (per share) | Number of options (shares) | Weighted-average exercise price (per share) | Number of options (shares) |
| Outstanding at January 1 | \$ 19.36 | 3,880,000 | \$ 20.42 | 6,510,000 |
| Options expired | – | (967,000) | – | (2,630,000) |
| Outstanding at December 31 | 19.04 | 2,913,000 | 19.36 | 3,880,000 |
| Exercisable at December 31 | | 2,913,000 | | 3,880,000 |

(b) ACTW Option Plan

- (1) As of December 31, 2016, 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) | Contractual life of options | Exercisable period | Exercise price (per share) |
|---------------------------------|--------------|---|--------------------------------|---------------------|-------------------------------------|
| 2012 Employee stock option plan | Sep. 1, 2012 | 20,000 | Sep.1, 2012 – Aug. 30, 2017 | After Aug. 30, 2014 | \$ 10 |
| 2014 Employee stock option plan | Sep. 1, 2014 | 20,000 | Sep.1, 2014 – Aug. 30, 2019 | After Aug. 30, 2016 | \$ 10 |

The related employee benefit expenses and capital surplus recognized on ACTW's employee stock options were (2)\$1,534 thousand, \$2,386 thousand and \$2,650 thousand for the years ended December 31, 2016, 2015 and 2014, respectively.

- (3) Fair value of stock options

The fair value of the employee stock options granted by ACTW was measured at the dates of grant using the Binomial option pricing model. The valuation information was as follows:

| | 2014 Employee Stock Option Plan | 2012 Employee Stock Option Plan |
|------------------------------|--|--|
| Dividend rate | -% | -% |
| Expected volatility | 38.88% | 45.40% |
| Risk-free interest rate | 1.1648% | 0.8887% |
| Expected duration | 5 years | 5 years |
| Fair value at the grant date | NT\$0.20/per share | NT\$0.34/per share |

F-66 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

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

| | For the years ended December 31, 2016 | | December 31, 2015 | |
|----------------------------|---|--|---|--|
| | Weighted-average exercise price (per share) | Number of price options (shares) | Weighted-average exercise price (per share) | Number of price options (shares) |
| Outstanding at January 1 | \$ 10 | 32,843,000 | \$ 10 | 36,942,000 |
| Options exercised | 10 | (959,000) | 10 | (109,000) |
| Options expired | – | (2,675,000) | – | (3,990,000) |
| Outstanding at December 31 | 10 | 29,209,000 | 10 | 32,843,000 |
| Exercisable at December 31 | | 20,578,000 | | 11,096,000 |

25.

Revenue

| | For the years ended December 31, | | |
|-------------------------|----------------------------------|-------------|-------------|
| | 2016 | 2015 | 2014 |
| | (in thousands) | | |
| Sale of goods | \$ 318,243,539 | 351,566,289 | 402,159,981 |
| Other operating revenue | 10,845,497 | 8,780,205 | 6,018,769 |
| | \$ 329,089,036 | 360,346,494 | 408,178,750 |

Refer to note 39 for further revenue information.

26. 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.

F-67 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

For the years ended December 31, 2016 and 2015, AUO estimated the remuneration to employees amounting to \$1,107,486 thousand and \$665,815 thousand, respectively. AUO accrued remuneration to employees based on the profits before income tax, excluding the remuneration to employees and directors of each period, multiplied the percentage resolved by board of directors. Remuneration to directors was estimated based on the amount expected to pay and recognized together with the remuneration to employees as costs for sales or 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 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.

Remuneration to employees and directors for 2016 in the amounts of \$1,107,486 thousand and \$24,226 thousand, respectively, in cash for payment have 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.

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

27. The Nature of Expenses

(a) Depreciation of property, plant and equipment

| | For the years ended December 31, | | |
|---|---|-------------|-------------|
| | 2016 | 2015 | 2014 |
| | (in thousands) | | |
| Recognized in cost of sales | \$34,305,760 | 42,558,430 | 51,354,308 |
| Recognized in operating expenses ⁽ⁱ⁾ | 4,228,015 | 4,293,057 | 4,702,383 |
| | \$38,533,775 | 46,851,487 | 56,056,691 |

Depreciation of investment property for the year ended December 31, 2014 in the amount of \$7,778 thousand was not included.

F-68 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

(b) Amortization of intangible assets

| | For the years ended December 31, | | |
|---|---|-------------|-------------|
| | 2016 | 2015 | 2014 |
| | (in thousands) | | |
| Recognized in cost of sales | \$1,159,465 | 892,566 | 834,842 |
| Recognized in operating expenses ⁽ⁱ⁾ | – | 1,796 | 3,417 |
| | \$1,159,465 | 894,362 | 838,259 |

(c) Employee benefits expenses

| | For the years ended December 31, | | |
|--|---|-------------|-------------|
| | 2016 | 2015 | 2014 |
| | (in thousands) | | |
| Salaries and wages | \$33,283,639 | 34,161,791 | 34,978,839 |
| Labor and health insurances | 1,804,900 | 1,879,782 | 1,702,698 |
| Retirement benefits | 2,098,013 | 2,351,109 | 2,178,226 |
| Other employee benefits | 3,024,372 | 2,910,576 | 2,283,959 |
| | \$40,210,924 | 41,303,258 | 41,143,722 |
| Employee benefits expense summarized by function | | | |
| Recognized in cost of sales | \$30,950,614 | 32,781,145 | 31,828,044 |
| Recognized in operating expenses ⁽ⁱ⁾ | 9,260,310 | 8,522,113 | 9,315,678 |
| | \$40,210,924 | 41,303,258 | 41,143,722 |

(i) Operating expenses are inclusive of selling and distribution expenses, general and administrative expenses and research and development expenses.

