



AU OPTRONICS CORP. 2017 ANNUAL REPORT

-Notice to readers-

This is a translation of the 2017 annual report of AU Optronics Corp. The translation is for reference only. If there is any discrepancy between the English version and Chinese version, the Chinese version shall prevail.

AU Optronics Corporation
2017 Annual Report

AUO Spokesperson

Name: Benjamin Tseng
Title: Chief Financial Officer

AUO Deputy Spokesperson

Name: Gwen Ting
Title: Director of Corporate Communication Div.
Tel: (03) 500-8800
Email: auo@auo.com

Corporate Headquarters, Branches, and Fabs

Corporate Headquarters: No.1, Li-Hsin 2nd Rd., East Dist., Hsinchu Science Park, Hsinchu
Taoyuan Branch: No.1, Xinhe Rd., Sanhe Vil., Longtan Dist., Taoyuan City

Address of Fabs :

Fab L3B :	No.1, Lixing 2nd Rd., East Dist., Hsinchu Science Park, Hsinchu
Fab L3C(L5)	No.23, Lixing Rd., East Dist., Hsinchu Science Park, Hsinchu
Fab Longke :	No.228, Longke St./No.288, Longyuan 1st Rd./ No.338, Longyuan 1st Rd./ and No.388-1, Longyuan 1st Rd., Longtan Dist., Taoyuan City, Hsinchu Science Park
Fab Longtan:	No.1, Xinhe Rd., Sanhe Vil., Longtan Dist., Taoyuan
Fab Huaya:	No.189, Hwaya 2nd Rd., Wenhua Vil., Guishan Dist., Taoyuan City
Fab Taichung :	No.1, JhongKe Rd./ No.2, Keya Rd./ and No.3, Keya Rd., Xitun Dist., Taichung, entral Taiwan Science Park,
Fab Houli :	No.1, Machang Rd., Houli Dist., Taichung City
Fab Tainan:	No.36, Keji 1st Rd., Yantian Vil., Annan Dist., Tainan City
Fab Kaohsiung:	No.9, Luke 3rd Rd., Luzhu Dist., Kaohsiung City, Kaohsiung Science Park

Tel: (03) 500-8800

Common share Transfer Agent

Company: Stock-Affairs Agency Dep. of Taishin International Bank
Address: B1, No.96, Sec.1, Jianguo N. Rd., Taipei City
Website: www.taishinbank.com.tw
Tel: (02) 2504-8125

Auditors

Auditors: Hsin-Hai Wei & Chien-Hui Lu
Company: KPMG Certificated Public Accountants
Address: 68F, No.7, Sec.5, Xinyi Rd., Taipei (TAIPEI 101 Tower)
Website: www.kpmg.com/tw
Tel: (02) 8101-6666

Offshore secondary exchange and disclosure information available at: New York Stock Exchange

Website: www.nyse.com

Company code: AUO

Company website: www.auo.com

Table of Contents

Chapter 1	Letter to Shareholders	1
Chapter 2	Company Profile	3
Chapter 3	Corporate Governance	5
Chapter 4	Capital and Shares	63
Chapter 5	Operational Highlights	71
Chapter 6	Financial Highlights	88
Chapter 7	Review and Analysis of Financial Position and Financial Performance, and Risk Management	95
Chapter 8	Special Notes	104
Appendix I: Consolidated Financial Statements		115

Chapter I Letter to Shareholders

Dear Shareholders,

2017 is a fruitful and inspiring year for AUO. Our consolidated net profit was NT\$32.36 billion, a record high over the last decade. As production capacity and market share from Chinese panel makers increased in recent years, significant changes have taken place in the display industry. To meet challenges arising from the competitive environment, AUO has kept the flexibility on technologies, filed high quality patent applications and improved the customer portfolio to enhance our value with premium technologies and the product differentiation strategies.

Looking back at 2017, AUO's key product and technology developments include:

- With high contrast, wide color gamut and industry-leading GOA (Gate on Array) technologies, AUO has released the bezel-less TV display panels. In addition, AUO has achieved specification breakthrough to launch the world's largest (Note) 85-inch 8K4K bezel-less curved TV display and became the top-of-mind choice for renowned TV brand customers worldwide.
- In rapidly growing market of high-end gaming displays, AUO has integrated high refresh rate, large size, ultra-high-resolution and bezel-less curved design to build a comprehensive gaming product line. AUO has the largest market share in both monitors and notebook PC gaming monitors (Note), leading the industry trend.
- LTPS (Low-Temperature Poly-silicon) technology features ultrahigh resolution, extremely narrow border, lightweight and low power consumption. As AUO has successfully achieved mass production at Gen 6 LTPS LCD fab in Kunshan, we not only expanded our presence in high-end smartphone panels, but also took the lead in applying the technology to UHD 4K high-end notebook PC panels. Furthermore, AUO has succeeded in integrating touch function with panel manufacturing process, and gradually applied the technology to high-spec car, industrial and commercial high-end panels, thereby raising the selling price of our panels, and the value-added by our products.
- AUO has accumulated extensive R&D and manufacturing experience in high-end car display panels. We also have established a comprehensive customer base, and become one of the major panel suppliers to the world's top car manufacturers by providing various applications, ranging from instrument cluster, center information display, in-car entertainment system to rear-view mirror.

Development trends in the display panel industry:

- The continuous capacity expansion of Chinese display panel makers has an impact on the supply and demand balance of the display panel industry. Nevertheless, the capacity alone is not the only competitive advantage in the TFT-LCD industry, technologies, operational management, and customers are also the key differentiating factors for the competitiveness of display panel makers.
- As developments in IoT (Internet of Things) and AI (Artificial Intelligence) continue, demand for human-machine interface brings new business opportunities for the display panel industry.
- When numerous consumer electronics markets gradually become saturated, demand for customized displays is set to increase in the future. We shall draw on our solid technological strength and comprehensive product lines to meet the new trend.

In response to these trends in the industry and the market, our business strategies in 2018 include:

1. The most optimal scale: We will adequately invest in high-quality capacity expansion and continuously focus on product differentiation, high quality, and high values to maintain our profitability in the long run at a solid and healthy financial condition.
2. Transformation of value: In addition to sustaining product portfolio of high value-added display panels, we will extend our advantage in hardware manufacturing to software and hardware integrated services, to seize business opportunities arising from IoT and AI, and to create more values.
3. Technology innovation: We will endeavor to develop new generations of display technologies and high value-added products, and relentlessly enhance our R&D capability based on solid technical strength and comprehensive coverage of patents to build up our long-term values and competitiveness.

In solar business, AUO is committed to manufacturing high efficiency modules, providing well-rounded total solutions involving development, construction and maintenance of solar power plants, and participating in investments in solar power plants, so as to realize AUO's commitment to green energy and boost our competitiveness in the solar business.

2018 is a year full of challenges and is a crucial year of transformation and upgradation. We have made efforts to improve our financial structure and reduced net debt to equity ratio to a new low after posting profits for five consecutive years. We will continue to lay out plans for downstream applications and total solutions, and better utilize new technologies, such as big data and AI, to further enhance our manufacturing and management abilities. With discretion and optimism in mind, we will maintain the growth momentum by developing core technologies and competitive products, as well as make smart investments to maximize overall output and boost shareholders' value. Green sustainability represents AUO's commitment and mission. AUO will endeavor to implement sustainable operations and aim at becoming an exceptionally sustainable enterprise.

Shuang-Lang (Paul) Peng,
Chairman

Kuo-Hsin (Michael) Tsai,
President

Benjamin Tseng,
Chief Financial Officer and
Chief Accounting Officer

* Note: Refers to the market data collected by AUO as of Dec 31, 2017.

Chapter 2 Company Profile

(I) Date of Founding August 12, 1996

(II) Company History:

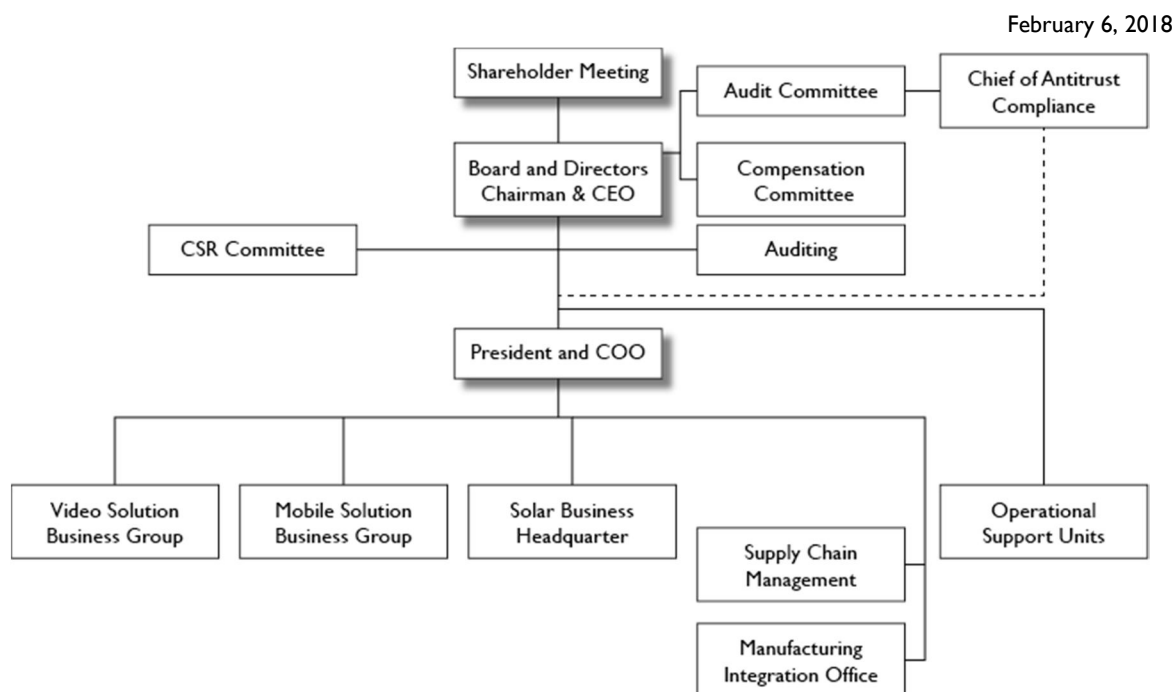
Aug 1996	Acer Display Technology (ADT) was established. The Company specialized in the development and manufacturing of key components and systems of flat display panels. Authorized capital was at NT\$2 billion, and paid-in capital was NT\$500 million.
Jun 1997	Capital increased by cash by NT\$1.5 billion, paid-in capital had reached NT\$2 billion, and the Company decided to enter LCD industry.
Apr 1999	Taiwan's first G3.5 TFT-LCD production line was completed and made a successful pilot run.
Sep 2000	ADT began initial public offering (IPO) at the Taiwan Stock Exchange (TWSE).
Feb 2001	Taiwan's first G4 TFT-LCD fab began mass production.
May 2001	ADT announced the merger with Unipac Optoelectronics Corporation and renamed to AU Optronics Corporation (AUO)
Sep 2001	Official consolidation with Unipac, the base-date for consolidation on September 1.
May 2002	Listed at the New York Stock Exchange (NYSE) under the code of AUO.
Jul 2002	AUO Suzhou module plant began mass production, ahead the industry entered China market
Dec 2002	Taiwan 1st G5 TFT-LCD production line pilot run
Jul 2003	Received Exceptional Contribution Award, Outstanding Technology Award, and Excellent Product Award from the 2003 Gold Panel Awards.
Aug 2003	Debuted world's first 30" LCD TV panel, with specs surpassing all products of similar sizes.
May 2004	Received Exceptional Contribution Award and Outstanding Technology Award from 2004 Gold Panel Awards.
Jan 2005	First 32" LCD TV panel produced at G6 fab successfully lit up
May 2006	Received Corporate Social Responsibility Award from Global Views magazine.
Jul 2006	First 42" LCD TV panel produced at G7.5 fab successfully lit up
Oct 2006	Merged Quanta Display Inc. (QDI) Listed in 'FAB 50' by Forbes magazine.
Mar 2007	Received Corporate Citizenship Award from CommonWealth magazine.
Jun 2007	Debuted the world's largest 65" TV panel. Received the '2007 Asian Corporate Governance Award' from Corporate Governance Asia.
Sep 2007	AUO Xiamen module plant began mass operation.
Oct 2007	Received First Place in '2007 Benchmark Enterprise in Optoelectronics Industry' from CommonWealth magazine.
Feb 2008	Unveiled the AUO Green Solutions.
Mar 2008	Received CSR Award from CommonWealth magazine.
Apr 2008	Nominated as No. 416 in 'Forbes Global 2000,' ranking 3rd Place in Taiwanese enterprises.
Aug 2008	Received Taiwan's first independent verification GRI A+ for its 2007 CSR Report
Dec 2008	First 46" LCD TV panel produced at G8.5 fab successfully lit up
Mar 2009	Received CSR Award from Global Views magazine. Received CSR Award from CommonWealth magazine. AUO's G8.5 fab acknowledged as the world's first LEED Gold-certified TFT-LCD facility.
Jun 2009	Received PIDA Best Product Received Gold Panel Display Award-Best Product Co-invested in module plant with Sichuan Changhong Electric Co.,Ltd.
Nov 2009	Received Gold Award from the 2009 China Packaging Star Awards.
May 2010	Co-invested in solar cell plant with US-based SunPower Technology.
Jul 2010	Acquired 100% ownership of AFPD Pte., Ltd., subsidiary of Toshiba Mobile Display in Singapore
Dec 2010	Subsidiary Darwin Precisions Corporation was authorized for IPO at the Taiwan Stock Exchange.
Apr 2011	Ranked top 5 enterprises in number of patents granted in China.
May 2011	G8.5 fab in Houli garnered the world's first LEED Platinum certification.
Jun 2011	Obtained the world's first ISO 50001 Certification for manufacturing facilities AUO Slovakia module plant began mass production Received 2011 Gold Panel Display Award
Sep 2011	Subsidiary Darwin Precisions Corporation was merged with subsidiary Briview Corporation. Darwin Precisions Corporation, the remaining Company after the merger, was renamed Briview. Environmentally-friendly packaging design was awarded with 2011 Golden Pin Design Award.
Dec 2011	Received 2011 Hsinchu Science Park Innovative Product Award.
Jun 2012	Received Gold Award in 2012 SID Best-in-Show award. Received 2012 Gold Panel Display Award - Best Technology
Jul 2012	Obtained world's first ISO 14045 Eco-efficiency Assessment of Product Systems Verification
Nov 2012	Received Thomson Reuters Taiwan Innovation Awards 2012.

Dec 2012	Environmentally-friendly packaging design was awarded with 2012 Red Dot Design Award.
Mar 2013	Presented Taiwan's first zero liquid discharge solution
Jun 2013	G8.5 fab in Houli received Taiwan's first Diamond Certification for Green Factory Building. Received the inaugural National Environmental Education Award.
Sep 2013	AUO Headquarters received the certification of Carbon Neutral Building. Environmentally-friendly packaging design was awarded with 2013 Red Dot Design Award and 2013 Golden Pin Design Award.
Nov 2013	Named to 2013/2014 Ocean Tomo 300® patent index.
Mar 2014	Facilitated Feitsui Reservoir to become the first reservoir in Taiwan to achieve carbon neutrality.
Apr 2014	Founding Star River Energy Corporation to create an investment platform for solar power plants
May 2014	AUO's CSR report was the first in Taiwan to be honored with GRI G4 certification throughout manufacturing industries. Received Work-Life Balance Award from the Ministry of Labor.
Jun 2014	AUO's WQHD smartphone LED panel honored with 2014 SID Best-in-Show award.
Jul 2014	Received 2014 Excellent and Innovative Product Award from Central Taiwan Science Park.
Aug 2014	Received 4 awards in the 2014 Gold Panel Awards.
Oct 2014	Subsidiary Briview was merged with Fullhouse Corp. Briview, the remaining Company after the merger, was renamed Darwin Precisions Corporation.
Nov 2014	Obtained Taiwan's first certification in environmental education site throughout manufacturing industries. Received Gold Medal in social responsibility report Award and Supply Chain Management Award from 2014 Taiwan Corporate Sustainability Awards.
Dec 2014	Received Innovative Product Award from Hsinchu Science Park. Received Enterprise Benchmark award in 2014 National Occupational Safety and Health Award.
Jan 2015	Donated DADA's Magic Land to National Museum of Natural Science to promote optronics and science education.
May 2015	Acknowledged by Corporate Governance Evaluation administrated by Taiwan Stock Exchange
Jun 2015	Honored with 2015 SID Best-in-Show award. Sungen Solar Power Plant project received 2015 Top Solar System Award.
Jul 2015	Received Excellent and Innovative Product Award from Central Taiwan Science Park.
Oct 2015	Donated over NT\$100 million in Honesty-Intelligence Scholarship over the past 10 years, benefiting over 30,000 students.
Nov 2015	Received the Ten Most Sustainable Company Award, Corporate Sustainability Report Award, Sustainable Water Management Award, Climate Leadership Award, and Growth through Innovation Award from 2015 Taiwan Corporate Sustainability Awards. Received Innovative Product Award from Hsinchu Science Park.
Dec 2015	AUO's Lungtan Site has completed Taiwan's first locally designed and integrated process water full-recycling system.
May 2016	Received the Environmentally-Friendly Award from Global Views CSR Award.
Jul 2016	Received Excellent and Innovative Product Award from Central Taiwan Science Park.
Aug 2016	AUO Kunshan G6 LTPS LCD fab has successfully lighted up its first 5.5-inch Full HD panel. Received 4 awards in the 2016 Gold Panel Awards.
Nov 2016	AUO Kunshan G6 LTPS LCD fab announced its grand opening with successful mass production.
Dec 2016	Received National Sustainable Development Award from the Executive Yuan for two consecutive years.
May 2017	Received First Place in Environmentally-Friendly Award from Global Views CSR Award.
Jul 2017	Received Excellent and Innovative Product Award from Central Taiwan Science Park.
Sep 2017	Received 4 awards in the 2017 Gold Panel Awards. Named to DJSI World Index for 8 consecutive years.
Oct 2017	Received the Golden Wingspan Award from the Ministry of Labor for AUO's efforts in recruiting physically and mentally challenged workers.
Nov 2017	Received the Ten Most Sustainable Company Award, Top 50 Corporate Sustainability Report Award, Climate Leadership Award, and Circular Economy Leadership Award from 2017 Taiwan Corporate Sustainability Awards. Chairman Paul SL Peng honored with 'Outstanding Corporate Sustainability Professionals' Award.
Dec 2017	High-efficiency solar module series honored with Taiwan Excellent PV Award by the Ministry of Economic Affairs.
Jan 2018	The only Taiwanese enterprise to be nominated for Bloomberg Gender Equality Index (GEI)

Chapter 3 Corporate Governance

I. Organization

(I) Organizational Structure



Department	Business
CSR Committee	Enhance the management effectiveness of corporate social responsibility (CSR) and to meet the aspirations from stakeholders for corporate governance, environmental protection and social welfare through comprehensively promoting projects, integrating horizontal resources and actively staying connected to international trends, thus helping the Company operations to work toward sustainable development.
Chief of Antitrust Compliance	Ensures Company compliance with local and foreign antitrust laws. Evaluates risk of violation of antitrust laws and provides strategic recommendations. Develops a consistent and sustainable antitrust compliance system that works in favor of the Company's long-term commercial interests.
Video Solution Business Group	Oversees R&D, production, marketing and customer service of large-panel products such as LCD TV, desktop display, and public information display. Manages raw materials, production procedures, and inventory plans for the above video display products. Designs and develops advanced display technologies and new products.
Mobile Solution Business Group	Oversees R&D, production, marketing and customer service of small and medium-panel products such as laptop/tablet displays, video displays, mobile displays, and general-purpose displays. Manages raw materials, production procedures, and inventory plans for mobile video display products. Designs and develops advanced display technologies and new products.
Solar Business Headquarter	Provides high-efficiency solar modules, comprehensive power plant establishment service and highly integrated energy management service platform.
Manufacturing Integration Office	Integrates technical and quality platforms
Supply Chain Headquarter	Comprehensive management of procurement, export, and import affairs
Operational Support Units	Manages financial, legal, intellectual property rights, IT engineering, human resources, and strategic affairs
Auditing	Oversees internal audit and procedural management

II. Documents of directors, president, vice presidents, associate vice presidents, and managers of each departments and divisions

(I) Director Information

January 31, 2018; share unit: 1,000 shares

Title and Name	Gender	Nationality or place of registration	Date Elected (Appointed)	Term of service	Date First Elected	Shares held when elected		Number of shares held currently		Shares held currently by spouse, underage children		Primary work or academic experiences	Position concurrently held in the Company and other companies
						Number of Shares	Shareholding Percentage (%)	Number of Shares	Shareholding Percentage (%)	Number of shares	Shareholding Percentage (%)		
Chairman and Chief Executive Officer (CEO) Shuang-Lang (Paul) Peng	Male	Republic of China	2016.06.16	3 years	2010.06.18	3,793	0.04	2,720	0.03	1,212	0.01	M.B.A., Heriot-Watt University, U.K. President, AU Optronics Corp. Director, Qisda Corporation	CEO, AU Optronics Corp. Director, Qisda Corporation Director, Darwin Precisions Corporation
Director Kuen-Yao (K.Y.) Lee	Male	Republic of China	2016.06.16	3 years	2004.04.30	10,512	0.11	10,512	0.11	1,215	0.01	M.B.A., International Institute for Management Development, Switzerland Chairman, Qisda Corporation Chairman, AU Optronics Corp.	Honorary Chairman, Qisda Corporation Director, Darfon Electronics Corp. Director, BenQ Materials Corp.
Director BenQ Foundation (Note 2)	-	Republic of China	2016.06.16	3 years	2010.06.18	100	0.00	100	0.00	-	-	-	-
Corporate Director Representative Kuo-Hsin (Michael) Tsai	Male	Republic of China	2016.06.16	-	-	2,392	0.02	1,677	0.02	921	0.01	Executive M.B.A., National Chiao Tung University Senior Vice President and the General Manager of Video Solutions Business Group, AU Optronics Corp. Director, Qisda Corporation	President and COO, AU Optronics Corp. Director, Lextar Electronics Corp. Director, Daxin Materials Corporation
Director Qisda Corporation (Note 2)	-	Republic of China	2016.06.16	3 years	1996.07.18	663,599	6.90	663,599	6.90	-	-	-	-

Corporate Governance

Title and Name	Gender	Nationality or place of registration	Date Elected (Appointed)	Term of service	Date First Elected	Shares held when elected		Number of shares held currently		Shares held currently by spouse, underage children		Primary work or academic experiences	Position concurrently held in the Company and other companies
						Number of Shares	Shareholding Percentage (%)	Number of Shares	Shareholding Percentage (%)	Number of shares	Shareholding Percentage (%)		
Corporate Director Representative Peter Chen	Male	Republic of China	2016.06.16	-	-	-	-	0	0	143	0.00	Technology Management Program, National Chengchi University EMBA, Thunderbird, The American Graduate School of International Management B.S., Electrical Engineering, National Cheng Kung University Director, BenQ Corp. Director, Crystalvue Medical Corporation	Chairman and President, Qisda Corporation Chairman, DFI Inc. Director, Darfon Electronics Corp. Director, BenQ Materials Corp. Chairman, BenQ Medical Technology Corporation Chairman, Partner Tech Corp.
Independent Director Vivien Huey-Juan Hsieh	Female	Republic of China	2016.06.16	3 years	2007.06.13 (Note 1)	0	0	0	0	0	0	Ph.D., Finance, University of Houston, U.S.A. President, Co-Operative Asset Management Corp. President, China Development Asset Management Corp. Investment Vice President, China Development Industrial Bank	Independent Director and member of Audit Committee and Remuneration Committee, Darwin Precisions Corporation
Independent Director Mei-Yueh Ho	Female	Republic of China	2016.06.16	3 years	2010.06.18	0	0	0	0	0	0	B.S., Agricultural Chemistry, National Taiwan University Minister, Ministry of Economic Affairs, R.O.C. Council Minister, Council for Economic Planning and Development, R.O.C.	Independent Director and member of Audit Committee and Remuneration Committee, Bank of Kaohsiung, Ltd., KINPO Electronics Inc., Ausnutria Dairy Corp. Ltd. Independent Director and member of Audit Committee, Advanced Semiconductor Engineering, Inc.

Title and Name	Gender	Nationality or place of registration	Date Elected (Appointed)	Term of service	Date First Elected	Shares held when elected		Number of shares held currently		Shares held currently by spouse, underage children		Primary work or academic experiences	Position concurrently held in the Company and other companies
						Number of Shares	Shareholding Percentage (%)	Number of Shares	Shareholding Percentage (%)	Number of shares	Shareholding Percentage (%)		
Independent Director Ding-Yuan Yang	Male	Republic of China	2016.06.16	3 years	2010.06.18	0	0	0	0	0	0	Ph.D., Electrical Engineering, Princeton University, U.S.A. Master of Management Science (Sloan program), Stanford University, U.S.A. Deputy Director, Electronic Research & Service Organization (ERSO), Industrial Technology Research Institute (ITRI) Vice Chairman and President, Windbond Electronics Corp.	Chairman, UniSVR Global Information Technology Corp.
Independent Director Chin-Bing (Philip) Peng	Male	Republic of China	2016.06.16	3 years	2013.06.19	97	0.00	97	0.00	0	0	M.B.A., National Chengchi University Senior Vice President and CFO, ACER Incorporated	Director and President, iD SoftCapital Director, ACER Incorporated Director, AOPEN Inc. Director, Wistron NeWeb Corporation Director, Wistron Information Technology & Services Corp.

Title and Name	Gender	Nationality or place of registration	Date Elected (Appointed)	Term of service	Date First Elected	Shares held when elected		Number of shares held currently		Shares held currently by spouse, underage children		Primary work or academic experiences	Position concurrently held in the Company and other companies
						Number of Shares	Shareholding Percentage (%)	Number of Shares	Shareholding Percentage (%)	Number of shares	Shareholding Percentage (%)		
Independent Director Yen-Shiang Shih	Male	Republic of China	2016.06.16	3 years	2016.06.16	0	0	0	0	0	0	Ph.D., Chemistry, Massachusetts Chief of Chemical Engineering, National Taiwan University of Science and Technology Professor of Chemical Engineering, National Taiwan University of Science and Technology Director General, Small and Medium Enterprise Administration, Ministry of Economic Affairs, R.O.C. Director General, Taiwan Tobacco & Wine Bureau Director General, Industrial Development Bureau, Ministry of Economic Affairs, R.O.C. Vice Minister, Ministry of Economic Affairs, R.O.C. Deputy Minister, Ministry of Economic Affairs, R.O.C. Chairman, CPC Corporation, Taiwan Minister, Ministry of Economic Affairs, R.O.C. National Policy Advisors, Office of the President, R.O.C. Chairman, Sinotech Engineering Consultants, Inc. Honorary Advisor, Commerce Development Research Institute	Independent Director and member of Audit Committee and Remuneration Committee, CTCI Corporation Director, USI Corporation Director, Taiwan Research Institute Director, Taiwan Institute of Economic Research 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

The Company's shares held by directors in the name of other persons: None.
Any executive, director, or supervisor who is a spouse or relative within the second degree of kinship: None.

Note 1: Date of initial appointment of Independent Directors as stipulated by Article 14-2 in the Securities and Exchange Act.

Note 2: Major shareholders of the corporate shareholder.

Name of corporate shareholders	Major shareholders of the corporate shareholders (Note 3)	
	Title	Proportion of shares held (%)
BenQ Foundation	N/A	
Qisda Corporation	AU Optronics Corporation	9.48
	CDIB Capital Group(Note 4)	7.60
	Acer Inc. (Note 4)	4.15
	Morgan Stanley & Co. International Plc	1.88
	JPMorgan Chase Bank N.A. Taipei Branch in custody for Norges Bank	1.64
	Dimensional Emerging Markets Value Fund	1.46
	Dedicated investment account of Polunin Emerging Economies Fund Limited in the custody of Taipei Branch of Deutsche Bank	1.34
	VANGUARD EMERGING MARKETS STOCK INDEX FUND, A SERIES OF VANGUARD INTERNATIONAL EQUITY INDEX FUNDS	1.12
	Credit Suisse Securities (Europe) Limited	1.09
	Dedicated investment account of Vanguard Total International Stock Index Fund, a series of Vanguard Star Funds in the custody of Taipei Branch of JP Morgan Chase Bank	0.88

Note 3: Source of information for Qisda Corporation is data as of the book closure date of Qisda Corporation on July 22, 2017.

Note 4: Major shareholders of corporate shareholders whom are the major shareholders of the Company's corporate shareholders.

Name of the corporate	Major shareholders of the corporate (Note 5)	
	Title	Proportion of shares held (%)
CDIB Capital Group	China Development Financial Holding Corporation	100.00
Acer Inc.	Hung Rouan Investment Corp.	2.39
	Stan Shih	2.24
	VANGUARD EMERGING MARKETS STOCK INDEX FUND, A SERIES OF VANGUARD INTERNATIONAL EQUITY INDEX FUNDS	1.72
	JPMorgan Chase Bank N.A., Taipei Branch in custody for Vanguard Total International Stock Index Fund, a series of Vanguard Star Funds	1.17
	Acer GDR	1.08
	Management Board of Public Service Pension Fund	1.04
	The Hartford International Value Fund	0.68
	Polunin Developing Countries Fund, LLC	0.64
	Government of Singapor	0.56
	MSCI Equity Index Fund B - Taiwan	0.55

Note 5: Information on CDIB Capital Group is from the 2016 Annual Report published by CDIB Capital Group on February 28, 2017. Information on Acer Inc. is as of the book closure date of Acer Inc on April 23, 2017.

Professional qualifications and independence of the Directors:

December 31, 2017

Name	Condition	Has more than 5 years of work experience and the following professional qualifications			Meet conditions of independence (note)										Number of other public companies where the Director concurrently serves as an Independent Director
		An instructor or higher position in a private or public college or university in the field of business, law, finance, accounting, or the business sector of the Company	A judge, prosecutor, lawyer, CPA or other specialist or technical professional who are necessary for the Company's business and have been certified by national examinations and licensed by the competent authorities	Work experience necessary for business administration, legal affairs, finance, accounting, or business sector of the Company	1	2	3	4	5	6	7	8	9	10	
Shuang-Lang (Paul) Peng			✓			✓	✓		✓	✓	✓	✓	✓	0	
Kuen-Yao (K.Y.) Lee			✓	✓		✓			✓	✓	✓	✓	✓	0	
Representative of BenQ Foundation: Kuo-Hsin (Michael) Tsai			✓			✓	✓		✓	✓	✓	✓		0	
Representative of Qisda Corporation: Peter Chen			✓			✓	✓		✓	✓	✓	✓		0	
Vivien Huey-Juan Hsieh			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1	
Mei-Yueh Ho			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	3	
Ding-Yuan Yang			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0	
Chin-Bing (Philip) Peng			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0	
Yen-Shiang Shih	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1	

Note : Please add "✓" in the field under each criteria number if the director meets the criteria two years prior to being elected and during his/her term of service.

- (1) Not an employee of the company or any of its affiliates.
- (2) Not a director or supervisor of the company's affiliates. The same does not apply, however, in cases where the person is an independent director of the company, its parent company, or any subsidiary, as appointed in accordance with the Act or with the laws of the country of the parent or subsidiary.
- (3) Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of one percent or more of the total number of issued shares of the company or ranking in the top 10 in holdings.
- (4) Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three subparagraphs.
- (5) Not a director, supervisor, or employee of a corporate shareholder that directly holds five percent or more of the total number of issued shares of the company or of a corporate shareholder that ranks among the top five in shareholdings.
- (6) Not a director, supervisor, officer, or shareholder holding five percent or more of the shares, of a specified company or institution that has a financial or business relationship with the company.
- (7) Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides commercial, legal, financial, accounting services or

consultation to the company or to any affiliate of the company, or a spouse. However, members of the Remuneration Committee fulfilling their duties in accordance with Article 7 of the Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded Over the Counter are not limited to these terms.

- (8) Not a spouse or a relative within the second-degree of kinship to any Director.
- (9) Not been involved in any of situations defined in Article 30 of the Company Act.
- (10) Not elected on behalf of a government agency or corporate or as a representative of these organizations as defined in Article 27 of the Company Act.

(II) Documents of president, vice president, associate vice president, and managers of each departments and divisions

January 31, 2018; share unit: 1,000 shares

Title (note 1)	Name	Gender	Nationality	Date appointed (Note 2)	Number of shares held		Shares held by spouse or underage children		Primary work or academic experiences	Position concurrently held in other companies (Note 3)
					Number of shares	Shareholding percentage (%)	Number of shares	Shareholding Percentage (%)		
Chairman and CEO	Shuang- Lang (Paul) Peng	Male	Republic of China	2003.03.27	2,718	0.03	1,212	0.01	M.B.A., Heriot-Watt University, U.K. President, AU Optronics Corp. Director, Qisda Corporation	Director, Qisda Corporation Director, Darwin Precisions
President and COO	Kuo- Hsin (Michael) Tsai	Male	Republic of China	2005.12.01	1,677	0.02	921	0.01	Executive M.B.A., National Chiao Tung University Senior Vice President and the General Manager of Video Solutions Business Group, AU Optronics Corp. Director, Qisda Corporation	Director, Lextar Electronics Corporation Director, Daxin Materials Corp.
Vice president	Wei- Lung Liao	Male	Republic of China	2010.06.01	477	0.00	0	0	Ph.D. in Applied Chemistry, National Chiao Tung University	Director, Lextar Electronics Corporation
Vice president	Hong- Shiung (Sean) Chen	Male	Republic of China	2010.06.01	1,020	0.01	0	0	Master of Mechanical Engineering, Cornell University	Director, Raydium Semiconductor Corporation
Vice president	Shih-Kun Chen	Male	Republic of China	2016.01.01	916	0.01	1	0.00	Master of Chemical Engineering, National Tsing Hua University	N/A
Vice president	Kun-Yu Lin	Male	Republic of China	2005.12.01	23	0.00	329	0.00	Master of EO Engineering, National Chiao Tung University	N/A
Vice president	Hong- Jye Hong	Male	Republic of China	2008.12.01	448	0.00	103	0.00	Master of Electrical Engineering, University of Massachusetts	Director, Raydium Semiconductor Corporation
Vice president	James CP Chen	Male	Republic of China	2007.10.01	113	0.00	0	0	Master of Electrical and Control Engineering, National Chiao Tung University; Section Manager at Electronics Research & Service Organization, ITRI	N/A
Vice president	SK Huang	Male	Republic of China	2008.12.01	542	0.01	52	0.00	Master of Business Administration, National Taiwan University; Master of Physics, National Cheng Kung University	N/A
Vice president	CS Hsieh	Male	Republic of China	2012.05.01	1,300	0.01	23	0.00	Master of Electrical Engineering, National Tsing Hua University	N/A
Vice president	Andy Yang	Male	Republic of China	2008.12.01	89	0.00	1,300	0.01	Master of Business Administration, George Washington University; Associate Vice President at ABN AMRO Bank	N/A
Vice president	TK Wu	Male	Republic of China	2010.04.01	0	0	0	0	Ph.D. in Chemistry Engineering, University of Missouri	N/A
Vice president	Benjamin Tseng	Male	Republic of China	2012.09.01	0	0	560	0.01	Master of Business Administration, University of Rochester; Vice President at ABN AMRO Bank	N/A
Vice president	Amy Ku	Female	Republic of China	2009.11.01	1,107	0.01	0	0	Master of Human Resources Management, National Central University	N/A
Senior associate vice president	Martin Sung	Male	Republic of China	2006.10.01	94	0.00	0	0	Master of Business Administration, University of North Carolina	N/A
Senior associate vice president	PC Cheng	Male	Republic of China	2010.09.15	703	0.01	1,419	0.01	Master of Mechanical Engineering, State University of New York	N/A

Title (note 1)	Name	Gender	Nationality	Date appointed (Note 2)	Number of shares held		Shares held by spouse or underage children		Primary work or academic experiences	Position concurrently held in other companies (Note 3)
					Number of shares	Sharehol- ding percenta- ge(%)	Number of shares	Shareholding Percentage (%)		
Senior associate vice president	JJ Lih	Male	Republic of China	2007.10.01	250	0.00	0	0.00	Ph.D. in Chemistry, Ohio State University	N/A
Senior associate vice president	TY Lin	Male	Republic of China	2015.06.01	31	0.00	1	0.00	Master of Industrial Engineering, Chung Yuan Christian University Director of BenQ Materials Corporation	N/A
Senior associate vice president	CC Hung	Male	Republic of China	2016.08.01	29	0.00	0	0	Ph.D. in Mechanical Engineering, National Cheng Kung University	N/A
Senior associate vice president	Ting-Li Lin	Male	Republic of China	2016.06.01	398	0.00	0	0.00	Master of Applied Chemistry, National Chiao Tung University	N/A
Associate vice president	Ivan Wu	Male	Republic of China	2010.06.01	294	0.00	12	0.00	Master of EO Engineering, National Chiao Tung University	N/A
Associate vice president	TL Chen	Male	Republic of China	2010.08.01	13	0.00	0	0	Master of Asia Pacific Operations Management, Chinese University of Hong Kong; Associate Vice President at Toppoly Optoelectronics Corp.	N/A
Associate vice president	Yu-Chieh Lin	Female	Republic of China	2011.05.01	100	0.00	0	0	Master of Physics, National Central University	N/A
Associate vice president	SI Jeong	Male	Republic of China	2011.05.01	1	0.00	0	0	Bachelor's degree at Korea Aerospace University; FAE Manager at Samsung	N/A
Associate vice president	Tina Wu	Female	Republic of China	2013.11.01	187	0.00	0	0	Master of Industrial Administration, Waseda University	N/A
Associate vice president	HC Lee	Male	Republic of China	2016.10.01	0	0	0	0	Master of Materials Science and Engineering, National Taiwan University Chairman, Toppan CFI (Taiwan) Co., Ltd.	N/A

The Company's shares held by managers in the name of other persons: None.