28. Other Income

| | For the years ended December 31, | | |
|---|---|-------------|-------------|
| | 2016 | 2015 | 2014 |
| | (in thousands) | | |
| Interest income on bank deposits | \$491,160 | 629,057 | 431,215 |
| Interest income on government bonds with reverse repurchase agreements and others | 3,382 | 43,581 | 37,175 |

Edgar Filing: AU OPTRONICS CORP - Form 20-F

| | | | |
|-----------------------------------|-------------|-----------|-----------|
| Rental income, net | 527,381 | 472,484 | 447,062 |
| Dividend income | 107,141 | 112,661 | 4,350 |
| Grants | 631,750 | 337,526 | 452,246 |
| Insurance compensation and others | 619,414 | 602,284 | 790,059 |
| | \$2,380,228 | 2,197,593 | 2,162,107 |

F-69 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

29. Other Gains and Losses

| | For the years ended December 31, | | |
|---|---|--------------------|-------------------|
| | 2016 | 2015 | 2014 |
| | (in thousands) | | |
| Foreign exchange gains, net | \$ 770,325 | 537,248 | 853,552 |
| Gains (losses) on valuation of financial instruments measured at fair value through profit or loss, net | (411,437) | 939,117 | (138,915) |
| Gains (losses) on disposals of investments and financial assets, net | (333,858) | (10,618) | 713,222 |
| Gains (losses) on disposals of property, plant and equipment, net | 24,278 | 585,196 | (307,630) |
| Gain on disposal of investment properties | – | – | 279,729 |
| Impairment losses on investments and financial assets, net | – | – | (107,494) |
| Impairment losses on property, plant and equipment and investment property, net | (34,733) | (7,026,226) | (2,263,540) |
| Gain on bargain purchase | – | – | 2,883,913 |
| Litigation losses and others | (940,248) | (5,003,037) | (2,714,640) |
| | \$ (925,673) | (9,978,320) | (801,803) |

30.

Finance Costs

| | For the years ended December 31, | | |
|--|---|------------------|------------------|
| | 2016 | 2015 | 2014 |
| | (in thousands) | | |
| Interest expense on long-term borrowings | \$2,577,416 | 2,540,724 | 3,034,502 |
| Interest expense on short-term borrowings and others | 130,471 | 50,299 | 1,010,631 |
| | \$2,707,887 | 2,591,023 | 4,045,133 |

F-70 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

31. 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) The components of income tax expense (benefit) for the years ended December 31, 2016, 2015 and 2014 were as follows:

| | For the years ended December 31, | | |
|--|---|-------------|-------------|
| | 2016 | 2015 | 2014 |
| | (in thousands) | | |
| Current income tax expense (benefit): | | | |
| Current year | \$1,601,384 | 1,561,194 | 2,501,230 |
| Adjustment to prior years and others | 879,337 | (208,609) | 43,041 |
| | 2,480,721 | 1,352,585 | 2,544,271 |
| Deferred tax expense (benefit): | | | |
| Temporary differences | (98,137) | (163,513) | 617,328 |
| Investment tax credit and tax losses carryforwards | 49,961 | (804,231) | 81,621 |
| | (48,176) | (967,744) | 698,949 |
| Total income tax expense | \$2,432,545 | 384,841 | 3,243,220 |

(b) Income taxes expense (benefit) recognized directly in other comprehensive income for the years ended December 31, 2016, 2015 and 2014 were as follows:

| | For the years ended | | |
|---|----------------------------|-------------|-------------|
| | December 31, | | |
| | 2016 | 2015 | 2014 |
| | (in thousands) | | |
| Items that will never be reclassified to profit or loss: | | | |
| Remeasurement of defined benefit obligations | \$- | (681) | (622) |
| Items that are or may be reclassified subsequently to profit or loss: | | | |
| Foreign operations – foreign currency translation differences | \$(230,202) | (16,050) | 86,211 |

F-71 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

Reconciliation of the expected income tax expense (benefit) calculated based on the ROC statutory income tax rate (c) compared with the actual income tax expense (benefit) as reported in the consolidated statements of comprehensive income for the years ended December 31, 2016, 2015 and 2014, was as follows:

| | For the years ended December 31, | | | | | |
|---|----------------------------------|-----------------------------|-----------|-----------------------------|----------|-----------------------------|
| | 2016 | | 2015 | | 2014 | |
| | Rate | Amount (in thousands) | Rate | Amount (in thousands) | Rate | Amount (in thousands) |
| Profit before income taxes | | \$ 11,185,902 | | \$ 7,598,850 | | \$ 19,980,459 |
| Income tax expense at AUO's statutory tax rate | 17.00 % | 1,901,603 | 17.00 % | 1,291,804 | 17.00 % | 3,396,678 |
| Effect of different subsidiaries income tax rate | 2.55 % | 285,661 | (21.08 %) | (1,601,591) | (5.48 %) | (1,095,789) |
| Share of profit of equity-accounted subsidiaries | (3.86 %) | (432,163) | (28.84 %) | (2,191,605) | (4.48 %) | (895,077) |
| Tax-exempt income | — | — | — | — | (2.43 %) | (485,715) |
| Effect of changes in statutory income tax rate | — | — | 4.02 % | 305,312 | (0.47 %) | (94,076) |
| Effect of change of unrecognized deductible temporary differences, tax losses carryforwards, and investment tax credits | (9.76 %) | (1,091,327) | 24.15 % | 1,835,311 | (0.55 %) | (110,481) |
| Net of non-taxable income and non-deductible expense | 2.47 % | 275,706 | 0.78 % | 58,821 | 1.78 % | 356,613 |
| Loss (gain) from domestic long-term investment | (1.51 %) | (168,484) | 5.41 % | 411,293 | 2.46 % | 491,914 |
| Tax on undistributed earnings, net | 6.84 % | 765,419 | 6.82 % | 518,356 | 8.55 % | 1,708,860 |
| Adjustments to prior year | 8.01 % | 895,861 | (3.14 %) | (238,555) | (0.15 %) | (30,666) |
| Others | — | 269 | (0.06 %) | (4,305) | — | 959 |
| Income tax expense | | \$ 2,432,545 | | \$ 384,841 | | \$ 3,243,220 |
| Effective tax rate | 21.74 % | | 5.06 % | | 16.23 % | |

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

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

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

| | Deferred tax assets | | Deferred tax liabilities | | Total | |
|---|----------------------------|--------------------------|---------------------------------|--------------------------|--------------------------|--------------------------|
| | December 31, 2016 | December 31, 2015 | December 31, 2016 | December 31, 2015 | December 31, 2016 | December 31, 2015 |
| | (in thousands) | | | | | |
| Investment tax credits | \$840,112 | 859,300 | – | – | 840,112 | 859,300 |
| Tax losses carryforwards | – | 49,961 | – | – | – | 49,961 |
| Unrealized loss and expenses | 182,443 | 188,581 | (3,495) | (940) | 178,948 | 187,641 |
| Inventories write-down | 69,938 | 22,848 | – | – | 69,938 | 22,848 |
| Foreign investment gains under the equity method | – | – | (1,091,023) | (1,174,733) | (1,091,023) | (1,174,733) |
| Remeasurement of defined benefit plans | – | 2,798 | – | – | – | 2,798 |
| Foreign operations – foreign currency translation differences | – | – | (81,847) | (312,049) | (81,847) | (312,049) |
| Unrealized gains on available -for-sale financial assets | – | – | – | (903) | – | (903) |
| Others | 644,361 | 864,365 | (653,899) | (779,631) | (9,538) | 84,734 |
| Deferred tax assets (liabilities) | \$1,736,854 | 1,987,853 | (1,830,264) | (2,268,256) | (93,410) | (280,403) |