Any spouse or relative within the second degree of kinship of any manager who serves as the Company's executive : None.

Note 1: Those who currently serve in their respective positions on the publication date of the Annual Report.

Note 2: Refers to either the initial date of a manager's term of service or the date in which No. 0920001301 Directive decreed on March 27, 2003 from the former Securities and Futures Commission, Ministry of Finance was processed.

Note 3: As to the situation where managers are concurrently holding positions within the Company's affiliates, please see "VIII. Special Notesof" of this Annual Report, which provides information on the "Directors, supervisors, and general managers of affiliated businesses" (pages 108-110)

III. Compensation to Directors, Supervisors, President and Vice Presidents in the latest year

(I) Compensation to Directors

Unit: NT\$1,000 · 1,000 shares

Title (note 1)	Name (note 1)	Director's compensation								Compensation earned by a Director who is an employee of the Company								Ratio of sum of items A, B, C and D to net income after taxes (%) (Note 9)		Ratio of sum of items A, B, C, D, E, F and G to net income after taxes (%) (Note 9)		Compensation from other non-consolidated entities invested by the Company (Note 10)
		Compensation (A) (Note 2)		Severance pay and pension (B) (Note 3)		Director's remuneration (C) (Note 4)		Business execution Expenses (D) (Note 5)		Salaries, bonuses and special expenses (E) (Note 6)		Severance pay and pension (F) (Note 3)		Employee's remuneration (G) (Note 7)				Ratio of sum of items A, B, C, D, E, F and G to net income after taxes (%) (Note 9)				
		The Company	All consolidated entities (Note 8)	The Company	All consolidated entities (Note 8)	The Company	All consolidated entities (Note 8)	The Company	All consolidated entities (Note 8)	The Company	All consolidated entities (Note 8)	The Company	All consolidated entities (Note 8)	The Company		All consolidated entities (Note 8)		The Company	All consolidated entities (Note 8)			
														Cash	Stock	Cash	Stock	The Company	All consolidated entities (Note 8)			
Chairman and CEO	Shuang-Lang (Paul) Peng																					
Director	Kuen-Yao (K.Y.) Lee																					
Independent Director	Vivien Huey-Juan Hsieh																					
Independent Director	Mei-Yueh Ho																					
Independent Director	Ding-Yuan Yang	23,200	23,932	0	0	116,029	116,197	2,244	2,857	0.44	0.44	93,039	93,039	221	221	52,700	0	52,700	0	0.89	0.89	13,630
Independent Director	Chin-Bing (Philip) Peng																					
Independent Director	Yen-Shiang Shih																					
Corporate Director	BenQ Foundation																					
Corporate Director Representative	Kuo-Hsin (Michael) Tsai																					
Corporate Director	Qisda Corporation	2,000	2,000	0	0	16,576	16,576	0	0	0.06	0.06	0	0	0	0	0	0	0	0	0.06	0.06	0
Corporate Director Representative	Peter Chen	0	0	0	0	0	0	60	60	0.00	0.00	0	0	0	0	0	0	0	0	0.00	0.00	32,406

*In addition to the information disclosed in the table above, has any Director of the Company provided services to any of the companies included in the Financial Statements and received compensation for such services (e.g. provided consultation services in a non-employee capacity) : None.

Table of compensation ranges

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

Note 1: The information in the table refers to compensation for current Company Directors as of the end of 2017.

Note 2: Refers to compensation for Directors in 2017 (including salaries, job remuneration, severance pay, bonuses, and performance fees).

Note 3: Refers to pension either allocated or paid out per legal requirements in 2017.

Note 4: Refers to Directors' remunerations in 2017 which will be distributed upon resolution from the Board of Directors in 2018.

Note 5: Refers to Directors' business execution expenses in 2017 (including provisions of compensation, transport fees, special expenses, various subsidies, accommodations, or company vehicles and other physical items for those serving as representatives of Corporate Directors or supervisors designated by the Company and its subsidiaries)

Note 6: Refers to compensation for Directors concurrently holding positions in the Company in 2017 (including concurrently serving as President, Vice presidents, other managers, or employees) including salaries, job remuneration, severance pay, bonuses, performance fees, transport fees, special expenses, various subsidies, accommodation, company vehicles, and other physical items, etc. Any salary listed under IFRS 2 Share-Based Payment, including employee stock option plan, employee restricted stock and cash capital increase by stock subscription shall also be included in compensation.

Note 7: Refers to employee's remuneration (including shares and cash) paid to Directors who concurrently hold positions in the Company in 2017 (including concurrently serving as President, Vice president, other managers, or employees).

Note 8: Total compensation in various items paid out to the Company's Directors by all companies (including the Company) listed in the consolidated financial statement.

Note 9: Net income after taxes refers to the net income after taxes in the 2017 parent company only financial statements of the Company.

Note 10: Refers to compensation, remunerations (including remunerations for employees, Directors, and supervisors), business execution expenses, and other related payments received by Directors who serve as Director, supervisor, or manager in other non-consolidated entities invested by the Company in 2017.

Note 11: Total compensation paid to Directors of the Company from all companies invested by the Company (including the Company).

(II) Compensation for President and Vice presidents; unit: NT\$1,000; 1,000 shares

Title (note 1)	Name (note 1)	Salary (A) (Note 2)		Severance pay and pension (B) (Note 3)		Bonuses and special expenses etc (C) (Note 4)		Employee's remuneration (D) (Note 5)				Ratio of sum of items A, B, C and D to net income after taxes (%) (Note 7)		Compensation from other non-consolidated entities invested by the Company (Note 8)
		The Company	All consolidated entities (Note 6)	The Company	All consolidated entities (Note 6)	The Company	All consolidated entities (Note 6)	The Company		All consolidated entities (Note 8)		The Company	All consolidated entities (Note 6)	
								Cash	Stock	Cash	Stock			
Chairman and CEO	Shuang-Lang (Paul) Peng													
President and COO	Kuo-Hsin (Michael) Tsai													
Vice President	Wei-Lung Liau													
Vice President	Hong-Shiun g (Sean) Chen													
Vice President	Shih-Kun Chen													
Vice President	Kun-Yu Lin	64,253	64,253	2,244	2,244	200,017	201,734	141,300	0	141,300	0	1.26	1.27	180
Vice President	Hong-Jye Hong													
Vice President	James CP Chen													
Vice President	SK Huang													
Vice President	CS Hsieh													
Vice President	Andy Yang													
Vice President	TK Wu													
Vice President	Benjamin Tseng													
Vice President	Amy Ku													

Table of compensation ranges

Compensation range for each President and Vice President in the Company	Name of the President and Vice presidents	
	The Company	All investments (Note 9)
Less than NT\$ 2,000,000		
NT\$ 2,000,000 (inclusive)~NT\$ 5,000,000		
NT\$ 5,000,000 (inclusive)~NT\$ 10,000,000		
NT\$ 10,000,000 (inclusive)~NT\$ 15,000,000		
NT\$ 15,000,000 (inclusive)~NT\$ 30,000,000	Shih-Kun Chen, Kun-Yu Lin, Hong-Jye Hong, James CP Chen, SK Huang, CS Hsieh, Andy Yang, TK Wu, Benjamin Tseng, Amy Ku	Shih-Kun Chen, Kun-Yu Lin, Hong-Jye Hong, James CP Chen, SK Huang, CS Hsieh, Andy Yang, TK Wu, Benjamin Tseng, Amy Ku
NT\$ 30,000,000 (inclusive)~NT\$ 50,000,000	Wei-Lung Liau, Hong-Shiung (Sean) Chen	Wei-Lung Liau, Hong-Shiung (Sean) Chen
NT\$ 50,000,000 (inclusive)~NT\$ 100,000,000	Shuang-Lang (Paul) Peng, Kuo-Hsin (Michael) Tsai	Shuang-Lang (Paul) Peng, Kuo-Hsin (Michael) Tsai
More than NT\$ 100,000,000		
Total	14 persons	14 persons

Note 1: The information in the table refers to 2017 compensation for current Company managers such as Vice Presidents or above as of the end of 2017.

Note 2: Refers to compensation for managers such as Vice Presidents or above in 2017, including salaries, job remuneration, severance pay.

Note 3: Refers to pension either allocated or paid out per legal requirements in 2017.

Note 4: Refers to compensation for managers such as Vice Presidents or above in 2017, including bonuses, fees for serving as the Company or its affiliates' Corporate Directors or supervisors, performance fees, transport fees, special expenses, various subsidies, accommodation, company vehicles, and other physical items, etc. Any salary listed under IFRS 2 Share-Based Payment, including employee stock option plan, employee restricted stock and cash capital increase by stock subscription shall also be included in compensation.

Note 5: Refers to remunerations for employee in 2017 which will be distributed upon resolution from the Board of Directors meeting in 2018.

Note 6: Total compensation in various items paid out to the Company's managers such as Vice Presidents or above by all companies (including the Company) listed in the Consolidated Financial Statement.

Note 7: Net income after taxes refers to the net income after taxes in the 2017 parent company only financial statements of the Company.

Note 8: Refers to compensation including compensation, remuneration (including remunerations for employees, Directors, and supervisors), business execution expenses, and other related payments received by managers such as Vice Presidents or above who serve as Director, supervisor, or manager in other non-consolidated entities invested by the Company.

Note 9: Total compensation paid to managers such as Vice Presidents or above from all companies (including the Company) invested by the Company.

(III) Names of managers provided with employee's remunerations and state of payments

Unit: NT\$1,000

	Title (Note 1)	Name (Note 1)	Stock (Note 2)	Cash (Note 2)	Total (Note 2)	Ratio of total amount to the net income after taxes (%) (Note 3)
Manager	Chairman and CEO	Shuang-Lang (Paul) Peng				
	President and COO	Kuo-Hsin (Michael) Tsai				
	Vice President	Wei-Lung Liao				
	Vice President	Hong-Shiung (Sean) Chen				
	Vice President	Shih-Kun Chen				
	Vice President	Kun-Yu Lin				
	Vice President	Hong-Jye Hong				
	Vice President	James CP Chen				
	Vice President	SK Huang				
	Vice President	CS Hsieh				
	Vice President	Andy Yang				
	Vice President	TK Wu				
	Vice President	Benjamin Tseng				
	Vice President	Amy Ku				
	Senior Associate Vice President	Martin Sung				
	Senior Associate Vice President	PC Cheng	0	197,800	197,800	0.61
	Senior Associate Vice President	JJ Lih				
	Senior Associate Vice President	TY Lin				
	Senior Associate Vice President	CC Hung				
	Senior Associate Vice President	Ting-Li Lin				
	Associate Vice President	Ivan Wu				
	Associate Vice President	TL Chen				
	Associate Vice President	Yu-Chieh Lin				
Associate Vice President	SI Jeong					
Associate Vice President	Tina Wu					
Associate Vice President	HC Lee					

Note 1: Current Company managers as of year end in 2017. Information on titles of managers are accurate as of the publication date of the Annual Report.

Note 2: Refers to remunerations for employee in 2017 which will be distributed upon resolution from the Board of Directors meeting in 2018.

Note 3: Net income after taxes refers to the net income after taxes on the 2017 parent company only financial statements.

(IV) Compare and analyze the total compensation as a percentage of net income after taxes stated in the parent company only or individual financial statements, paid by the Company and by all companies listed in the consolidated financial statement in the most recent two years to the Company's Directors, supervisors, President and Vice President. Describe the policies, standards, and packages for payment of compensation, the procedures for determining compensation, and its linkage to business performance and future risk exposure.

1. The total compensation as a percentage of net income after taxes stated in the parent company only financial statement, paid by the Company and by all companies listed in the consolidated financial statement in the most recent two years to the Company's Directors, supervisors, President and Vice President are as the following:

Unit: NT\$1,000

Item	Year	2017	2016
Net income after taxes on the Company's Parent Company Only Financial Statements		32,359,417	7,818,938
Ratio of compensation for Directors paid by the Company		0.49%	0.64%
Ratio of compensation for Directors paid by all companies listed in the Consolidated Financial Statements		0.50%	0.64%
Ratio of compensation for Managers such as Vice President or above paid by the Company		1.26%	3.43%
Ratio of compensation for Managers such as Vice President or above paid by all companies listed in the Consolidated Financial Statements		1.27%	3.51%

2. Policies, standards, and packages for payment of compensation, as well as the procedures followed for determining the compensation, and their linkages to business performance and future risk exposure.

- (1) Compensation for Company Directors have been authorized for distribution by the Board of Directors pursuant to the Company's Articles of Association, based on individual Director's level of participation and contributions to Company operations, and have been paid pursuant to the "Compensation policy to the directors and functional committee members " which is in reference to domestic and overseas industry standards. When earnings are present, the Board of Directors will resolve on the amount of Directors' remunerations based on the Company's Articles of Association.
- (2) Appointment, termination, and compensation for the Company's President and Vice presidents are handled in accordance with Company policies. Standard of compensation are set in accordance with the "Principles of Compensation Policy for Managers" established by the Remuneration Committee and the Board of Directors. The Remuneration Committee will set the compensations and submit to the Board's approval on an annual basis.
- (3) The Company's major compensation principle is to link job functionalities with performance results, and to provide competitive salary packages to attract, retain and cultivate talent over the long-term, to reflect upon the Company's management risks and the Company's governance structure. To positively reflect the shareholders' long-term value, the Company does not use short-term profitability as the sole indicator for compensations and performance.

IV. Implementation of Corporate Governance

(I) Operations of the Board of Directors

The Company had convened 6 Board of Directors meetings in 2017 with the following attendance:

Title	Name	Number of actual attendance	Number of proxy attendance	Actual attendance rate (%)	Note
Chairman and CEO	Shuang-Lang (Paul) Peng	6	0	100	-
Director	Kuen-Yao (K.Y.) Lee	6	0	100	-
Director	BenQ Foundation Representative: Kuo-Hsin (Michael) Tsai	6	0	100	-
Director	Qisda Corporation Representative: Peter Chen	6	0	100	-
Independent Director	Vivien Huey-Juan Hsieh	6	0	100	-
Independent Director	Mei-Yueh Ho	6	0	100	-
Independent Director	Ding-Yuan Yang	6	0	100	-
Independent Director	Chin-Bing (Philip) Peng	6	0	100	-
Independent Director	Yen-Shiang Shih	6	0	100	-

Other items that shall be recorded:

- I. When one of the following situations occurred to the operations of the board, state the date and term of the Board meeting, content of proposals, opinions of all Independent Directors and the Company's actions in response to the opinions of the Independent Directors:
 - (I) Matters included in Article 14-3 of the Securities and Exchange Act: regulations from Article 14-3 is not applicable since the Company has already established an Audit Committee. For explanations on matters stipulated in Article 14-5 of the Securities and Exchange Act, please see Operations of the Audit Committee (Page 24).
 - (II) In addition to the aforementioned matters, any other resolutions from the Board of Directors where an Independent Director expressed a dissenting or qualified opinion that has been recorded or stated by writing: None.
- II. When Directors abstain themselves for being a stakeholder in certain proposals, the name of the Directors, the content of the proposal, reasons for abstentions and the results of voting counts should be stated.

January 25, 2017 Board of Directors:

 - I. Proposal for approving the 2016 distribution of incentive bonus for senior managerial officers: pursuant to Rules of Procedure for Board of Directors Meetings to avoid conflict of interest, Chairman Shuang-Lang (Paul) Peng and Director Kuo-Hsin (Michael) Tsai have abstained from the discussion and vote of the proposal since they also serve in concurrent managerial roles at the Company. The proposal was approved without dissent by all other Directors in attendance.

February 13, 2017 Board of Directors:

 - I. Proposal for approving the 2016 compensation distributions to directors and senior managerial officers: pursuant to Rules of Procedure for Board of Directors Meetings to avoid conflict of interest, Chairman Shuang-Lang (Paul) Peng and Director Kuo-Hsin (Michael) Tsai have abstained from the discussion and vote of the proposal since they also serve in concurrent managerial roles at the Company. The proposal was approved without dissent by all other Directors in attendance.
 2. Proposal for approving the donations: pursuant to Rules of Procedure for Board of Directors Meetings to avoid conflict of interest, Chairman Shuang-Lang (Paul) Peng, Director Kuen-Yao (K.Y.) Lee, Peter Chen, Representative of Qisda Corporation, and Kuo-Hsin (Michael) Tsai Representative of BenQ Foundation, have abstained from the discussion and the vote of the proposal because they also serve in concurrent roles as either Directors or representatives for BenQ Foundation. The proposal was approved without dissent by all other Directors in attendance.

July 25, 2017 Board of Directors:

 - I. Proposal for approving the distribution of 2016 employees' remuneration for senior managerial officers: pursuant to Rules of Procedure for Board of Directors Meetings to avoid conflict of interest, Chairman Shuang-Lang (Paul) Peng and Director Kuo-Hsin (Michael) Tsai have abstained from the discussion and vote of the proposal since Chairman Peng concurrently serves as the Company's CEO, and Director Tsai concurrently serves as the Company's President and COO. The proposal was approved without dissent by all other Directors in attendance.

October 25, 2017 Board of Directors:

 - I. Proposal for approving the Company to lend capital to AU Optronics (Kunshan) Co., Ltd.: pursuant to Rules of Procedure for Board of Directors Meetings to avoid conflict of interest, Chairman Shuang-Lang (Paul) Peng has abstained from the discussion and vote of the proposal since he concurrently serves as the Director of AU Optronics (Kunshan) Co., Ltd. The proposal was approved without dissent by all other Directors in attendance and in accordance with the regulations set forth by the Board of Directors.
 2. Proposal for approving the Company to cancel the bank guarantee against the bank loan to AU Optronics (Kunshan) Co., Ltd. pursuant to Rules of Procedure for Board of Directors Meetings to avoid conflict of interest, Chairman Shuang-Lang (Paul) Peng has abstained from the discussion and vote of the proposal since he concurrently serves as the Director of AU Optronics (Kunshan) Co., Ltd. The proposal was approved without dissent by all other Directors in attendance.
 3. Proposal for approving the Company, Konly Venture Corp., and Ronly Venture Corp. to dispose the common stocks of Darwin Precisions Corporation: pursuant to Rules of Procedure for Board of Directors Meetings to avoid conflict of interest, Chairman Shuang-Lang (Paul) Peng and Independent Director Vivien Huey-Juan Hsieh have abstained from the discussion and vote of the proposal since Chairman Peng concurrently serves as a Director for Darwin Precisions and Independent Director Hsieh concurrently serves as an Independent Director for Darwin Precisions. The proposal was approved without dissent by all other Directors in attendance and in accordance with the regulations set forth by the Board of Directors.
 4. Proposal for approving the Company to invest in the common stocks: pursuant to Rules of Procedure for Board of Directors Meetings to avoid conflict of interest, Chairman Shuang-Lang (Paul) Peng, Director Kuen-Yao (K.Y.) Lee, Peter Chen, Representative of Qisda Corporation, and Kuo-Hsin (Michael) Tsai, Representative of BenQ Foundation, have abstained from the discussion and vote of the proposal as the above Board members also hold concurrent Director or Corporate Director Representative positions in the Company. The proposal was approved without dissent by all other Directors in attendance.

February 6, 2018 Board of Directors:

 - I. Proposal for approving the Company to provide the bank guarantee against the bank loan to AU Optronics (Kunshan) Co., Ltd.: pursuant to Rules of Procedure for Board of Directors Meetings to avoid conflict of interest, Chairman Shuang-Lang (Paul) Peng has abstained from the discussion and vote of the proposal since he concurrently serves as the Director of AU Optronics (Kunshan) Co., Ltd. The proposal was approved without dissent by all other Directors in attendance.
 2. Proposal for approving the 2017 compensation distributions to directors and senior managerial officers: pursuant to Rules of Procedure for Board of Directors Meetings to avoid conflict of interest, each Director has abstained from the discussion and vote of the proposal of his/her part because it's the proposal for directors' compensation. Chairman Shuang-Lang (Paul) Peng and Director Kuo-Hsin (Michael) Tsai, Representative of BenQ Foundation, have abstained from the discussion and vote of the

- proposal since they also serve in concurrent managerial roles at the Company. The proposal was approved without dissent by all other Directors in attendance.
3. Proposal for approving the donations: pursuant to Rules of Procedure for Board of Directors Meetings to avoid conflict of interest, Chairman Shuang-Lang (Paul) Peng, Director Kuen-Yao (K.Y.) Lee and Director Peter Chen, have abstained from the discussion or the vote for the proposal because they also serve in concurrent roles as Directors for BenQ Foundation. The proposal was approved without dissent by all other Directors in attendance.
- III. Targets for strengthening the functions of the Board of Directors in the current and the most recent year (e.g., setting up an Audit Committee and enhancing information transparency) and evaluation of target implementation:
1. The Company's Board of Directors' duties include supervising the Company's strategy, monitoring the management and the operation and arrangement of corporate governance system. It is also responsible for the Company and the shareholders, and shall exercise its powers in accordance with the law, regulations, Articles of Association or the resolutions of the Shareholders' Meetings.
 2. Each of the Company's Board meetings is attended by at least one Independent Director, and in the most recent year up to the publication date of the Annual Report, all Independent Directors had attended the Board meetings when matters concerning resolutions from the Board of Directors in Article 7 of the Rules of Procedure for Board of Directors Meetings.
 3. The Company has established an Audit Committee on June 13, 2007 to carrying out duties concerning the Securities and Exchange Act, Company Act, and other legal regulations. Please see Page 24 of the Annual Report for operations of the Audit Committee.
 4. The Company has established a Remuneration Committee on August 30, 2011 to regularly evaluate and establish the salaries and compensation for Directors and managers, as well as to regularly review the performance of Directors and managers as well as the policies, systems, standards, and structures of their salaries and compensation. Please see Page 36 of the Annual Report for operations of the Remuneration Committee.
 5. The Company held re-elections of its Directors at the Annual General Meeting on June 16, 2016. Nine seats of Directors were elected, including five seats of Independent Directors. To strengthen the functionality of the Board and corporate governance, the seats of Independent Directors account for majority of all Directors.
 6. Please see Page 38 of the Annual Report for the goals and implementations of the Company's Sustainability Committee.

(II) Operations of the Audit Committee

The Company had convened nine Audit Committee meetings in 2017 with the following attendance:

Title	Name	Number of actual attendance	Number of proxy attendance	Rate of actual attendance (%)	Note
Convener	Vivien Huey-Juan Hsieh	9	0	100	-
Member	Mei-Yueh Ho	9	0	100	-
Member	Ding-Yuan Yang	9	0	100	-
Member	Chin-Bing (Philip) Peng	9	0	100	-
Member	Yen-Shiang Shih	9	0	100	-

Other items that shall be recorded:

I. When one of the following situations has occurred to the operations of the Audit Committee, state the date and term of the Board meeting, content of proposals, opinions of all members of the Audit Committee and the Company's actions in response to the opinions of the Audit Committee:

(I) Matters included in Article 14-5 of the Securities and Exchange Act (please see III. Material Decisions from the Shareholders' Meeting and the Board of Directors in the Annual Report): after obtaining consent from more than half members of the Audit Committee, the resolutions are submitted for approval to the Board of Directors. No condition in which consent from the Audit Committee had not been received, but the resolution had been approved by two-thirds of all Board of Directors members had occurred.

(II) Except the items in the preceding issues, other resolutions which was not approved by the Audit Committee but approved by two-thirds of all the Director: None.

II. Ways in which Independent Directors have abstained from motions that pose a conflict of interest, the Independent Director's name, the content of the motion, cause of the conflict of interest, and the circumstances of the vote shall be elaborated: None.

III. Communication between the Independent Director and the internal audit manager or CPAs (shall include material matters, methods, and results of communication on the finances and state of business of the Company):

(1) The Company regularly convenes Audit Committee meetings. Where necessary, CPAs, internal audit manager, and relevant executives are also invited to the meeting.

(2) Internal audit manager are required to submit audit reports to the Audit Committee based on annual audit plan on a regular basis, whereas the Audit Committee also conducts regular evaluation on the Company's internal control system, internal auditors and their work performance.

(3) Audit Committee regularly communicates with the Company's CPAs every year for review or verification results of the quarterly financial statements and other communication matters required by law. The Audit Committee also undertakes independence review on the selection of the CPA and the CPA's audit and non-audit service provisions.

(III) State of corporate governance, gaps with Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies, and the cause of the said gaps

Assessed items		Current Operation (Note 1)			Gaps with the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies, and the cause of the said gaps
		Yes	No	Summary	
Does the Company establish and disclose the Corporate Governance Best Practice Principles based on "Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies"?		✓		The Company has established "Corporate Governance Principles" which aims at protecting the shareholders' rights, enhancing the functions of the Board of Directors, respecting stakeholders' rights, and improving information transparency. Please refer to the Company's official website for the Corporate Governance stipulated by the Company.	No gaps
Shareholding structure & shareholders' rights	Does the Company establish an internal operating procedure to deal with shareholders' suggestions, doubts, disputes and litigation, and implement based on the procedure?	✓		The Company has established "Procedures to Handle Suggestions, Inquiries, Disputes and Litigation from Shareholders", setting up spokesperson and acting spokesperson system in order to ensure that information that may affect shareholders' decision-making can be timely and reasonably disclosed. Share Affairs and Investor Relations are the designated departments to handle such tasks, and designated mail inbox has been set up to receive suggestions, inquiries and disputes from shareholders. Our Legal Department will appropriately handle any litigation from shareholders in accordance with relevant laws.	No gaps
	Does the Company possess the list of its major shareholders who control the Company substantially as well as the ultimate controller of these major shareholders?	✓		The Company reports changes in number of shares held by internal personnel (including Directors, managers, and major shareholders holding 10% or more shares) on the designated Market Observation Post System (MOPS) website by the Financial Supervisory Commission on a monthly basis, and maintains positive relationships with investors.	No gaps
	Does the Company establish and execute the risk management and firewall system with its affiliates?	✓		The Company has established "Procedures to Manage Subsidiaries" and "General Operating Guidelines for Trading with Related Parties" to establish and implement firewalls and risk control mechanism with its affiliates. The Company has no major difference in procurement/sell prices and payment terms between trading with related parties and non-related parties.	No gaps
	Does the Company establish internal rules against insiders trading securities with undisclosed information?	✓		The Company has established "Management Methods for Prevention of Insider Trading" to prohibit internal personnel from buying or selling securities by using undisclosed information to the public, and as reference for the Company's handling and disclosure of material information, the Company also reviews the Procedures from time to time to comply with present laws and practical management needs. The Procedures can be found on the Company's website.	No gaps

Assessed items		Current Operation (Note 1)			Gaps with the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies, and the cause of the said gaps																																																																											
		Yes	No	Summary																																																																												
Composition and Responsibilities of the Board of Directors	Does the Board develop and implement a diversified policy for the composition of its members?	✓		<p>Pursuant to the Company's "Corporate Governance Principles," the composition of the Board of Directors should take into consideration the policy of diversity. Directors who serve concurrently as the Company's managers should not exceed one third of all Directors and appropriate diversification guidelines have been established based on Company operations, business model, and development requirements. These guidelines stipulate that Directors should be assessed by standards including but not limited to the following two aspects: 1. basic qualifications and value: gender and age; 2. professional knowledge and skills: professional background, competencies, and industry experiences etc.</p> <p>Implementations of diversity in composition of the Board of Directors in practice:</p> <table border="1"> <thead> <tr> <th rowspan="2">Name</th> <th rowspan="2">Gender</th> <th colspan="2">Professional knowledge and skills</th> <th colspan="3">Age</th> </tr> <tr> <th>Industry or Technology</th> <th>Law, finance, or accounting</th> <th>Below 55 yrs old</th> <th>55-65 yrs old</th> <th>66 yrs old or above</th> </tr> </thead> <tbody> <tr> <td>Shuang-Lan g (Paul) Peng</td> <td>Male</td> <td>✓</td> <td></td> <td></td> <td>✓</td> <td></td> </tr> <tr> <td>Kuen-Yao (K.Y.) Lee</td> <td>Male</td> <td>✓</td> <td></td> <td></td> <td>✓</td> <td></td> </tr> <tr> <td>Kuo-Hsin (Michael) Tsai</td> <td>Male</td> <td>✓</td> <td></td> <td>✓</td> <td></td> <td></td> </tr> <tr> <td>Peter Chen</td> <td>Male</td> <td>✓</td> <td></td> <td></td> <td>✓</td> <td></td> </tr> <tr> <td>Vivien Huey-Juan Hsieh</td> <td>Female</td> <td>✓</td> <td>✓</td> <td></td> <td>✓</td> <td></td> </tr> <tr> <td>Mei-Yueh Ho</td> <td>Female</td> <td>✓</td> <td></td> <td></td> <td></td> <td>✓</td> </tr> <tr> <td>Ding-Yuan Yang</td> <td>Male</td> <td>✓</td> <td></td> <td></td> <td></td> <td>✓</td> </tr> <tr> <td>Chin-Bing (Philip) Peng</td> <td>Male</td> <td>✓</td> <td>✓</td> <td></td> <td>✓</td> <td></td> </tr> <tr> <td>Yen-Shiang Shih</td> <td>Male</td> <td>✓</td> <td></td> <td></td> <td></td> <td>✓</td> </tr> </tbody> </table>	Name	Gender	Professional knowledge and skills		Age			Industry or Technology	Law, finance, or accounting	Below 55 yrs old	55-65 yrs old	66 yrs old or above	Shuang-Lan g (Paul) Peng	Male	✓			✓		Kuen-Yao (K.Y.) Lee	Male	✓			✓		Kuo-Hsin (Michael) Tsai	Male	✓		✓			Peter Chen	Male	✓			✓		Vivien Huey-Juan Hsieh	Female	✓	✓		✓		Mei-Yueh Ho	Female	✓				✓	Ding-Yuan Yang	Male	✓				✓	Chin-Bing (Philip) Peng	Male	✓	✓		✓		Yen-Shiang Shih	Male	✓				✓	No gaps
Name	Gender	Professional knowledge and skills		Age																																																																												
		Industry or Technology	Law, finance, or accounting	Below 55 yrs old	55-65 yrs old	66 yrs old or above																																																																										
Shuang-Lan g (Paul) Peng	Male	✓			✓																																																																											
Kuen-Yao (K.Y.) Lee	Male	✓			✓																																																																											
Kuo-Hsin (Michael) Tsai	Male	✓		✓																																																																												
Peter Chen	Male	✓			✓																																																																											
Vivien Huey-Juan Hsieh	Female	✓	✓		✓																																																																											
Mei-Yueh Ho	Female	✓				✓																																																																										
Ding-Yuan Yang	Male	✓				✓																																																																										
Chin-Bing (Philip) Peng	Male	✓	✓		✓																																																																											
Yen-Shiang Shih	Male	✓				✓																																																																										
	Does the Company voluntarily establish other functional committees in addition to the Remuneration Committee and the Audit Committee?	✓		<p>Besides having established Audit Committee and Remuneration Committee, the Company has also set up an inter-departmental Sustainability Committee. As to the composition and responsibilities of the Sustainability Committee, please see "VII. for Review, Analysis, Risk Factors of Financial Position and Performance" of this Annual Report (Page 98).</p>	No gaps																																																																											

Assessed items	Current Operation (Note 1)			Gaps with the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies, and the cause of the said gaps
	Yes	No	Summary	
Does the Company establish a standard to measure the performance of the Board, and implement it annually?	✓		<p>The Company has established "Methods to Evaluate Performance of Directors," which has clearly established that the Board of Directors shall undertake internal performance evaluation for at least once in each year, and evaluation from external independent entities or external experts and scholars shall be undertaken at least once every three years.</p> <p>The members of the Board of Directors and responsible departments for Board of Directors meetings shall undertakes "Board of Directors internal self-assessment" for the overall Board of Directors at the end of each year. The scope of such assessment will include 47 indicators that fall under five aspects: level of participation in Company operations, enhancing quality of decision-making from the Board, composition and structure of the Board, nomination of Directors and continuing studies as well as internal control. Assessment results will be classified into three levels: Exceeding Expectations, Meets Expectations, and Room for Improvement.</p> <p>The Board of Directors internal self-assessment results for 2017 had been Exceeding Expectations, indicating the effectiveness in functionality and operations of the Board of Directors.</p> <p>Pursuant to Article 15 of the Articles of Association, compensation of the Company's Directors shall not exceed 1% of the Company's profits for the year. Remuneration Committee and the Board of Directors will establish compensations for Directors based on the Company's management results and " compensation policy to the directors and functional committee members " and in reference to the Directors' performance evaluation results. Directors' performance evaluation in 2017 indicated Exceeding Expectations. Upon resolution from the Remuneration Committee and the Board of Directors, Directors' compensations in 2017 had been fully distributed in accordance with " compensation policy to the directors and functional committee members."</p>	No gaps

Assessed items	Current Operation (Note 1)			Gaps with the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies, and the cause of the said gaps
	Yes	No	Summary	
Does the Company regularly evaluate the independence of CPAs?	✓		<p>The Company's Audit Committee regularly evaluates the independence of CPAs every year, and submits the evaluation results to the Board of Directors.</p> <p>Below is a summary of the evaluation mechanism:</p> <ol style="list-style-type: none"> 1. CPA of the Company is not related party with either the Company or its Directors. 2. The Company abides by the Corporate Governance Principles and undertakes rotation of CPA. 3. Pursuant to the Sarbanes-Oxley Act, the accounting firm of the CPA need to obtain approval from the Audit Committee before undertaking annual audit and other projects commission. 4. Pursuant to the Sarbanes-Oxley Act, the CPA will report the content of implementation on reviews and audits and compliance of independence to the Audit Committee on a quarterly basis. 5. Regularly obtain the Declaration of Independence from CPA. <p>The below is the evaluation result:</p> <ol style="list-style-type: none"> 1. Independence between the CPA and the Company complies with the CPA Act of the Republic of China, Professional Ethics for Certified Public Accountant, and the regulations of SEC and PCAOB of the United States. 2. The Company has not commissioned the same CPA for five consecutive years. 	No gaps

Assessed items	Current Operation (Note 1)			Gaps with the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies, and the cause of the said gaps
	Yes	No	Summary	
Does the Company have a dedicated (or part-time) unit/staff member in charge of the Company' corporate governance affairs (including but not limited to providing information required for Director/supervisor's business operations, processing board/shareholder meetings in compliance with the law, applying for the Company registration/alteration registration and producing meeting minutes of Board/Shareholders' Meetings)?	✓		<p>To protect shareholders' rights and to reinforce the functionalities of the Board of Directors, corporate governance is supervised and planned by the Risk Governance Team of the Sustainability Committee. Its duties include providing information needed by the Directors and the Audit Committee in carrying out their respective duties and the latest legal development pertaining to Company operations to assist the Directors and Audit Committee in legal compliance. The chairperson of the Risk Governance Team is served by the Chief Financial Officer (CFO), and tasks relevant to corporate governance (including matters relevant to Board meetings and Shareholders' Meetings, Company registration and alteration registration, preparing meeting minutes for Board meetings and Shareholders' Meetings, and regularly reporting the operations of corporate governance to the Board in each year) is carried out by secretary of the Board of Directors and secretary of the Risk Governance team. Please see below for implementations in 2017, and the following have also been submitted to the first session of the Board of Directors meeting in 2018:</p> <ol style="list-style-type: none"> 1. Six sessions of the Board of Directors meetings, nine sessions of the Audit Committee meetings, and five Remuneration Committee meetings have been held in 2017. Average attendance rate had been 100%, and majority of all Directors have attended the 2017 Shareholders' Meeting. 2. All members of the Board have completed at least six credits of continuing studies. 3. Independent Directors comply with the regulation that "it is not advised to serve as Directors (including Independent Directors) or supervisors more than five TWSE/TPEX Listed Companies concurrently." 4. Company Directors' self-assessment results indicated 'Exceeding Expectations,' serving as evidence that functionalities and operations of Company's Board of Directors are effective. 5. The Company's Audit Committee Mailbox did not receive any grievances. 6. The Company has filed for liability insurance for its Directors and important employees, and reports to the Board of Directors after the insurance has been renewed. 7. The Company has established functional proxies for the Accounting Manager and accounting staff responsible for compiling the financial statements, and these employees have undertaken 12 hours and 6 hours of advanced studies respectively in accordance with regulations 	No gaps

Assessed items	Current Operation (Note 1)			Gaps with the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies, and the cause of the said gaps
	Yes	No	Summary	
Does the Company set up channels of communication for stakeholders (including but not limited to shareholders, employees, customers and suppliers), dedicate a section of the Company's website for stakeholder affairs and adequately respond to stakeholders' inquiries on significant CSR issues?	✓		The Company has established a spokesperson system, and also provides the latest information and communication channels pertaining to material CSR topics through multiple channels including the Stakeholder section of the Company's website, external seminars, industry-government-academia conferences, and customer satisfaction surveys.	No gaps
Does the Company appoint a professional shareholder service agency to deal with Shareholders' Meetings?	✓		The Company has appointed Stock-Affairs Agency Department of Taishin International Bank as its agency to carry out tasks relevant to Shareholders' Meetings.	No gaps

Assessed items		Current Operation (Note 1)			Gaps with the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies, and the cause of the said gaps
		Yes	No	Summary	
Information Disclosure	Does the Company have a corporate website to disclose both financial standings and the status of corporate governance?	✓		<p>1. Disclosure of financial information Investor Relations section has been set up on both Company's Chinese and English websites (http://AUO.com), and the Company regularly updates financial information as reference for investors.</p> <p>2. Disclosure of business information: Product Introduction and Technical R&D sections have been set up on the Company's website, providing product and business information on a timely basis, and the Company also uploads the latest business activities for the public at all times.</p> <p>3. Disclosure of corporate governance information: The composition and operations of the Company's internal audit, material corporate governance documents (including Articles of Association, Rules and Procedure for Shareholders Meetings, Rules for the Election of Directors, Handling Procedures for Acquisition or Disposition of Assets, Handling Procedures for Conducting Derivative Transactions, Handling Procedures for Providing Endorsements and Guarantees for Third Parties, Handling Procedures for Capital Lending, Audit Committee Charter, Remuneration Committee Charter, Management Methods for Prevention of Insider Trading, Policy and Procedures for Complaints and Concerns Regarding Accounting, Internal Accounting Controls or Auditing Matters, Guidelines for the Adoption of Codes of Ethical Conduct for Directors and Senior Management, Corporate Governance Principles, Corporate Social Responsibility Principles, and Ethical Corporate Management Principles, as well as the Corporate Social Responsibility (CSR) Report) are all disclosed on the Company's website.</p> <p>The Company's American Depositary Receipts (ADR) is traded on the New York Stock Exchange (NYSE); hence, the Company shall also abide by relevant regulations from the NYSE. According to the NYSE Principles for Listed Companies, the Company shall disclose material gaps between the Company's corporate governance in practice and implementations from its U.S. companies. For disclosure on the above-mentioned information, please see the following website: https://www.auo.com/zh-TW/Stock_Services/index/Material_Information_and_Announcement.</p>	No gaps

Assessed items	Current Operation (Note 1)			Gaps with the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies, and the cause of the said gaps
	Yes	No	Summary	
Does the Company have other information disclosure channels (e.g. building an English website, appointing designated people to handle information collection and disclosure, creating a spokesperson system, uploading the proceedings of investor conferences)?	✓		<p>1. Appointed designated personnel to collect and disclose Company information: Information collection and disclosure from the Company is done by specific personnel, and the Company also announces the latest and accurate Company information to the public through press release or material information disclosure.</p> <p>2. Implementation of the spokesperson system: The Company has appointed CFO Benjamin Tseng to serve as Spokesperson, and Divisional Head Gwen Ting from Corporate Communication Division to serve as Deputy Spokesperson.</p> <p>3. Proceedings from the Investors' Conference is uploaded to the Company website: Audio recordings and PowerPoint slides from the Company's Investors' Conference are all uploaded to the Company website. The above-mentioned information can be found at the Investor Relations section of the website. Besides announcing financial and business operations information from the Investors' Conference on the Investor Relations section, the Company has also uploaded the information to MOPS pursuant to regulations from the Taiwan Stock Exchange Corporation (TWSE).</p>	No gaps
Does the Company have any other material information to facilitate in understanding the functions of its corporate governance?	Employee Rights	✓	One of the Company's management missions is to respect human nature and to care for its employees. Various benefits programs have been established, and Company employees have also formed a Welfare Committee. As to the employees' rights, please see "V. Operational Highlights" of this Annual Report, which provides information on "Labor-Management Relation" (Pages 83-86).	No gaps
	Caring of employees	✓		No gaps
	Investor relations	✓	To achieve openness and information transparency, the Company has delegated specific personnel to announce information including finance, business, and changes from internal personnel's' shareholding status on the MOPS on a timely basis in compliance with the related regulations.	No gaps
	Supplier Relationship	✓	The Company has established Supplier Evaluation Procedures, and relevant departments are responsible for reviewing items including the suppliers' quality, servicing standards, green products, environmental, safety, and health risks, Code of Ethical Conduct and social responsibility. Only those who have passed the evaluation can become partners to the Company. Additionally, to strengthen the communications with suppliers, besides having set up a reporting system for breach of integral business operations (http://integrity.abl.auo.com) as a channel of communication and grievance for suppliers with the Company, multiple other systems have also been set up to strengthen the effectiveness of communications between both parties and to enhance information transparency.	No gaps

Assessed items	Current Operation (Note 1)			Gaps with the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies, and the cause of the said gaps
	Yes	No	Summary	
Rights of Stakeholders	✓		For the Company's stakeholders (shareholders and investors, customers, employees, neighborhood and community, environmental groups, suppliers, outsourced agencies, contractors, NGO, experts and scholars from the industry and government, financial and insurance institutions and the media, etc.), multiple channels have also been established to provide the latest information on the Company. A Stakeholders section has also been set up on the Company's website, serving as a channel of communications to protect the legal rights from both parties.	No gaps
Directors' continuing education	✓		1. The Company has undertaken the following training pursuant to the "Directions for the Implementation of Continuing Education for Directors and Supervisors of TWSE Listed and TPEX Listed Companies" from TWSE. Please see the following table "Continuing Education and Training for the Company Directors in 2017" for details. 2. The Company's managers may hold concurrent positions as Directors or supervisors of the Company's Subsidiaries. As to continuing education for the managers, please see "III. Other Material Information" of this Annual Report, which provides information on "Other important information to achieve better understanding on the state of corporate governance activities"(Page 53).	No gaps
The implementation of risk-management policies and risk evaluation standard	✓		Please see "VII. Review, Analysis, Risk Factors of Financial Position and Performance" for details (Pages 98-103).	No gaps
The implementation of customer relations policies	✓		The Company normally maintains close contact with its customers, and constantly informs clients of products that satisfy the clients' interest. The Company also ensures that its products can achieve the expected reliability and quality. Moreover, the Company also actively participates in the clients' CSR promotional plans to blend new perspectives and methods into the Company's management system in practice.	No gaps
Purchasing liability insurance for Company Directors	✓		The Company has filed for liability insurance for its Directors and managers. The Company regularly evaluates the insurance limit on an annual basis, and has begun reporting the renewal of liability insurance to the Board of Directors since 2017.	No gaps

Please provide information on the status of improvement regarding the results of corporate governance evaluation published by the TWSE Corporate Governance Center in the most recent year. For improvements not yet implemented, state the areas and policies the Company has set as priority for improvement:

Since 2015, the Company has received positive recognition from the TWSE in the form of being ranked as Top 20% in the corporate governance assessment for three consecutive years. The Company has also amended its "Corporate Governance Principles" in accordance with the amendments to the Corporate Governance Best Practice Principles for TWSE/TPEX Listed Companies from the TWSE on September 30, 2016. The Company continues to demonstrate potential for sustainable development in economic, environmental, and social sectors. The Company shall also maintain its core business values for honesty and integrity and shoulder the long-term responsibilities for sustainable development for the benefit of the stakeholders and the society.

Note 1: Operations are based on the Company's practices, and either "Yes" or "No" will be ticked. Please see the content of the abstract for explanations.

Continuing Education and Training for the Company Directors in 2017

Title	Name	Date	Organizer	Course Name	Length of the curriculum
Chairman and CEO	Shuang-Lang (Paul) Peng	2017.08.15	Taiwan Corporate Governance Association	Information Security Governance under Technology Development	3 hours
		2017.10.25	Taiwan Corporate Governance Association	Management Practices for Risk of Fraud	3 hours
Director	Kuen-Yao (K.Y.) Lee	2017.08.15	Taiwan Corporate Governance Association	Information Security Governance under Technology Development	3 hours
		2017.11.16	Taiwan Corporate Governance Association	Management Practices for Risk of Fraud	3 hours
Director	Representative of BenQ Foundation: Kuo-Hsin (Michael) Tsai	2017.07.25	Taiwan Corporate Governance Association	Information Security Governance under Technology Development	3 hours
		2017.10.25	Taiwan Corporate Governance Association	Management Practices for Risk of Fraud	3 hours
Director	Representative of Qisda Corporation: Peter Chen	2017.07.25	Taiwan Corporate Governance Association	Information Security Governance under Technology Development	3 hours
		2017.11.16	Taiwan Corporate Governance Association	Management Practices for Risk of Fraud	3 hours
Independent Director	Vivien Huey-Juan Hsieh	2017.04.14	Taiwan Institute of Directors	Challenges and Top-Priority Assignments for the Audit Committee	3 hours
		2017.07.25	Taiwan Corporate Governance Association	Information Security Governance under Technology Development	3 hours
		2017.10.25	Taiwan Corporate Governance Association	Management Practices for Risk of Fraud	3 hours
Independent Director	Mei-Yueh Ho	2017.04.14	Taiwan Institute of Directors	Challenges and Top-Priority Assignments for the Audit Committee	3 hours
		2017.07.25	Taiwan Corporate Governance Association	Information Security Governance under Technology Development	3 hours
		2017.10.02	Taiwan Academy of Banking and Finance	Anti-Money Laundering in Trading and Financing from International Financial Institutions (Session I)	3 hours
		2017.10.25	Taiwan Corporate Governance Association	Management Practices for Risk of Fraud	3 hours
Independent Director	Ding-Yuan Yang	2017.04.14	Taiwan Institute of Directors	Challenges and Top-Priority Assignments for the Audit Committee	3 hours
		2017.07.25	Taiwan Corporate Governance Association	Information Security Governance under Technology Development	3 hours
		2017.10.25	Taiwan Corporate Governance Association	Management Practices for Risk of Fraud	3 hours
Independent Director	Chin-Bing (Philip) Peng	2017.04.14	Taiwan Institute of Directors	Challenges and Top-Priority Assignments for the Audit Committee	3 hours
		2017.07.25	Taiwan Corporate Governance Association	Information Security Governance under Technology Development	3 hours
		2017.10.25	Taiwan Corporate Governance Association	Management Practices for Risk of Fraud	3 hours
Independent Director	Yen-Shiang Shih	2017.04.14	Taiwan Institute of Directors	Challenges and Top-Priority Assignments for the Audit Committee	3 hours
		2017.07.25	Taiwan Corporate Governance Association	Information Security Governance under Technology Development	3 hours
		2017.08.01	Taiwan Institute of Directors	Tax Administration in Anti-Tax Avoidance Era	3 hours
		2017.10.25	Taiwan Corporate Governance Association	Management Practices for Risk of Fraud	3 hours

(IV) Composition, duties, and operations of the Company's Remuneration Committee:

I. Information on the members of the Remuneration Committee

December 31, 2017

Status	Name	Condition	Has more than 5 years of work experience and the following professional qualifications An instructor or higher position in a private or public college or university in the field of business, law, finance, accounting, or the business sector of the Company	A judge, prosecutor, lawyer, CPA or other specialist or technical professional who are necessary for the Company's business and have been certified by national examinations and licensed by the competent authorities	Work experience necessary for business administration, legal affairs, finance, accounting, or business sector of the Company	Meet conditions of independence (Note 1)								Number of other public companies where the member concurrently serves as member in Remuneration Committee	Note
						1	2	3	4	5	6	7	8		
Independent Director	Chin-Bing (Philip) Peng				✓	✓	✓	✓	✓	✓	✓	✓	✓	0	
Independent Director	Vivien Huey-Juan Hsieh				✓	✓	✓	✓	✓	✓	✓	✓	✓	1	
Independent Director	Ding-Yuan Yang				✓	✓	✓	✓	✓	✓	✓	✓	✓	0	

Note 1: Please add "✓" in the field under each criteria number if the director meets the criteria two years prior to being elected and during his/her term of service.

- (1) Not an employee of the company or any of its affiliates.
 - (2) Not a director or supervisor of the company's affiliates. The same does not apply, however, in cases where the person is an independent director of the company, its parent company, or any subsidiary, as appointed in accordance with the Act or with the laws of the country of the parent or subsidiary.
 - (3) Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of one percent or more of the total number of issued shares of the company or ranking in the top 10 in holdings.
 - (4) Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three subparagraphs.
 - (5) Not a director, supervisor, or employee of a corporate shareholder that directly holds five percent or more of the total number of issued shares of the company or of a corporate shareholder that ranks among the top five in shareholdings.
 - (6) Not a director, supervisor, officer, or shareholder holding five percent or more of the shares, of a specified company or institution that has a financial or business relationship with the company.
 - (7) Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides commercial, legal, financial, accounting services or consultation to the company or to any affiliate of the company, or a spouse. However, members of the Remuneration Committee fulfilling their duties in accordance with Article 7 of the Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded Over the Counter are not limited to these terms.
 - (8) Not been involved in any of situations defined in Article 30 of the Company Act.
2. Responsibilities of the Remuneration Committee:
Committee members must exercise the care of a prudent administrator to fulfill the following duties, and offer recommendations for discussion by the Board of Directors:
- (1) Establishes and periodically reviews the performance evaluation and policies, system, standards, and structure of the compensations for Directors and managers.
 - (2) Periodically evaluates and establishes compensations and benefits for Directors and managers.

3. Operation of Remuneration Committee:

- (1) The Company has a Remuneration Committee composed of three members.
- (2) Term of the current Committee: From June 16, 2016 to June 15, 2019.

The Company had convened five Remuneration Committee meetings in 2017 with the following attendance:

Title (Note)	Name	Number of actual attendance	Number of proxy attendance	Rate of actual attendance (%)	Note
Convener	Chin-Bing (Philip) Peng	5	0	100	-
Members	Vivien Huey-Juan Hsieh	5	0	100	-
Members	Ping-He Yang	5	0	100	-

Other items that shall be recorded:

1.If the Board of Directors chooses not to adopt or revise recommendations proposed by the Remuneration Committee, the date of the Directors' Meeting, session, contents of proposals, results of meeting resolutions, and the Company's disposition of opinions provided by the Remuneration Committee shall be described in detail (also, where the salary and compensation approved by the Directors' Meeting is better than that recommended by the Remuneration Committee, the differences and the reason for the approval shall be described in detail).

January 25, 2017 Board of Directors Meeting (6th Meeting in 8th Term of Board)

(1) Approved the 2017 long-term incentive program for managers. The proposal was passed after some amendments were made to the content by the Board of Directors. Salaries and compensation resolved by the Board were not higher than the suggested amounts by the Remuneration Committee.

2.For the decisions made by the Remuneration Committee, if there are members who hold objection or reservation to a resolution and such objection or reservation is on record or raised through a written statement, the date, session, contents of proposals, all members' opinions, and ways in handling these opinions should be elaborated: none.

Note: Chin-Bing (Philip) Peng, Vivien Huey-Juan Hsieh, and Ping-He Yang were appointed as members of the third term of the Remuneration Committee by the Board of Directors. Chin-Bing (Philip) Peng is to serve as Convener of the Committee on June 16, 2016

- (V) The Company's CSR practices, such as environmental protection, community engagement, social contribution, community service, social welfare, consumer rights, human rights, safety and health, the system and methods used to plan and organize CSR activities and the status of implementation:

Assessed items		Current Operation (Note 1)			Gaps with the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and root causes
		Yes	No	Summary	
Corporate Governance Implementation	Does the Company stipulate CSR policies and systems and review the effectiveness of CSR actions?	✓		<p>1. The Company strives to ensure a worry-free work environment for its employees where employees' rights are protected and respected, and pollution prevention has been implemented in manufacturing processes and products, as well as to fulfill its corporate social responsibility. The Company has established the "AUO Sustainability Policy" through comprehensive consideration of relevant international standards, including SA8000, the University Declaration of Human Rights, Responsible Business Alliance (RBA), and Global Sullivan Principles. The AUO Sustainability Policy includes 12 principles that encompass the three major aspects of corporate governance, environment, and society, and it is carried out and managed by the CSR Committee.</p> <p>2. In consideration that the aspects of CSR shall encompass economic, environmental, and social perspectives, the Company's Board of Directors has also resolved to pass the "Corporate Social Responsibility Principles" in November 2014.</p> <p>3. The Company strives to integrate corporate social responsibility into each level of operation, including policies, internal operating management models, various implementation procedures and training plans. Furthermore, to ensure that clients and other stakeholders can achieve the maximum benefits, the Company also audits and manages its suppliers and contractors.</p>	No gaps
	Does the Company provide educational training on corporate social responsibility on a regular basis?	✓		The Company regularly hosts educational training on CSR relevant topics each year, and integrated CSR course materials into new-employee orientation. Besides requiring employees to participate in online and physical training, the Company also promotes CSR awareness through posters, broadcast, and internal publications. .	No gaps

Assessed items		Current Operation (Note 1)			Gaps with the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and root causes
		Yes	No	Summary	
	Does the Company establish an exclusively (or part-time) dedicated unit for promoting corporate social responsibility? Is the unit authorized by the Board of Directors to implement CSR activities at the executive level? Does the unit report the progress of such activities to the Board of Directors?	✓		<ol style="list-style-type: none"> 1. Sustainability Committee was established in September 2013, and sub-committees have been established based on materiality, under which secretariats are set up to be responsible for the operations of their respective sub-committees. From November 2017, a CSR 2.0 transformation was undertaken to meet with global trends. The chairperson of the Committee is served by the Chairman and CEO, overseeing the operations of seven sub-committees, which are chaired by senior executives. 2. The Committee performs its duties based on the P-D-C-A cycle. Feedback will be given to sub-committees at the end of the year, and they are delegated to evaluate measures and to establish target projects, which will be launched after confirmation from the chairperson at the annual conference during the subsequent year. 3. Sub-committees will report and review their operational results to the chairperson of the Committee, as well as topics of concern from the stakeholders on a quarterly basis. Information will be compiled and submitted to the Board of Directors each year. 	No gaps
	Does the Company establish a reasonable salary remuneration policy, integrate the employee performance appraisal system with its corporate social responsibility policy and set up an effective reward and disciplinary system?	✓		<ol style="list-style-type: none"> 1. To create a workplace that can facilitate its employees to enjoy both work and life, the Company assists employees to achieve work-life balance, and provides compensation systems more competitive than industry standards. 2. The Company assesses salary standards for employees based on the employees' academic background and experiences, professional knowledge and skills, seniority of professional practices, and individual performance. Gender, race, religion, political affiliation, marital status and labor unions have no bearing on salary standards. 3. Employee performance evaluation will be proceeded in accordance with Reward and Punishment Rules from the Company's Human Resources Management Policies. 	No gaps
Sustainable Environment Development	Does the Company endeavor to utilize all resources more efficiently and use renewable materials which have low impact on the environment?	✓		<ol style="list-style-type: none"> 1. The Company strives to adopt green packaging and to design packaging with qualities including easily accessible, light, eco-friendly, easy to recycle, and impact-absorbing through recycled materials. Besides reducing resources, these efforts also help to lower greenhouse gas emissions(GHG). Moreover, the Company also undertake supplier packaging recycling. The Company's design concept, which blends innovation, creativity, with environmental friendliness, has already won numerous awards from both Taiwan and overseas institutions. 2. ISO 50001 Energy Management System has been fully implemented at each of AUO's manufacturing sites. 	No gaps

Assessed items	Current Operation (Note 1)			Gaps with the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and root causes
	Yes	No	Summary	
Does the Company establish proper environmental management systems based on the characteristics of their industries?	✓		<p>1. Product carbon footprint can be reduced through inventory, which calculates the GHG emissions during each stage of a product's life cycle, from raw materials, production, transportation, sales, usage, disposal, and recycle. The Company has also autonomously developed online carbon footprint data management system to create innovative designs, to conserve materials, replace existing materials and reduce carbon footprint.</p> <p>2. The Company has established Environmental Safety, Health and Energy Policies, which encompass six aspects: commitment to legal compliance, reduce environmental burden, promote safety and health, strengthen communications mechanism, foster a culture of sustainability, and to enhance management performance.</p> <p>3. ISO 14001 Environmental Management System has been implemented at all manufacturing sites of the Company.</p>	No gaps

Assessed items	Current Operation (Note 1)			Gaps with the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and root causes
	Yes	No	Summary	
Does the Company monitor the impact of climate change on its operations and conduct greenhouse gas inventory, as well as establishing Company strategies for energy conservation and greenhouse gas reduction?	✓		<p>1. Climate change is a global issue, as well as a challenge for AUO in sustainable operations and management. The Company has adopted globally-recognized operating principles as the basis of GHG reductions and carbon asset management, as well as having proposed the following adaption and mitigation strategies to climate change:</p> <ul style="list-style-type: none"> ● Transparency: Actively participate in international disclosure of carbon information and embrace international standards to improve accuracy and transparency. ● Action: Develop green products, engage in energy efficiency management, as well as promote the rehabilitation and effective utilization of water resources. ● Responsibility: Participate in the public policy-making process as well as support government and international proposals for mitigation of climate change. ● Cooperation: Examine risks and opportunities within the value and supply chains to cooperate with stakeholders on the development of a low-carbon economy. <p>2. The Company has verified GHG since 2003, and external third-party verification has been introduced since 2005. At the beginning of 2010, the Company announced a Declaration of Carbon Footprint Reduction, and by 2012, the Company has achieved the 30% carbon footprint reduction goal from the base year of 2009. The Company has estimated to reduce 1 million metric tons of CO₂e (carbon dioxide emissions) by 2020.</p> <p>3. The Company has responded to the Carbon Information Disclosure Evaluation "Carbon Disclosure Project (CDP)" from the CDP organization since 2007. The content of disclosure includes analysis of risks and opportunities to climate change, GHG verification and external verification results, GHG reduction targets and performance, and management mechanism from an enterprise for carbon emissions. At the same time, the Company also actively responds to its clients' participation in "Supply Chain Carbon Disclosure Project" survey questionnaires.</p> <p>4. The Company has established Scope III GHG (other indirect emissions) inventory and disclosure since 2010. Currently, calculation of GHG emissions from employee travels, employee commute to work, investment, product usage, and waste disposal has been completed, and inventory items will also continue to be expanded.</p>	No gaps

Assessed items		Current Operation (Note 1)			Gaps with the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and root causes
		Yes	No	Summary	
Preserving Public Welfare	Does the Company formulate appropriate management policies and procedures according to relevant regulations and the International Bill of Human Rights?	✓		The Company strives to preserve employee's human rights. Besides establishing AUO Human Rights Policy to promote work protection for working age, working hours, compensation and welfare, humane treatment, non-discrimination, and freedom of association in reference to international labor certifications, the Global Sullivan Principles, UN Guiding Principles on Business & Human Rights, Responsible Business Alliance (RBA), and Labor Standard Act, the Company also strives to design management mechanism to ensure that employees are appropriately cared for. For instance, diverse communication or grievance channels h careful confidentiality for employee identification during grievances or incidents; actively forming a respectful, caring workplace that safeguards human rights, protecting the rights to form unions and collective bargains, and to promote a healthy, positive employer-employee relationship.	No gaps
	Does the Company set up an employee grievance mechanism and channel to handle complaints with appropriate solutions?	✓		To promote a corporate culture of willingness to share and to construct a positive work atmosphere, the Company clearly discloses various systems which employees could utilize to respond/file grievances or suggestions in each of the Company's services. 'Internal Communication Mailbox,' 'General Manager's Mailbox,' 'Audit Committee Mailbox,' 'Grievance Mailbox for Sexual Harassment,' and 'Please help me hotline' have been established under the strictest confidentiality protection to ensure the freedom of employee for being heard and to maintain their anonymity. Monthly meetings, quarterly meetings, labor-management meetings, and Welfare Committee meetings are also regularly held to ensure smooth, barrier-free communications.	No gaps
	Does the Company provide a healthy and safe working environment and organize training on health and safety for its employees on a regular basis?	✓		<ol style="list-style-type: none"> Besides abiding by relevant legal regulations in Taiwan, to provide a safe work environment for employees, all production facilities of the Company have passed the internationally-accredited OHSAS 18001 Occupational Health and Safety Management System certification. The Company has stipulated Chemical Substance Management Principles and continues to update its content based on domestic and overseas legal regulations, environmental assessments, and customer requests, as well as notifying suppliers to comply with relevant regulations to ensure that chemicals provided by suppliers do not contain prohibited substances. The Company has undertaken labor work environment inspection and health checkup pursuant to legal regulations, and has improved the working environment based on results of inspection, provided necessary protection. To effectively enhance the employees' knowledge for environment, safety, and health, the Company has planned seven courses and regularly hosts educational training for the three tiers ranging from general staff, professional staff, to executives. Content of courses include environmental protection, safety and health, emergency response, management system, risk management, social responsibility, and green product and more. 	No gaps

Assessed items	Current Operation (Note 1)			Gaps with the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and root causes
	Yes	No	Summary	
Does the Company set up a communication mechanism with employees on a regular basis, as well as reasonably informing employees of any significant changes in operations that may have an impact on them?	✓		<ol style="list-style-type: none"> 1. In each month, the Chairman personally writes 'Management Message,' which is disseminated to all Company employees through email, to explain about the month's operating status, major accomplishments from each business group, and aspirations from the management team. 2. Business Conference is hosted for executives such as sectional managers and above at each production facility in each quarter to explain about the operating status of each business group. The Chairman or the General Manager will also explain about the Company's important strategic directions and to encourage the staff. 3. Pursuant to legal regulations, labor-management meeting is held at each production facility on a quarterly basis. All employees can propose suggestions to the Company through either representative of employees or employers. 4. Conferences with the General Manager/Heads business groups are hosted every six months, in which production facility and Sectional managers and above are invited to undertake in-depth, face-to-face communications. A total of 254 managers participated in such meetings in 2017, and to-do tasks were tracked and followed-up by responsible departments. 5. Conferences like eABC(executive AUO Bravo Camp), ABC(AUO Bravo Camp) and APC(AUO Power Camp) are held in each year. These tiered, top-down approaches will help all employees to understand the Company's annual management goals and strategic objectives. 6. Welfare Committee convenes monthly meetings to discuss the usage of employee benefits. 7. Conferences are held when material operational changes or large-scale organizational restructuring occur. In these cases, the General Manager will explain the Company's response measures to Sectional managers or above ranks at each production facility. 8. Based on the needs of each business group, employee relation specialists will also undertake organizational observation through random phone or face-to-face interviews to better understand the thoughts of entry-level employees. Reports will be compiled and submitted to the management level as reference information in management. 9. President's Mailbox,' 'Internal Communication Mailbox,' 'Grievance Mailbox for Sexual Harassment,' 'Audit Committee Mailbox,' and 'Welfare Committee Mailbox' have been established as electronic and physical means to communicate with the employees. Each responsible department shall contact the relevant employees within three days of receiving an e-mail/mail to understand the matter and to make necessary responses. 	No gaps

Assessed items	Current Operation (Note 1)			Gaps with the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and root causes
	Yes	No	Summary	
Does the Company provide its employees with career development and training sessions?	✓		<p>The Company has established AUO's Learning College (ALC) based on each functional group to foster the career planning of employees. Training programs have been established (e.g. R&D functions fall under institute of science, manufacturing functions fall under institute of engineering, and management functions fall under the School of Management and more) to systematically and gradually help employees develop their career path.</p> <p>In addition, the Company has also set up Divisional Training executive Committee to foster the professional skills of employees. Internal lecturers will hold classes to effectively pass on their professional knowledge and skill-sets.</p>	No gaps
Does the Company establish any consumer protection mechanisms and appealing procedures regarding research and development, purchasing, producing, operating and service?	✓		<ol style="list-style-type: none"> 1. The Company pays attention to customers' service satisfaction and its corporate image, brand value, and recognition for service quality. Therefore, the Company strives to provide comprehensive product solutions and a wide range of innovative products. To achieve the most efficient services, designated departments will be in charge during each phase of the product, from product development, design, production, transportation, to maintenance. 2. The Company regularly meets and communicates with customers. Customer satisfaction survey is also undertaken on an annual basis to identify the six major aspects that will come into contact with the customers. Designated departments have been assigned to each aspect to establish indicators for satisfaction and objectives to supervise customer satisfaction. If satisfaction data analysis shows that objective has not been met, the designated department will be responsible for carrying out improvement measures, and review will be undertaken by senior executives during management review meetings. 3. The Company has also set up an online service platform to provide product guarantee directly for our customers. Customers can apply for return or refund on the platform based on the guarantee clauses. 	No gaps
Does the Company advertise and label its goods and services according to relevant regulations and international standards?	✓		<ol style="list-style-type: none"> 1. The Company had established an inter-departmental Green Product Team to make necessary responses since the EU had announced the Restriction of the use of Hazardous Substance (RoHS) in 2005. In addition, in response to the commencement of EU's new Registration, Evaluation, and Authorization of Chemical (REACH) policy, the Company has maintained the status of Substances of Very High Concern (SVHCs) in its products to comply with the goal of REACH, 	No gaps

Assessed items	Current Operation (Note 1)			Gaps with the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and root causes
	Yes	No	Summary	
			<p>and regularly collects information on major international environmental policies to seize the latest international trends on control and restrictions.</p> <p>2. The Company's solar products have received International Electrotechnical Commission (IEC) and Electrical Testing Laboratories (ETL) Listed certification, and indicates on the transportation labels that since monitor/display products are not terminal products, if product carbon footprint label are requested by AUO's clients, the Company will provide relevant data per client requests.</p>	
Does the Company assess any record of a supplier's impact on the environment and society before engaging in commercial dealings with the said supplier?	✓		<p>1. To ensure that suppliers and contractors are in compliance with the code of conduct from Responsible Business Alliance (RBA) or local laws, the Company undertakes social environmental responsibility audit and assessment for major suppliers and contractors with environmental and social risks.</p> <p>2. The Company has arranged audit in Taiwan, China, and Singapore to focus on the potential human rights and labor problems in labor contractors and service contractors, and has found that companies in China still have room for improvement in terms of legal compliance, and comeprnsation and welfare are also inadequate. AUO will continue to assist manufacturers in making improvements to ensure that ouremployees are given labor and human rights.</p>	No gaps
Do contracts between the Company and its major suppliers include terms where the Company may terminate or rescind the contract at any time if the said supplier has violated the Company's corporate social responsibility policy and have caused significant impact upon the environment and society?	✓		To ensure suppliers' and contractors' compliance with local laws, the Company undertakes social environmental responsibility audit and assessment for all Tier I suppliers and contractors. If a supplier or contractor is in breach of social environmental responsibility, it would negatively affect the Company's business relationship with AUO.	No gaps
Does the Company implement policies that adequately reflect management performance or results on employee compensations?	✓		<p>1. Article 15 of the Company's Articles of Association has stipulated that employee compensations shall be no less than 5% of the year's profit.</p> <p>2. Based on the Company's 'Procedures for Distributing Bonuses,' and in reference of performance from each business department and individual performance, reasonable compensation will be given to employees upon approval from their respective executives.</p>	No gaps
Reinforcement of information disclosure: Does the Company disclose relevant and reliable information regarding its corporate social responsibility on its website and the Market Observation Post System (MOPS)?	✓		Besides documenting the comprehensive status of the Company's fulfillment of corporate social responsibility in the annual CSR Report, the Company has also designated a section on its website (https://www.auo.com/zh-TW/Report_and_Certificate/index) and provides update on relevant information to the public.	No gaps

Assessed items	Current Operation (Note 1)			Gaps with the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and root causes
	Yes	No	Summary	
<p>If the Company has established the "Corporate Social Responsibility Principle" based on "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEX Listed Companies", please describe any discrepancy between the Principles and their implementation: The Company has established a set of "Corporate Social Responsibility Principles," which includes regulations on environmental protection, community participation, social contribution, community service, social welfare, customer's rights, human rights, safety and health, and these Principles can be downloaded from the Company website: (https://www.auo.com/en-global/Policy_and_Document/index). As to the Company's CSR Report for CSR strategies and status of implementation, please see "III. Corporate Governance Report" of this Annual Report, which provides information on "Fulfillment of Social Responsibility" (Pages 37-38).</p>				

Assessed items	Current Operation (Note 1)			Gaps with the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and root causes
	Yes	No	Summary	
<p>Other important information for better understanding of corporate social responsibilities (such as the Company's systems and measures and the implementation of environmental protection, community engagement, social contribution, social service, social charity, customer interest, human rights, safety and health, and other CSR activities):</p> <p>The Company believes that giving back to the society is not limited to monetary donations, but shall also encompass dedicating efforts, donating materials and offering services to the public. To realize the employee's wish for participation in social welfare, the Company has been committed to promoting volunteer services. Multiple activities have been developed from our four major themes of 'Nurturing Honest and Intelligent People,' 'Caring for Social Welfare/Promoting original culture,' 'Photonics Science Education,' and 'Loving the Green Earth/Ecology Energy-Saving Environment Protection.' These activities have allowed employees to commit to volunteering events to achieve self-actualization, and to work toward a brighter future for Taiwan. Below is a summary of the major contents of each theme:</p> <p><u>Christmas Wish Program</u></p> <p>Christmas Wish Program campaign at AUO was first started in 2002. For the past 16 years, AUO has helped approximately 8,600 students from remote regions and charity organizations to raise Christmas presents and scholarships. Approximately NT\$5.25 million in scholarship funds have been raised. The theme of the 2017 Wish Program was 'providing hope for disadvantaged children,' in which AUO employees recommended and voted on the target that the Company would help, among 12 nonprofit institutions including Yu-De Children's Home, Taoyuan Reindeer Children's Home, Baby Development Center in Taoyuan, Blue Sky Home, Atayal Wen-Yuan, NCTU Sanfu Club in Hsinchu, Holy Family for Special Education in Miaoli, Tong-Lin Elementary School and Guanghsin Elementary School in Nantou, St. Raphael Opportunity Center in Tainan, Kan-Ting Elementary School in Taitung County, and Seed Family. To enhance interaction with disadvantaged children, more than a dozen senior executives and 60 employees and their spouses were invited to volunteer at the end of the year. The volunteers delivered gifts to social welfare organizations and rural schools in a heartfelt attempt to provide for disadvantaged children.</p> <p><u>Honest-Intelligent Scholarship</u></p> <p>To implement our vision of giving back to the society in practice, the Honest-Intelligence Scholarship was established by AUO in 2006. Over the past 12 years, over NT\$115 million of scholarship has been provided, assisting more than 30,000 impoverished or students with tragic losses to continue their education. This is a donation project where AUO employees voluntarily contributed NT\$1~3 from their daily salary. Since the target of the donation was very clear and the proceeding was handled with transparency; moreover, the application procedure was very convenient, it had achieved widespread popularity and positive recognition among AUO staff; thus, helping many students who were shunned by other scholarships to truly receive the help they need and deserve. Approximately 1,800 kindhearted employees had participated in the Honest-Integrity Scholarship fundraiser in 2017, raising nearly NT\$7 million of scholarship funds. Besides sponsoring more than 1,400 elementary and junior high school students from disadvantaged families, approximately 560 junior high school students were also invited to participate in the DADA Science Camp, helping them to set solid foundations for their future scientific learning and knowledge.</p> <p><u>Environmental Education</u></p> <p>Environmental Education in Taichung</p> <p>After receiving certification in 2014, AUO Taichung's Environmental Education Facility has continued to enhance the quality of its course programs, management, facilities, and personnel from the feedback received from program participants over the past three years, in the hopes of providing a more excellent environmental education service for everyone. The Company also received certification for passing the evaluation for being an environmental education facility from the Environmental Protection Administration. This is a huge recognition for AUO's efforts toward advocating for environmental education. Besides continuing to promote outdoors education and visits and seminars for adults in 2017, we also applied for environmental education grant from the EPA for the first time to provide access for teachers and students from remote areas to participate in lively, fun, and meaningful environmental education courses. The Company hopes to cultivate an awareness for balanced environment, energy conservation and carbon reductions in the minds of participants. Over the past year, AUO provided funds for 10 sessions, which were participated by 408 individuals (headcount). In addition, the Company also began on-campus teaching for the first time by collaborating with schools and working with their course syllabus. AUO will also continue to discuss with school teachers to develop subsequent on-campus seminars. Environmental education in Taichung was attended by 4,088 participants in 2017; moreover, we have begun a Visiting Program in collaboration with Focus Junior High School since 2011, and 4,100 participants have joined to date. This program allowed seventh graders to visit green factory buildings and to learn about sustainable green energy and to experience the Western Great Kiln, to further instill the meaning of environmental conservation and local culture in the minds of these young students. AUO shares its environmental educational courses and visions through interactive experiences and by publishing papers during external environmental education activities and seminars. Internally, AUO also promotes the concept of environmental education to more employees through internal corporate events such as Green Party and Family Day. AUO aspires to cultivate and to spread the awareness for environmental protection, mission, and affirmation for our land through diversified promotions, so that more members of the public may support such vision and come to protect our land.</p> <p>Environmental Education in Longtan</p> <p>Founded on the basis of the process water full-recycling system at AUO's Longtan Site, the AUO environmental education team at Longtan</p>				

Assessed items	Current Operation (Note 1)			Gaps with the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and root causes
	Yes	No	Summary	

also makes use of the Water Resource Education Museum, interactive games, experiential activities, and team discussions, to design environmental education materials that are easy to understand for elementary school students. These efforts are made to convey the concept of the scarcity of water and the scientific knowledge of AUO's process water full-recycling system. Since November 2016, AUO has invited elementary school students from Longtan, Taoyuan, and Xinpu, Hsinchu, to participate in environmental educational events at the Longtan Water Resource Education Museum. As of December 2017, AUO has hosted 13 sessions of such activities and garnered 346 participants. AUO also signed a letter of intent with the Old Street River Education Center at Taoyuan in the summer of 2017, which allowed AUO to host two sessions of 'Water Magician' summer camp for the children of our employees and for Longtan residents. The camps were attended by 46 students. Elementary school students and teachers, employees and their family members and nearby neighbors who attended such activities have all been greatly impressed by AUO's dedication toward environmental awareness. AUO is committed to continuing trial lessons and improving the quality of these educational programs in terms of software and hardware. The goal is to have the Water Resource Education Facility as a target for applying for certification of environmental education facility by 2018 and ultimately become a leader in the optronics industry in terms of environmental education.