(e) Changes in deferred tax assets and liabilities were as follows:

| | January 1, 2015 | Recognized in profit or loss | Recognized in other comprehensive income | Effect of exchange rate and others | December 31, 2015 | Recognized in profit or loss | Recognized in other comprehensive income | Effect of change in consolidated entities, rate and others | December 31, 2016 |
|------------------------------|-----------------|------------------------------|--|------------------------------------|-------------------|------------------------------|--|--|-------------------|
| | (in thousands) | | | | | | | | |
| Investment tax credits | \$– | 829,972 | – | 29,328 | 859,300 | – | – | (19,188) | 840,112 |
| Tax losses carryforwards | 75,701 | (25,740) | – | – | 49,961 | (49,961) | – | – | – |
| Unrealized loss and expenses | 178,087 | 10,088 | – | (534) | 187,641 | 4,256 | – | (12,949) | 178,948 |
| Inventories write-down | 8,777 | 14,071 | – | – | 22,848 | 49,658 | – | (2,568) | 69,938 |

Edgar Filing: AU OPTRONICS CORP - Form 20-F

| | | | | | | | | | |
|---|---------------|---------|--------|----------|-------------|----------|---------|----------|-------------|
| Foreign investment losses (gains) under the equity method | (1,263,537) | 88,804 | – | – | (1,174,733) | 83,710 | – | – | (1,091,023) |
| Remeasurement of defined benefit plans | 2,117 | – | 681 | – | 2,798 | – | – | (2,798) | – |
| Foreign operations – foreign currency translation differences | (328,099) | – | 16,050 | – | (312,049) | – | 230,202 | – | (81,847) |
| Unrealized gains on available-for-sale financial assets | (908) | – | – | 5 | (903) | – | – | 903 | – |
| Others | 58,110 | 50,549 | – | (23,925) | 84,734 | (39,487) | – | (54,785) | (9,538) |
| Total | \$(1,269,752) | 967,744 | 16,731 | 4,874 | (280,403) | 48,176 | 230,202 | (91,385) | (93,410) |

F-73 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

- (f) Unrecognized deferred tax assets and unrecognized deferred tax liabilities

Deferred tax assets have not been recognized in respect of the following items.

| | December 31, | |
|---|---------------------|-------------------|
| | 2016 | 2015 |
| | (in thousands) | |
| Unused investment tax credits | \$47,268 | 67,490 |
| Unused tax losses carryforwards | 33,392,529 | 31,176,866 |
| Goodwill | – | 132,461 |
| Inventories write-down | 536,102 | 858,708 |
| Difference in depreciation expense for tax and financial purposes | 2,471,376 | 3,241,626 |
| Others | 3,545,013 | 7,094,603 |
| | \$39,992,288 | 42,571,754 |

The unused investment tax credits with no expiration for the year ended December 31, 2016 from AUST and ACMK were \$6,513 thousand and \$40,755 thousand, respectively.

Tax loss carryforwards is utilized in accordance with the relevant jurisdictional tax laws and regulations. Net losses from foreign subsidiaries are approved by tax authorities in respective jurisdiction to offset future taxable profits. Under the ROC tax laws, approved tax losses of AUO and its domestic subsidiaries can be carried forward for 10 years to offset future taxable profits.

As of December 31, 2016, 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 | \$3,711,751 | 2017 ~ 2019 |
| 2010 | 670,176 | 2019 |

Edgar Filing: AU OPTRONICS CORP - Form 20-F

| | | |
|------------------|--------------|-------------|
| 2011 | 8,774,308 | 2020~ |
| 2012 | 9,758,395 | 2017 ~ 2022 |
| 2013 | 1,825,890 | 2018 ~ 2023 |
| 2014 | 2,187,832 | 2019 ~ 2024 |
| 2015 | 3,956,566 | 2020 ~ 2025 |
| 2016 (estimated) | 2,507,611 | 2021 ~ 2026 |
| | \$33,392,529 | |

As of December 31, 2016 and 2015, the aggregate taxable temporary differences associated with investments in subsidiaries not recognized as deferred tax liabilities amounted to \$448,513 thousand and \$673,044 thousand, respectively.

F-74 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(g) Assessments by the tax authorities

As of December 31, 2016, the tax authorities had completed the examination of income tax returns of AUO through 2014.

(h) The integrated income tax system

The balance of the imputation credit account of AUO as of December 31, 2016 and 2015 was \$3,878,285 thousand and \$4,025,832 thousand, respectively.

The estimated and actual creditable ratios for distribution of AUO's earnings under Taiwan Financial Reporting Standards of 2016 and 2015, which is for ROC resident shareholders, were 17.97% and 26.29%, respectively.

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

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.

32. Earnings per Share

(a) Basic earnings per share for the years ended December 31, 2016, 2015 and 2014 were calculated as follows:

| | For the years ended December 31, | | |
|---|---|-------------|-------------|
| | 2016 | 2015 | 2014 |
| | (in thousands, except for per share data) | | |
| Profit attributable to AUO's shareholders | \$9,965,129 | 7,242,170 | 16,366,629 |
| | 9,624,245 | 9,624,245 | 9,624,245 |

Weighted-average number of common shares outstanding during the year
(basic)

| | | | |
|--------------------------|--------|------|------|
| Basic earnings per share | \$1.04 | 0.75 | 1.70 |
|--------------------------|--------|------|------|

F-75 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

(b) Diluted earnings per share for the years ended December 31, 2016, 2015 and 2014 were calculated as follows:

| | For the years ended December 31, | | |
|---|---|-------------|-------------|
| | 2016 | 2015 | 2014 |
| | (in thousands, except for per share data) | | |
| Profit attributable to AUO's shareholders | \$9,965,129 | 7,242,170 | 16,366,629 |
| Effect of convertible bonds | – | (340,686) | – |
| Profit used in the computation of diluted earnings per share | \$9,965,129 | 6,901,484 | 16,366,629 |
| Weighted-average number of common shares outstanding during the year (including the effect of dilutive potential common stock): | | | |
| Weighted-average number of common shares (basic) | 9,624,245 | 9,624,245 | 9,624,245 |
| Effect of employee remuneration in stock | 107,547 | 67,731 | 74,138 |
| Effect of convertible bonds | – | 199,894 | – |
| Weighted-average number of common shares (diluted) | 9,731,792 | 9,891,870 | 9,698,383 |
| Diluted earnings per share | \$1.02 | 0.70 | 1.69 |

The ECB was not taken into above consideration for the calculation of diluted earnings per share for the year ended December 31, 2014 due to its anti-dilutive effect.