Dada's Magic Land

2009 saw the collaboration between AUO and the National Museum of Natural Science in promoting general scientific education, and in making the largest educational site for optronics and image display in Taiwan. In 2015, the exhibition was expanded and renamed Dada's Magic Land, which demonstrates the theories of optronics, solar power, and panel applications through various lively and fun interactive mechanics. Besides continuing to collaborate with the National Museum of Natural Science in 2017, more innovative, family-oriented themes and volunteer courses were also planned on top of the regular guided-exhibitions, including 'Dada Summertime Fun,' 'Exhibition Guide Simulation,' 'Dada Classroom,' and 'Shall We Learn about Service?' Providing diverse and fun channels for learning for not only AUO employees and their families, but also for the general public. At the same time, AUO also hosts Green Party arbor day activities and AUO Family Day to help more employees and their families, as well as the external public, to learn about Dada's Magic Land and general optronics education. A total of 3,443 individuals had visited the guided-tour through Dada's Magic Land in 2017, and there had been 742 volunteering services who collectively served the public for 1,855 hours. To nourish talents who are honest and intelligent and to foster general science education, AUO collaborates with the National Museum of Natural Science and Yuan. T Lee Foundation Science Education to host a one-day science camp, 'Dada's Magic Science Camp.' The number of visitors is expected to increase in 2018, while volunteer management is also expected to improve. Business initiatives will gradually promote general education with a particular focus on youth science education.

Club and Volunteering Activities

Seven social welfare clubs have been gradually established at AUO's Taiwan facilities since 2013, in which AUO employees regularly undertakes community service at nearby welfare institutions. The subjects of these efforts have included children being sheltered by the Department of Social Welfare, physically and mentally challenged children and children who have dropped out of school. AUO employees have assisted in providing companionship, cleaning their environment, and/or course counseling. In addition, the annual Christmas Wish Program and scholarship fundraisers have also helped disadvantaged children placed in social institutions to continue their schooling. A total of nearly 645 service sessions and more than 2,837 volunteers were recorded in 2017.

Green Party

In response to Arbor Day, AUO and BenQ Foundation have been organizing the Green Party Festival for ten consecutive years. Over 1 million trees have been planted as of 2017. Besides hosting two rounds of activities at Yunlin Plant of BenQ Materials and at Houli Plant of AUO, we have also hosted tree-planting at Qisda's Yilan farmland for the first time. AUO Houli collaborated with welfare groups, and invited teachers and students from Taichung Zhenglan Children's Home and Taichung School for the Visually Impaired to join in the day's activities. Both groups have been the subjects of AUO's volunteer teams for many years. The day was commenced with the melodious and passionate songs from the children from the School for the Visually Impaired, and nearly 2,000 employees and their family members from our four Group companies, including AUO, Darwin, Lextar, and AUO Crystal had joined us to plant trees. AUO also hosted a 'farmer's market' at the site to promote organic, non-toxic Xizhou rice and other agricultural products from BenQ Foundation's DOC small-farms. AUO aspires to reduce carbon emissions and to conserve the environment in practice through this meaningful tree-planting event.

Farmland Adoption Program Fundraiser

The adoption of paddy fields in Taiwan started in 2008 with the help of all employees. More than 50 hectares of eco-friendly fields in Nanpu, Hsinchu, Xizhou, Changhua, and Daxi, Taoyuan have been adopted. To support the non-toxic rice-farming effort from Taiwan Farming Co., Ltd, we included Daxi, Taoyuan in 2017. Besides joining in BenQ Foundation's contractual rice farming, AUO has also planned a 'Farmland Adoption Program' fundraiser and filmed a 'colorful diary'-themed promotional video to encourage employees from our Group to join the activity. The fundraiser was participated by 795 individuals and successfully collected NT\$1.01 million.

Honest-Intelligence Camp

To convey the beautiful values of being honest and truthful, and to encourage disadvantaged children residing in remote regions to achieve upward mobility, we have hosted the 'Honesty-Intelligence Camp' with BenQ Foundation during each summer since 2006. Over three days and two nights, children from eight elementary schools in remote areas and one charity organization in Hsinchu were invited to participate

Assessed items	Current Operation (Note 1)			Gaps with the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies and root causes
	Yes	No	Summary	
<p>in a series of fun activities over six sessions in 2017. The camps were attended by 236 children from disadvantaged families in remote areas and 11 AUO corporate volunteers. Courses during the camp included general education on optronics and solar energy as well as environmental education on the Mabu Forest, encouraging the children to challenge themselves, to find ways to learn and to seek for progress, becoming 'honest and intelligent' individuals who are integral and creative. AUO hopes that these activities have helped to bring an unforgettable and educational summertime education for the children.</p> <p>Supporting Taiwanese Local Produce</p> <p>Taiwan's agricultural products have always been on the AUO agenda. Starting from 2008, more than 20 agricultural products were directly purchased in an attempt to combat exploitation and improve logistics. In 2017, we have promoted for group purchases of local produce ranging from oranges in Nanpu, Hsinchu, oranges in Douliu, Yuanlin, garlic from Yunlin, pears from Houli, Taichung, and pomelo from Hegang, Hualien. Total procurement for these local produce have amounted to over NT\$1.24 million, granting more visibility for small local farmers, and shortening the distance from farm-to-table.</p> <p>A clear statement should be made if the Company's product or CSR Report has certified by relevant certification bodies:</p> <ol style="list-style-type: none"> 1. The Company's first CSR Report was published in 2006. Since 2007, the Company has compiled the CSR Report in compliance to GRI. The reports have been verified by independent verification of third-party institutions. Besides following the existing standards, we have also autonomously adopted the accounting system ISAE 3000 for assurance for our 2016 CSR Report, which not only strengthens the transparency in reports, but also enhances the precision in our internal processes. 2. DJSI evaluates enterprises from economic, environmental, and social perspectives, and is a key reference indicator for worldwide investors. Since officially responding to the DJSI questionnaire in 2009 for the first time, the Company has been listed in DJSI World Index for 8 consecutive years among the group of Electronic Equipment, Instruments and Components and secured RobecoSAM Gold Class in 2017. 3. "Taiwan Corporate Sustainability Awards" (TCSA) is hosted by the Taiwan Institute for Sustainable Energy (TAISE), and it is a highly trusted corporate sustainability award within Taiwan. AUO has won numerous awards since the TCSA was first hosted in 2008. Besides being honored with the "Gold Medal in Sustainability Reporting Award", AUO was also the recipient to the "TCSA", "Sustainable Water Management Award", "Social Inclusion Award", and "Talent Development Award" in 2016. Moreover, besides the "Sustainability Reporting Award", AUO was also honored with the "Ten Most Sustainable Company Award", "Circular Economy Leadership Award", and "Climate Leadership Award". Chairman Paul SL Peng was also honored with the highly competitive "Outstanding Corporate Sustainability Professionals Award". 				

Note 1: Operations are based on the Company's practices, and either "Yes" or "No" will be ticked. Please see the content of the abstract for explanations.

(VI) Implementation of Ethical Corporate Management and Measures for its Implementation

Assessed items		Current Operation (Note 1)			Gaps with the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies, and the cause of the said gaps
		Yes	No	Summary	
Establishment of ethical corporate management policies and programs	Does the Company declare its ethical corporate management policies and procedures in its guidelines and external documents, as well as the commitment from its Board to implement the policies?	✓		Besides disclosing AUO's "Ethical Corporate Management Best Practice Principles" on the Company website, we also disclose the results of ethical corporate management for the year. In addition, Enterprise Integrity Policy and Enterprise Integrity Handbook have been created, and all employees are required to abide by these principles. The effectiveness of the Ethical Corporate Management Best Practice Principles is reported to the Board of Directors meeting on an annual basis.	No gaps
	Does the Company establish policies to prevent unethical conduct with clear statements regarding relevant procedures, guidelines of conduct, punishment for violation, rules of appeal, and the commitment to implement the policies?	✓		The Company's Enterprise Integrity Policy and Enterprise Integrity Handbook have clearly stated the following preventative measures for unethical conduct: <ul style="list-style-type: none"> ● Prohibition of taking or receiving bribes, and taking or receiving inappropriate benefits. 	No gaps
	Does the Company establish appropriate precautions against high-potential unethical conducts or listed activities stated in Article 7, Paragraph 2 of the "Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies"?	✓		<ul style="list-style-type: none"> ● Prohibition of Illegal Political Donations ● Prohibition of Unlawful Donations and Sponsorship ● Prohibition of Unreasonable Presents, Hospitality or Other Improper Benefits ● Compliance to Anti-trust Law ● Prohibition of Infringement on Intellectual Property <p>Moreover, preventative measures for infringement on trade secrets have also been proposed in the "Management Principles for Information Security Policy."</p> <p>For those who breach the Enterprise Integrity Policy, the following punitive actions will be taken based on the severity of the breach, including oral or written reprimands and warning, salary deduction or cancellation of bonuses or even termination of employment. In case of unlawful activity, legal actions will also be taken. In addition to the above-mentioned actions, if the breach of the Enterprise Integrity Policy is done to obtain inappropriate benefits for the perpetrator, the benefits obtained shall be returned to the victim or the Company.</p>	No gaps
Fulfill Ethical Corporate Management Policy	Does the Company evaluate business counterparty's ethical records and include ethics-related clauses in business contracts?	✓		After requiring all contracted vendors to sign code of ethical conduct, the Company can file the information of any trading counterparty or vendor and transaction can be undertaken.	No gaps

Assessed items	Current Operation (Note 1)			Gaps with the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies, and the cause of the said gaps
	Yes	No	Summary	
Does the Company establish a dedicated (or part-time) unit for implementation of ethical corporate management directly under the Board of Directors and have this unit report to the Board of Directors regularly for the status of implementation?	✓		To strengthen ethical corporate management, AUO had its HR Headquarter enact, supervise and implement the execution of Ethical Corporate Management Policy and prevention solutions. The HR Headquarter reports to the Board of Directors as least once a year. The Company's implementations of ethical corporate management in 2017 included read-aloud of Enterprise Integrity Handbook and signing Declaration of Integrity, global "Honest AUO" promotions, quizzes and online courses for legal compliance, reporting procedures for conflict of interest, verification of honesty, and signing "Supplier/Contractor Code of Conduct."	No gaps
Does the Company establish policies to prevent conflicts of interest and provide appropriate communication channels, and implement it?	✓		To implement the regulations on conflict of interest in the Enterprise Integrity Handbook in practice and to prevent Company losses from conflict of interest from its employees, "AUO Declaration Regulations for Conflict of Benefits " had been established, allowing employees to report through the system. Alternatively, employees in specific roles (that require honesty) are required to file their status on the reporting system on an annual basis.	No gaps
Does the Company establish effective systems for both accounting and internal control to facilitate ethical corporate management, and are they audited by either internal auditors or CPAs on a regular basis?	✓		"Internal control system" has been established at AUO, in which internal audit personnel will regularly evaluate risks and propose audit plans and undertake audits accordingly. Special project-based audit will also be undertaken when necessary. Results of such audit are regularly reported to the Audit Committee and the Board of Directors, facilitating the management level to understand the operations of the Company's internal control to achieve management means.	No gaps
Does the Company regularly hold internal and external educational training on ethical corporate management?	✓		Besides requiring new recruits to undertake integrity promotional courses, the Company has also launched 'Legal Compliance Course' since 2015, in which indirect employees are required to undertake legal compliance online courses and sit through quizzes every two years, as well as to sign a declaration for legal compliance upon completion of the course.	No gaps

Assessed items		Current Operation (Note 1)			Gaps with the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies, and the cause of the said gaps
		Yes	No	Summary	
Operation of the reporting system	Does the Company establish reporting and reward/punishment systems and a convenient reporting channel, as well as designating appropriate personnel to handle whistleblowing incidents?	✓		Reporting can be made through any of the following channels when breach of ethical or integral conduct is found during any of the Company's business activities: <ul style="list-style-type: none"> ● Internal: Direct executives, General Manager's Mailbox, Audit Committee Mailbox ● External: Reporting System on Breach of Code of Ethical Conduct (http://integrity.abl.auo.com) After an accusation case has been filed, investigation will ensue by the Audit Department or a special committee formed based on the "AUO Disciplinary Committee Management Policy."	No gaps
	Does the Company establish standard operating procedures and related confidential mechanism on investigating accusation cases?	✓		The Company's "Procedures for Accounting, Internal Control and Audit related Grievance" and the "The Appeal Policy" have clearly stipulated standard operating procedures, responsible departments for receiving such reports, and procedures to handle these reports. The Company also maintains confidentiality of personal information, and strictly prohibits its employees from taking vengeful actions.	No gaps
	Does the Company adopt measures to ensure that the whistleblower is not subjected to inappropriate actions for the accusation report?	✓			No gaps
Reinforcement of information disclosure: Does the Company disclose its Ethical Corporate Management Best Practice Principles and the results of its implementation on the Company's website and MOPS?		✓		The Company has clearly stated the content and effectiveness of the Ethical Corporate Management Best Practice Principles in the Company's "CSR Report", which can be found on the Company website. The "Ethical Corporate Management Best Practice Principles" has also been disclosed on the Company website. Concurrently, results of ethical corporate management are also disclosed on the Company website.	No gaps
<p>Where the Company has stipulated its own Ethical Corporate Management Best Practice Principles according to the "Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies", please describe any gaps between the prescribed best practices and actual activities taken by the Company:</p> <p>After completing the Company's "Ethical Corporate Management Best Practice Principles" in 2014, the Company provided "Enterprise Integrity Policy" and "Enterprise Integrity Handbook" for all employees to follow. With regards to preventative measures for all matters stated in Article 7-2 of the "Ethical Corporate Management Best Practice Principles", relevant regulations have also been stipulated, including AUO Declaration Regulations for Conflict of Benefits, compliance to anti-trust, and Information security policy.</p>					

Assessed items	Current Operation (Note 1)			Gaps with the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies, and the cause of the said gaps
	Yes	No	Summary	
<p>Other information helpful to understand the ethical corporate management of the Company (e.g., the Company's amendment to its Ethical Corporate Management Best Practice Principles):</p> <p>Since the Company has begun advocating for the "Honest AUO" activities in 2012, a series of activities ranging from signing a Declaration of Integrity, online integrity testing, read-aloud of the Enterprise Integrity Handbook and anti-trust course, have helped to cultivate a mindset for 'honesty' in each and every one of AUO's employees, forming the most basic corporate culture of AUO. Integrity Promotions Week' is planned every year, in which employees can become more familiar with the Company's internal integrity culture through broadcast and e-bulletin. Moreover, the Enterprise Integrity Handbook is announced to be the Code of Conduct for all AUO employees. To ensure that all employees can implement Integrity in their work, the Code offers a guide to behavioral conduct, case studies, and examples for the Company's Corporate Integrity Policy, standards on working with business partners, standards on working with government agencies, Intellectual Property rights, conflict of interest, information system security, insider trading, and anti-trust.</p> <p>Concurrently, to abide by the local laws and regulations in which the Company operates in and to undertake business activities with the highest level of moral standards and to help employees gain accurate legal knowledge, AUO requires indirect employees to undertake online legal compliance course and subject them to relevant quizzes, as well as signing a declaration for legal compliance after the completion of the course.</p> <p>Furthermore, to facilitate all employees to understand the past examples and meaning of the Antitrust Law, besides having established an Antitrust Law section on the internal website, a mobile APP has also been established so that employees can inquire for relevant information on a timely basis to avoid any accidental breach.</p> <p>Additionally, executives from departments that handle supplier matters and work closely with suppliers have been defined as key roles for honest operations. Considering that risk governance of the Company can only be achieved, thus protecting the Company and any individuals, when management roles are equipped with accurate legal knowledge and actions and can undertake business conduct with high moral standards, executives in key honest roles are inspected in their functionalities and also subjected to compulsory legal compliance courses. The scope of the courses encompass sharing of actual past incidents and standards that shall be followed during business activities. In 2017, 21 executives in key honest roles needed to be rotated. Completion rate of such job rotations was 88%.</p>				

Note 1: Operations are based on the Company's practices, and either "Yes" or "No" will be ticked. Please see the content of the abstract for explanations.

(VII) If the Company has stipulated best practices for corporate governance and other relevant bylaws, the means to search for these bylaws shall be disclosed.

The Company has established "Corporate Governance Principles" that stipulates regulations to protect shareholders' rights, strengthen the functionality of the Board of Directors, respect stakeholders' rights, and enhance information transparency. Moreover, based on the corporate governance assessment by the TWSE, the Company reviews the actual implementation of evaluation indicators one by one. AUO hopes that these measures will help the Company to gradually construe positive corporate governance system to enhance its effectiveness in corporate governance. Please see either the MOPS or the Company website for the Company's "Corporate Governance Principles."

(VIII) Other important information to achieve better understanding on the state of corporate governance activities

1. Corporate governance is supervised and planned by the Company's Risk Governance Team from the Sustainability Committee. Geared to protect shareholders' rights and to strengthen the functionality of the Board of Directors, its duties include providing information needed by the Directors and the Audit Committee in carrying out their respective duties and the latest legal development pertaining to Company operations to assist the Directors and Audit Committee in legal compliance. The chairperson of the Risk Governance Team is served by the Chief Financial Officer (CFO), and tasks relevant to corporate governance (including matters relevant to Board meetings and Shareholders' Meetings, Company registration and alteration registration, preparing meeting minutes for Board meetings and Shareholders' Meetings, and regularly reporting the operations of corporate governance to the Board in each year) is carried out by secretary of the Board of Directors and secretary of the Risk Governance team.
2. The Company has established "Management Methods for Prevention of Insider Trading" as reference for the Company's handling and disclosure of material information, the Company also reviews the Procedures from time to time to comply with present laws and practical management needs. The Procedures are also announced on AUO's internal Document Management System and the Company website for all managers and employees around the world. The Company also alerts internal staff to material information and notification.

3. The Company regularly arranges for senior executives to attend corporate governance courses. Please see the following table for corporate governance training undertaken by senior executives in 2017:

Title	Name	Date of continuing education	Organizer	Course Name	Length of the curriculum
Chairman and CEO	Shuang-Lang (Paul) Peng	2017.08.15	Taiwan Corporate Governance Association	Information Security Governance under Technology Development	3 hours
		2017.10.25	Taiwan Corporate Governance Association	Management Practices for Risk of Fraud	3 hours
President and COO	Kuo-Hsin (Michael) Tsai	2017.07.25	Taiwan Corporate Governance Association	Information Security Governance under Technology Development	3 hours
		2017.10.25	Taiwan Corporate Governance Association	Management Practices for Risk of Fraud	3 hours
Vice President	Wei-Lung Liao, Hong-Shiung (Sean) Chen, Hong-Jye Hong, SK Huang, TK Wu, Amy Ku	2017.07.25	Taiwan Corporate Governance Association	Information Security Governance under Technology Development	3 hours
Vice President	Wei-Lung Liao, Hong-Shiung (Sean) Chen, Kun-Yu Lin, SK Huang, Amy Ku	2017.10.25	Taiwan Corporate Governance Association	Management Practices for Risk of Fraud	3 hours
Financial Manager and Accounting Manager	Benjamin Tseng	2017.07.25	Taiwan Corporate Governance Association	Information Security Governance under Technology Development	3 hours
		2017.10.25	Taiwan Corporate Governance Association	Management Practices for Risk of Fraud	3 hours
Audit Manager	Maggie Chen	2017.07.25	Taiwan Corporate Governance Association	Information Security Governance under Technology Development	3 hours
		2017.10.13	Computer Audit Association	Data Analysis on Operating Processes and Detecting Financial Fraud	6 hours
		2017.10.25	Taiwan Corporate Governance Association	Management Practices for Risk of Fraud	3 hours
		2017.11.29	Accounting Research and Development Foundation	Legal Risk Mindset from Internal Auditors under Globalized Operations (Including Current Development on Insider Trading)	6 hours

(IX) Implementation of Internal Control System

I. Statement of Internal Control System

AU Optronics Corporation
Statement of Internal Control System

Date: February 6, 2018

Based on the findings of a self-assessment, AU Optronics Corporation (hereinafter "the Company") states the following pertaining to its internal control system during year 2017:

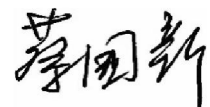
- I. The Company is fully aware that establishing, operating and maintaining an internal control system are the responsibilities of its Board of Directors and managers. The Company has established such a system with an aim to providing reasonable assurance for the achievement of the following objectives: The effectiveness and efficiency of business operation (including profitability, performance, and safe-guarding of company assets; The reliability, timeliness, transparency, and regulatory compliance of financial reporting and other related reports; and The compliance with applicable laws, regulations and rulings.
- II. An internal control system has inherent limitations. No matter how perfectly it is designed, an effective internal control system can provide only reasonable assurance of achieving the three above-mentioned objectives. Moreover, the effectiveness of the internal control system may be subject to changes of environment or circumstances. Nonetheless, the Company's internal control system comprises of self-monitoring mechanisms, and the Company immediately undertakes corrective measures once a deficiency is identified.
- III. The Company assesses the design and operating effectiveness of its internal control system in accordance with the criteria stated in the "Regulations Governing Establishment of Internal Control Systems by Public Companies" (hereinafter referred to as "the Regulations"). The criteria stipulated in the Regulations identify five essential elements of an internal control system based on managerial control process, including 1). Control environment, 2). Risk assessment 3). Control activities, 4). Information and communication, and 5). Monitoring activities. Each essential element further contains several items. Please see "the Regulations" for the aforementioned items.
- IV. The Company has evaluated the design and operating effectiveness of its internal control system according to the aforesaid criteria.
- V. Based on the results of the abovementioned assessment, the Company believes that, as of December 31, 2017, its internal control system, including its supervision and management of subsidiaries, was effective in design and operation and provided reasonable assurance of achievement of operational effectiveness and efficiency, reliability, timeliness, transparency of reporting, and compliance with applicable laws, regulations and rulings.
- VI. This Statement constitutes an integral part of the Annual Report for the year 2017 and the Prospectus of the Company, and will be made public. Any falsehood, concealment, or other illegality in the content made public will entail legal liability under Articles 20, 32, 171, and 174 in the Securities and Exchange Act.
- VII. This Statement has been approved by the Board of Directors in their meeting held on February 6, 2018, with none of the nine attending directors expressing dissenting opinions, and the remainder all affirming the contents of this Statement.

AU Optronics Corporation

Chairman: Shuang-Lang (Paul) Peng



President: Kuo-Hsin (Michael) Tsai



2. Companies which CPAs to professionally review the internal control system shall disclose the review report provided by the accountants: None.

(X) The Company and its personnel have been punished by law, the Company has undertaken disincentive measures

for its personnel for breaching the internal control system, and any material deficiencies and revisions in the most recent year up to the publication date of the Annual Report:

1. As to penalties on environmental pollution, please see "V. Operational Highlights" (Page 82) of this Annual Report, which provides information on "Environmental Protection Expenditures".
2. As to penalties on labor conflicts, please see "V. Operational Highlights" of this Annual Report, which provides information on "Labor-Management Relation"(Page 86).

(XI) Material resolutions made in the Shareholders' Meeting and the Board of Directors in the most recent year up to the publication date of this Annual Report

1. Material resolutions from the 2017 Shareholders' Meeting and Implementation Status

- Accepted 2016 Business Report and Financial Statements
Implementation status: Resolution passed
- Accepted the proposal for the distribution of 2016 earnings
Implementation status: resolution passed; the ex-dividend record date was set on July 9, 2017, and earnings have been distributed on July 28, 2017 based on the resolution from the Shareholders' Meeting. Cash dividend to be distributed was NT\$0.56 per share; hence, NT\$560 would be distributed for each 1,000 shares. Total cash dividend to be distributed was NT\$5,389,577,264.
- Approved the amendment to Articles of Incorporation
Implementation status: resolution passed; the Articles of Association would be announced on the Company website upon amendments and would be effective as of June 15, 2017. Approval was granted from the Ministry of Economic Affairs on June 29, 2017.
- Approved the amendment to Handling Procedures for Acquisition or Disposal of Assets
Implementation status: resolution passed; the Handling Procedures for Acquisition or Disposal of Assets would be announced on the Company website upon amendments and would be effective as of June 15, 2017. Company activities would be subjected to the amended Procedures.
- Approved issuance of new common shares for cash to sponsor issuance of the overseas depositary shares and/or issuance of new common shares for cash in public offering and/or issuance of new common shares for cash in private placement and/or issuance of overseas or domestic convertible bonds in private placement
Implementation status: resolution passed; the Board of Directors is authorized to proceed with funding. However, no actual action toward this means has been taken yet as of the publication date of the Annual Report.

2. Material Resolutions from the Board of Directors

8th Term 6th Meeting 2017.01.25	<ul style="list-style-type: none"> ◆ Approved the 2016 distribution of incentive bonus for senior managerial officers ◆ Approved the 2017 long-term incentive plan for senior managerial officers ◆ Approved the amendment to "Corporate Governance Principles" and the set-up of "Performance Evaluation Principles of Board of Directors"
8th Term 7th Meeting 2017.02.13	<ul style="list-style-type: none"> ◆ Approved the Internal Control Declaration (Note) ◆ Approved the 2016 Unconsolidated and Consolidated Financial Statements(Note) ◆ Approved the 2016 compensation distributions to directors and senior managerial officers ◆ Approved the donation (Note) ◆ Approved the increase/reduction of capital expenditure budget ◆ Approved the amendment to "Articles of Incorporation" ◆ Approved the addition and renewal of banking facilities

<p>8th Term 8th Meeting 2017.03.22</p>	<ul style="list-style-type: none"> ◆ Approved the 2016 Business Report and the 2017 Business Plan (Note) ◆ Approved the distribution of 2016 earnings (Note) ◆ Approved the 2016 employees' and directors' remuneration ◆ Approved the amendment to "Handling Procedures for Acquisition or Disposal of Assets" (Note) ◆ Approved the issuance of new common shares for cash to sponsor issuance of the overseas depositary shares and/or issuance of new common shares for cash in public offering and/or issuance of new common shares for cash in private placement and/or issuance of overseas or domestic convertible bonds in private placement (Note) ◆ Approved the date of convening the 2017 Annual General Shareholders' Meeting, meeting agenda and submission period of shareholder proposal ◆ Approved the proportion to the appropriation of employees' remuneration and directors' remuneration ◆ Approved the change of Certified Public Accountant (Note) ◆ Approved the 2017 services and fees of the Certified Public Accountant (Note) ◆ Approved to conduct Syndication loan
<p>8th Term 9th Meeting 2017.04.26</p>	<ul style="list-style-type: none"> ◆ Approved the Consolidated Financial Statements for the period ended March 31, 2017 (Note) ◆ Approved AU Optronics (Suzhou) Corp. and AU Optronics (Xiamen) Corp. to lend capital to BriView(Hefei) Co., Ltd (Note) ◆ Approved AU Optronics (Xiamen) Corp., AU Optronics (Suzhou) Corp. and AU Optronics Manufacturing (Shanghai) Corp. to lend capital to AU Optronics (Kunshan) Co., Ltd. (Note) ◆ Approved the Company to provide the bank guarantee against the bank loan to AU Optronics (Kunshan) Co., Ltd. (Note) ◆ Examined shareholders' proposals for 2017 Annual General Shareholders' Meeting ◆ Approved the budget for capital expenditure ◆ Approved the addition and renewal of banking facilities
<p>8th Term 10th Meeting 2017.07.25</p>	<ul style="list-style-type: none"> ◆ Approved the Consolidated Financial Statements for the period ended June 30, 2017 (Note) ◆ Approved the distribution of 2016 employees' remuneration for senior managerial officers ◆ Approved the budget for capital expenditure of Fargen Power Corporation ◆ Approved the addition and renewal of banking facilities
<p>8th Term 11th Meeting 2017.10.25</p>	<ul style="list-style-type: none"> ◆ Approved 2018 annual audit plan (Note) ◆ Approved the Consolidated Financial Statements for the period ended September 30, 2017 (Note) ◆ Approved BriView(Hefei) Co., Ltd. to dispose property (Note) ◆ Approved AU Optronics (Xiamen) Corp. to lend capital to BriView(Hefei) Co., Ltd. (Note) ◆ Approved the Company to lend capital to AU Optronics (Kunshan) Co., Ltd. (Note) ◆ Approved the Company to cancel the bank guarantee against the bank loan to AU Optronics (Kunshan) Co., Ltd. (Note) ◆ Approved the Company, Konly Venture Corp., and Ronly Venture Corp. to dispose the common stocks of Darwin Precisions Corporation (Note) ◆ Approved the Company to invest in the common stocks (Note) ◆ Approved Konly Venture Corp. to dispose the common stocks of Fargen Power Corporation and TronGen Power Corporation (Note) ◆ Approved the amendment to "Rules and Procedures for Board of Directors" and "Audit Committee Charter" of the Company (Note) ◆ Approved the budget for capital expenditure ◆ Approved the addition and renewal of banking facilities
<p>8th Term 12th Meeting 2018.02.06</p>	<ul style="list-style-type: none"> ◆ Approved the Internal Control Declaration for 2017 (Note) ◆ Approved the proportion to the appropriation of employees' remuneration and directors' remuneration ◆ Approved the 2017 Unconsolidated and Consolidated Financial Statements(Note) ◆ Approved to acquire shares from ComQi Ltd. (Note) ◆ Approved Subsidiary AU Optronics (L) Corp. to lend capital to Subsidiary AU Optronics (Slovakia) s.r.o. (Note) ◆ Approved the Company to provide the bank guarantee against the bank loan to AU Optronics (Kunshan) Co., Ltd. (Note) ◆ Approved the budget for capital expenditure ◆ Approved the 2017 compensation distributions to directors and senior managerial officers ◆ Approved the 2018 Manager Compensation Policy ◆ Approved the changes of managers ◆ Approved the donations (Note) ◆ Approved the addition and renewal of banking facilities

Note: All conditions listed in Article 14-5 of the Securities and Exchange Act.

- (XII) Major contents of any dissenting opinions on record or stated in a written statement made by Directors or supervisors regarding material resolutions passed by the Board of Directors' Meeting in the most recent year up to the publication date of this report: None.
- (XIII) In the most recent year up to the publication date of the Annual Report, a summary of the resignation and dismissal of the Company personnel such as Chairman, President, accounting manager, financial manager, internal audit manager and R&D manager: None.
- (XIV) Certification obtained by the Company and its personnel related to financial information transparency from competent authorities:

December 31, 2017

Certification Name	Number of Employees	
	Financial Accounting	Audits
R.O.C. CPA	5	-
US CPA	1	-
Chartered Financial Analyst (CFA)	1	-
Financial Risk Manager (FRM)	1	-
Certified Internal Auditor (CIA) organized by Internal Audit Association	2	1
Basic Ability Test for Corporate Internal Control organized by the Securities and Futures Institute	-	5
Certified Information Systems Auditor (CISA)	-	2
Senior Securities Processing Personnel	6	-
Stock Affairs Personnel	1	-

V. Information on CPA fees

(I) Information on CPA fees

Unit: NT\$ thousands

Name of Accounting Firm	Name of CPA	Audit Fee	Non-accounting fee					CPA's Audit Period	Note
			System Design	Company Registration	Human Resources	Others (Note)	Subtotal		
KPMG	Wei, Shing-Hai Lu, Chien-Hui	36,720	-	-	-	7,808	7,808	2017.1.1~2017.12.31	Note: The accounting firm provided assurance and training services for CSR Report, and its affiliates provided the training services.

1. Non-audit fees paid to the CPA, accounting firm of CPA and its affiliates were more than 25% of the audit fees: Not applicable.
2. Replacement of accounting firm and the audit fees in the replacing year is less than that in the previous year: Not applicable.
3. Audit fees were reduced by over 15% compared with the previous year: Not applicable.

- (II) The audit fees mentioned above are the fees paid to the CPA regarding the services of audit and review on financial report, and tax compliance.

VI. Information on replacement of CPAs

(I) Former CPA

Date of Replacement	March 22, 2017		
Replacement reasons and explanations	The CPA are changed from Yu, Wan-Yuan and Tseng, Mei-Yu to Wei, Shing-Hai and Lu, Chien-Hui due to the internal adjustment from the accounting firm.		
State whether the Engagement is Terminated or Rejected by the Consignor or CPAs	Client	CPA	Consignor
	Condition		
	Engagement terminated automatically		
	Engagement discontinued	V	
The Opinions other than Unmodified Opinion Issued within the last 2 years and the reason for the Said Opinion (Note)	Not applicable		
Any disagreement in Opinion with the Issuer	Yes		Accounting principles or practices
			Disclosure of financial report
			Scope or procedure of auditing
			Others
	No	V	
	Explanation		
Supplementary Disclosure (Specific Disclosures mentioned in Article 10.6.1.4~7 of the Regulation)	Not applicable		

Note: Starting in 2016, the new auditing standard of the Republic of China requires “An Unqualified Opinion” be replaced by “An Unmodified Opinion”.

(II) Successor CPA

Name of the firm	KPMG
Name of the CPA	Wei, Shing-Hai and Lu, Chien-Hui
Date of Engagement	March 22, 2017
Prior to the Formal Engagement, Any Inquiry or Consultation on the Accounting Treatment or Accounting Principles for Specific Transactions, and the Type of Audit Opinion that Might be Rendered on the Financial Report	Not applicable
Written Opinions from the Successor CPA that are Different from the Former CPA Opinions	Not applicable

(III) The Reply of Former CPAs on Article 10.6.1 and Article 10.6.2.3 of the Regulations Governing Information to be Published in Annual Reports of Public Companies: Not applicable

VII. Has any of the Company’s Chairman, President, or managers responsible for finance or accounting duties served in the Company’s CPA firm or its affiliated Company within the most recent year: None.

VIII. The Situation of equity transfer or changes to equity pledge of Directors, managers or shareholders holding more than 10% of Company shares in the most recent year (or initial date

of a manager's term of service) up to the publication date of this report:

(I) Changes in shares held by Directors, managers, and shareholders holding 10% or more of shares:

Unit: 1,000 shares

Title (Note)	Name	2017		As of January 31, 2018	
		Increase (decrease) of shares held	Increase (decrease) of shares pledged	Increase (decrease) of shares held	Increase (decrease) of shares pledged
Chairman and CEO	Shuang-Lang (Paul) Peng	(1,569)	0	0	0
Director	Kuen-Yao (K.Y.) Lee	0	0	0	0
Corporate Director	BenQ Foundation	0	0	0	0
Corporate Director Representative and President and COO	Kuo-Hsin (Michael) Tsai	666	0	(5)	0
Corporate Director	Qisda Corporation	0	70,000	0	0
Corporate Director Representative	Peter Chen	0	0	0	0
Independent Director	Vivien Huey-Juan Hsieh	0	0	0	0
Independent Director	Mei-Yueh Ho	0	0	0	0
Independent Director	Ding-Yuan Yang	0	0	0	0
Independent Director	Chin-Bing (Philip) Peng	0	0	0	0
Independent Director	Yen-Shiang Shih	0	0	0	0
Vice President	Wei-Lung Liao	(246)	0	0	0
Vice President	Hong-Shiung (Sean) Chen	523	0	0	0
Vice President	Shih-Kun Chen	31	0	(68)	0
Vice President	Kun-Yu Lin	(110)	0	0	0
Vice President	Hong-Jye Hong	127	0	0	0
Vice President	James CP Chen	(260)	0	(30)	0
Vice President	SK Huang	(221)	0	(51)	0
Vice President	CS Hsieh	493	0	0	0
Vice President	Andy Yang	(807)	0	0	0
Vice President	TK Wu	0	0	0	0
Vice President	Benjamin Tseng	(190)	0	0	0
Vice President	Amy Ku	492	0	0	0
Senior Associate Vice President	Martin Sung	(470)	0	0	0
Senior Associate Vice President	PC Cheng	15	0	0	0
Senior Associate Vice President	JJ Lih	(45)	0	0	0
Senior Associate Vice President	TY Lin	0	0	0	0
Senior Associate Vice President	CC Hung	0	0	0	0

Title (Note)	Name	2017		As of January 31, 2018	
		Increase (decrease) of shares held	Increase (decrease) of shares pledged	Increase (decrease) of shares held	Increase (decrease) of shares pledged
Senior Associate Vice President	Ting-Li Lin	50	0	(2)	0
Associate Vice President	Ivan Wu	194	0	0	0
Associate Vice President	TL Chen	6	0	0	0
Associate Vice President	Yu-Chieh Lin	130	0	(115)	0
Associate Vice President	SI Jeong	(160)	0	0	0
Associate Vice President	Tina Wu	174	0	(30)	0
Associate Vice President	HC Lee	0	0	0	0

Note: Those who still serve in their respective positions when the Annual Report is published.

(II) Counterparty of equity transfer is a related party:

Name	Reason for equity transfer	Transaction date	Transaction counterparty	Relationship between the counterparty and the Company, its Directors, supervisors and shareholders with shareholding percentage exceeding 10%	Number of shares (thousand shares)	Transaction price
Kuo-Hsin (Michael) Tsai	Gift	2017.06.02	Yu-Han Tsai	Child of the manager	187	-
Andy Yang	Gift	2017.06.22	Hsin-Chun Sung	Spouse of the manager	1,300	-
PC Cheng Cheng	Gift	2017.06.27	Yue-Er Shih	Spouse of the manager	240	-
			X Cheng	Underage child of the manager	80	
			X Cheng	Underage child of the manager	80	
Benjamin Tseng	Gift	2017.06.27	Yu-Wen Lee	Spouse of the manager	560	-
Shuang-Lang (Paul) Peng	Gift	2017.06.30	Min-Hua Huang	Spouse of the manager	800	-
	Trust	2017.11.01	Bank SinoPac Dedicated trust fund	Designated trust fund	2,000	

(III) Counterparty of equity pledge is a related party: None.

IX. Information of relationships between TOP 10 shareholders are related parties

Unit: 1,000 shares

Name (Note)	Shares held		Shares held by spouse or underage children		Total shares held in the name of other persons		Familial relationships between top 10 shareholders who are either related parties, spouses, or relatives within the second degree of kinship, his/her/its title (or name) and relationships		Note
	Number of shares	Shareholding percentage (%)	Number of shares	Shareholding percentage (%)	Number of shares	Shareholding percentage (%)	Title (or name)	Relationships	
Qisda Corporation	663,599	6.90	-	-	-	-	-	-	
Qisda Corporation Representative: Peter Chen	-	-	143	0.00	-	-	-	-	
ADR of AU Optronics Corp.	480,127	4.99	-	-	-	-	-	-	
Quanta Computer Inc.	443,930	4.61	-	-	-	-	-	-	
Quanta Computer Inc. Representative: Barry Lam	-	-	-	-	-	-	-	-	
Trust Holding for Employees for AU Optronics Corp.	279,674	2.91	-	-	-	-	-	-	
JPMorgan Chase Bank N.A. Taipei Branch in custody for Stichting Pensioenfonds ABP	133,111	1.38	-	-	-	-	-	-	
Credit Suisse Securities (Europe) Limited-Manual	124,545	1.29	-	-	-	-	-	-	
Morgan Stanley & Co. International Plc	122,370	1.27	-	-	-	-	-	-	
VANGUARD EMERGING MARKETS STOCK INDEX FUND, A SERIES OF VANGUARD INTERNATIONAL EQUITY INDEX FUNDS	92,925	0.97	-	-	-	-	-	-	
State Street Bank & Trust Co.	86,153	0.90	-	-	-	-	-	-	
Tong Hwei Enterprise Co., Ltd.	80,000	0.83	-	-	-	-	-	-	
Tong Hwei Enterprise Co., Ltd. Representative: Tsung-Hsiang Tsai	2,000	0.02	-	-	-	-	-	-	

Note: Information recorded on the shareholder roster as of the latest book closure date (July 9, 2017) of the Company

X. Number of shares held and combined shareholdings percentage in the same investment business by the Company, the Company's Directors, Managers, and companies directly or indirectly controlled by the Company:

Unit: 1,000 shares

Investment business (Note 1)	Investment by the Company (Note 2)		Investment by directors, supervisors, managers and directly or indirectly-controlled business (Note 2)		Combined investment (Note 2)	
	Number of shares	Shareholding percentage (%)	Number of shares	Shareholding percentage (%)	Number of shares	Shareholding percentage (%)
Lextar Electronics Corporation	78,418	14.33	67,316	12.31	145,734	26.64
Raydium Semiconductor Corporation	-	-	11,756	16.28	11,756	16.28
Daxin Materials Corp.	-	-	23,316	24.97	23,316	24.97
Star River Energy Corp.	47,380	32.01	2,220	1.50	49,600	33.51
Star Shining Energy Corp.	35,000	35.00	2,000	2.00	37,000	37.00
Ubitech Corp.	-	-	357	26.31	357	26.31

Note 1: Invested by the Consolidated Company using the equity method

Note 2: Information recorded on the shareholder roster as of the latest book closure date of each company.

Chapter 4 Capital and Shares

I. Capital and shares

(I) Source of Share Capital

Unit: NT\$; shares

Year and month	Issued price (par value per share)	Authorized capital		Paid-in capital		Note		
		Number of shares	Amount	Number of shares	Amount	Source of capital	Capital increase by assets other than cash	Others
1996.08	10	200,000,000	2,000,000,000	50,000,000	500,000,000	Establishment	-	Note 1
1997.06	10	200,000,000	2,000,000,000	200,000,000	2,000,000,000	Capital Increase by Cash	-	Note 2
1998.07	10	800,000,000	8,000,000,000	500,000,000	5,000,000,000	Capital Increase by Cash	-	Note 3
1998.12	10	800,000,000	8,000,000,000	800,000,000	8,000,000,000	Capital Increase by Cash	-	Note 4
1999.12	10	1,400,000,000	14,000,000,000	1,100,000,000	11,000,000,000	Capital Increase by Cash	-	Note 5
2001.03	10	1,400,000,000	14,000,000,000	1,250,000,000	12,500,000,000	Capital Increase by Cash	-	Note 6
2001.09	10	5,000,000,000	50,000,000,000	2,970,581,607	29,705,816,070	Capital Increase by retained earnings, capital surplus and acquisition	-	Note 7
2002.06	10	5,000,000,000	50,000,000,000	3,470,581,607	34,705,816,070	Capital increase by cash to participate in the issuance of overseas depository receipt	-	Note 8
2002.08	10	5,000,000,000	50,000,000,000	3,976,397,079	39,763,970,790	Domestic corporate bond conversion	-	Note 9
2002.11	10	5,000,000,000	50,000,000,000	4,003,048,921	40,030,489,210	Domestic corporate bond conversion	-	Note 10
2003.01	10	5,000,000,000	50,000,000,000	4,024,194,453	40,241,944,530	Domestic corporate bond conversion	-	Note 11
2003.02	10	5,000,000,000	50,000,000,000	4,025,833,686	40,258,336,860	Domestic corporate bond conversion	-	Note 12
2003.08	10	5,800,000,000	58,000,000,000	4,270,445,386	42,704,453,860	Domestic corporate bond conversion Capital increase by retained earnings	-	Note 13
2003.11	10	5,800,000,000	58,000,000,000	4,352,237,241	43,522,372,410	Domestic corporate bond conversion	-	Note 14
2004.06	10	5,800,000,000	58,000,000,000	4,658,040,897	46,580,408,970	Capital increase by retained earnings	-	Note 15
2004.07	10	5,800,000,000	58,000,000,000	4,958,040,897	49,580,408,970	Capital increase by cash to participate in the issuance of overseas depository receipt	-	Note 16
2005.08	10	7,000,000,000	70,000,000,000	5,830,547,132	58,305,471,320	Capital increase by retained earnings Capital increase by cash to participate in the issuance of overseas depository receipt	-	Note 17
2006.08	10	7,000,000,000	70,000,000,000	6,094,068,587	60,940,685,870	Capital increase by retained earnings	-	Note 18
2006.11	10	9,000,000,000	90,000,000,000	7,573,178,616	75,731,786,160	Capital increase by acquisition	-	Note 19
2007.02	10	9,000,000,000	90,000,000,000	7,573,402,805	75,734,028,050	Employee stock options	-	Note 20

Year and month	Issued price (par value per share)	Authorized capital		Paid-in capital		Note		
		Number of shares	Amount	Number of shares	Amount	Source of capital	Capital increase by assets other than cash	Others
2007.06	10	9,000,000,000	90,000,000,000	7,573,782,895	75,737,828,950	Employee stock options	-	Note 21
2007.08	10	9,000,000,000	90,000,000,000	7,596,895,987	75,968,959,870	Corporate bond conversion Employee stock options	-	Note 22
2007.09	10	9,000,000,000	90,000,000,000	7,805,727,146	78,057,271,460	Capital increase by retained earnings	-	Note 23
2007.11	10	9,000,000,000	90,000,000,000	7,817,705,505	78,177,055,050	Corporate bond conversion Employee stock options	-	Note 24
2008.05	10	9,000,000,000	90,000,000,000	7,865,200,583	78,652,005,830	Corporate bond conversion Employee stock options	-	Note 25
2008.05	10	9,000,000,000	90,000,000,000	7,868,206,737	78,682,067,370	Corporate bond conversion Employee stock options	-	Note 26
2008.08	10	9,000,000,000	90,000,000,000	8,505,525,398	85,055,253,980	Capital increase by retained earnings Corporate bond conversion Employee stock options	-	Note 27
2008.11	10	9,000,000,000	90,000,000,000	8,505,719,634	85,057,196,340	Employee stock options	-	Note 28
2009.09	10	10,000,000,000	100,000,000,000	8,827,045,535	88,270,455,350	Capital increase by retained earnings	-	Note 29
2013.05	10	10,000,000,000	100,000,000,000	9,624,245,115	96,242,451,150	Capital increase by cash to participate in the issuance of overseas depository receipt	-	Note 30

Note 1: Hsinchu Science Park Bureau 08.12.1996(85) Certificate No. 13629.
 Note 2: Hsinchu Science Park Bureau 06.05.1997(86) Certificate No. 10528.
 Note 3: Hsinchu Science Park Bureau 07.06.1998(87) Certificate No. 016400.
 Note 4: Hsinchu Science Park Bureau 12.23.1998(87) Certificate No. 030560.
 Note 5: Hsinchu Science Park Bureau 12.10.1999 Certificate No. 0880026812.
 Note 6: Hsinchu Science Park Bureau 03.23.2001 Certificate No. 0900006660.
 Note 7: Hsinchu Science Park Bureau 09.14.2001 Certificate No. 0910023096.
 Note 8: Hsinchu Science Park Bureau 06.20.2002 Certificate No. 0910014056.
 Note 9: Hsinchu Science Park Bureau 08.02.2002 Certificate No. 0910017441.
 Note 10: Hsinchu Science Park Bureau 11.29.2002 Certificate No. 0910029009.
 Note 11: Hsinchu Science Park Bureau 01.22.2003 Certificate No. 0920001485.
 Note 12: Hsinchu Science Park Bureau 02.26.2003 Certificate No. 0920004126.
 Note 13: Hsinchu Science Park Bureau 08.11.2003 Certificate No. 0920019428.
 Note 14: Hsinchu Science Park Bureau 11.20.2003 Certificate No. 0920031977.
 Note 15: Hsinchu Science Park Bureau 06.23.2004 Certificate No. 0930016501.
 Note 16: Hsinchu Science Park Bureau 07.16.2004 Certificate No. 0930018382.
 Note 17: Hsinchu Science Park Bureau 08.25.2005 Certificate No. 0940023097.
 Note 18: Hsinchu Science Park Bureau 08.23.2006 Certificate No. 0950021964.
 Note 19: Hsinchu Science Park Bureau 11.29.2006 Certificate No. 0950031936.
 Note 20: Hsinchu Science Park Bureau 02.08.2007 Certificate No. 0950003634.
 Note 21: Hsinchu Science Park Bureau 06.29.2007 Certificate No. 0960017409.
 Note 22: Hsinchu Science Park Bureau 08.21.2007 Certificate No. 0960021864.
 Note 23: Hsinchu Science Park Bureau 09.11.2007 Certificate No. 0960023922.
 Note 24: Hsinchu Science Park Bureau 11.21.2007 Certificate No. 0960030854.
 Note 25: Hsinchu Science Park Bureau 05.19.2008 Certificate No. 0970012663.

Note 26: Hsinchu Science Park Bureau 05.27.2008 Certificate No. 0970013216.

Note 27: Hsinchu Science Park Bureau 08.28.2008 Certificate No. 0970023767.

Note 28: Hsinchu Science Park Bureau 11.20.2008 Certificate No. 0970032275.

Note 29: Hsinchu Science Park Bureau 09.15.2009 Certificate No. 0980025465.

Note 30: Hsinchu Science Park Bureau 05.24.2013 Certificate No. 1020015421.

up to 2018.2.6; unit: share

Category	Shares	Authorized stock		Amount of corporate bonds that can be converted
	Shares outstanding	Unissued shares	Subtotal	
Registered ordinary shares	9,624,245,115	375,754,885	10,000,000,000	725,000,000

Shelf registration: not applicable

(II) Shareholder structure

Stock holding base date: 2017.7.9; unit: share

Shareholder structure Quantity	Government institutions	Financial institutions	Other corporations	Individual	Foreign institutions and foreigners	Subtotal
Number of persons	12	110	436	362,514	1,244	364,316
Number of shares held	76,506,516	757,838,744	1,437,035,018	3,646,368,159	3,706,496,678	9,624,245,115
Shareholding Percentage (%)	0.79	7.87	14.93	37.89	38.51	100.00

(III) Distribution of Equity Ownership

Type: Ordinary

Shareholding base date: 2017.7.9; unit: share

Class of Shareholding	Number of shareholders	Number of shares held	Shareholding Percentage (%)
1 to 999	104,407	22,739,238	0.24
1,000 to 5,000	157,049	372,289,207	3.87
5,001 to 10,000	45,745	357,739,571	3.72
10,001 to 15,000	16,315	202,380,793	2.10
15,001 to 20,000	11,292	209,408,222	2.18
20,001 to 30,000	9,991	253,721,224	2.64
30,001 to 40,000	4,918	175,457,366	1.82
40,001 to 50,000	3,478	162,553,464	1.69
50,001 to 100,000	5,971	437,036,832	4.54
100,001 to 200,000	2,596	372,785,518	3.87
200,001 to 400,000	1,200	342,859,424	3.56
400,001 to 600,000	414	205,876,964	2.14
600,001 to 800,000	198	137,693,623	1.43
800,001 to 1,000,000	115	104,333,552	1.08
1,000,001 or more	627	6,267,370,117	65.12
Total	364,316	9,624,245,115	100.00

Note: The Company does not issue preferred shares.

(IV) List of Major Shareholders (top ten shareholders who own the most shares)

Shareholding base date 2017.7.9

Name of substantial shareholders	Shares	Number of shares held (thousand of shares)	Shareholding Percentage (%)
Qisda Corporation		663,599	6.90
ADR of AU Optronics Corp.		480,127	4.99
Quanta Computer Inc.		443,930	4.61
Trust Holding for Employees for AU Optronics Corp.		279,674	2.91
JPMorgan Chase Bank N.A. Taipei Branch in custody for Stichting Pensioenfonds ABP		133,111	1.38
Credit Suisse Securities (Europe) Limited-Manual		124,545	1.29
Morgan Stanley & Co. International Plc		122,370	1.27
VANGUARD EMERGING MARKETS STOCK INDEX FUND, A SERIES OF VANGUARD INTERNATIONAL EQUITY INDEX FUNDS		92,925	0.97
State Street Bank & Trust Co.		86,153	0.90
Tong Hwei Enterprise Co., Ltd.		80,000	0.83

(V) Market Price, Net Worth, Earnings, and Dividends in the Past 2 Years

Unit: NTD

Item	Year		Until February 6, 2018	2017	2016
Market Prices per Share	Highest		14.30	13.95	13.60
	Lowest		12.35	11.45	8.26
	Average		13.13	12.37	10.66
Net value per share	Before distribution		(Note 5)	21.63	18.83
	After distribution		-	(note 1)	18.27
Earnings per share	Weighted average of shares (thousand shares)		9,624,245	9,624,245	9,624,245
	Earnings per share	Before retrospect	(Note 5)	3.36	0.81
		After retrospect	-	(note 1)	0.81
Dividends per Share	Cash dividend		-	(note 1)	0.56
	Dividend distribution	Dividends from retained earnings (Shares)	-	(note 1)	-
		Dividends from capital reserve	-	(note 1)	-
	Cumulative unpaid dividends		-	(note 1)	-
Return on investment analysis	Price/earning ratio (Note 2)		(Note 5)	3.68	13.16
	Price/dividend ratio (Note 3)		-	(note 1)	19.04
	Cash dividend yield (Note 4)		-	(note 1)	5.25%

Note 1: Pending resolution at the 2018 annual general meeting.

Note 2: Price/earning ratio = Average closing price for each share for the year/Earnings per share (before retrospect).

Note 3: Price/dividend ratio = Average closing price for each share for the year/Cash dividend per share.

Note 4: Cash dividend yield = Cash dividend per share / Average closing price per share for the year

Note 5: Up to the publication date of this annual report, no information has been attested or approved by an independent auditor.

(VI) Dividend Policy and Implementation:

1. The dividend policy set forth in Article 15-1 of the Articles of Association

Where the Company has a profit at the end of each fiscal year, the Company shall first allocate the profit to pay taxes and cover accumulated losses, and then 10% of the remaining net earnings shall be allocated as the Company's legal reserve unless and until the accumulated legal reserve reaches the paid in capital. 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 unappropriated retained earnings can be

distributed after the distribution plan proposed by the Board and approved by the shareholders' meeting.

The Company's dividend policy is to pay dividends from surplus considering factors such as the Company's current and future investment environment, cash requirements, domestic and overseas competitive conditions and capital budget requirements, and taking into account the shareholders' interest, maintenance of a balanced dividend and the Company's long term financial plan. If the retained earnings available for distribution of the current year reaches 2% of the paid in capital of the Company, no less than 20% of the retained earnings available for distribution of the current year shall be distributed as dividend. If the retained earnings available for distribution of the current year does not reach 2% of the paid in capital of the Company, the Company may distribute no dividend. The cash portion of the dividend shall not be less than 10% of the total dividend in the form of cash and stock.

The dividend distribution ratio in the preceding paragraph could be adjusted by the shareholders' meeting taking into consideration finance, business and operations, etc.

2. Dividend payout plans proposed during the most recent shareholder's meeting

As of the publication date of the annual report, the Board of Directors of the Company has not resolved the 2017 earnings distribution proposal. The Board of Directors meeting will be held no later than 40 days before the annual general meeting to make a resolution. The relevant information will be announced on the Company's website and market observatory post system (Mops) at that time.

3. Major changes expected in the dividend policy: None

(VII) The impact of dividend distribution proposed by this shareholders' meeting on the Company's operating performance and earnings per share: The Company did not disclose the 2017 financial forecast information and thus does not apply.

(VIII) Compensations for employees and Directors

1. The percentage or range of compensations for employees and Director based on the Article 15 of Articles of Association:

Where the Company has a profit before tax for each fiscal year, the Company shall first reserve certain amount of the profit to recover losses for preceding years, and then set aside 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.

The Company may allocate employees' remuneration prescribed in the preceding paragraph in the form of stock or cash to employees of an affiliated company meeting certain conditions. The Board or the person duly designated by the Board is authorized to decide the conditions and allocation method.

2. For this period, when there is a difference between estimated column of employee dividend and forecast basis of director's compensation, basis for calculating shares for the purpose of paying out share dividends and actual payout figure, and the estimated column are different, what is the accounting procedure to handle this:

The Company estimates and recognizes the employees' compensation based on the annual profits (meaning the pre-tax profit before deducting of employees' and directors' compensation) after the deduction of the accumulated losses and then calculated according to specific percentage. In addition, the Directors' compensation is calculated based on the expected amount of payments and recognized as operating costs or operating expenses. Where the employee's compensation is issued by the shares, the number of shares distributed will be calculated based on the closing price of ordinary shares on the day before the Board of Directors' resolution. If there is any change after the date of issuance of the financial report in the following year, it will be treated as changes in accounting estimates and the effect of this change will be recognized as profit or loss for the following year.

3. Compensations based on the resolution of the Board of Directors:

As of the publication date of the annual report, the Board of Directors of the Company has not resolved the resolution on the distribution of employee and Directors' compensation for 2017. The relevant information will be announced on the Mops within 2 days after the resolution of the Board of Directors.

4. Actual distribution of employees and Directors' compensation in the previous year, and the difference, reasons, and processing situation for the employees and Directors' compensations that were recognized:

Unit: NTD

Item	Amount
Employee's compensation in cash	1,107,485,720
Director's compensations	24,226,250

There is no difference between the actual distribution amount and the recognized amount in 2017.

- (IX) Repurchase of shares by the Company: The Company has not implemented repurchase of the Company's shares in the most recent year up to the publication date of this annual report.

II. Corporate bond processing (including outstanding and corporate bonds in progress)

- (I) Information regarding Corporate Bond: None.
- (II) Information regarding the convertible Corporate Bond: None.
- (III) Information regarding Exchange Corporate Bond: None.
- (IV) Information regarding Shelf Registration for Corporate Bonds: None.
- (V) Information regarding Corporate Bond with Attached Warrant: None.

III. Handling of preferred stock (including special shares outstanding and in process)

- (I) Preferred stock handling: None
- (II) Information regarding preferred stock with attached warrant: None.

IV. Handling of overseas depositary receipts (including overseas deposit receipts that have participated in the issuance and have not been fully redeemed and overseas depositary receipts that have still been processed)

Date of issuance (placement)	05.29.2002/ 07.31.2003/ 06.23.2004/ 07.12.2004/ 07.22.2005/ 08.26.2005/ 08.30.2006/ 10.01.2006/ 09.06.2007/ 08.22.2008/ 09.09.2009/ 05.07.2013 (Note)		
Issuance and trading place	New York Stock Exchange		
Total Issued Amount (US\$)	1,996,807,815		
Unit Issue Price (US\$)	11.57; 16.00; 15.35; 4.4		
Total number of issued units (units) until January 31,2018	257,760,933		
The source of securities represented	Ordinary shares of the Company		
The amount of securities represented (shares) until January 31,2018	2,577,609,357		
The rights and obligations of holders of depositary receipts	Rights and obligations are the same as ordinary shares		
Trustee	N/A		
Depository	Citibank, NA		
Custodian	Citibank Taiwan Ltd.		
Unredeemed balance (units) until January 31,2018	41,491,241		
The allocation methods on the relevant costs incurred as a result of the issuance and during the effective period.	The issue-related expenses were proportionally allocated by the Company and the selling shareholder according to the actual number of shares sold. After the issuance, except where otherwise agreed by the Company and the Depository, the costs of all overseas depositary receipts shall be borne by the Company.		
Important Agreements for Depository and Custody Contracts	Details such as depositary and custody contracts		
Market Price per unit (US\$)	2017	Highest	4.61
		Lowest	3.48
		Average	3.97
	Until February 6, 2018	Highest	4.99
		Lowest	4.20
		Average	4.55

Note: 07.31.2003, 07.12.2004, 08.26.2005, 08.30.2006, 09.06.2007, 08.22.2008, and 09.09.2009 : The issuance of new shares through capital increase by retained earnings. 10.01.2016: The new issuance resulted from merging with Quanta Display Inc.

V. Employee stock option handling status:

- (I) As of the publication date of the annual report, the processing situation and impact on shareholders' right from employee stock option that have not matured yet: None.
- (II) Names, acquisition, and subscription of managers who have obtained employee stock option as well as employees who rank among the top 10 in terms of the number of shares obtained via employee stock option, cumulative up to the date of publication of the annual report:
 - 1. The Company has not issued employee stock option.
 - 2. However, the Company was merged with Quanta Display Inc. on October 1, 2006, and the employee stock option that were issued by Quanta Display Inc. separately on August 8, 2002 and December 31, 2003 were assumed by the Company. As to the aforesaid employee stock option, its outstanding units on the combined base date and its subscribable shares were 1,861,000 shares and 5,631,000 shares respectively, which have expired on August 7, 2008 and December 30, 2009. The aforementioned employee stock option holders had exercised their right and obtained 1,679,000 and 1,962,000 shares from the date of merger until expiry date. The subscription amount were NT\$63,866,000 and NT\$98,155,000, respectively.

VI. Operations of new restricted employee shares

- (I) As of the date of publication of the annual report, new restricted employee shares that have not fully met the conditions and the impact on shareholders' right: The Company has not issued new restricted employee shares, so it does not apply.
- (II) Names of managers and top ten employees holding new restricted employee shares as of the publication date of the annual report and the conditions of receiving such shares: None

VII. Issuance of new shares in connection with the merger or acquisition of other corporations

- (I) In the most recent year up to the publication date of the annual report, the Company has completed merger and acquisition of other corporations to issue new shares: None.
- (II) In the most recent year up to the publication date of the annual report, the Board of Directors of the Company has approved merger and acquisition of other corporations to issue new shares: None.

VIII. Implementation status of fund application

- (I) As of one quarter before the publication date of this annual report, plan for previous issuance or private placement of securities that have not been completed, or that have been completed but no benefits achieved within the past three years: None.
- (II) As of one quarter before the publication date of this annual report, processing condition for previous issuance or private placement of securities that have not been completed, or that have been completed but no benefits achieved within the past three years: None.

Chapter 5 Operational Highlights

I. Business Activities

(I) Business scope:

AUO is a global leading manufacturer in optoelectronic solutions that leverages its own superior technologies in business competition. AUO specializes in the development, design, manufacture, and marketing of flat panel displays in all sizes. The main products in 2017 were TFT-LCD (thin film transistor-liquid crystal display) related products, contributing to approximately 94.5% of the consolidated turnover.

Meanwhile, the Company and its subsidiaries also deploy their business in the solar energy, engaging in the manufacture and sale of silicon ingots, silicon wafers and solar cell modules, and power plants investment, while providing full-range services for power plant development, deployment and maintenance management.

Concerning the main business scope of the Company's subsidiaries, please refer to the basic information of the affiliated companies in Section VIII Special Notes (pages 105-107) of this annual report.

(II) Industry overview

1. Current status and development of the industry:

Today, the industry of flat panel displays still focuses on TFT-LCD. Touted for its technological advantages, wide-range applications, and increasing returns to scale, TFT-LCD can cater to the needs in the digital era for comprehensive information based products and consumer electronic applications.

Tracing back the history of the TFT-LCD industry development, one can notice its industrial cycle, and its capital- and technology-intensive characteristics. The current major TFT-LCD manufacturing countries in the world include Taiwan, South Korea, Japan, and Mainland China. According to the market survey agency IHS Technology, Taiwan and Mainland China were the world's top two TFT-LCD manufacturers in 2017 and their large-size (Note) panel shipments covering approximately 34.2% and 31.3% of the market, respectively.

With the popularization of comprehensive digital information based and consumer electronics based products, TFT-LCD, as a crucial component, has taken a strategic position in the flat panel display supply chain. It not only led the industry of the upstream material components and their technological advance, but also lent support to the information electronics industry around the world to expand its downstream application market. Since the manufacturers in Taiwan started mass production of TFT-LCD, the industrial clustering effect has assisted locally the booming development of the related upstream materials and components. As a result, the upstream industries in Taiwan that manufactured backlight modules, color filters, driver ICs, and polarizers, have one after another gained a global key role.

2. Relations among upstream, midstream and downstream industries

Upstream industry	Glass substrate, Color filter, Polarizer, Driver IC, Printed circuit board, Backlight module, Liquid crystal, etc.
Midstream industry	Liquid crystal display panel, Liquid crystal display module, etc.
Downstream industry	LCD TVs, Tablet, Notebooks, Desktop monitors, Mobile phones, Commercial displays, and other electronic products

3. Various trends of products:

TFT-LCD production technology is now widely adopted for a variety of flat panel displays, including LCD TVs, desktop monitors, notebooks, tablet, mobile phones, and displays for commercial use and other applications. Moreover, as the trend for service convergence continues to cultivate the integration of the related products, the demand is increasing for novel features of mobile device panels, such as wide-viewing angle, higher resolution, lightweight, energy-saving, and touch control, etc. Meanwhile, in response to the popularity of networking and smart features, multimedia entertainments are moving toward large-size, high-definition panels with ultra-narrow bezels, which enable devices to transmit data without distortion in a smart streaming environment. The development of various major applications is as below:

- LCD TVs and others

Looking back the history of the television evolution, the very first Cathode Ray Tube (CRT) television made in 1920s that had

Note: According to the IHS Technology, 9-inch or bigger products including tablets, notebooks panels, desktop monitor panels, LCD TV panels, and public displays are categorized as large size.

transformed the media from a transmitter of static texts or voices into a transmitter of dynamic videos. It created a whole new experience to home audio-visual entertainment, and over decades had gradually evolved from black-white images to color images and flat screen. After 2000, Liquid-crystal display televisions which were thinner, energy-saving, and easy to scale up the size, started emerging to be the mainstream TV display technology. With the High-generation production lines running, large-size TVs were being massively produced and becoming more price-friendly. In 2017, the average size of LCD TVs had reached 42 inches and beyond, while the size of mainstream TVs had also shifted from 32 to 40–50 inches. This trend for larger screens will continue. At the same time, as the LED Light Source technology matured, LEDs with lower power consumption now completely replaced the cold cathode fluorescent lamps in traditional TVs, morphing TV machines into a lighter and thinner appearance. Regarding the development of television software, the introduction of smart TV with network feature and embedded in value-added services platform allowed televisions not only to play TV shows, but also to offer diverse functions for audio-visual interactive entertainment. Under the canopy of the Internet of Things, smart TV has now become one of the key focuses toward a digital home.

The pursuit of real-scene visual experience, even better visual quality with larger TV screens, has pushed up the demand for high-definition panels. It further stimulated the development of the UHD 4K panel technology (with a resolution 3840×2160, equivalent to four times the Full HD high resolution), and the TV content ecosystem comprising shooting equipment, image compression technology, storage and transmission technologies. Since 2014, content vendors such as online streaming and satellite TV operators began to introduce ultra-high resolution digital contents which support UHD 4K. Other LCD TV technologies that emerged include wide color gamut technology that increases color saturation, curved design that enhances immersive experience, local dimming backlight modules that improve the contrast ratio via local light modulation, HDR (high dynamic range) technology that makes dark details clearer, and bezel-less technology that expands the visual range. These technologies, when combined with UHD 4K, can provide consumers with new experiences and interactions in games, movies, sports and other softwares. Continuous technology development also drives LCD TV market growth momentum. Prompted by the 2020 Tokyo Olympics's plan to adopt 8K 4K (resolution 7680×4320) broadcasting technology, higher-resolution 8K4K panels will undoubtedly enter the market anytime soon.

Driven on one side by industrial and commercial video walls commonly used for transportation, video surveillance, and audio/video control, and on the other side by the popularity of interactive multimedia machines and multimedia advertising, large-size displays demand is increasing. Comprehensive digitization of commodity advertisements, catering, drive-thru and various outdoor/semi-outdoor signages are expected to come next. Such expansive application of public information displays, along with the Internet of Things and cloud computing, will open the door for smart applications to step into people's daily life. The fact that people now can access anytime public information incessantly will, in turn, push further demand for public information displays.

- Desktop Monitors

The invention of super large-scale integrated circuits in the 1970s initiated the revolution of the electronic computer. Cathode ray tube screen then allowed the computer to have its spot in every family, making individual computer learning popular. With the development of imaging technology and the popularity of desktop computers, the old-fashioned screens used for desktop computers have been completely replaced with liquid-crystal displays which are relatively thin and lightweight.

However, in recent years we have seen that the growing popularity of mobile communication development and mobile computing products have slowed down the market for desktop monitor. Product differentiation is the new direction to stimulate the consumer's incentive, such as the specifically designed AIO(All-In-One) computer with touch and TV function embedded. In response to the combination of information product and consumer electronics applications, products such as high-resolution and high-definition desktop monitor that can be used for work, as well as entertainment and watching TV. On the other hand, applications that targeted professional market segments, such as gaming products, high-definition display and high refresh rate features become important. On top of it, curve-contoured and bezel-less or 21:9 ultra-wide screens, which design based on the ergonomics, are all for the purpose of a better user experience.

- Notebooks and Tablets

In the 1980s, the very first personal laptop came into being out of the needs for mobile commerce and document processing. At the beginning, monochromatic TN-LCD panels (Twisted Nematic) were used. Later, with the development of TFT-LCD technology, they were superseded by higher-contrast ratio TFT-LCD panels which have turned into mainstream specifications.

While the laptop continuous improved toward high performance and light weight, there was no technology revolution in usability and convenience. In recent years, the laptop market has gradually fallen into stasis due to the increasing customer preference for smart phones and tablets, and the rising consumer demand for light weight, long standby time, and high performance devices. The later launched ultra-thin laptops aimed to break from previous designs, with novel features such as

fast response time, longer battery life, and light weight. Touch-embedded notebooks or 2-in-1 notebooks also penetrated into the market for high-end or commercial market after the upgrade of Windows operating systems. Premium notebooks, and the gaming notebooks with high resolution display, large size and high refresh rate mentioned earlier, will be the the main growth segments of notebook product.

Tablets have changed the user's interface experience due to numerous embedded applications and a well-developed ecosystem to support mobile entertainment and fast Internet access. In addition, their lightweight, energy-saving, and highly mobility features also played a role in driving up a high demand within just a few years. Unfortunately, the tablet market has significantly shrunk in recent years, partly due to larger mobile phone screens and low-priced notebooks, partly due to the increasing acceptance of lightweight 2-in-1 notebooks.

- Mobile phones and related products

The development of mobile communication technology has evolved from voices and texts only in 1990s, to instant network access anywhere after 2001, and to online high-speed, high-definition video/audio services since 2009. Today, telecom operators around the world are running to invest in mobile network. This makes mobile application panel shipments keep the leading position among small-medium size panel applications. To keep up with the increasing consumer demand for mobile communication, networking, and entertainment, the mobile phone has transformed from a simple hardware configuration feature phone in the early days into a smart phone that comes with a full ecosystem of abundant hardwares and softwares. Its mainstream screen size also increased from 1-2 inches to 5 inches, even 6 inches or more. Since 2017, the mobile phone brands started to push the screen-to-body ratio higher, from early 16:9 to 18:9. Meanwhile, the consumer demand for high-resolution mobile screen in order to watch instant high-definition videos/audios has prompted the change from QVGA (Quarter Video Graphics Array, resolution 240x320) commonly seen in feature phones, to FHD (Full HD, resolution 1920x1080). In 2015, the smart phone brands launched models equipped with UHD 4K high-resolution display, so that the consumers could also watch 4K videos/audios directly on smart phones.

Smart phones have now become a necessity for consumers. According to the market survey agency IHS Technology, the annual growth rate of mobile phone shipments in major markets, such as North America, Western Europe, and Mainland China has dropped to a single digit or even a negative number. Future market growth momentum will rely on premium products development and shortening smart phone replacement cycle. As to emerging markets, smart phones penetration is low; in some countries, most consumers still use feature phones. The main driving force of emerging market growth is certainly the call for substituting feature phones with smart phones.

- Commercial displays and others

Commercial displays cover a wide range of applications, including automotive dashboards, industrial computers, medical equipments, ATMs, point-of-sale systems, and arcade games. With the rise of cloud computing, the market size of commercial displays keeps growing.

In the past, the interior control dashboards were controlled by buttons and knobs and indicated by a pointer. But with the digitization of the interior information system, the demand for TFT-LCD panels has increased. Even more displays will be required in a single car: For example, a touch embedded panel can be introduced in the center console to play audio-visual programs and control air-conditioning and other related functions. Large-size high-resolution panels that integrate navigation and speedometer and engine related information can also be applied in the dashboard.

In the past, wearable products tended to focus their own application on health and personal life management. With watches, wristbands, and apparel buckles recently launched by electronics manufacturers, these wearable products could go with APPs to expand application to payment and identity confirmation. In the mean time, major fashion brands and traditional watch manufacturers, one after another, also launched more stylish and refined exterior products. On the other hand, owing to more and more applications in games, shopping, and audio-visual entertainment, the virtual reality products were soaring: A head-mounted display could introduce the users into a reality-like experience. The business opportunities in this respect are waiting for another surge when wireless transmission and Internet of things become more mature.

Other applications include: industrial computers, medical equipments, automated teller machines, point-of-sale systems, and arcade games. TFT-LCD panels are gradually adopted to process a large amount of information, relinquishing the old, monotonous and inconvenient method using signal, negative film, paper, and physical institution. With the cloud computing and Internet of Things technologies reached maturity, more and more applications and devices began to stream and share information with each other, allowing people to access information anytime in their daily lives. Therefore, displays will be used in numerous facilities everywhere.

4. Competitive Situations

TFT-LCD is one of flat panel technologies, and is the mainstream technology in the current market. Current TFT-LCD manufacturers mainly come from Taiwan, South Korea, Japan, and Mainland China.

Based on the recent large-size market dynamics of panel manufacturers in various regions, Korean manufacturers turned their focus on the AMOLED panel technology development and production, and shut down several old TFT-LCD production lines. Japanese manufacturers invested in small-medium size panels instead. The manufacturers in Mainland China continued to set up high-generation TFT-LCD production lines, but their major sale was still large-scale commodity panels, the range of their size being rather restricted due to the relatively concentrated fab generation lines. Meanwhile, given a limited growth of production capacity, Taiwanese manufacturers continued to launch panels of differentiable sizes and technology-intensive products.

As for the small-and-medium- sized product market, seeing that smart phones evolved toward larger size, higher resolution, lighter and more energy-saving, various manufacturers allocated their production capacity on low-temperature polycrystalline silicon (LTPS) and AMOLED. While Korean manufacturers focused on setting up AMOLED production lines, Japanese and Taiwanese manufacturers increased more production capacity in LTPS. The manufacturers in Mainland China had investment in both.

At present, the competition in the panel industry has shifted from capacity expansion to new technologies and high value-added products, such as UHD 4K ultra-high resolution, curved TV, and curved desktop display, or bezel-less TV panels. Their production technologies are difficult and require a long time to learn; they can satisfy the diverse needs of consumers and have an opportunity to create a higher value.

(III) Technology and R&D Overview

AUO continues to exert its innovative R&D energy. In 2017, it received high evaluations at major exhibitions for its latest technologies. In visual products, there are advanced display technologies, such as ALCD (Advanced LCD) upgrade, high-level e-gaming monitor panels, and all-round public information displays; In portable products, such as the world's first 144Hz refresh rate QHD (resolution 2560 x 1440) gaming monitor panel, UHD 4K ultra-high resolution LTPS laptop panel, high-definition ultra-narrow bezel smartphone LTPS panel technology, ultra-high resolution free-form curved panels that are used in a car, and a full range of smart watch AMOLED panels for wearable applications. Some important products and technologies are summarized as follows:

- ALCD technology upgrade

AUO continues to sharpen its technology edge of high contrast and wide color gamut by recently presenting an enhanced version of ALCD technology. Through a comprehensive HDR design, the display can achieve as high as 2000-nit brightness with significantly higher contrast. Its low reflectivity makes it possible to deliver high-quality HDR image even in daylight, perfectly capturing both bright and dark image details. By adopting environmentally friendly cadmium-free quantum dots that have high color saturation, the display can achieve rich and detailed color depth. AUO then applied the GOA (Gate on Array) technology it has developed to produce flat display panel that are bezel-less on four sides, which significantly lowers the number of display driver ICs and expands the viewing area.