33. Financial Instruments**(1) 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, 2016 and 2015 were as follows:

| | December 31, 2016 | | December 31, 2015 | |
|-------------------|--------------------------|-------------------|--------------------------|-------------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Financial assets: | (in thousands) | | | |

Edgar Filing: AU OPTRONICS CORP - Form 20-F

| | | | | |
|---|-------------|-------------|-------------|-------------|
| Available-for-sale financial assets noncurrent | \$3,030,278 | 3,030,278 | 2,148,141 | 2,148,141 |
| Foreign currency forward contracts | 65,669 | 65,669 | 214,194 | 214,194 |
| Refundable deposits | 133,221 | 133,221 | 128,727 | 128,727 |
| Financial liabilities: | | | | |
| Long-term borrowings (including current installments) | 124,262,620 | 124,262,620 | 107,645,168 | 107,645,168 |
| Foreign currency forward contracts | 896,998 | 896,998 | 553,663 | 553,663 |
| Interest rate swap contracts | 3,540 | 3,540 | 10,739 | 10,739 |
| Guarantee deposits received | 838,263 | 838,263 | 913,804 | 913,804 |

F-76 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- (2) Valuation techniques and assumptions applied in fair value measurement

The fair values of financial assets and financial liabilities with standard terms and conditions and traded in active markets are determined with reference to quoted market prices. Except the aforementioned, the fair values of other financial assets and financial liabilities are measured using the generally accepted pricing models based on discounted cash flow analysis.

Descriptions of the valuation methodologies, including the valuation techniques and the input(s) used in the fair value measurements for assets and liabilities are discussed as follows:

The fair values of financial assets which were publicly traded on active markets were determined with reference to quoted market prices.

Those non-publicly traded equity securities which are included in available-for-sale financial assets, are determined using an analysis of various factors. These factors include the private company's current operating and future expected performance, as well as changes in the industry and market prospects.

For derivative financial instruments such as foreign currency forward contracts and interest rate swap contracts, fair values are estimated using industry standard valuation models. These models use market-based observable inputs including interest rate curves, foreign exchange rates, and forward and spot prices for currencies to project fair value.

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.

F-77 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

- (3) Fair value measurements recognized in the consolidated statements of financial position

The Company determines fair value based on assumptions that market participants would use in pricing an asset or 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 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.

Financial assets and liabilities measured at fair value on a recurring basis were as follows:

| | Level 1 | Level 2 | Level 3 | Total |
|--|----------------|---------|---------|-----------|
| | (in thousands) | | | |
| December 31, 2016 | | | | |
| Assets: | | | | |
| Available-for-sale financial assets noncurrent | \$2,836,696 | – | 193,582 | 3,030,278 |
| Foreign currency forward contracts | – | 65,669 | – | 65,669 |
| Liabilities: | | | | |
| Foreign currency forward contracts | – | 896,998 | – | 896,998 |
| Interest rate swap contracts | – | 3,540 | – | 3,540 |

December 31, 2015

Assets:

Edgar Filing: AU OPTRONICS CORP - Form 20-F

| | | | | |
|--|-------------|---------|--------|-----------|
| Available-for-sale financial assets noncurrent | \$2,077,203 | – | 70,938 | 2,148,141 |
| Foreign currency forward contracts | – | 214,194 | – | 214,194 |
| Liabilities: | | | | |
| Foreign currency forward contracts | – | 553,663 | – | 553,663 |
| Interest rate swap contracts | – | 10,739 | – | 10,739 |

There were no transfers between Level 1 and 2 for the years ended December 31, 2016 and 2015.

F-78 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

- (4) Reconciliation for recurring fair value measurements categorized within Level 3

Changes in Level 3 fair value measurements for the years ended December 31, 2016, 2015 and 2014 were as follows:

| | Available-for-sale financial assets without quoted market prices (in thousands) |
|---|---|
| Balance at January 1, 2014 | \$ 300,719 |
| Net realized/unrealized gains included in: | |
| Profit or loss | 868,742 |
| Other comprehensive income | — |
| Purchases | 1,681 |
| Disposals | (1,122,214) |
| Effect of change in exchange rate | (11,583) |
| Balance at December 31, 2014 | 37,345 |
| Net realized/unrealized gains included in: | |
| Profit or loss | 99,517 |
| Other comprehensive income | — |
| Purchases | 33,593 |
| Disposals | (99,517) |
| Balance at December 31, 2015 | 70,938 |
| Net realized/unrealized losses included in: | |
| Profit or loss | (686) |
| Other comprehensive income | — |
| Purchases | 66,948 |
| Transfer in | 56,400 |
| Effect of change in exchange rate | (18) |
| Balance at December 31, 2016 | \$ 193,582 |

Change in unrealized losses, which were included in profit or loss, relating to those available-for-sale assets without (i) quoted market prices held at December 31, 2016, 2015 and 2014 were \$686 thousand, nil and \$107,494 thousand, respectively.

F-79 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- (5) Description of valuation processes for fair value measurements categorized within Level 3

Fair value measurements of assets and liabilities are determined using various valuation techniques, including the discounted cash flows and other valuation models. As deemed necessary, the Company utilizes the assistance of external experts in performing the valuation and the development of such valuation models, which include the analysis and comparison of model valuation results to market transactions and market data. The Company's management reviews the policy and procedures of fair value measurements annually, or more frequently as deemed necessary. When a fair value measurement involves one or more significant inputs that are unobservable, the Company monitors the valuation process discreetly and examines whether the inputs are used the most relevant market data available.

The Company holds certain non-publicly listed stocks which are not traded in an active market. The Company reviews the current operating and future expected performance of these private companies based on evaluation of the latest available financial statements, as well as changes in the industry and market prospects based on publicly available information. An improvement (decline) in the operating and future expected performance results in a higher (lower) fair value measurement. Generally, changes in the industry and market prospects are directionally consistent with the changes in operating and future performance of the companies.

34. 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.

F-80 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The Company is exposed to the following risks due to usage of financial instruments:

(1) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's exposures to credit risk are mainly from:

- (i) The carrying amount of financial assets recognized in the consolidated statements of financial position.
- (ii) The amount of contingent liabilities as a result from the Company providing financial guarantee to its customers.