AUO leveraged its advantages in technologies integration to introduce the world's largest (Note1) 85-inch 8K4K bezel-less ALCD TV display. A 120Hz high refresh rate allows the display to deliver smooth motion image with an impressive quality. The features of 8K4K images are thoroughly shown through a large-sized TV panel. From mountains far away to objects and figures up close, all images demonstrate stunning clarity and stereoscopic effect.

- High-End Gaming Monitor Panels

AUO has devoted to gaming displays for many years, and continues to lead the industry by recently offering bezel-less professional gaming flat monitor panels with even faster response time and higher image quality. To provide gamers with optimal gaming experiences, AUO partnered with NVIDIA, a global leader in visual computing, to develop the NVIDIA G-SYNC™ HDR technology. The advanced HDR technology it has developed allows accentuating the contrast of the dark scenes in games, delivering more clarity and richer details against both bright and dark backgrounds. In addition, wide color gamut technology in quantum dot was used to achieve the best color possible, making gaming experience all the more realistic. AUO was the first in the world (Note1) to release a 27-inch gaming monitor panel (Note2) that combines UHD 4K ultra-high resolution and 144Hz refresh rate. Its high color saturation was achieved by advanced HDR technology. AUO also presented a 35-inch WQHD (with a resolution 3440 x 1440) gaming monitor panel with a refresh rate as high as 200Hz. Equipped also

with advanced HDR technology, this panel sports a curved design with 21:9 ultra-wide aspect ratio to deliver an immersive, lightning-fast gaming experience.

- All-round public information display solution

AUO has been dedicated to public information displays (PIDs) and their applications for many years. It has succeeded in making PIDs that feature ultra-large size, high resolution, high brightness, wide color gamut, extremely narrow bezel, dual side, and stretched type. A full lineup of PID related products is also available. Depending on customers' specific promotional needs and installation environments, AUO offered customized solutions such as hardware/software integration and after-sales service.

AUO was also the first (Note 1) among the competitors to introduce an ultra-large 85-inch UHD 4K signage for the outdoors. It features 2500-nit ultra brightness and is capable of operating with stability for long periods of time. Even under the sunlight, the image is still vivid, making the signage suitable for outdoor bus stops and standalone billboards at boutique stores. The 55-inch full HD video wall display adopts the extremely-narrow bezel technology to reduce the adjoining space between displays within only 1.8mm wide. Each of the 55-inch panels can be assembled with flexibility in irregular shapes, depending on the space available. With AUO's color and brightness adjustment technologies, the video wall presents a superb image uniformity. A series of stretched-type public information displays ranging from 28.6 to 42 inches were also exhibited. Characterized by high resolution, high brightness and high reliability, these displays can be installed in semi-outdoor areas to provide passengers with real-time traffic information and advertisement, or used to broadcast wide-format advertisements in retail stores. Or they can be built into smart shelves in retail stores to provide merchandise information via interactive sensors, making shopping a lot more fun. 1.8m

- UHD 4K Ultra-Narrow Border LTPS Notebook PC Panels

AUO has combined the characteristics of LTPS technology, that is, the ultra-high resolution, ultra-narrow border, thin, light and power-saving features, into the making of UHD 4K LTPS notebook PC panel. The 13-inch panel has 332 PPI (Note 3) ultra-high pixel density to demonstrate rich and exquisite details, and 1.5mm only ultra-narrow border to expand the display viewing area. The other simultaneously released 15.6-inch UHD 4K LTPS notebook PC panel possesses high contrast, high color saturation and ultra-narrow border of merely 2mm, and is up to now the industry's largest (Note 1) UHD 4K LTPS panel. 1.5 millimeters to 2 millimeters.

AUO was also the world's first (Note 1) to announce 13.3-inch UHD 4K ultra-high resolution LTPS oTP touch panel, having succeeded in merging on-cell touch function into UHD 4K LTPS manufacturing process. This display combines ultra-high resolution, thin and light, power-saving and touch-sensitive features altogether, rendering user experience richer and with more flexibility.

- Free-form and Curved Displays for Smart Cars

Owing to the rapid development of the Internet of Vehicles and self-driving cars, there grows daily the demand for displays for large-sized cars and demand for stylish displays that go with the car interior designs. AUO presented a full lineup of free-form and curved car displays, among which the 12.3-inch full HD dashboard with application of LTPS display, which 1.5mm ultra-narrow border reveals a delicate, streamlined appearance. The display also integrates high resolution, high color saturation, high contrast and wide viewing angle, making it the leading technology among high-end car displays. 1.5mm.

In addition, AUO's 4.5-inch transfective LCD, suitable for the outdoors, was designed for motorcycle instrument clusters. The display boasts low power consumption and is readable under strong light, providing motorcyclists with smarter and safer riding experience.

- AMOLED Display's Varied Forms Applied in New Applications for Wearable Devices

AUO's true-round AMOLED smartwatch display can appear like a true circle because its IC adjoining space is being narrowed. The display's ultra-narrow border also lends more flexibility for watch brand manufacturers to be more creative with their designs. The 1.2-inch and 1.4-inch true-round AMOLED displays released by AUO both have a resolution as high as 326 PPI (Note 3), and consume 30% less power when compared with other products in the market. The displays are equipped with a special brightening mode, so that the information and color on the watches are still clearly visible when users are out under strong sunlight. The 1.3-inch AMOLED touch panel, boasting touch function and power-saving strength, offers intuitive touch experience. Its design is specifically targeted on children's smartwatch. AUO also exhibited two flexible AMOLED display technologies, which made use of plastic substrate and special structural layer design to make the panels foldable and rollable.

AUO's consolidated R&D expenditure in 2017 was NT\$9.9 billions. By the end of January 2018, the R&D expenditure was NT\$800 millions. As always, AUO continues to invest in advanced technologies and use them to improve its existing production capacity, in order to strengthen AUO's competitiveness in the market of high-end and new applications. On top of that, AUO has a number of R&D patents, 99% of its patent assets being invention patents. For this, AUO was selected as one of the constituents of the US Ocean Tomo 300® Patent Index in 2015/2016. By the end of 2017, AUO had accumulated 23,901 patent applications and 17,788 approval patents worldwide. AUO's great effort in proprietary technology and strategic deployment in patents have once again solidified its leading position in flat panel displays.

AUO plans to invest approximately NT\$10 billions in R&D expenditures in 2018. The actual figure will depend on the global market conditions and the Company's operations. AUO's major future R&D projects are summarized as below:

Project Title	Descriptions	Current status	Expected production time (Note)	Success factors
High-end TV display upgrade project	To keep the cutting-edge technology of UHD 4K displays with refined image quality and stylish outlook. Color Performance - To incorporate the cadmium-free quantum dots of a new generation to achieve a wide color gamut. Contrast Performance - To satisfy the contrast requirement in a bright and a dark room simultaneously; to enhance the brightness performance to maximum and reduce possible reflective ambient light from the display. Viewing Angle Performance - To improve the color and contrast at large viewing angles. Design Performance - To achieve a full bezel-less design.	Under development	2018	To cooperate actively with material suppliers to develop key materials, so that our technologies and products can be differentiated from the others. AUO will develop on its own new product architectures and process technologies. Guided by a complete technical plan and patent strategy, AUO will add value to its products and maintain its competitiveness.
Small to medium-sized panels with ultra-high resolution, high transmittance, ultra-narrow bezel and diverse AMOLED based technology	To keep developing high-resolution, ultra-light, ultra-thin and ultra-narrow bezel LTPS panels of small to medium size. The properties like high transmittance rate, ultra-narrow bezel, and super power-saving should meet the requirement of mobile applications. On the other hand, the development of applications in emerging areas will be reinforced, such as gaming panels, free-form car panels and Mini LED related applications. For AMOLED based products, the development will continue toward high resolution and narrow bezel.	Under development	2018	The 6th generation LTPS plant continues to optimize the process and innovate product designs, creating high value-added products. By relentlessly challenging the industry's highest specifications and latest process, AUO will lead, as always, the industry. Improvement and technology development of AMOLED will continue.
72-cell high-efficiency solar PV module	To develop N-type mono-crystalline high-efficiency module with 400 watts.	Under development	2018	The technical mastery of N-type mono-crystalline cells and multi-busbar cell interconnecting modules.

Note: It refers to the expected mass production time. The actual production time is subject to the needs of the market and customers.

(IV) Short/long-term business development plans

As a leading TFT-LCD manufacturer in Taiwan, AUO dedicates itself to applications such as LCD TVs, desktop monitors, notebooks, tablets, mobile phones, commercial displays, and other small-and-medium-sized displays.

For short-term business development, AUO will increase its production capacity with appropriate investment plan to respond to the client's growing demand. This includes the 6th generation LTPS plant in Kunshan, Mainland China, which began mass production since November 2016, and reached 25,000 sheets of glass substrate input in 2017. In addition, the 8.5th generation plant in Taichung Houli is expected to have the capacity to input 25,000-30,000 sheet of glass substrate in 2018, bringing more profits. In terms of products, AUO will combine a-Si TFT and LTPS TFT with innovative technology and product design, to produce competitive value-added products. Applications to large-size products include high resolution, curved products, wide color gamut, high dynamic range, and bezel-less design. Among the small-and medium-sized products are high-end mobile phone panels with FHD, WQHD (resolution 1440x2560) UHD 4K and 18:9 screen-to-body ratio, high-resolution automotive dashboard panels, notebook panels, as well as solutions on low reflectivity and on-cell touch panel, etc. Besides, AUO also has completed generation production lines which can provide clients with diverse products of various sizes. AUO is determined to satisfy the clients' request for instant supply. It will keep strengthening a strategical alliance with clients, creating a win-win situation. In this way, AUO sustains to leading a pivotal position in the panel supply chain.

As for long-term business development plan, apart from developing process capabilities and advanced display technologies such as AMOLED, Mini LED, and Micro LED, AUO will continue putting resources into R&D to foster its ability for technologies innovation, with a view to leading the position in cutting-edge technology. Furthermore, AUO has a comprehensive plan of leveraging patents as a technical barrier against competition, as well as a solid support to branded customers for business expansion over the world. In terms of products, AUO will emphasize more on value chain integration and value-added products improvement, in order to provide customers with more value-added solutions and services with its product development ability in a flexible way. Product differentiation, quality enhancement, and value-added will continue to play a role in AUO's long-term competitiveness. For long-term business development plans in response to each product development trend, please refer to the section of Various Trends of the Products Development in chapter V Operational Highlights in this report. (pp. 43-45).

II. Markets and Overview of Production and Sales

(I) Market analysis

1. Regions of major sales:

The clients of AUO comprehend global IT, consumer electronics, and industrial electronics manufacturers, among which internationally renowned brands and system integrators or system vendors. Therefore, the TFT-LCD products are well sought-after in a wide range of markets, from Asia, the United States, Europe, to emerging markets.

2. Market Share

According to the market survey agency IHS Technology, the top five global manufacturers of large TFT-LCD panel shipments in 2017 were BOE, LG Display, Innolux, AUO, and Samsung Display; their respective market shares were approximately 21.3%, 20.1%, 16.4%, 15.8% and 8.8%.

The panel industry has shifted its battlefield into value competition from scale competition. According to the IHS Technology, in 2017 the top three manufacturers of notebook panels with FHD resolution or beyond were LG Displays (26.3%), AUO (20.9%), and BOE (20.7%). On the shipment of 65-inch or larger TV panels, the top three manufacturers were Samsung Display (31.4%), LG Display (28.0%), and AUO (15.9%). On the shipment of public information display panels, the top three were LG Display (36.0%), AUO (33.5%) and Samsung Display (19.6%). As for the shipment of car center stack panels (before-market), the top three manufacturers were LG Display (22.3%), AUO (19.2%), and Sharp (13.3%).

3. Future market supply/demand and growth

The IHS Technology has indicated that in the market of major applications, the LCD TVs were becoming more price-friendly, and more appealing to consumers who desired larger-size and higher-resolution TVs. The total shipment was 215 million units in 2017, and is expected to reach 223 million in 2018, with a 4% increase compared to 2017. As for the rather mature PC market, a prolonged replacement cycle has hindered consumer demand. However, operating systems upgrade has started to provide incentives for enterprises to replace machines. Such commercial demand is expected to carry on from 2017 to 2018. Among them, the total shipment of desktop displays in 2017 was approximately 133 million units, and is expected to stay the same in 2018 but large-size segments will increase steadily. For notebooks and tablets, the total shipment in 2017 was approximately 340 million units, but is expected to decline by 2% to 333 million units in 2018. On the other hand, the 2-in-1 products that unite the operating modes of tablet and notebook will grow in number with years. As for mobile phones, smartphones are advancing toward larger size, higher resolution, and higher screen-to-body ratio. The total shipment in 2017 was approximately 1.5 billion, and is expected to rise up to 1.6 billion in 2018, boasting a 7% growth rate.

According to the IHS Technology, the overall demand for TFT-LCD panel area grew by 4% in 2017. Boosted by the recent increase in the average size of application panels, the market demand for large-size panels is soaring. The demand panel area is estimated to grow by 7% in 2018. The TFT-LCD industry performance closely tied to the end market of electronic products such as TVs, desktop monitors, notebooks and tablets, mobile phones and commercial displays, etc.

With respect to the panel supply side, the IHS Technology has indicated that the annual growth rate of TFT-LCD panel production capacity area in 2017 was 3%, and is expected to reach 5% or more in 2018, with the help of newly-added high generation lines from the industry. Yet, it remains to be observed whether high generation production lines coupled with new technologies can overcome learning curve of mass production. In addition, various applications are developing toward higher-value products, including higher resolution, lighter weight design, on-cell touch panel, and software/hardware integration systems. Judging from the market supply and demand, the success in industrial competition no longer depends on expanding the production capacity, but requires combining technology and the ability to integrate product values.

4. Positive/negative factors of competitive niches and long-term development, and the countermeasures thereof

1) Competitive niches

Rapid change in the overall economy and uncertainty in the panel industry cycle, coupled with fierce competition that resulted from a nonstop expansion of production capacity, have made the overall industrial environment even more complex and unpredictable. Meanwhile, the ever-increasing demand for terminal product specifications also highlights the importance of technical upgrades. Facing such a competitive environment, AUO will make full use of its own advantages to meet proactively the industrial challenges:

- **Technology and product strength:** In the face of the increasing complexity in industrial competition, AUO will continue to focus on improving the existing technologies and innovating new ones. Other focuses include product quality upgrade and the development of new products, such as on-cell touch panel, high-resolution panel, curved panel, and commercial display panel. By providing differentiated products of higher added value, AUO aims to strategically create a difficult barricade to prevent competitors from crossing.
- **Talent, R&D capability and patent quality:** AUO continues to pour R&D resources into cultivating technical talents. Its long-term accumulated R&D and manufacturing experience helps curtailing the learning curve for new products in an effective way. Moreover, AUO's long-term layout in patent quantity and quality also creates a sufficient reserve of technology capability to support the superiority of the AUO products.
- **Highly flexible management and production capacity:** AUO is above the other competitors in terms of cutting-edge technologies. It has a complete generation lines at its back, and is capable of reconfiguring them to a maximal advantage in respond to all kinds of products. In order to provide cost-competitive products, AUO relies on a solid mass production experience, along with a complete upstream-to-downstream industrial supply chain management, to establish an all-round integrated platform that covers marketing, product management, customer service, manufacturing efficiency, yield quality, and material logistics management.
- **Full customer strategy:** AUO is a professional panel manufacturer specializing in panel R&D and production. Having no brands of its own, it strategically avoids a direct competition against customers. Furthermore, AUO's ever advancing technology helps appeal worldwide first-line clients. At the present stage, the customer base has covered brands from Mainland China, Japan, Korea, Europe, and America, including system integrators and clients from emerging markets. AUO tries to make a balance of proportion concerning the customer portfolio.

2) Favorable factors of development prospects:

- **Popularization of high-resolution ecosystems and communication technologies:** For large-size display products, the consumers are seeking better image quality, real-life experience and stylish design. As the global UHD 4K ecosystem matured, AUO launched a curved, bezel-less UHD 4K TV that has the advantage of ultra-high resolution, wide color gamut, and high dynamic range, which guarantees a more immersive visual experience and perfect images for customers looking for competitive high-end products. Similar product demand also extended to desktop displays, notebooks, and smart phones. On the other hand, recently the global high-speed communications environment was nearing completion, and because of that, consumers were able to benefit from faster transmission and high-quality instant messaging service, which in turn sped up the replacement and penetration rates for smart phones. In response to this situation, AUO consistently launched products featuring larger size, higher resolution, narrower border, and lower power consumption, hoping to assist clients to seize new business opportunities.
- **High-growth market:** Some TFT-LCD related products still promise a high growth rate, such as commercial displays, public information displays, and wearable devices. Commercial displays are characterized by small-volume but diverse for

consumer demands, and high entry barrier. AUO has been cultivating the commercial market for a long time, as it understood well that the customers valued greatly the reliability and long-term supply capability from a manufacturer. This was the reason why AUO has been the first in a number of non-consumer electronic fields, such as industrial computers, ATMs, point-of-sale information systems, and arcade games. On the other hand, in the steadily growing automotive market during recent years, AUO has enjoyed a major market share; in the meantime, it has aggressively carried over to the market of high-end, high-entry-barrier automotive panel products. AUO's advanced integrated automotive touch panels combining full lamination have successfully broken into the supply chain of the major car manufacturers in Japan, Europe, the United States, South Korea and Mainland China. As for wearable devices that require thin, lightweight, and power-saving displays, AUO's AMOLED, conventional TFT-LCD and transfective TFT-LCD technologies are all ready for mass production. In particular, the AMOLED smart watch panel adopts the circular panel technology to make the panel look like a true round circle, allowing the watch brand with more flexibility in design to satisfy various customized demands.

- Business opportunities of Internet of Things: Internet of Things will propell in our future, and everything will be interconnected. In this sense, the display will be a crucial interface between humans and machines. As various applications develop toward large size, the demand in panel area increases as well. AUO targeted smart manufacturing, smart home, smart retail, smart handheld and wear devices, car, and medical care applications, by launching products with ultra-high resolution, curved surface, wide color gamut, high dynamic range, on-cell touch, and other value-added applications. We greeted the business opportunities of the Internet of Things era by utilizing our integral strengths to enhance the value-added and create high-valued differentiated products with technological diversity.

3) Unfavorable factors and countermeasures

- Mainland China progressively expands plants: In recent years, the competitors in China concentrated on high generation production lines and steadily expanded production capacity. This has affected the supply/demand of the panel industry. It should be noted, however, that in the TFT-LCD industry, production capacity is no longer the only competitive factor, what is equally important in business deployment is technology, management, operation, and clientele. To stand against the challenge of capacity expansion, AUO will continue to leverage its technology and product strengths, combined with technology, flexibility, patent quality, and a complete layout of clientele. Its advanced technologies and differentiated products shall create a greater value.
- Consumer incentive is overshadowed by the global economy: Although the overall global economy was slowly recovering during recent years, the consumers still used to extend the product replacement cycle. However, emerging markets are still demanding the replacement of a significant number of CRT TVs and feature phones. Moreover, the progressively improving technologies, which have produced more affordable products with high-resolution, high-definition images, may stimulate another surge of mobile replacement in mature markets. By way of product diversification and market decentralization, AUO will minimize the impact of economic fluctuations.
- Numerous consumer product markets are reaching saturation: The demand for LCD TVs, tablets, and smart phones has gradually saturated in mature markets. The overall shipment and growth strength of the panels have gradually slowed down as well. Yet, the emerging areas including cloud communication, big data and the Internet of Things, are soaring and promise business opportunities for new display applications. In the future, demand for varied and customized displays will increase. AUO will continue to upgrade its technology, striving to lead the position in image quality, design differentiation and solutions. With solid technical capabilities, AUO is able to face new product trends.

(II) Important applications and production processes of the major products.

1. Important applications

TFT-LCD products are digital display devices used to transmit information. Their application is broad, and includes commercial and industrial information displays, computers, telecommunication-related products, and consumer electronics displays. With the market integration driven by the digital age, current major products of TFT-LCD applications include LCD TVs, desktop LCD monitors, tablets, notebooks, mobile phones, car displays, wearable devices. In general industrial and commercial areas, TFT-LCD related products include automatic teller machines, vending machines, public information displays, other touch screen products and portable electronic devices.

2. Production process

TFT-LCD production process consists of three phases:

- (1) Front-end array or TFT process: The process is similar to the semiconductor process, except that the thin film transistor is fabricated on a glass instead of a silicon wafer.
- (2) Middle-end cell or LCD process: The previous array glass is used as a substrate to unite the color filter glass substrate. The liquid crystal is then injected between the two glass substrates.
- (3) Back-end module assembly or LCM Process: This process consists of assembling the post-cell-process glass with a variety of components such as backlights, circuits, and frames.

(III) Supply of primary raw materials

The TFT-LCD production process is relatively complicated, and in addition, requires numerous raw materials and components. The primary raw materials and key components include glass substrates, driver ICs, polarizers, backlight modules, liquid crystals, printed circuit boards, color filters and flexible print circuits, etc. AUO has always maintained a good working relationship with domestic/oversea raw material suppliers. For key materials and components, its keeps more than two suppliers to remain flexible with procurement and disperse the risk of excessive purchase concentration.

(IV) A list of any suppliers and clients accounting for 10% or more of the company's total procurement (sales) amount in either of the 2 most recent fiscal years, the amounts bought from (sold to) each, the percentage of total procurement (sales) accounted for by each, and an explanation of the reason for increases or decreases in the above figures.

1. Major Customer for the past two years

Unit: NT\$100 millions

Year Item	2017				2016			
	Company	Amount	Ratio to annual net revenue (%)	Relationship with AUO	Company	Amount	Ratio to annual net revenue (%)	Relationship with AUO
1	Samsung	436	12.8	-	Samsung	373	11.3	-
2	Others	2,974	87.2		Others	2,918	88.7	
	Net revenue	3,410	100.0		Net sales	3,291	100.0	

Reasons for change: Mainly due to the product assortment.

2. Major purchasers for the past two years

There was no purchase in 2016 and 2017 that accounted for 10% or more of the net purchase from any single vendor. So it does not apply.

(V) Production value for the past two years

Unit: NT\$1000; piece

Year Main products	2017			2016		
	Production Capacity (Note)	Production Quantity	Production Value	Production Capacity (Note)	Production Quantity	Production Value
TFT-LCD	12,685	285,030	235,903,481	12,336	264,523	249,012,905
Others	-	-	14,886,755	-	-	18,096,672
Total	12,685	285,030	250,790,236	12,336	264,523	267,109,577

Note: Calculated by Glass substrate (mother glass).

(VI) Sales value for the past two years

Unit: NT\$1000; piece

Main products	Year	2017				2016			
		Domestic sales		Export sales		Domestic sales		Export sales	
		Amount	Value	Amount	Value	Amount	Value	Amount	Value
TFT-LCD		107,275	97,802,735	173,380	214,678,642	104,149	94,983,493	160,301	200,658,533
Others		-	12,603,212	-	15,943,678	-	10,874,695	-	22,572,315
Total		107,275	110,405,947	173,380	230,622,320	104,149	105,858,188	160,301	223,230,848

III. Employee Information

Year		As of January 31, 2018	2017	2016
Total number of employees (persons)	Production	43,936	43,420	43,831
	Technical	9,110	9,055	8,992
	Sales and marketing	990	969	898
	Management and administrative	3,755	3,761	3,858
	Total	57,791	57,205	57,579
Average age (years)		30.5	30.9	30.3
Average duration of service (years)		4.9	4.9	4.6
Educational distribution ratio (%)	Director of Philosophy	0.4	0.4	0.4
	Master's Degree	11.3	11.4	10.9
	Bachelor's Degree	33.8	34.3	31.5
	Senior high school	37.7	38.0	36.9
	senior high school or below	16.9	15.9	20.3

IV. Environmental Protection Expenditures

Loss (including indemnity) caused by environmental pollution and the total indemnity amount involved in the most recent year up to the date this report is published; account of future countermeasures (including improvement actions) and possible expenditures (including loss, disposition, and an estimate of indemnity incurred by a failure to implement the countermeasure; if a reasonable estimation cannot be made, the justification shall be provided):

(I) Loss due to environmental pollution:

Company name	Incident	Amount of indemnity (NT\$1000)	Countermeasures and improvements
AU Optronics Corporation	During a business waste auditing at Fab L3B, the environmental protection agency reported that the waste code declared by the Company was inconsistent with that defined by the regulator.	6	To clarify the definition of the business waste code with the regulator to ensure its correctness.
	The amount of waste produced by the Tainan site exceeded 10% of the maximum value set in the waste disposal plan.	6	To modify the waste disposal plan.
	Waste produced by the Tainan site was stored without any measure to prevent inflow and infiltration of surface water or rainwater. The name of the waste was not marked at an obvious spot.	No disposition notice has been received yet.	1. To clear the temporarily stored material in the area. 2. To post a tag indicating the material to prevent confusions and misunderstandings.

Except the above matters, AUO and its subsidiaries were not fined for any other violations against the relevant regulations in the most recent year up to the date this report is published.

(II) Future countermeasures thereof and possible expenditures: AUO and its subsidiaries have always put emphasis on environmental protection work. Apart from the internal pollution prevention and control, all types of business waste are to be re-used or processed by qualified manufacturers according to the laws. In the future, AUO will continue to reinforce educational trainings on the relevant laws/regulations and declaration procedures.

V. Labor-Management Relation

(I) List of employee benefits, in-service training, internal training, retirement system and implementation status, as well as employer-employees agreements, and protection measures for employee entitlements:

1. Employee benefit and implementations

- (1) Employees are entitled to labor insurance, National Health Insurance, and group insurance at the first day of work.
- (2) The Company has set up the "Employee Stock Ownership Trust Project" which ties to the Company's operating performance.
- (3) Apart from the basic salary, also available are the annual bonuses such as Mid-Autumn Festival, Dragon Boat Festival and Spring Festival bonuses. Depending on the Company's profitability, incentives such as motivation bonuses, performance bonuses, and employee compensations are given in due course.
- (4) Staff restaurant is available at each plant site, providing breakfast, lunch, dinner, and late-night meal. Meals are subsidized.
- (5) Life plaza that comprises convenience stores, coffee shops, bakeries, fruit bars, and laundry shops, is set up within each plant site. Annual sale activities are also held from time to time to provide staff with affordable daily goods.
- (6) The Company has set up a "Wellness Center" at each plant site. A medical team of professional doctors and nurses are in charge of the staff's wellness. Various health promotion activities are held to provide a comprehensive body, mind, and spiritual health care.
- (7) Fitness center managed by a professional health management team is built at each plant site. Apart from permanent stadiums, fitness equipment, and sports classrooms, irregular aerobic exercise courses are given at the request of colleagues.
- (8) AUO's "Employee Welfare Committee" is organized to take care of employees' life, promote their wellness, and sustain a harmonious labor-management relation. It is responsible for the planning and execution of staff benefits and various activities such as AUO's life feasts, sports seasons, family days, sports days, festivals, club activities, employee outings. Other benefits subsidies include training, emergency assistance, hospitalization, marriage, funeral and other events.

2. Employee training

Starting from the first day of work, new employees are given training programs. Through the Win Camp, they are introduced to the AUO's corporate guiding principles including the corporate social responsibility and related policies. AUO Learning College (ALC) plays a central role in employee learning. Through the AUO Learning System (ALS), every employee can participate in the various training courses and programs provided by ALC. Via various trainings designed for each profession, ALC is able to run a comprehensive program for human resource development.

AUO's employee training programs are as below:

- (1) New recruit training: This training has two stages. The first stage includes the official environmental safety/health course, the corporate development direction, management guidelines, and related policies. Also included are cultural courses run by the Win Camp, to help newcomers quickly familiarized with colleagues, and the organizational culture and guidelines; The second stage focuses on professional skills and knowledge depending on job positions.
- (2) Personal competency development: Physical courses, which are based on the staff's common competency and assisted through online learning, provide job-relevant management knowledge and skills (eg, cross-department communication, project management, business-related skills, legal knowledge). Selective advanced courses are also given based on the employees' seniority.
- (3) Professional knowledge improvement: In coordination with the Company's strategy, colleagues are sent to participate in domestic/international industrial and management-related seminars and forums. Trainings provided by the consultant companies and manufacturers also help the Company promote technology, develop new products, introduce innovative ideas, and improve management skills.
- (4) External training program: In response to needs of skills necessary in positions or the development of professional ability from the staff, AUO provides the information on external training programs to help improve the staff's working or professional skills, in this way boosting the organizational competitiveness. A total of 1,150 persons have participated in external trainings this year. The total expense was about NT\$3.72 millions.

- (5) Supervisor training: For employees at the management level, AUO conducts a series of management training courses to improve the management of the Company. The average educational training hours received each year by the new senior managers and new managers are about 29 and 40 hours, respectively. The general education courses received by managers take up 5.7 hours/year on average.

2017 Global ALS curriculum and execution status are as follows:

College	Sessions	Total number of persons	Total number of training hours	Total expense (in NT\$1000)
Institute of science	27	4,608	98	18,614
Institute of engineering	40	1,508	108	
Institute of quality	156	5,721	21,801	
Institute of Liberal arts	48	2,709	373.5	
Institute of management	51	2,892	798	
External training	--	1,150	--	

3. Retirement system and execution:

- (1) The Company has provided retirement plans.
- (2) The Labor Pension Fund Supervisory Committee was established in August 1997 and began to deposit pensions in May 1998. The deposition is based on 2% to 15% of the monthly salary.
- (3) Starting from July 2005, the new pension system was implemented in accordance with the law.
- (4) According to the provisions of International Accounting Standard Bulletin No.19, the actuary is required to conduct evaluation on the pension reserve fund, and submit an assessment report.

4. Staff code of conduct

- (1) Be honest and upright, be loyal and diligent. Achieve together the corporate objectives.
- (2) Defend the Company's honor, uphold the team spirit, and accomplish tasks by following the company policies, rules, and systems.
- (3) Commit fully to business secrets. No business secrets, either within his or her business scope, shall be disclosed, told, delivered or transferred to any third party. The same shall apply after he or she has quit the job.
- (4) Protect the intellectual property rights of the Company whatever the cost, and assist the Company to obtain the intellectual property rights such as books, patents, business secrets, etc. produced by the employees during their work period. The same shall apply after he or she has quit the job. In addition to signing all possible documents requested by the Company, he or she shall assist relevant lawsuits.
- (5) Refrain from borrowing or lending valuables, or accepting gifts or invitations from suppliers, enterprises or customers that have direct or indirect business dealings with the Company, to the extent that the Company's reputation or business operations may be compromised.
- (6) Follow the regular operating procedures and labor safety and health regulations, to maintain the safety and sanitation of the workplace and its surroundings.
- (7) Prevent sexual harassment in the workplace and ensure equal gender rights. In addition to the relevant regulations as established in the Company's working rules, relevant laws and dispute channels are announced on the Company's internal website to enforce the workplace ethics and behavior.

AUO has established the following policies to smooth the organizational operation and personnel appointment:

- (1) Grade and Job Position Structure Jobs in the Company are classified by position, category, duty, grade, and title.
- (2) Evaluation rules for employee trial period.
- (3) Non-relatives employment policy.
- (4) Employee attendance and leave policy details the procedure and the calculation method for overtime and various kinds of leave.
- (5) Employee promotion policy describes a comprehensive job evaluation, which is based on the needs of the organizational development, individual performance, individual competency development, and appropriateness of the functional authority.

- (6) Salary and bonus policy lists in detail various salary standards, allowance approval standards, salary/bonus distribution rules, and the importance of salary confidentiality.
5. Protection measures for working environment and employee's personal safety

AUO has been dedicated to environmental protection, energy saving and employee care for a long time. It endeavors to fulfill its social responsibilities and create a sustainable business. In addition to relevant domestic laws and regulations, all sites of AUO have thoroughly passed the internationally recognized OHSAS 18001 Occupational Health and Safety Management System Certification. The specific measures are as follows:

(1) Highlight the source management

The Company fabs were designed in accordance with the plant construction risk management specifications. Solutions to prevent all possible hazards were incorporated into the fab construction. All on-site operations and possible damages/risks incurred were identified and evaluated, and the most feasible method and technique for hazard prevention and risk control were adopted accordingly, with a particular emphasis on source management. As an instance, the AUO equipment safety standards were based not only on the process characteristics, but also on the safety standards adopted domestically and in Europe and America. As early as the phase of equipment design, a thorough discussion with the supplier was conducted, and clearance control was applied to the purchase. New equipment loaded in a plant site had to abide by the equipment installation safety inspection specifications before operation, to ensure the employee's safety. For chemicals, AUO Chemical Filter was established to screen high-risk substances, in line with the international trend for chemicals management. Clearance control was also applied to the chemicals source, to protect the employee's health and avoid environmental impact.

(2) Promote safety culture

AUO has promoted safety culture since 2012. In 2014, it launched a three-year safety improvement program, Safety ABC (Note), and the safety improvement was also included in the five major missions of the annual B2B (Back to Basics). At each site, the signing ceremony for safety commitment and the safety forum were held, through which it was hoped that the staff could play a safety role in their own position, to blend safety awareness into work and life, and to achieve the vision of zero incidents.

2016 was the year for the evaluation of the Safety ABC program. In addition to the target achievements, AUO cared more about the staff's safety values and whether safety culture was recognized and valued by each organization in a consistent way. To this end, AUO worked with diagnostic experts at academic institutions at the end of 2016 to develop a self-applied safety culture evaluation table. This table is used as a tool to assess annually the safety culture and the performance of the Safety ABC.

The Safety Partnership Care & Concern was initiated in 2017 to encourage employees to remind each other of unsafe behavior, to report high-risk environments, and to develop a culture of mutual safety assistance. In early 2018, the safety movement carried over to contractors and outsourcers, which was implemented by means of mutual supervision and assistance, as well as by a verification mechanism for construction management.

(3) Strengthen communication and training for hazard prevention

In order to enhance the staff's safety and sanitation awareness effectively, AUO planned seven thematic courses for general employees, professionals and supervisors. These courses cover a series of environmental protection, safety and sanitation, emergency response, management system, risk management, social responsibility, and green products. The purpose of this plan is for the staff to recognize hazards, and then follow the corresponding safety standard procedures to protect themselves. Besides trainings, a departmental safety officer was appointed to regularly collect employees' safety and sanitation needs for work, and to transmit security management measures and notices for a healthy two-way communication.

(4) Promote staff's wellness

AUO has arranged professional nursing staff to plan an all-inclusive health program. In addition to health checks, medical consultations and various health promotion activities were held regularly. An e-health management platform was also built for employees to access relevant and personal health information at all times. On top of it, services of psychological and legal consultations with professionals were provided to employees in need. In the face of the recent infectious diseases such as new influenza and enterovirus, AUO kept track of the relevant information, and had established a complete emergency procedure and a team to conduct epidemic prevention and disaster reduction, protecting employees' health and minimize the impact on the Company.

(5) Establish an emergency response framework

Besides regular emergency groupings and drills, AUO has established a 24-hour emergency response center equipped with full monitoring facilities to keep abreast of the situation in every factory corner, in order to avoid possible material impact on the business operations. A complete contingency plan was also made to respond to fires, chemical spills, earthquakes, floods, etc. Moreover, to minimize the impact of personnel and property, drills were then performed to familiarize personnel with the various procedures.

(6) Keep on monitoring and auditing

To ensure the safety of sites, various environmental testings and personnel working environment measurements were performed in accordance with the laws. Also established was a complete audit procedure, which includes routine inspections, high-risk operations inspections, supervisor inspections, and the cross-plant audits performed by the safety experts from each plant site. Irregular audits were also conducted by domestic/oversea third-party verification units or customers. On top of that, management review committees at the corporate and plant levels were held by the senior manager and the site chief, respectively. These committees were responsible for the regular review of environmental safety matters and operations, and for setting up goals and directions for better safety performance.

(II) List of losses due to labor disputes in the most recent year up to the date this report is published, disclosure of the estimated amount, and countermeasures against current and possible future occurrences. If the amount cannot be reasonably estimated, the reason shall be provided:

1. Existing important labor agreements and executions:

AUO has always valued the labor-management relation. Apart from complying with the Labor Standards Law and related regulations, AUO went further to offer more benefits and measures. Over the years, a very harmonious labor relation has been established. On the other hand, to maintain a barrier-free communication with employees, AUO held regularly quarterly/monthly meetings, labor-management meeting business briefings, and other two-way meetings, to deliver important notices and policies. Other means of communication included 24-7 platforms, such as "Audit Committee Box", "General Manager's Mailbox", "Grievance Mailbox for Sexual Harassment", and "Internal Communication Box", to collect, understand, and resolve employees' needs. No foreseeable labor disputes shall occur as the Company and the employees have engaged in communication fully.

2. Loss due to labor disputes:

Company name	Incident	Penalty/indemnity amount	Countermeasures and improvements
AU Optronics Corporation	In February 2017, the Taoyuan Labor Department inspected the Huayah Fab, and found that some employees worked overtime.	NT\$ 150,000	AUO internal management report went online from July 2017 to allow supervisors to monitor the employees' attendance status and workload, so that the manpower could be appropriately deployed. In addition, compliance matters were conveyed in monthly meetings to the plant supervisors.
	In July 2017, the Central Taiwan Science Park Bureau inspected the Taichung site, and found that some employees worked overtime.	NT\$ 20,000	
	In November 2017, the Hsinchu Science Park Bureau inspected the Hsinchu site. From the attendance and salary records for the past five years of certain colleagues, it was found that the access control data was not able to record the actual employee attendance.	NT\$ 20,000	
Fortech Optoelectronics Industry (Suzhou) Co., Ltd.	The employee disagreed with the punishment for violation of the labor contract, and so appealed to the court. The Company had submitted a statement based on the provisions of the employee handbook. The court ruled that this article did not apply to the reason for the above punishment, and compensation should be paid to the employee.	CNY ¥ 120,000	Employee disputes were rigorously settled in accordance with the regulations.

Except the above matters, AUO and its subsidiaries were not fined for any other violations against the relevant regulations in the most recent year up to the date this report is published.

VI. Material Contracts

- (I) As of the date of publication of this Report, the material long-term loan agreements and technical cooperation agreements that are still ongoing or are about to expire in the most recent year, are as follows:

Long-term loan contracts

Classification	Party	Commencement/ expiration date	Main content	Restrictive clauses
Financing	Bank of Taiwan and other syndicated banks	2017.07~2023.04	Purchase of machinery and equipment	Secured by the equipment and machinery
Financing	Bank of Taiwan and other syndicated banks	2016.11~2022.05	Purchase of machinery and equipment	Secured by the equipment and machinery
Financing	Bank of Taiwan and other syndicated banks	2015.09~2021.04	Funding medium-term working capital and repaying existing debts	Secured by the building, equipment and machinery
Financing	Bank of Taiwan and other syndicated banks	2014.09~2020.02	Repaying existing debts	Secured by the building, equipment and machinery

Technical Collaboration Agreement

Type	Party	Term	Main content	Limitations
Patent license	Fujitsu Limited (former FDTC)	Subject to the agreement	Specific TFT-LCD patent license	Subject to the agreement
Patent/technology license	Toppan Printing Co., Ltd.	Subject to the agreement	Specific color filter patent/technology license	Subject to the agreement
Patent license	Semiconductor Energy Laboratory Co., Ltd.	Subject to the agreement	Specific LCD and OLED product patent license	Subject to the agreement
Patent cross-license	Japan Display Inc. (former Japan Display East Inc., Hitachi Displays, Ltd.), Panasonic Liquid Crystal Display, Co., Ltd. (former IPS Alpha Technology, Ltd.)	Subject to the agreement	Patent cross-license for specific TFT-LCD and OLED products	Subject to the agreement
Patent cross-license	Sharp Corporation	Subject to the agreement	Patent cross-license for specific TFT-LCD products	Subject to the agreement
Patent cross license	LG Display Co., Ltd.	Subject to the agreement	Patent cross-license for specific TFT-LCD products	Subject to the agreement
Patent cross-license	Samsung Electronics Co., Ltd.	Subject to the agreement	Patent cross-license for specific TFT-LCD products	Subject to the agreement
Patent cross-license	Hydis Technologies Co., Ltd.	Subject to the agreement	Patent cross- license for specific LCD products	Subject to the agreement
Patent cross-license	Seiko Epson Corporation	Subject to the agreement	Patent cross-license for specific LCD and OLED products	Subject to the agreement

In addition to the aforesaid agreements, during the course of operation AUO has also signed license or cross-license agreements with other third parties for patents they owned or controlled.

- (II) For other material contracts of AUO and its subsidiaries, please refer to Appendix I of this Report - the Consolidated Financial Report and CPA Audit Report for the most recent year (pages 115-208).

Chapter 6 Financial Highlight

I. Condensed balance sheet and statement of Comprehensive Income for the most recent five years

(I) International Financial Reporting Standards

Condensed Consolidated Balance Sheet

Unit: NT\$ thousands

Item	Fiscal Year	Financial data for the most recent five years (Note 1)				
		2017.12.31	2016.12.31	2015.12.31	2014.12.31	2013.12.31
Current assets		180,175,541	163,346,242	161,992,140	185,614,534	169,604,057
Property, plant, and equipment		224,933,089	222,741,832	208,785,609	231,814,724	270,269,007
Intangible assets		13,170,892	13,602,834	14,575,279	15,166,350	15,713,137
Other Assets (Note 2)		23,171,762	30,078,343	40,201,217	37,264,077	36,656,650
Total assets		441,451,284	429,769,251	425,554,245	469,859,685	492,242,851
Current liability	Before distribution	107,236,609	117,266,175	141,349,389	172,440,461	180,962,424
	After distribution	(Note 3)	122,655,752	144,717,875	177,252,584	182,406,061
Non-current liability		108,969,560	112,867,894	79,568,451	97,049,300	132,934,558
Total liabilities	Before distribution	216,206,169	230,134,069	220,917,840	269,489,761	313,896,982
	After distribution	(Note 3)	235,523,646	224,286,326	274,301,884	315,340,619
Equity attributable to shareholders of parent company		208,154,368	181,244,699	181,985,222	180,975,039	164,309,349
Common stock		96,242,451	96,242,451	96,242,451	96,242,451	96,242,451
Capital surplus	Before distribution	60,540,326	59,979,723	60,249,983	59,258,041	60,503,012
	After distribution	(Note 3)	59,979,723	60,249,983	59,258,041	59,155,617
Retained earnings	Before distribution	51,115,529	24,243,153	20,407,277	20,528,831	4,017,495
	After distribution	(Note 3)	18,853,576	17,038,791	15,716,708	3,921,253
Other components of equity		256,062	779,372	5,085,511	4,945,716	3,546,391
Treasury stock		-	-	-	-	-
Non-controlling Interests		17,090,747	18,390,483	22,651,183	19,394,885	14,036,520
Total equity	Before distribution	225,245,115	199,635,182	204,636,405	200,369,924	178,345,869
	After distribution	(Note 3)	194,245,605	201,267,919	195,557,801	176,902,232

Note 1: The financial data for the most recent five fiscal years has been audited and attested by CPAs. As of the date of printing of the Annual Report, the 2018 financial data has not been attested or reviewed by CPAs.

Note 2: Other assets are non-current assets excluding property, plant and equipment, and intangible assets.

Note 3: Pending approval at the 2018 Annual General Shareholders' Meeting.

Condensed Consolidated Statement of Comprehensive Income

Units: thousands (except for earnings per share: NT\$)

Item	Fiscal Year	Financial data for the most recent five years (Note)				
		2017	2016	2015	2014	2013
Net revenue		341,028,267	329,089,036	360,346,494	408,178,750	416,363,005
Gross profit		61,041,745	34,491,019	39,837,055	48,510,645	33,984,067
Profit from operations		39,139,124	12,338,456	17,521,148	22,165,423	8,292,521
Non-operating income and expenses		224,482	(1,152,554)	(9,922,298)	(2,184,964)	(3,056,493)
Profit before income taxes		39,363,606	11,185,902	7,598,850	19,980,459	5,236,028
Profit from continuing operations for the year		30,258,488	6,606,711	4,842,882	18,064,709	4,253,098
Losses from discontinued operations		-	-	-	-	-
Profit for the year		30,258,488	6,606,711	4,842,882	18,064,709	4,253,098
Other comprehensive income (loss), net of taxes		(960,183)	(6,359,644)	(768,225)	1,877,589	2,609,977
Total comprehensive income (loss) for the year		29,298,305	247,067	4,074,657	19,942,298	6,863,075
Profit attributable to shareholders of parent company		32,359,417	7,818,938	4,931,960	17,628,468	4,180,376
Profit attributable to non-controlling interests		(2,100,929)	(1,212,227)	(89,078)	436,241	72,722
Total comprehensive income (loss) attributable to shareholders of parent company		31,754,733	3,326,560	4,838,950	19,087,448	6,355,154
Total comprehensive income (loss) attributable to non-controlling interests		(2,456,428)	(3,079,493)	(764,293)	854,850	507,921
Earnings per share		3.36	0.81	0.51	1.83	0.45

Note: The financial data for the most recent five years has been audited and attested by CPAs. As of the date of printing of the Annual Report, the 2018 financial data has not been attested or reviewed by CPAs

Condensed Balance Sheet

Unit: NT\$ thousands

Item		Financial data for the most recent five years (Note 1)				
		2017.12.31	2016.12.31	2015.12.31	2014.12.31	2013.12.31
Current assets		133,588,893	107,580,230	99,459,796	137,945,812	129,761,732
Property, plant and equipment		141,796,990	135,433,979	143,897,638	151,130,360	181,772,363
Intangible assets		12,983,137	13,602,834	14,575,279	15,164,564	15,708,069
Other Assets (Note 2)		85,732,867	101,218,733	115,740,782	97,237,754	88,771,220
Total assets		374,101,887	357,835,776	373,673,495	401,478,490	416,013,384
Current liability	Before distribution	91,044,482	94,944,624	124,563,162	146,521,402	151,970,594
	After distribution	(Note 3)	100,334,201	127,931,648	151,333,525	153,414,231
Non-current liability		74,903,037	81,646,453	67,125,111	73,982,049	99,733,441
Total liabilities	Before distribution	165,947,519	176,591,077	191,688,273	220,503,451	251,704,035
	After distribution	(Note 3)	181,980,654	195,056,759	225,315,574	253,147,672
Equity attributable to shareholders of the parent company		208,154,368	181,244,699	181,985,222	180,975,039	164,309,349
Common stock		96,242,451	96,242,451	96,242,451	96,242,451	96,242,451
Capital surplus	Before distribution	60,540,326	59,979,723	60,249,983	59,258,041	60,503,012
	After distribution	(Note 3)	59,979,723	60,249,983	59,258,041	59,155,617
Retained earnings	Before distribution	51,115,529	24,243,153	20,407,277	20,528,831	4,017,495
	After distribution	(Note 3)	18,853,576	17,038,791	15,716,708	3,921,253
Other components of equity		256,062	779,372	5,085,511	4,945,716	3,546,391
Treasury stock		-	-	-	-	-
Non-controlling Interest		-	-	-	-	-
Total equity	Before distribution	208,154,368	181,244,699	181,985,222	180,975,039	164,309,349
	After distribution	(Note 3)	175,855,122	178,616,736	176,162,916	162,865,712

Note 1: The financial data for the most recent five years has been audited and attested by CPAs. As of the date of printing of the Annual Report, the 2018 financial data has not been attested or reviewed by CPAs.

Note 2: Other assets are non-current assets excluding property, plant and equipment, and intangible assets.

Note 3: Pending approval at the 2018 Annual General Shareholders' Meeting.

Condensed Statement of Comprehensive Income

Units: NT\$ thousands (except for earnings per share: NT\$)

Item	Fiscal Year	Financial data for the most recent five years (note)				
		2017	2016	2015	2014	2013
Net revenue		319,839,895	300,728,680	333,879,825	384,026,509	395,072,584
Gross profit		59,586,501	28,070,086	33,705,034	43,000,393	28,964,411
Profit from operations		43,313,271	12,538,693	17,631,265	22,570,058	9,231,328
Non-operating income and expenses		(3,306,536)	(2,134,096)	(10,564,577)	(4,941,552)	(5,050,932)
Profit before income taxes		40,006,735	10,404,597	7,066,688	17,628,506	4,180,396
Profit from continuing operations for the year		32,359,417	7,818,938	4,931,960	17,628,468	4,180,376
Losses from discontinued operations		-	-	-	-	-
Profit for the year		32,359,417	7,818,938	4,931,960	17,628,468	4,180,376
Other comprehensive income (loss), net of taxes		(604,684)	(4,492,378)	(93,010)	1,458,980	2,174,778
Total comprehensive income (loss) for the year		31,754,733	3,326,560	4,838,950	19,087,448	6,355,154
Profit attributable to shareholders of parent company		32,359,417	7,818,938	4,931,960	17,628,468	4,180,376
Profit attributable to non-controlling interests		-	-	-	-	-
Total comprehensive income(loss) attributable to shareholders of the parent company		31,754,733	3,326,560	4,838,950	19,087,448	6,355,154
Total comprehensive income (loss) attributable to non-controlling interests		-	-	-	-	-
Earnings per share		3.36	0.81	0.51	1.83	0.45

Note: The financial data for the most recent five years has been audited and attested by CPAs. As of the date of printing of the Annual Report, the 2018 financial data has not been attested or reviewed by CPAs.

(II) The names of CPAs and their opinions for the most recent five years.

Fiscal Year	CPA	Opinion content	Note
2017	KPMG / Wei, Shing-Hai	Unmodified opinion(Note)	-
	KPMG / Lu, Chien-Hui		
2016	KPMG / Yu, Wan-Yuan	Unmodified opinion	-
	KPMG / Tseng, Mei-Yu		
2015	KPMG / Yu, Wan-Yuan	Unmodified opinion	-
	KPMG / Tseng, Mei-Yu		
2014	KPMG / Au, Yiu-Kwan	Unmodified opinion	-
	KPMG / Huang, Hai-Ning		
2013	KPMG / Au, Yiu-Kwan	Unmodified opinion	-
	KPMG / Huang, Hai-Ning		

II. Financial analysis for the most recent five years

(I) International Financial Reporting Standards - Consolidated Financial Analysis

Item analyzed		Financial analysis for the most recent five years (Note 1)				
		2017	2016	2015	2014	2013
Financial structure	Ratio of debts to assets (%)	49.0	53.5	51.9	57.4	63.8
	Ratio of long-term capital to property, plant, and equipment (%)	145.7	137.3	130.8	123.4	109.8
Solvency	Current ratio (%)	168.0	139.3	114.6	107.6	93.7
	Quick ratio (%)	142.3	113.3	91.5	85.9	72.4
	Interest coverage ratio	12.1	4.3	3.7	5.7	2.0
Operating ability	Receivables turnover rate(times)	7.7	7.9	7.6	7.9	9.7
	Average collection days for receivable	48	46	48	46	38
	Inventory turnover rate (times)	10.7	9.9	9.4	9.7	9.5
	Payable turnover rate (times)	4.9	4.9	4.7	4.7	4.8
	Average days for sale	34	37	39	38	38
	Property, plant and equipment turnover rate (times)	1.5	1.5	1.6	1.6	1.4
	Total asset turnover rate (times)	0.8	0.8	0.8	0.9	0.8
Profitability	Return on assets (%)	7.5	2.1	1.6	4.5	1.6
	Return on equity (%)	14.2	3.3	2.4	9.5	2.5
	Ratio of profit before income tax to paid-in capital (%)	40.9	11.6	7.9	20.8	5.4
	Profit margin (%)	8.9	2.0	1.3	4.4	1.0
	Earnings per share (NT\$)	3.36	0.81	0.51	1.83	0.45
Cash flow	Cash flow ratio (%)	78.7	31.2	43.9	36.8	27.4
	Cash flow adequacy ratio (%)	160.6	138.8	164.2	165.4	123.7
	Cash flow reinvestment ratio (%)	7.3	3.1	5.6	6.0	5.0
Leveraging	Operating leverage	2.4	5.8	4.8	4.4	10.7
	Financial leverage	1.1	1.3	1.2	1.2	2.4
<p>Explanations on changes in various financial ratios in the most recent two years:</p> <ol style="list-style-type: none"> 1. The improvement of various ratio of solvency is attributable to continually earn profit and reduction in borrowing. 2. The improvement of various ratio of profitability is attributable to increase in profit after income taxes. 3. The improvement of various ratio of cash flow is attributable to net cash provided by operating activities resulting from continuously profit. 4. The reduction in leveraging is attributable to increase in profit from operations. 						

Note 1: Financial data from previous year has been audited and attested by CPAs. As of the date of printing of the Annual Report, the 2018 financial data has not been attested or reviewed by CPAs.

Note 2: Please refer to the below table (2) for calculation formula used in this table.

(II) International Financial Reporting Standards – parent-company-only financial analysis

Item analyzed	Fiscal year	Financial analysis for the most recent five years (Note 1)				
		2017	2016	2015	2014	2013
Financial structure	Ratio of debts to assets (%)	44.4	49.4	51.3	54.9	60.5
	Ratio of long-term capital to property, plant, and equipment (%)	196.4	191.0	168.6	165.1	140.2
Solvency	Current ratio (%)	146.7	113.3	79.9	94.2	85.4
	Quick ratio (%)	122.9	87.8	59.7	75.1	66.7
	Interest coverage ratio	23.1	6.0	4.3	6.5	2.0
Operating ability	Receivables turnover rate (times)	7.8	8.0	7.8	8.0	9.7
	Average collection days for receivable	47	45	47	46	38
	Inventory turnover rate (times)	12.7	11.8	11.7	12.6	12.2
	Payable turnover rate (times)	4.7	4.8	4.7	4.8	4.8
	Average days for sales	29	31	31	29	30
	Property, plant and equipment turnover rate(times)	2.3	2.2	2.3	2.3	2.0
	Total asset turnover rate (times)	0.9	0.8	0.9	0.9	0.9
Profitability	Return on assets (%)	9.2	2.6	1.7	5.0	1.7
	Return on equity (%)	16.6	4.3	2.7	10.2	2.7
	Ratio of profit before income tax to paid-in capital (%)	41.6	10.8	7.3	18.3	4.3
	Profit margin (%)	10.1	2.6	1.5	4.6	1.1
	Earnings per share (NT\$)	3.36	0.81	0.51	1.83	0.45
Cash flow	Cash flow ratio (%)	89.7	19.4	47.0	34.6	26.9
	Cash flow adequacy ratio (%)	171.3	147.2	116.9	113.1	86.1
	Cash flow reinvestment ratio (%)	8.2	1.7	6.4	5.9	5.0
Leveraging	Operating leverage	1.8	4.2	3.6	3.4	7.3
	Financial leverage	1.0	1.2	1.1	1.2	1.7

Explanations on changes in various financial ratios in the most recent two years:

1. The improvement of various ratio of solvency is attributable to continually earn profit and reduction in borrowing.
2. The improvement of various ratio of profitability is attributable to increase in profit after income taxes.
3. The improvement of various ratio of cash flow is attributable to net cash provided by operating activities resulting from continuously profit.
4. The reduction in degree of operating leveraging is attributable to increase in profit from operations..

Note: Financial data from previous year has been audited and attested by CPAs. As of the date of printing of the Annual Report, the 2018 financial data has not been attested or reviewed by CPA.

Below are calculations

1. Financial structure
 - (1) Ratio of debts to asset = Total liabilities / Total assets
 - (2) Ratio of long-term capital to property, plant, and equipment = (Total equity + Non-current liability) / Net property, plant and equipment
2. Solvency
 - (1) Current ratio = Current assets / Current liabilities.
 - (2) Quick ratio = (Current assets - Inventories - Prepaid expenses) / Current liabilities
 - (3) Interest coverage ratio = Net income before income tax and interest expense / Interest expenses over this period.
3. Operating ability
 - (1) Receivable (including accounts receivable and notes receivable due to business operations) turnover rate = Net sales / Balance of average accounts receivable for various periods (including accounts receivable and notes receivable due to business operations).
 - (2) Average collection days for receivable = 365 / Receivables turnover.
 - (3) Inventory turnover rate = Cost of goods sold / Average inventory.
 - (4) Payable (including accounts payable and notes payable due to business operations) turnover rate = Cost of goods sold / Balance of average accounts payables of various periods (including accounts payable and notes payable due to business operations).
 - (5) Average days for sales = 365 / Inventory turnover.
 - (6) Property, plant and equipment turnover rate = Net sale/Average net property, plant and

- equipment.
- (7) Total asset turnover rate = Net sales / Average total assets
4. Profitability
- (1) Return on assets = [Net income after taxes + interest expense x (1 - tax rate)] / Average total assets
- (2) Return on equity = Net income after taxes / Average total equity
- (3) Profit margin = Net income after taxes / Net sales
- (4) Earnings per share = (Net income attributable to shareholders of the parent company - preferred stock dividend) / Weighted average number of shares outstanding
5. Cash flow
- (1) Cash flow ratio = Net cash flow of operating activities / Current liabilities.
- (2) Cash flow adequacy ratio = Net cash flow from operating activities for the most recent five years / (Capital expenditures + inventory increase + cash dividend) for the most recent five years.
- (3) Cash flow reinvestment ratio = (Net cash flow from operating activities - cash dividends) / (Gross value of property, plant, and equipment + Long-term investments + Other non-current assets + working capital).
6. Leveraging
- (1) Operating leverage = (Net operating revenue - variable operating cost and expenses) / Operation profit.
- (2) Financial leverage = Operating profit / (Operating profit - interest expenses).

III. The Audit Committee's Report

As of the publication date of the Annual Report, the Company's Audit Committee has not presented the Report. Relevant information will be published in the 2018 Annual General Shareholders Meeting's handbook, and the handbook will be published on Market Observation Post System (MOPS) 30 days prior to the 2018 Annual General Shareholders Meeting.

IV. Consolidated Financial Statement and Independent Auditors' Report of the most recent year: please refer to Appendix I (page 115-208).

V. Any financial difficulties experienced by the Company and its affiliate businesses during the most recent year up to the publication date of this report need to be stated as well as the impact on the Company's financial position need to be outlined: None.

Chapter 7 Review and Analysis of Financial Position and Financial Performance, and Risk Management

I. Financial position analysis:

Unit: NT\$1,000

Item	Fiscal Year	2017.12.31	2016.12.31	Difference	
				Increase (decrease) amount	%
Current assets		180,175,541	163,346,242	16,829,299	10.3
Long term investment		9,945,421	8,208,615	1,736,806	21.2
Property, plant and equipment		224,933,089	222,741,832	2,191,257	1.0
Investment property		717,823	465,868	251,955	54.1
Intangible assets		13,170,892	13,602,834	(431,942)	(3.2)
Deferred tax assets		7,069,014	14,364,745	(7,295,731)	(50.8)
Other assets		5,439,504	7,039,115	(1,599,611)	(22.7)
Total assets		441,451,284	429,769,251	11,682,033	2.7
Current liabilities		107,236,609	117,266,175	(10,029,566)	(8.6)
Non-current liabilities		108,969,560	112,867,894	(3,898,334)	(3.5)
Total liabilities		216,206,169	230,134,069	(13,927,900)	(6.1)
Common Stock		96,242,451	96,242,451	-	-
Capital surplus		60,540,326	59,979,723	560,603	0.9
Retained earnings		51,115,529	24,243,153	26,872,376	110.9
Other components of equity		256,062	779,372	(523,310)	(67.2)
Equity attributable to shareholders of parent company		208,154,368	181,244,699	26,909,669	14.9
Non-controlling Interests		17,090,747	18,390,483	(1,299,736)	(7.1)
Total equity		225,245,115	199,635,182	25,609,933	12.8

Analysis of items that have major changes:

1. The increase in long term investment was due to the increase in mark price of available-for-sale financial assets in 2017.
2. The increase in investment property was due to lands originally recognized as property, plant and equipment that rented to others were changed to be recognized as investment property in 2017.
3. The decrease in deferred tax assets was due to the deficit was used to offset the major increase of profitbefore income tax in 2017.
4. The decrease in other assets was majorly caused by the reduction of prepayment for materials.
5. The decrease in other components of equity was mainly due to decrease in cruency exchange difference arising from translation of foreign operations in 2017.

II. Financial performance

(I) Financial performance analysis

Unit: NT\$1,000

Item	Fiscal Year		Change in proportion	
	2017	2016	Increase (decrease) amount	%
Revenue	343,461,163	329,931,849	13,529,314	4.1
Less: Sales returns and discounts	2,432,896	842,813	1,590,083	188.7
Net revenue	341,028,267	329,089,036	11,939,231	3.6
Cost of sales	279,986,522	294,598,017	(14,611,495)	(5.0)
Gross profit	61,041,745	34,491,019	26,550,726	77.0
Operating expenses	21,902,621	22,152,563	(249,942)	(1.1)
Profit from operations	39,139,124	12,338,456	26,800,668	217.2
Non-operating income and expenses	224,482	(1,152,554)	1,377,036	(119.5)
Profit before income taxes for the year	39,363,606	11,185,902	28,177,704	251.9
Less: Income tax expense	9,105,118	4,579,191	4,525,927	98.8
Profit for the year	30,258,488	6,606,711	23,651,777	358.0

Analysis of items that have major changes:

1. The increase in profit from operations compared to last period is mainly impacted by the supply and demand of TFT-LCD industry. The average still price of large-size TFT-LCD increased compared to 2016. The increase in profit from operations from last period was also due to Company's focus on advanced technology of panel and adherence to the value-added differentiation and efficient cost structure adjustment.
2. The increase in non-operating income and expenses were due to the local government grants that was received by our subsidiaries in 2017.

(II) The special KPI of panel industry

Item	Fiscal Year		2017				
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Entire year		
Large-sized panels shipments (million)(Note 1)	27.2	26.8	29.1	28.7	111.8		
Small-medium-sized panels shipments (million)	36.4	38.7	46.8	47.0	168.9		
Consolidated shipments (million)	63.7	65.5	75.9	75.6	280.7		
Operating margin (%)	13.6	13.8	11.1	7.1	11.5		
EBITDA (Note 2) margin (%)	24.9	24.5	21.1	17.9	22.2		
Inventory turnover (days)	34	35	32	33	34		
Net debt to equity (%)	18.5	10.4	7.0	4.0	4.0		

Note 1: Large-size refers to panels that are 10 inches and above.

Note 2: EBITDA = Operating profit + D&A.

(III) Estimated sales volume and supporting info

AUO is a leading global manufacturer of optoelectronic solutions. Its main product lines cover TFT-LCD panels in large, medium and small sizes. The current panel sizes in production range from 1.2 inches to 85 inches. The application range and dimensions are very comprehensive. The Company's panel shipment fluctuates considerably when the product mix changes. Therefore, it is not appropriate to only use sales as the basis for measurement. However, the Company continues to focus on product value enhancement and product mix optimization. Meanwhile, the Company also focus on strengthening its leading edge in product technology and increasing the shipment of integrated and high value-added products to maintain its product competitiveness in response to the future development direction of panels toward high-end technologies under the rapidly changing industry environment.

III. Cash flow

Change in consolidated cash flow in 2017:

Unit: in thousands of NT\$

Cash balance at the beginning of the period	Net cash flow from operating activities	Net cash flow due to investment activities	Net cash flow due to financing activities	Cash balance at the end of the period (including effect of exchange rate)
80,191,248	84,363,331	(43,667,479)	(13,410,352)	105,020,616

(I) Analysis of changes in consolidated cash flow in 2017

Operating activities: Mainly due to continuous cash flow generated from operation profitability in 2017

Investment activities: Mainly used in capital expenditures.

Financing activities: for the purpose of repaying existing debts.

(II) Liquidity improvement plan: The Company showed no signs of liquidity deficit.

(III) Analysis of cash liquidity in the coming year: The Company, on the premise of maintaining stable cash liquidity, will carefully plan and manage cash expenditures related to investments and operations while taking cash balances on accounts, cash flows from operating activities and investment activities and the status of financial markets into consideration.

IV. Material expenditures of the most recent year and impact on the Company's finances and operations

The Company's major capital expenditures in 2017 were the construction of the 6th generation LTPS plant in Kunshan, China, the expansion of the production line of the G8.5 fab in Houli, Taichung, and the upgrading of equipment assets to meet market demand and optimize the Company's product mix and technical specifications. Based on the consolidated financial statements, the amount of paid-in fixed assets purchased in 2017 was NT\$ 43.9 billion, accounting for approximately 13% of net sales, which had no significant impact on the Company's financial operations.

V. Investment policy for the most recent fiscal year, the main reasons for the profits/losses generated thereby, the improvement plan, and investment plans for the coming year

The Company's investment policy is in line with the Company's business development strategy and operational needs. The Company seeks appropriate long-term strategic partnerships. The major scope of investment involved with related key components, upstream and downstream companies, and solar power plants. The Company's net income from equity investments under the equity method that were recognized in consolidated financial report were NT\$239,006,000, which was mainly attributable to the overall boom in the industry and the improvement in the operating conditions of the related invested companies. The Company will continue to focus on related strategic investment in the industry. The Company will take appropriate measures to dispose the investment positions in addition to continuing to evaluate the investment plan carefully.

VI. Analyze and assess the following risks in the most recent year up to the publication date of the Annual Report

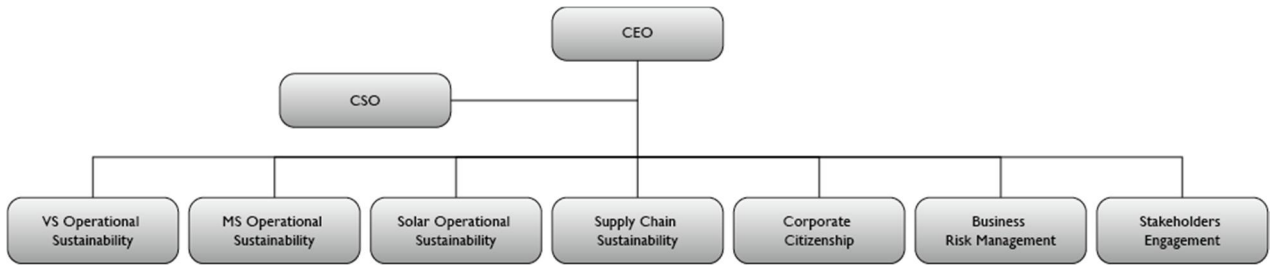
(I) The organizational structure of risk management

AUO set up cross-function Sustainable Committee in September, 2013 to raise the Corporate Social Responsibility (CSR) and steer the Company's operations towards sustainable development. The chairperson of the committee, who is also the Chairman and CEO of the Company. The Committee is currently consisting of. VS Operational Sustainability, MS Operational Sustainability, Solar Operational Sustainability, Supply Chain Sustainability, Corporate Citizenship, Business Risk Management and Stakeholders Engagement. The senior executives are directly in charge of the operation each team to meet the stakeholders' expectation for corporate governance, environmental protection and social care.

The chairperson of the risk governance team under Sustainable Committee is the Chief Financial Officer, who identifies operation risk every year, with aspects such as strategy, finance, operation and danger, based on occurrence frequency and impact level to conduct quantitative evaluation. Strategies have been developed to reduce, transfer, or avoid the risks of strategies and continuance plan in accordance with the vulnerability of each risk that is identified by internal control factor.

The protection of shareholders' right and function of Board of Directors hoped to be fostered to strengthen the Company's sustainable operations while also continuously reducing the impact of risk variability and safeguarding the interests of stakeholders.

The organization chart and the responsibility of each team of Sustainable Committee are as the following:



- ◆ CSO: Promote and maintain committee operations, track and manage project progress, and collect information on international sustainability assessment.
- ◆ VS Operational Sustainability: Collect market news, promote CSR awareness, green manufacturing management, and product innovation management.
- ◆ MS Operational Sustainability: Collect market news, promote CSR awareness, green manufacturing management, and product innovation management.
- ◆ Solar Operational Sustainability: Collect market news, promote CSR awareness, green manufacturing management, and product innovation management.
- ◆ Supply Chain Sustainability: Reduce the impact of raw materials and operations on the environment, and promote the sustainable development of suppliers.
- ◆ Corporate Citizenship: Utilize the power to take care of the society to improve employees' quality of life and social environment.
- ◆ Business Risk Management: Control and respond to various operational risks to reduce related impacts in a forward-looking and proactive manner.
- ◆ Stakeholders Engagement: Collect, gather, and set the voices of stakeholders.

(II) The Impacts of interest rates, exchange rate fluctuation and inflation situation on the Company's profit and loss, and the future countermeasures:

◆ Changes in interest rates

The exposure to changes in interest rate of the Company and its subsidiaries is mainly from floating-rate long-term debt obligations from operating and investment activities. Any change in interest rates will cause the cash flows of interest expense that will be paid in the future to fluctuate over time. The Company and its subsidiaries will consider to enter into and designate interest rate swaps in appropriate timings based on the market conditions to avoid higher future interest rates and increase of uncertainty of financing costs. A portion of floating-rate debts will be converted to fixed-rate debts to reduce the impact of interest-rate fluctuations on the Company. The consolidated interest expense for 2017 was NT\$2,867,861,000, which was calculated based on the long-term borrowing of the Company and its subsidiaries with floating interest rates for 2017. If the market interest rate increases by 0.25% in the future, the net profit before tax will be reduced by approximately NT\$277,612,000.

In terms of assets, the capital allocation of the Company and its subsidiaries is based on the principle of conservativeness and stability. It is mainly deposited in bank deposits and high liquidity short-term government bonds with repurchase agreement to protect the security of the principal and maintain liquidity.

◆ Changes in foreign currency

The exposure to foreign currency risk of the Company and its subsidiaries arises from cash and cash equivalents, trade receivable, loans and borrowings and trade payables that are denominated in foreign currency. Therefore, fluctuations in foreign currency may affect operating income, operating costs and even profit performance denominated in foreign currencies. In order to avoid adverse effects of changes in foreign currency on the operating results of the Company and its subsidiaries, the Company and its subsidiaries use forward contracts as hedging instruments to reduce the impact of foreign currency risk on the profit and loss of the Company and its subsidiaries. Based on the consolidated financial statements, the profit and loss of derivative commodities and foreign currency exchanges measured at fair value in 2017 were included in the profit and loss of that period as a net profit of NT\$281,105,000. In the future, hedging transactions will continue to be conducted to reduce foreign currency risks. If NTD appreciates by 1% against the US dollar, the consolidated gross margin may decline by about 0.5% based on the cost structure of the Company and its subsidiaries in 2017.

◆ Inflation or deflation

The domestic economic growth rate was 2.86%, and the annual growth rate of the average consumer price index (CPI) was 0.62% in 2017 in accordance with the estimates of the Directorate General of Budget, Accounting and Statistics. The increase in prices is still moderate, and there should be no significant impact on the consolidated operation results of the Company and its subsidiaries in 2017. Based on the combined amount of raw material purchased in NTD by the Company and its subsidiaries in 2017, if the inflation rate increases by 1% (i.e. the consumer price index increases by 1%), the Company's combined purchase amount will increase by approximately NT\$240 million.

(III) The policies to engage in high-risk, high-leverage investments, capital lending to others, endorsements, and the derivative transactions, the main reasons for profits and losses, and the future countermeasures:

The Company and its subsidiaries did not engage in high-risk, high-leverage investments, and act with the principle of conservativeness and stability to carry out funds allocation and risk aversion activities.

When the Company and its subsidiaries are engaged in capital lending to others, endorsement, and derivative transactions, the Company will, in addition to complying with the relevant handling procedures, and to making a public announcement and filing the necessary reports in accordance with the regulations of the competent authorities:

1. Capital lending to others: As of the publication date of the Annual Report, the Company and its subsidiaries are limited to lending its capital to the Company and its subsidiaries.
2. Endorsement: As of the publication date of the Annual Report, the Company and its subsidiaries are limited to endorsing to the Company and subsidiaries that hold more than 50% of subsidiaries shares.
3. Derivative transactions: The Company and its subsidiaries engaged in derivative transactions that are in line with the Company's operation portions exposed to foreign currency risk. The purpose is to avoid market risks and reduce the Company's operational risks. Based on the consolidated financial statements, the gain and loss of the derivative commodities measured at fair value and foreign currency exchanges in 2017 were recognized in the total income of that period as a net profit of NT\$281,105,000. The derivative commodities measured at fair value were recognized in other equities as a net loss of NT\$21,992,000. The effect of hedging should be considered as effective. The Company and its subsidiaries will continue to conduct hedging under the principle of avoiding risks arising from the fluctuation of foreign currency and interest rate. The Company and its subsidiaries will also take operating conditions and market trends into consideration to periodically examine portions exposed to interest rate and foreign currency risks and adjust the relevant hedging strategies.

(IV) Future Research and Development (R&D) Plans and the R&D expenses expected to be invested:

Please see "V. Operational Highlights" of this Annual Report which provides information on the "Technology and R&D Overview" (page 74-76)

(V) The Impacts of changes on important domestic and foreign policies and laws on the Company's finance and business, and the countermeasures:

The Company has always paid close attention to policies and laws that may affect the Company's operations, and cooperate with the Company's related internal policies. The changes of law in 2017 has no significant impact on the Company after evaluation.

(VI) The Impacts of Technology Changes on Our Company's Finance and Business, and the Countermeasures:

The market application of flat panel display is becoming more and more widespread. The flat panel displays are commonly used in TVs, desktop monitors, notebooks, mobile phones, tablets, cars, medical devices, arcade games, smart watches, etc. TFT-LCD is currently the most mature and most competitive technology in its panel technology. AUO has been deeply pursuing this field for a long time and has been accumulating extensive and deep research and patents as well as sophisticated manufacturing technology.

The market demand for panel products are currently trending toward large size, high resolution, wide color gamut, high contrast, wide viewing angle, fast response time, narrow bezel, thin and light, stylish appearance and low power consumption. Based on the existing foundation of TFT-LCD, AUO has developed related processes and product technologies such as GOA (Gate on Array), COA (Color Filter on Array), AHVA (Advanced Hyper-Viewing Angle), and

High Refresh Rate, HDR (High Dynamic Range), curved surfaces, free-form cutting, on-cell/in-cell touch, etc. to meet the needs of market development. At the same time, AUO continues to develop new technologies, such as AMOLED, Mini LED, Micro LED and other related technologies and used them as weapons to drive the development of the market in the future.