The Company's potential credit risk is derived primarily from cash in bank, cash equivalents and trade receivables. The Company deposits its cash and cash equivalent investments with various reputable financial institutions of high credit quality. The Company also entered into reverse repurchase agreements with securities firms or banks in Taiwan covering government bonds that classified as cash equivalents. There should be no major concerns for the performance capability of trading counterparts. Management performs periodic evaluations of the relative credit standing of these financial institutions and limits the amount of credit exposure with any one institution. Management believes that there is a limited concentration of credit risk in cash and cash equivalent investments.

The majority of the Company's customers are in high technology industries. Management continuously evaluates and controls the credit quality, credit limit and financial strength of its customers to ensure any overdue receivables are taken necessary procedures. The Company also flexibly makes use of prepayments, accounts receivable factoring and credit insurance as credit enhancement instruments. If necessary, the Company will request collaterals or assurance from its customers in order to reduce the credit risk from particular customers.

Additionally, on the reporting date, the Company reviews the recoverability of its receivables to provide appropriate valuation allowances. Consequently, management believes there is a limited concentration of its credit risk.

For the years ended December 31, 2016 and 2015, the Company's five largest customers accounted for 36.3% and 36.5%, respectively, of the Company's consolidated net revenue. There is no other significant concentration of credit

risk.

Refer to note 9 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.

F-81 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

(2)

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset due to an economic downturn or unbalanced demand and supply resulting in a significant drop in product prices. The Company's approach to managing liquidity is to ensure, as far as possible, that it always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions.

Liquidity risk of the Company is monitored through its corporate treasury department which tracks the development of the actual cash flow position for the Company and uses input from a number of sources in order to forecast the overall liquidity position both on a short and long term basis. Corporate treasury invests surplus cash in money market deposits with appropriate maturities to ensure sufficient liquidity is available to meet liabilities when due, without incurring unacceptable losses or risking damage to the Company's reputation.

The following, except for payables (including related parties) and equipment and construction payable, are the contractual maturities of other financial liabilities. The amounts include estimated interest payments (except for short-term borrowings) but exclude the impact of netting agreements.

| | Contractual cash flows (in thousands) | 2017.1.1~ 2017.12.31 | 2018.1.1~ 2019.12.31 | 2020.1.1~ 2021.12.31 | 2022 and thereafter |
|---|---|---------------------------------|---------------------------------|---------------------------------|--------------------------------|
| 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 | 3,446 | 3,446 | — | — | — |
| | \$135,299,596 | 22,528,519 | 75,426,560 | 27,669,469 | 9,675,048 |

F-82 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

| | Contractual cash flows (in thousands) | 2016.1.1~ 2016.12.31 | 2017.1.1~ 2018.12.31 | 2019.1.1~ 2020.12.31 | 2021 and thereafter |
|---|---|---------------------------------|---------------------------------|---------------------------------|--------------------------------|
| December 31, 2015 | | | | | |
| Non-derivative financial liabilities | | | | | |
| Short-term borrowings | \$1,593,714 | 1,593,714 | – | – | – |
| Long-term borrowings (including current installments) | 111,672,765 | 40,803,750 | 52,961,785 | 17,812,457 | 94,773 |
| Refundable deposits | 913,804 | 109,831 | – | 2,554 | 801,419 |
| Derivative financial instruments | | | | | |
| Foreign currency forward contracts inflows | (28,576,545) | (28,576,545) | – | – | – |
| Foreign currency forward contracts outflows | 28,857,477 | 28,857,477 | – | – | – |
| Interest rate swap contracts | 9,227 | 6,975 | 2,252 | – | – |
| | \$114,470,442 | 42,795,202 | 52,964,037 | 17,815,011 | 896,192 |

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

As of December 31, 2016, the Company's total current assets exceeded its total current liabilities by \$45,315 thousand. Management believes the Company's existing unused credit facilities under its existing loan agreements, together with net cash flows expected to be generated from its operating activities, will be sufficient for the Company to fulfill its payment obligations over the next twelve months. Therefore, management believes that the Company does not have significant liquidity risk.

(3)

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, which will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable range, while optimizing the return.

The Company buys and sells derivatives, and also incurs financial 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.

F-83 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

(i) Currency risk

The Company is exposed to currency risk on foreign currency denominated financial assets and liabilities arising from operating, financing and investing activities such that the Company uses forward exchange contracts to hedge its currency risk. Gains and losses derived from the foreign currency fluctuations on underlying assets and liabilities are likely to offset. However, transactions of derivative financial instruments help minimize the impact of foreign currency fluctuations, but the risk cannot be fully eliminated.

The Company periodically examines portions exposed to currency risks for individual asset and liability denominated in foreign currency and uses forward contracts as hedging instruments to hedge positions exposed to risks. The contracts have maturity dates that do not exceed six months, and do not meet the criteria for hedge accounting.

A. Exposure of currency risk

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

| | Foreign currency amounts (in thousands) | Exchange rate | NTD (in thousands) |
|--------------------------|--|--------------------------|---------------------------------|
| <u>December 31, 2016</u> | | | |
| Financial assets | | | |
| Monetary items | | | |
| USD | \$2,287,148 | 32.312 | 73,902,326 |
| JPY | 20,236,416 | 0.2773 | 5,611,558 |
| EUR | 106,660 | 33.895 | 3,615,241 |
| Non-monetary items | | | |
| USD | 3,000 | 32.312 | 96,936 |
| RMB | 20,758 | 4.6391 | 96,298 |
| Financial liabilities | | | |
| Monetary items | | | |
| USD | 1,099,799 | 32.312 | 35,536,705 |
| JPY | 26,820,343 | 0.2773 | 7,437,281 |

Edgar Filing: AU OPTRONICS CORP - Form 20-F

| | | | |
|-----------------------|-------------|--------|------------|
| EUR | 987 | 33.895 | 33,454 |
| December 31, 2015 | | | |
| Financial assets | | | |
| Monetary items | | | |
| USD | \$1,773,639 | 33.05 | 58,618,769 |
| JPY | 42,093,750 | 0.2743 | 11,546,316 |
| EUR | 69,627 | 36.12 | 2,514,927 |
| Non-monetary items | | | |
| USD | 221,321 | 33.05 | 7,314,659 |
| RMB | 20,285 | 5.0928 | 103,307 |
| Financial liabilities | | | |
| Monetary items | | | |
| USD | 769,280 | 33.05 | 25,424,704 |
| JPY | 27,607,729 | 0.2743 | 7,572,800 |
| EUR | 1,274 | 36.12 | 46,017 |

F-84 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****B. Sensitivity analysis**

The Company's exposure to foreign currency risk arises 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, JPY and RMB at December 31, 2016 and 2015, while all other variables were remained constant, would have increased or decreased the net profit before tax for the years ended December 31, 2016 and 2015 as follows:

| | For the years ended | |
|--------------------|----------------------------|-------------|
| | December 31, | |
| | 2016 | 2015 |
| | (in thousands) | |
| 1% of depreciation | \$401,217 | 396,365 |
| 1% of appreciation | (401,217) | (396,365) |

C. Foreign exchange gain (loss) on monetary items

With varieties of functional currencies within the consolidated entities of the Company, the Company disclosed foreign exchange gain (loss) on monetary items in aggregate. The aggregate of realized and unrealized foreign exchange gains for the years ended December 31, 2016, 2015 and 2014 were \$770,325 thousand, \$537,248 thousand and \$853,552 thousand, respectively.

F-85 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

(ii) Interest rate risk

The Company's exposure to changes in interest rates is mainly from floating-rate long-term debt obligations. Any change in interest rates will cause the effective interest rates of long-term borrowings to change and thus cause the future cash flows to fluctuate over time. The Company enters into and designates interest rate swaps as hedges of the variability in cash flows attributable to interest rate risk.

Assuming the amount of floating-rate debts at the end of the reporting period had been outstanding for the entire year and all other variables were remained constant, an increase or a decrease in the interest rate by 0.25% would have resulted in a decrease or an increase in the net profit before tax for the years ended December 31, 2016, 2015 and 2014 by \$307,464 thousand, \$262,936 thousand and \$308,184 thousand, respectively.

(iii) Equity price risk

See note 8 for disclosure of equity price risk analysis.

35. 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, | | | |
|------------------------|---------------------|-------------|-----|---|
| | 2016 | 2015 | | |
| | (in thousands) | | | |
| Total liabilities | \$229,024,452 | 218,576,058 | | |
| Total equity | 176,836,313 | 180,661,073 | | |
| Interest-bearing debts | 124,789,343 | 109,238,882 | | |
| Debt-to-equity ratio | 130 | % | 121 | % |

Edgar Filing: AU OPTRONICS CORP - Form 20-F

| | | | | |
|---|----|---|----|---|
| Interest-bearing debt-to-equity ratio | 71 | % | 60 | % |
| Net debt-to-equity ratio ⁽¹⁾ | 25 | % | 17 | % |

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

F-86 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

36. Related-party Transactions

AUO is the ultimate parent company of the Company's subsidiaries. All significant inter-company transactions and balances are eliminated in the consolidated financial statements and are not disclosed in the note. The significant related party transactions were as follows:

(a) Compensation to key management personnel

Key management personnel's compensation comprised:

| | For the years ended December 31, | | |
|------------------------------|---|----------------|----------------|
| | 2016 | 2015 | 2014 |
| | (in thousands) | | |
| Short-term employee benefits | \$354,883 | 365,310 | 366,698 |
| Post-employment benefits | 1,937 | 2,168 | 3,064 |
| | \$356,820 | 367,478 | 369,762 |

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

| | (1) | | | Sales | |
|---------------------------|----------------------------------|-------------------|-------------------|---|------------------|
| | Sales | | | Accounts receivable from related parties | |
| | For the years ended December 31, | | | December 31, | |
| | 2016 | 2015 | 2014 | 2016 | 2015 |
| | (in thousands) | | | | |
| Associates ⁽¹⁾ | \$554,889 | 8,745,681 | 18,187,621 | 58,755 | 37,233 |
| Joint ventures | 4,105,390 | 5,453,152 | 4,484,111 | – | 434,978 |
| Others ⁽¹⁾ | 12,767,161 | 6,005,175 | – | 2,474,469 | 2,020,268 |
| | \$17,427,440 | 20,204,008 | 22,671,732 | 2,533,224 | 2,492,479 |

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.

| | (2) | | | Purchases | |
|---------------------------|----------------------------------|------------|------------|---|-----------|
| | Purchases | | | Notes and accounts payable to related parties | |
| | For the years ended December 31, | | | December 31, | |
| | 2016 | 2015 | 2014 | 2016 | 2015 |
| | (in thousands) | | | | |
| Associates ⁽¹⁾ | \$9,886,487 | 19,563,609 | 42,772,402 | 3,734,927 | 4,089,418 |
| Joint ventures | 3,754,404 | 4,786,344 | 2,854,654 | – | 373,151 |
| Others ⁽¹⁾ | 18,317,386 | 10,587,095 | – | 5,088,138 | 4,863,602 |
| | \$31,958,277 | 34,937,048 | 45,627,056 | 8,823,065 | 9,326,171 |

F-87 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

The payment terms for purchases from related parties were 30 to 120 days. The pricing and payment terms with related parties were not materially different from those with third parties.

(3) Acquisition of property, plant and equipment

| | For the years ended | | |
|---------------------------|----------------------------|-------------|-------------|
| | December 31, | | |
| | 2016 | 2015 | 2014 |
| | (in thousands) | | |
| Associates ⁽¹⁾ | \$7,391 | 368,171 | 5,910 |
| Others ⁽¹⁾ | – | 326 | – |
| | \$7,391 | 368,497 | 5,910 |

(4) Disposal of property, plant and equipment and others

| | Proceeds from disposal | | |
|---------------------------|-------------------------------|-------------|-------------|
| | For the years ended | | |
| | December 31, | | |
| | 2016 | 2015 | 2014 |
| | (in thousands) | | |
| Associates ⁽¹⁾ | \$926 | – | 1,063,112 |
| Joint ventures | – | 8 | – |
| Others ⁽¹⁾ | – | 1,790 | – |
| | \$926 | 1,798 | 1,063,112 |

| | Gains on disposal | | |
|---------------------------|----------------------------|-------------|-------------|
| | For the years ended | | |
| | December 31, | | |
| | 2016 | 2015 | 2014 |
| | (in thousands) | | |
| Associates ⁽¹⁾ | \$22 | – | 280,365 |
| Joint ventures | – | 8 | – |
| Others ⁽¹⁾ | – | 36 | – |
| | \$22 | 44 | 280,365 |

(5)

Other related party transactions

| | Other receivables due from related parties December 31, 2016 2015 (in thousands) | |
|---------------------------|--|--------|
| Associates ⁽¹⁾ | \$10,970 | 7,429 |
| Joint ventures | – | 3,701 |
| Others ⁽¹⁾ | 23,318 | 16,828 |
| | \$34,288 | 27,958 |

F-88 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

**Other payables
due to related
parties
December 31,
2016 2015**
(in thousands)

| | | |
|---------------------------|----------|--------|
| Associates ⁽¹⁾ | \$16,218 | 7,875 |
| Joint ventures | 406 | 1,639 |
| Others ⁽¹⁾ | 10,717 | 19,500 |
| | \$27,341 | 29,014 |

**Rental income
For the years ended
December 31,
2016 2015 2014**
(in thousands)

| | | | |
|---------------------------|-----------|---------|---------|
| Associates ⁽¹⁾ | \$31,858 | 61,159 | 138,676 |
| Joint ventures | 6,611 | 6,659 | 1,701 |
| Others ⁽¹⁾ | 90,032 | 47,271 | – |
| | \$128,501 | 115,089 | 140,377 |

**Administration and other
income
For the years ended
December 31,
2016 2015 2014**
(in thousands)

| | | | |
|---------------------------|----------|--------|--------|
| Associates ⁽¹⁾ | \$15,083 | 21,132 | 17,891 |
| Joint ventures | 8,301 | 11,538 | 10,555 |
| Others ⁽¹⁾ | 5,174 | 2,889 | – |
| | \$28,558 | 35,559 | 28,446 |

**Rental and other expenses
For the years ended
December 31,
2016 2015 2014**
(in thousands)

| | | | |
|---------------------------|-----------|---------|---------|
| Associates ⁽¹⁾ | \$36,499 | 104,415 | 259,059 |
| Joint ventures | 21,821 | 1,168 | 3 |
| Others ⁽¹⁾ | 55,131 | 40,546 | – |
| | \$113,451 | 146,129 | 259,062 |

In May 2015, the Company ceased having significant influence over Qisda, as such Qisda was no longer an ⁽¹⁾associate. However, Qisda and its subsidiaries still remained as a related party and the related transaction amounts starting from June 2015 are included in the “Others” category.

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.

F-89 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

For the years ended December 31, 2016, 2015 and 2014, the Company had received cash dividends from related parties of \$307,481 thousand, \$380,433 thousand and \$321,233 thousand, respectively.

37. Pledged Assets

The carrying amounts of the assets which the Company pledged as collateral were as follows:

| Pledged assets | Pledged to secure | December 31, | |
|--|--|----------------|-------------|
| | | 2016 | 2015 |
| | | (in thousands) | |
| Restricted cash in banks ⁽ⁱ⁾ | R&D projects, oil purchases and guarantees for foreign labors and customs duties | \$93,379 | 56,453 |
| Land and building (including investment property) | Long-term borrowings | 52,076,840 | 69,268,103 |
| Machinery, equipment and prepayments for equipment | Long-term borrowings | 27,058,442 | 35,722,519 |
| | | \$79,228,661 | 105,047,075 |

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

38. Contingent Liabilities and Commitments

The significant commitments and contingencies of the Company as of December 31, 2016, in addition to those disclosed in other notes to the consolidated financial statements, were as follows:

(a) Outstanding letters of credit

As of December 31, 2016, the Company had the following outstanding letters of credit for the purpose of purchasing machinery and equipment and materials:

| <u>Currency</u> | December 31, 2016 (in thousands) |
|-----------------|--|
| USD | 5,165 |
| JPY | 7,052,585 |

The letters of credit are irrevocable and will expire upon the Company's payment of the related obligations.

F-90 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(b) Technology licensing agreements

Starting 1998, AUO has entered into technical collaboration, patent licensing, and/or patent cross licensing agreements with Fujitsu Display Technologies Corp. (subsequently assumed by Fujitsu Limited), Toppan Printing Co., Ltd. (“Toppan Printing”), Semiconductor Energy Laboratory Co., Ltd., Japan Display Inc. (formerly Japan Display East Inc./Hitachi Displays, Ltd.), Panasonic Liquid Crystal Display Co., Ltd. (formerly IPS Alpha Technology Ltd.), LG Display Co., Ltd., Sharp Corporation, Samsung Electronics Co., Ltd., Hydis Technologies Co., Ltd. and others. AUO believes that it is in compliance with the terms and conditions of the aforementioned agreements.

(c) Purchase commitments

In April 2011, AUO signed a long-term materials supply agreement with Korean OCI Company Ltd. (“OCI”), under which, AUO and OCI agreed on the supply of certain polysilicon. Purchase prices were determined and adjusted through negotiation on each order basis between both parties. AUO paid proportionate prepayments in three installments to OCI in 2011. In May 2015 and December 2016, the supply agreement was amended and the amended effective term is from April 15, 2011 to December 31, 2020.

Starting from 2006, DPTW has entered into a long-term materials supply agreement with Evonik Forhouse Optical Polymers Corp. (“EFOP”), under which, DPTW and EFOP agreed on the supply of certain optical-grade molding compounds at negotiated prices and quantities.

As of December 31, 2016, significant outstanding purchase commitments for construction in progress, property, plant and equipment totaled \$20,056,931 thousand.

(d) Litigation

(1) Investigation for alleged violation of antitrust and competition laws

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 by September 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.

F-91 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(2) Antitrust civil actions lawsuits in the United States and other jurisdictions

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 March 22, 2017, AUO and AUUS have reached settlement agreements with the relevant plaintiffs, including a settlement with the state of Illinois in April 2016 and a settlement with the Costco Wholesale Corporation in September 2016.

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 decision of the Israeli Court is appealable but subject to the permission by the Supreme Court.

The ultimate outcome of these matters is uncertain and will depend on further court proceedings.

(3) Others

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 AUSB to SPTL at the price of US\$170,100 thousand. Please see note 11(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.

In addition to the matters described above, the Company is also a party to other litigations or proceedings that arise during the ordinary course of business. Except as mentioned above, the Company, to its knowledge, is not involved as a defendant in any material litigation or proceeding which could be expected to have a material adverse effect on the Company’s business or results of operations.

F-92 (Continued)

Table of Contents

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The Company has made certain provisions with respect to certain of the above lawsuits as the management deems appropriate, considering factors such as the nature of the litigation or claims, the materiality of the amount of possible loss, the progress of the cases and the opinions or views of legal counsel and other advisors. However, for certain cases described above where the legal proceedings and/or lawsuits are in their early stage or where management does not have sufficient information for assessment of the financial exposure, management is unable to determine if the final outcome of the cases will be unfavorable to the Company and/or to estimate the potential losses. The ultimate resolution of the legal proceedings and/or lawsuits cannot be predicted with certainty. While management intends to defend certain of the lawsuits described above vigorously, there is a possibility that one or more legal proceedings or lawsuits may result in an unfavorable outcome to the Company.

Management will reassess all litigation and claims at each reporting date based on the facts and circumstances that exist at that time, and will make additional provisions or adjustments to previous provisions, as considered necessary under IFRS. Such additional provisions or adjustments may have a material adverse effect on the Company's business, results of operations and future prospects. See note 20 for further information about legal provisions and the movements in those legal provisions.

(e) Others

There have been environmental proceedings relating to the development project of the Central Taiwan Science Park in Houli, Taichung, which AUO's second 8.5-generation fab is located at and which has been established since 2010. The proceedings were initiated by six residents in Houli District, Taichung City (the "Plaintiffs") to object the administrative dispositions of the environmental assessment and development approval issued in 2010 by the Environmental Protection Administration 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 Environmental Protection Administration 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. Primarily in light of the settlement and based on the principle of protection of reliance under the Administrative law and in light of the relevant approvals issued by the government to the Company, 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.

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

39. Segment, Geographic and Revenue Information

(a) 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.

The Company's operating segment information for the years ended December 31, 2016, 2015 and 2014 was as follows:

| | For the year ended December 31, 2016 | | |
|---|---|--------------|-----------------------|
| | Display | Solar | Total segments |
| | (in thousands) | | |
| Net revenue from external customers | \$304,826,682 | 24,262,354 | 329,089,036 |
| Depreciation and amortization | \$37,860,430 | 1,832,810 | 39,693,240 |
| Inventory write-down | \$3,288,067 | 385,146 | 3,673,213 |
| Segment profit (loss) ⁽ⁱ⁾ | \$12,703,548 | (365,092) | 12,338,456 |
| Other income | | | 2,380,228 |
| Other gains and losses | | | (925,673) |
| Finance costs | | | (2,707,887) |
| Share of profit of equity-accounted investees | | | 100,778 |
| Consolidated profit before income tax | | | \$11,185,902 |
| | | | |
| | For the year ended December 31, 2015 | | |
| | Display | Solar | Total segments |
| | (in thousands) | | |
| Net revenue from external customers | \$333,392,294 | 26,954,200 | 360,346,494 |
| Depreciation and amortization | \$44,790,075 | 2,955,774 | 47,745,849 |
| Inventory write-down | \$5,607,166 | 54,100 | 5,661,266 |
| Segment profit (loss) ⁽ⁱ⁾ | \$19,225,952 | (1,704,804) | 17,521,148 |
| Other income | | | 2,197,593 |
| Other gains and losses | | | (9,978,320) |
| Finance costs | | | (2,591,023) |

Edgar Filing: AU OPTRONICS CORP - Form 20-F

| | |
|---|-------------|
| Share of profit of equity-accounted investees | 449,452 |
| Consolidated profit before income tax | \$7,598,850 |

F-94 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

| | For the year ended December 31, 2014 | | |
|---|---|--------------|-----------------------|
| | Display | Solar | Total segments |
| | (in thousands) | | |
| Net revenue from external customers | \$384,335,201 | 23,843,549 | 408,178,750 |
| Depreciation and amortization | \$53,151,352 | 3,751,376 | 56,902,728 |
| Inventory write-down | \$4,678,921 | 52,398 | 4,731,319 |
| Segment profit (loss) ⁽ⁱ⁾ | \$24,422,504 | (2,257,081) | 22,165,423 |
| Other income | | | 2,162,107 |
| Other gains and losses | | | (801,803) |
| Finance costs | | | (4,045,133) |
| Share of profit of equity-accounted investees | | | 499,865 |
| Consolidated profit before income tax | | | \$19,980,459 |

(i) There were no intersegment revenues or other transactions between operating segments for the years ended December 31, 2016, 2015 and 2014.

(b) **Geographic information**

The geographic breakdown for the years ended December 31, 2016, 2015 and 2014 was as follows:

(1) **Net revenue from external customers**

| <u>Region</u> | For the years ended December 31, | | |
|---------------|---|-------------|-------------|
| | 2016 | 2015 | 2014 |
| | (in thousands) | | |
| PRC | \$115,110,137 | 123,476,526 | 135,102,406 |
| Taiwan | 104,059,325 | 119,626,443 | 135,420,498 |
| Japan | 33,346,041 | 37,903,886 | 37,410,376 |
| Singapore | 31,776,305 | 30,210,618 | 34,237,681 |
| Malaysia | 9,168,062 | 10,455,953 | 12,951,982 |
| Others | 35,629,166 | 38,673,068 | 53,055,807 |
| | \$329,089,036 | 360,346,494 | 408,178,750 |

(2) **Consolidated noncurrent assets⁽ⁱⁱ⁾**

| | December 31, | |
|------------------------------|---------------------|-------------|
| | 2016 | 2015 |
| <u>Region</u> (in thousands) | | |
| Taiwan | \$ 148,829,366 | 160,343,424 |
| PRC | 68,356,214 | 43,123,629 |
| Others | 15,383,473 | 17,185,024 |
| | \$ 232,569,053 | 220,652,077 |

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

F-95 (Continued)

Table of Contents**AU OPTRONICS CORP. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

(c) Major customer information

For the years ended December 31, 2016, 2015 and 2014, sales to individual customers representing greater than 10% of consolidated net revenue were as follows:

| | For the years ended December 31, | | | | | |
|------------|---|----------|-------------|----------|-------------|----------|
| | 2016 | % | 2015 | % | 2014 | % |
| | (in thousands) | | | | | |
| Customer A | \$37,306,348 | 11 | 42,173,089 | 12 | 41,628,604 | 10 |

(d) Product information

The consolidated net revenue by principal products was as follows:

| | For the years ended December 31, | | |
|---|---|-------------|-------------|
| | 2016 | 2015 | 2014 |
| | (in thousands) | | |
| Products for Televisions | \$140,519,923 | 159,534,820 | 171,399,601 |
| Products for Mobile PCs | 52,721,494 | 52,488,064 | 75,353,605 |
| Products for Mobile Devices | 14,170,637 | 23,622,445 | 34,412,465 |
| Products for Monitors | 44,668,054 | 48,234,547 | 57,548,975 |
| Products for Commercial and Others ⁽ⁱⁱⁱ⁾ | 52,746,574 | 49,512,418 | 45,620,555 |
| Solar Products | 24,262,354 | 26,954,200 | 23,843,549 |
| Total | \$329,089,036 | 360,346,494 | 408,178,750 |

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

40. Subsequent event

Except for otherwise disclosed in the other notes to the consolidated financial statements, there is no significant reportable subsequent event.

F-96