(VII) The Impacts of Change of Corporate Image on the Enterprise Crisis Management and the Countermeasures:

The Company will initiate crisis management mechanism immediately if there are any concerns that will adversely impact on AUO's operations and corporate reputation in the event of crisis and potential external risks. The emergency response team will quickly investigate the incident for risk assessment and take necessary actions. This emergency response team is composed of cross-section high-level executives from business groups, supply chain management, environment & safety, human resources, information technology and marketing departments. They will review the Company's crisis management principles to protect the safety of employees and the environment while ensuring the efficiency of manufacturing operations. The Company's crisis communication plan also upholds open communication principle to ensure that employees, customers, authorities, investors, media and related stakeholders have immediate access to the latest status.

The Company continues to demonstrate potential for sustainable development in economic, environmental, and social sectors. The Company shall also maintain its core business values for honesty and integrity and shoulder the long-term responsibilities for sustainable development for the benefit of the stakeholders and the society.

(VIII) The Expected Benefits and Possible Risks to Engage in Mergers and Acquisitions (M&A) and the Countermeasures:

The Board of Directors of the Company resolved to directly or indirectly acquire all shares of ComQi Ltd. On February 6, 2018, a content management service Company, to provide integrated software and hardware integration application services for the upstream and downstream of public information displays. However, as of the publication date of the Annual Report, no equity transaction contract has yet been signed.

(IX) The Expected Benefits and Possible Risks to Expand the Plants and the Countermeasures:

AUO is committed to providing customers with an innovative product portfolio with high added-value. AUO has the flexibility to adjust and develop various application products with the competitive advantages of the complete generations of production lines. Small and medium sized TFT-LCD panels will move toward higher specifications such as ultra-high resolution and low-power mobile phone panels and notebook panels in the next few years. AUO has accumulated extensive experience in LTPS and invested in the G6 LTPS production line in Kunshan, China, and began mass production in November 2016. In addition, the G8.5 TV production line in Taiwan also completed the first phase of the expansion in 2016 and expected to complete the second phase of capacity expansion in the second half of 2018 in response to the market demand for larger televisions year by year. AUO will also carefully increase production capacity in the future to cooperate with the complete product lines, and create market difference in response to market changes in supply and demand.

(X) The Risks Faced with Concentrated Procurement and Sales, and the Countermeasures:

1. Risks from sales concentration and response measures:

(1) The Company's significant customers has accounted for a significant proportion of the Company's revenue, and the major customers are adjusted due to the change in product mix in recent years. If the orders from significant customer have reduced, delayed or canceled, or if the significant customers face any financial difficulties, it will affect the Company's revenue and profitability. Therefore, the Company is committed to maintaining a close relationship with its customers and continue to provide services that satisfy their needs. The Company will also strictly monitor the changes in the customers' credit status and is committed to the development of potential customers in order to reduce the risk of concentrated sales.

(2) The Company does not have any customer that accounted for more than 10% of the total net sales in the last two years other than Samsung group.

2. Risks from purchase concentration and response measures:

(1) Raw material

The Company needs to obtain the raw materials needed for production in due course. Some of the purchased raw materials are supplied by a single manufacturer. Therefore, if there is a shortage of raw materials of the supplier or its upstream manufacturers and the Company fails to find alternative materials in time, it will result in the risk of being unable to meet the needs of customers in a timely manner. As a result, the Company's revenue and profit may decline. The Company continues to bring in local suppliers to reduce the proportion of imported raw materials. In addition to effectively reducing supply chain costs, it also reduces supply chain risks. In addition, for raw materials that come

from single supplier; the Company distributes its raw material purchases from upstream in addition to the Company's cooperation with existing suppliers to bring in more than one production plants. The Company is also committed to bring in new suppliers and expects to minimize the risks involved.

(2) Equipments

The market for equipment is often supplied from a limited number of suppliers. Machine purchases may take up to 6 to 8 months or longer in panel industry. Therefore, the Company will consider the needs for operational growth and capacity expansion, and actively seek for equipment and services that can meet production requirements. In addition, the Company will also discuss various business models with suppliers to shorten the pre-procurement period of the machines so that the suppliers can pre-arrange the production plans of the machines. Thus, the suppliers can be expected to provide production equipments and services on time to reduce the risks arising from limited and centralized suppliers and supply.

(3) The Company does not have any suppliers that account for more than 10% of net purchase in the last two years.

(XI) The impacts and risks arising from major transfer or exchange of shares by directors or shareholders with over 10 percent of shares in the Company and the countermeasures:

In the most recent year up to the publication date of this Annual Report, the Company is not aware of any risk of substantial transfer or replacement of shares of directors or large shareholders holding more than 10% of shares, except those who have already declared according to law.

(XII) Impact, risk, and response measures related to any change in the administrative authority towards the Company's operations:

In the most recent year up to the publication date of this Annual Report, the Company has not had any operating rights changes.

(XIII) If there are any litigation, non-litigation or administrative proceedings that has received final judgment or is still ongoing in which the Company, any of its director, supervisor, general manager, substantial representative, major shareholder (having holding of more than 10%) or subsidiary is a party and has a material impact on the shareholders' interests or stock price, the Company shall disclose the facts in dispute, amount in dispute, filing date, parties, and status as of the printing of the Report:

- I. Final judgements or pending litigation, non-litigation or administrative proceedings in most recent year and as of the date of printing of this Report which may have a material impact on shareholders' interests or stock price:

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.

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.

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 plaintiffs lodged an appeal to the Israeli Supreme Court, but the Israeli Supreme Court overruled the appeal in August 2017. In January 2018, the parties reached a settlement agreement and agreed to commence the required proceedings for withdrawing the lawsuit.

We will make certain provisions with respect to some, but not all, civil lawsuits as the management deems appropriate. See Note 40 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, we, AU Optronics Singapore Ptd. Ltd. and SunPower Technology, Ltd. (“SPTL”) submitted certain disputes for arbitration to 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 AUO’s subsidiaries in the PRC, AU Optronics (Suzhou) Corp., Ltd. (“AUSZ”) received an administrative complaint filed by Shenzhen China Star Optoelectronics Technology Co., Ltd. (“CSOT”) alleging that AUSZ infringes two PRC patents, and the complaint requests that AUSZ cease the alleged infringing act. Based on the Company’s preliminary assessment, AUO believes that its subsidiary does not infringe the two PRC patents as alleged, and further that the two PRC patents appear to be invalid. In response to such administrative complaint, AUSZ has filed a request to invalidate the two PRC patents accordingly. In April 2017, CSOT filed civil lawsuits in the Intermediate People’s Court of Shenzhen Municipality against the subsidiary claiming infringement of the same two PRC patents. In June 2017, CSOT filed civil lawsuits in the No. 1 Intermediate People’s Court of Chongqing Municipality against the subsidiary claiming infringement of three PRC patents (including one of the above mentioned PRC patents). CSOT requested that AUSZ cease the alleged infringing act and claimed approximate RMB49.91 million for economic loss for each of the said respective four PRC patents and compensation for reasonable fees and litigation expenses such as notarization fees and attorney fees incurred by CSOT. On September 24, 2017, the relevant parties reached a settlement agreement and agreed to withdraw relevant legal proceedings.

In 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.

Environmental Proceedings

There have been environmental proceedings relating to the development project of the Central Taiwan Science Park in Houli, Taichung, where our second 8.5-generation fab is located and which has been established since 2010. The proceedings were initiated by six residents in Houli District, Taichung City (the “Plaintiffs”) to object the administrative dispositions of the environmental assessment and development approval issued in 2010 by the Environmental Protection Administration (“EPA”) of the Executive Yuan of Taiwan to the third-phase development area in the Central Taiwan Science Park (the “Project”). On August 8, 2014, the Plaintiffs reached a settlement with the defendants (i.e. the governmental authorities, including the EPA of the Executive Yuan of Taiwan, the Ministry of Science and Technology (former National Science Council of the ROC Executive Yuan) and the Central Taiwan Science Park Development Office) in the Taipei High Administrative Court. The second-phase environmental impact assessment for the Project continues to proceed. On December 14, 2017, the EPA of the Executive Yuan

of Taiwan held the third review meeting of the investigation group. The review meeting reached the conclusion of suggesting approval for the Project. The Central Taiwan Science Park Bureau is now reviewing the comments and conclusion of the review meeting and will reply to the Environmental Impact Assessment Committee of the EPA for further discussion. After approval, the Project will be submitted to the Environmental Impact Assessment General Meeting for review. We will continue to monitor if there will be any material adverse effect on our operations as the event develops.

2. Final judgment, ongoing major litigation, non-litigation or administrative proceedings involving Company directors, supervisors, General Manager, substantial representative, and shareholders that hold more than 10% of this Company's stock up to the publication date of this Annual Report that can have a material impact on shareholders' interest or stock price: none.
3. For explanation of litigations involving Company' s subsidiary, please refer to Appendix I: Consolidated financial report and CPA audit report for the most recent year (pages 115-208).

(XIV) Other material risks: None.

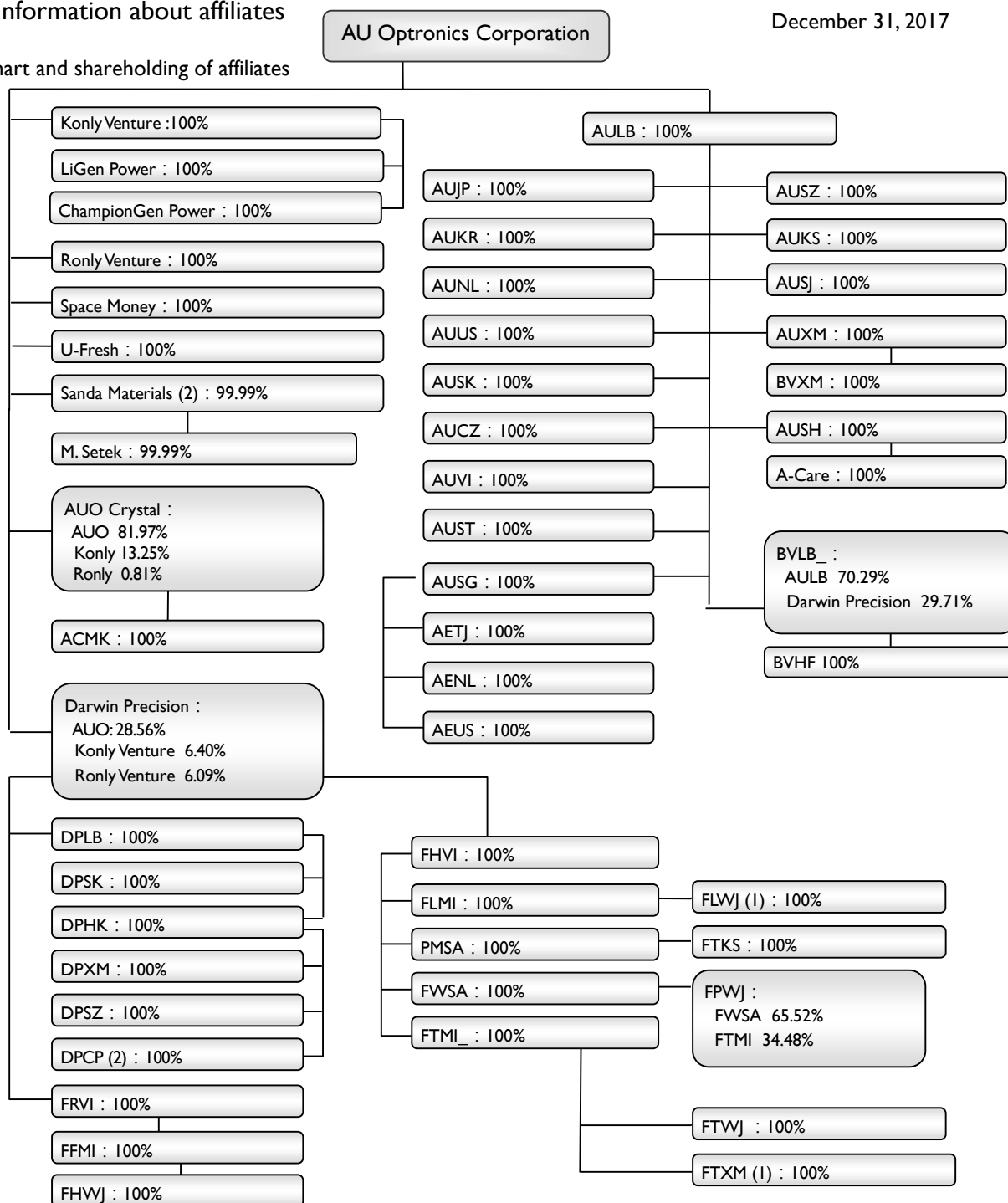
VII. Other material matters: None.

Chapter 8 Special Notes

I. Information about affiliates

December 31, 2017

(I) Chart and shareholding of affiliates



Note1: DPCD, FLWJ and FTXM were liquidated by the Board of Directors and the liquidation procedures are still in progress.

Note2: Both Konly Venture and Ronly Venture do not hold more than 0.001% of shares of Sanda Materials.

Note 3: The Company and its subsidiaries obtained more than half of the directors of Star River Energy Corp. and Star Shining Energy Corp. However, it was assessed that there was evidence of lack of relationships of control and affiliation.

(II) Basic information of affiliates

December 31, 2017; Unit: NT\$1,000

Company Name	Date of incorporation	Address	Paid-in Capital	Main Activities
a.u. Vista Inc. (AUVI)	2014.12.18	1525 McCarthy Blvd. Suite 218 Milpitas, CA 95035, USA	USD 5,000	Research and development and IP related business
AFFD Pte., Ltd. (AUST)	2001.03.14	10 Tampines Industrial Avenue 3 Singapore 528798	SGD 907,114	Manufacturing TFT-LCD panels based on low temperature polysilicon technology
AU Optronics (Czech) s.r.o. (AUCZ)	2008.01.17	Turanka 859/98d, Slatina, 627 00 Brno, Czech Republic	CZK 365,000	Assembly of solar modules
AU Optronics (L) Corp. (AULB)	2000.09.07	Level 15B, Main Office Tower, Financial Park Labuan, Jalan Merdeka, 87000 Labuan F.T., Malaysia	USD 1,882,189	Holding and trading company
AU Optronics (Slovakia) s.r.o. (AUSK)	2009.01.24	Bratislavská 517, 911 05 Trenčín, Slovak Republic	EUR 40,000	Repairing of TFT-LCD modules
AU Optronics Corporation America (AUS)	2000.09.11	1525 McCarthy Blvd. Suite 218 Milpitas, CA 95035, USA	USD 1,000	Sales support of TFT-LCD panels
AU Optronics Corporation Japan (AUJP)	2001.09.11	3-24-21 Sanwa Bld. 5F, Shiba, Minato-Ku, Tokyo 105-0014, Japan	JPY 40,000	Sales support of TFT-LCD panels
AU Optronics Europe BV (AUNL)	2004.05.24	Zekeringstraat 39, 1014BV Amsterdam, Netherlands	EUR 50	Sales support of TFT-LCD panels
AU Optronics Korea Ltd. (AUKR)	2004.07.20	No.906, 9F, Gwanggyo Business Center, 156, Gwanggyo-ro, Yeongtong-gu, Suwon-si, Gyeonggi-do, 16506, Korea	KRW 173,075	Sales support of TFT-LCD panels
AU Optronics Singapore Pte. Ltd. (AUSG)	2006.09.20	10 Tampines Industrial Avenue 3 Singapore 528798	SGD 121,571	Holding company and sales support of TFT-LCD panels
AUO Crystal (Malaysia) Sdn. Bhd. (ACMK)	2010.10.08	Melaka World Solar Valley, 78000 Alor Gajah, Melaka, Malaysia	MYR 46,196	Manufacturing and sale of solar wafers
AUO Green Energy America Corp. (AEUS)	2010.07.06	1525 McCarthy Blvd. Suite 218 Milpitas, CA 95035 USA	USD 9,510	Sales and sales support of solar-related products
AUO Green Energy BVEurope (AENL)	2010.09.29	Zekeringstraat 39, 1014BV Amsterdam, Netherlands	EUR 43	Sales support of solar-related products
BriView (L) Corp. (BVLB)	2009.07.02	Level 15B, Main Office Tower, Financial Park Labuan, Jalan Merdeka, 87000 Labuan F.T., Malaysia	USD 121,171	Holding company
DarwinDarwin Precisions (Hong Kong) Limited Hong Kong (DPHK)	2007.11.21	Room 706, Haleson Building, 1 Jubilee Street, Central, Hong Kong	USD 59,485	Holding company
DarwinDarwin Precisions (L) Corp. (DPLB)	2005.11.18	Level 15B, Main Office Tower, Financial Park Labuan, Jalan Merdeka, 87000 Labuan F.T., Malaysia	USD 92,966	Holding company
Darwin Precisions (Slovakia) s.r.o. Slovakia (DPSK)	2016.05.07	Bratislavská 517, 911 05 Trenčín, Slovak Republic	EUR 4,000	Manufacturing, assembly and sale of automotive parts
Force International Holding Ltd. (FRVI)	2005.10.04	Vistra Corporate Services Centre, Wickhams Cay II, Tortola, VG1110, VIRGIN ISLANDS, BRITISH	USD 8,200	Holding company
Forefront Corporation (FFMI)	2001.06.20	Level 3, Alexander House, 35 Cybercity, Ebene, Mauritius	USD 6,526	Holding company
Forhouse International Holding Ltd. (FHVI)	1999.09.17	Portcullis Chambers, 4th Floor, Ellen Skelton Building, 3076 Sir Francis Drake Highway, Road Town, Tortola, VG1110, VIRGIN ISLANDS, BRITISH	USD 28,206	Holding company
Fortech International Corp. (FTMI)	2002.07.26	Level 3, Alexander House, 35 Cybercity, Ebene, Mauritius	USD 7,103	Holding company
Forward Optronics International Corp. (FWSA)	2004.12.13	Vistra Corporate Services Centre, Ground Floor NPF Building Beach Road, Apia Samoa	USD 19,000	Holding company
Full Luck Precisions Co., Ltd. (Abbreviation: FLMI)	2010.08.13	Level 3, Alexander House, 35 Cybercity, Ebene, Mauritius	USD 8,000	Holding company

Company Name	Date of incorporation	Address	Paid-in Capital	Main Activities
M.Setek Co., Ltd. (M.Setek)	1978.02.03	Sanwa Build 5F, 3-24-21 Shiba, Minato-ku Tokyo 105-0014, Japan	JPY 18,000	Manufacturing and sale of ingots
Prime Forward International Ltd. (Abbreviation: PMSA)	2002.01.25	Vistra Corporate Services Centre, Ground Floor NPF Building Beach Road, Apia Samoa	USD 31,993	Holding company
AU Optronics Manufacturing (Shanghai) Corp. (AUSJ)	2001.12.20	No. 3, Alley 58, Sanzhuang Rd., Songjiang Export Processing Zone, Shanghai, China	USD 108,000	Manufacturing and assembly of TFT-LCD modules
AU Optronics (Kunshan) Co., Ltd. (AUKS)	2009.08.21	No. 6, Longteng Road, Kunshan Economic and Technological Development Zones, Jiangsu Province, China	USD 961,000	Manufacturing and sale of TFT-LCD panels
AU Optronics (Xiamen) Corp. (AUXM)	2005.12.13	No. 1689, Xiangan North Road, Torch High-Tech (Xiangan) Industrial Development Zone, Xiangan District, Xiamen City, Fujian Province, China	USD 250,000	Manufacturing and assembly of TFT-LCD modules
AU Optronics (Suzhou) Corp., Ltd (AUSZ)	2001.06.19	No. 398, Suhongzhong Road, Suzhou Industrial Park, Jiangsu Province, China	USD 278,000	Manufacturing and assembly of TFT-LCD modules
AU Optronics (Shanghai) Co., Ltd. (AUSH)	2005.09.22	5th Floor, Building B, No. 33, Guangshun Road, Shanghai, China	USD 3,000	Sales support of TFT-LCD panels
AUO Energy (Tianjin) Corp. (AETJ)	2010.04.09	No. 189, Gaoxin Second Road, Tianjin Binhai Hi-tech Industrial Development Area, Tianjin, China	USD 17,000	Manufacturing and sale of solar modules
AUO Crystal Corporation (AUO Crystal)	2009.05.22	No.335, Sec. 2, Houke Road, Central Taiwan Science Park, Houli District, Taichung City, Taiwan	NTD 4,043,656	Manufacturing and sale of ingots and solar wafers
AUO Care Management (Suzhou) Co., Ltd. (A-Care)	2017.09.22	No. 398, Suhongzhong Road, Suzhou Industrial Park, Jiangsu Province, China	RMB 5,000	Design, development and sales of software and hardware for health care industry
LiGen Power Corporation (LiGen Power)	2015.10.22	1F., No.20-1, Guangfu N. Rd., Hukou Township, Hsinchu County, Taiwan	NTD 100,000	Renewable energy power generation
U-Fresh Technology Inc. (U-Fresh)	2017.01.23	1F., No.20-1, Guangfu N. Rd., Hukou Township, Hsinchu County, Taiwan	NTD 50,000	Planning, design and development of construction for environmental protection and related project management
ChampionGen Power Corporation (ChampionGen Power)	2017.05.18	4F., No.20-1, Guangfu N. Rd., Hukou Township, Hsinchu County, Taiwan	NTD 10,000	Renewable energy power generation
Sanda Materials Corporation (Sanda Materials)	2014.04.23	1F., No.20-1, Guangfu N. Rd., Hukou Township, Hsinchu County, Taiwan	TWD 1,518,361	Holding Company
Konly Venture Corp. (Konly Venture)	2002.07.29	1F., No.20-1, Guangfu N. Rd., Hukou Township, Hsinchu County, Taiwan	NTD 2,843,018	Venture capital investment
Space Money Inc. (Space Money)	2015.10.05	1F., No.20-1, Guangfu N. Rd., Hukou Township, Hsinchu County, Taiwan	NTD 30,000	Sale of TFT-LCD panels; leasing
BriView (Hefei) Co., Ltd. (BVHF)	2010.04.09	No. 176, Yuner Road, National Hefei Economic and Technological Development Zone, Hefei, Anhui Province, China	USD 73,450	Manufacturing and sale of liquid crystal products and related parts
BriView (Xiamen) Corp. (BVXM)	2008.12.02	No. 1998, Fangshan West Road, Torch High-Tech (Xiangan) Industrial Development Zone, Xiangan District, Xiamen City, Fujian Province, China	RMB 600,000	Manufacturing and sale of liquid crystal products and related parts
Ronly Venture Corp. (Ronly Venture)	2005.01.11	1F., No.20-1, Guangfu N. Rd., Hukou Township, Hsinchu County, Taiwan	TWD 1,494,119	Venture capital investment
Darwin Precision (Chengdu) Corporation (DPCD) (Note 1)	2010.03.09	No. 91, Shuangbo Road, Chengdu Hi-Tech Industrial Development Zone, Chengdu, Sichuan Province, China	USD 8,000	Manufacturing and sale of backlight modules and related parts
Darwin Precision (Xiamen) Corporation (DPXM)	2006.03.31	No. 3089, Xiangan North Road, Torch High-Tech (Xiangan) Industrial Development Zone, Xiangan District, Xiamen City, Fujian Province, China	USD 70,000	Manufacturing and sale of backlight modules and related parts
Darwin Precision (Suzhou) Corporation (DPSZ)	2005.12.08	No. 11, Tingxin Street, Suzhou Industrial Park, Suzhou, Jiangsu Province, China	USD 25,000	Manufacturing and sale of backlight modules and related parts
Darwin Precisions Corporation	1989.10.13	No. 45, Lane 313, Section 3, Minsheng Road,	TWD 6,655,551	Manufacturing, design and

Company Name	Date of incorporation	Address	Paid-in Capital	Main Activities
(Darwin Precision)		Daya District, Taichung City		sale of TFT-LCD modules, TV set, backlight modules and related parts
Full Luck (Wujiang) Precisions Co., Ltd. (FLWJ) (Note 1)	2010.10.14	No. 399, Jinhua Road, Wujiang Economic and Technological Development Zone, Suzhou, Jiangsu Province, China	USD 8,000	Manufacturing and sale of precision metal parts
Fortech Optronics (Xiamen) Co., Ltd. (FTXM) (Note 1)	2006.04.28	4F-1 Office, Building TC, No. 3089, Xiang'an North Road, Torch High-Tech (Xiang'an) Industrial Development Zone, Xiang'an District, Xiamen City, Fujian Province, China	USD 13,750	Manufacturing and sale of backlight modules and related parts
Fortech Electronics (Kunshan) Co., Ltd. (FTKS)	2004.01.02	No. 555, Fengdong Road, Kunshan Economic and Technological Development Zones, Jiangsu Province, China	USD 36,000	Manufacturing and sale of backlight modules and related parts
Fortech Electronics (Suzhou) Co., Ltd. (FTWJ)	2002.08.30	No. 399, Jinhua Road, Wujiang Economic and Technological Development Zone, Suzhou, Jiangsu Province, China	USD 35,000	Manufacturing and sale of backlight modules and related parts
Forhouse Electronics (Suzhou) Co., Ltd. (FHWJ)	2001.10.09	No. 399, Jinhua Road, Wujiang Economic and Technological Development Zone, Suzhou, Jiangsu Province, China	USD 6,500	Manufacturing of motorized treadmills
Suzhou Forplax Optronics Co., Ltd. (FPWJ)	2005.02.28	No. 399, Jinhua Road, Wujiang Economic and Technological Development Zone, Suzhou, Jiangsu Province, China	USD 29,000	Manufacturing and sale of precision plastic parts

Note1: DPCD, FLWJ and FTXM were liquidated by the Board of Directors and the liquidation procedures are still in progress.

(III) Shareholders of the companies presumed to have a relationship of control and affiliation: None.

(IV) Industries Covered by all the Affiliates:

The businesses that all the affiliates are engaged in includes manufacturing, assembly, sale and sales support of LCD, LCD modules, back-lighting modules and color filter; development of solar business related products and solar power plant. Some of the affiliated enterprises were established to invest into technologies relating to the aforementioned products and its upstream and downstream Industries. In general, the main purpose is to vertically integrate the upstream and downstream industry chains so that all affiliates can achieve the maximum synergy through the integration of their value chains, thereby stabilizing the Company's competitive advantage in the industry.

(V) Directors, supervisors, and president of affiliates

December 31, 2017; Unit: thousand shares; NT\$1,000; %

Company Name	Title	Name	Shareholding	
			Shares (Investment Amount)	%(Investment Holding%)
AUVI	Director	Hank M. Liu, TK Wu, Hong-Jye Hong	-	-
			AULB holds 5,000 shares	100.00
AUST	Director	Kuo-Hsin (Michael) Tsai, Yi-Cheng Chen	-	-
			AULB holds 907,114 shares	100.00
AUCZ	Director	TY Lin	-	-
			AULB's investment CZK 365,000	100.00
AULB	Director	Shuang-Lang (Paul) Peng	-	-
			AUO holds 1,882,189 shares	100.00
AUSK	Director	Kuo-Hsin (Michael) Tsai	-	-
			AULB's investment EUR40,000	100.00
AUUS	Director	Kuo-Hsin (Michael) Tsai, John Choe, Linh Ha	-	-
			AULB holds 1,000 shares	100.00
AUJP	Director	Kuo-Hsin (Michael) Tsai, Seki Shih	-	-
			AULB holds 1 share	100.00
AUNL	Director	Kuo-Hsin (Michael) Tsai	-	-
			AULB holds 50 shares	100.00
AUKR	Director	Kuo-Hsin (Michael) Tsai	-	-
			AULB's investment KRW173,075	100.00
AUSG	Director	Shuang-Lang (Paul) Peng, Yvonne Yun	-	-
			AULB holds 266,268 shares	100.00
ACMK	Director	Shih-Hong Liao, Jerry Liu, Ollivent	-	-
			AUO Crystal holds 46,196 shares	100.00
AEUS	Director	TY Lin	-	-
			AUSG holds 9,510 shares	100.00
AENL	Director	TY Lin	-	-
			AUSG Holdings	100.00
BVLB	Director	FC Hsiang, KP Chu	-	-
			AULB holds 85,171 shares	70.29
			Darwin Precision holds 36,000 shares	29.71
DPHK	Director	DarwinPrecisions (L) Corp. FC Hsiang,	DPLB holds 10 shares	100.00
DPLB	Director	FC Hsiang, KP Chu	-	-
			Darwin Precision holds 92,966 shares	100.00
DPSK	Director	FC Hsiang	-	-
			DPLB's investment EUR4,000	100.00
FRVI	Director	FC Hsiang, KP Chu	-	-
			Darwin Precision's investment USD8,200	100.00
FFMI	Director	FC Hsiang, KP Chu	-	-
			FRVI's investment USD6,526	100.00
FHVI	Director	FC Hsiang, KP Chu	-	-
			Darwin Precision's investment USD28,206	100.00
FTMI	Director	FC Hsiang, KP Chu	-	-
			FHVI's investment USD7,103	100.00
FWSA	Director	FC Hsiang, KP Chu	-	-
			FHVI's investment USD19,000	100.00
FLMI	Director	FC Hsiang, KP Chu	-	-
			FRVI's investment USD8,000	100.00
M.Setek	Director	Shih-Hong Liao,Sheaffer Lee, Jim Lee, Saito Hiroyuki	-	-
	Supervisor	Betty Chen	-	-
			Sanda Materials holds 11,404,184 shares	99.99
PMSA	Director	FC Hsiang, KP Chu	-	-
			FRVI's investment USD31,993	100.00
AUSJ	Director	Shuang-Lang(Paul) Peng, Kuo-Hsin (Michael) Tsai, Wei-Lung Liao	-	-
	Supervisor	Jack Juang	-	-
	President	Robert Kuo	-	-
			AULB's investment USD108,000	100.00
AUKS	Director	Shuang-Lang(Paul) Peng, Hong-Shiung(Sean) Chen, YorkSon Chu, Chao Tang, Wei-Gang Miao	-	-
	Supervisor	Jack Juang	-	-

Company Name	Title	Name	Shareholding	
			Shares (Investment Amount)	%(Investment Holding%)
	President	YorkSon Chu	-	-
			AULB's investment USD490,110	51.00
			Kunshan Guoxian Investment Group Co., Ltd.'s investment USD470,890	49.00
AUXM	Director	Shuang-Lang(Paul) Peng, Kuo-Hsin (Michael) Tsai, Wei-Lung Liao	-	-
	Supervisor	Jack Juang	-	-
	President	ChunKun Fu	-	-
			AULB 's investment USD250,000	100.00
AUSZ	Director	Shuang-Lang(Paul) Peng, Kuo-Hsin (Michael) Tsai, Wei-Lung Liao	-	-
	Supervisor	Jack Juang	-	-
	President	Robert Kuo	-	-
			AULB 's investment USD278,000	100.00
AUSH	Director	Kuo-Hsin (Michael) Tsai	-	-
	Supervisor	Sonia Tai	-	-
	President	Robert Kuo	-	-
			AULB 's investment USD3,000	100.00
AETJ	Director	James CP Chen, Benjamin Tseng, Daniel Yu	-	-
	Supervisor	Jack Juang	-	-
	President	James CP Chen	-	-
			AUSG 's investment USD17,000	100.00
AUO Crystal	Director	Representative of AU Optronics Corp.: CY Lin, Kuo-Hsin (Michael) Tsai, Shih-Hong Liao	331,450	81.97
	Supervisor	Andy Yang	118	0.03
A-Care	Director	Andy Yang	-	-
	Supervisor	Jack Juang	-	-
	President	Robert Kuo	-	-
			AUSH 's investment CNY5,000	100.00
LiGen Power	Director	Representative of Konly Venture Corp.:TY Lin, Jack Juang, Eunice Lin	10,000	100.00
	Supervisor	Representative of Konly Venture Corp.:Lydia Tsai	10,000	100.00
U-Fresh	Director	Representative of AU Optronics Corp.: SK Huang, Kuo-Hsin (Michael) Tsai, Hank M. Liu	5,000	100.00
	Supervisor	Representative of AU Optronics Corp.: Eunice Lin	5,000	100.00
Champion Gen Power	Director	Representative of Konly Venture Corp: TY Lin, Jack Juang, Eunice Lin	1,000	100.00
	Supervisor	Representative of Konly Venture Corp: Lydia Tsai	1,000	100.00
Sanda Materials	Director	Representative of AU Optronics Corp.: Benjamin Tseng, Sheaffer Lee, Luc Lin	151,827	99.99
	Supervisor	Representative of Ronly Venture Corp. : Jack Jhuang	1	0.00
Konly Venture	Director	Representative of AU Optronics Corp.: Shuang-Lang(Paul) Peng, Kuen-Yao (K.Y.) Lee, Max Cheng	284,302	100.00
	Supervisor	Representative of AU Optronics Corp.: Benjamin Tseng	284,302	100.00
Space Money	Director	Representative of AU Optronics Corp.: Kuo-Hsin (Michael) Tsai, Wei-Lung Liao, Iven Wu	3,000	100.00
	Supervisor	Representative of AU Optronics Corp.: Andy Yang	3,000	100.00
BVHF	Director	FC Hsiang, KP Chu, ChunYenChuang	-	-
	Supervisor	Cathay Ching	-	-
	President	KP C hu	-	-
			BVLB 's investment USD73,450	100.00
BVXM	Director	Kuo-Hsin (Michael) Tsai, Hong-Shiung(Sean) Chen, ChunKun Fu	-	-
	Supervisor	Jack Juang	-	-
	President	ChunKun Fu	-	-
			AUXM 's investment CNY600,000	100.00
Ronly Venture	Director	Representative of AU Optronics Corp.: Shuang-Lang(Paul) Peng, Kuen-Yao (K.Y.) Lee, Max Cheng	149,412	100.00
	Supervisor	Representative of AU Optronics Corp.: Benjamin Tseng	149,412	100.00

Company Name	Title	Name	Shareholding	
			Shares (Investment Amount)	%(Investment Holding%)
DPCD (Note 1)	Director	FC Hsiang, KP Chu, ChunYen Chuang	-	-
	Supervisor	Andrew MH Hsu	-	-
	President	KP Chu	-	-
			DPHK 's investment USD8,000	100.00
DPXM	Director	ChunYen Chuang, Martin Tsai, HT Lai	-	-
	Supervisor	Cathay Ching	-	-
	President	Martin Tsai	-	-
			DPHK 's investment USD70,000	100.00
DPSZ	Director	FC Hsiang, KP Chu, ChunYen Chuang	-	-
	Supervisor	Cathay Ching	-	-
	President	KP Chu	-	-
			DPHK 's investment USD25,000	100.00
Darwin Precision	Director	Representative of AU Optronics Corp.: FC Hsiang,	190,108	28.56
		KP Chu, Shuang-Lang(Paul) Peng		
	Independent Directors:	HB Chen	1,063	0.16
		Austin Chen, YP Chung, Vivien Huey-Juan Hsieh	-	-
FLWJ (Note 1)	Director	FC Hsiang, KP Chu, ChunYen Chuang	-	-
	Supervisor	Cathay Ching	-	-
	President	KP Chu	-	-
			FLMI 's investment USD 8,000	100.00
FTXM (Note 1)	Director	FC Hsiang, KP Chu, ChunYen Chuang	-	-
	Supervisor	Andrew MH Hsu	-	-
	President	KP Chu	-	-
			FTMI's investment USD 13,750	100.00
FTKS	Director	FC Hsiang, KP Chu, ChunYen Chuang	-	-
	Supervisor	Cathay Ching	-	-
	President	KP Chu	-	-
			PMSA 's investment USD 36,000	100.00
FTWJ	Director	FC Hsiang, KP Chu, ChunYen Chuang	-	-
	Supervisor	Cathay Ching	-	-
	President	KP Chu	-	-
			FTMI 's investment USD 35,000	100.00
FHWJ	Director	FC Hsiang, KP Chu, ChunYen Chuang	-	-
	Supervisor	Cathay Ching	-	-
	President	KP Chu	-	-
			FFMI 's investment USD 6,500	100.00
FPWJ	Director	FC Hsiang, KP Chu, ChunYen Chuang	-	-
	Supervisor	Cathay Ching	-	-
	President	KP Chu	-	-
			FTMI 's investment USD 10,000	34.48
			FWSA 's investment USD 19,000	65.52

Note1: DPCD, FLWJ and FTXM were liquidated by the Board of Directors and the liquidation procedures are still in progress.

(VI) Overview of subsidiaries's operations:

December 31, 2017; unit: other than earnings per share, the rest is in NT\$,1,000

Name of business	Currency	Capital	Total assets	Total liabilities	Net assets	Revenue	Profit from operations	Profit or loss for the year (After income tax)	Earning per share (Note 1) (dollar; after income tax)
AUVI	USD	5,000	5,565	114	5,451	1,700	102	167	0.03
AUST	USD	603,867	340,260	37,004	303,256	251,693	7,335	3,730	0.00
AUCZ	CZK	365,000	341,002	29,943	311,059	297,211	15,666	9,969	-
AULB	USD	1,882,189	3,102,075	1,321,599	1,780,476	5,987,559	(6)	(110,586)	(0.06)
AUSK	EUR	40,000	68,842	35,719	33,123	8,015	(3,993)	824	-
AUUS	USD	1,000	2,259	440	1,819	4,464	172	138	0.14
AUJP	JPY	40,000	219,017	35,550	183,466	271,246	10,431	6,830	8,537.50
AUNL	EUR	50	790	116	673	1,432	55	43	0.86
AUKR	KRW	173,075	1,981,231	1,003,288	977,943	1,937,940	74,536	(39,030)	-
AUSG	USD	81,887	78,448	201	78,247	1,004	31	1,972	0.01
ACMK	USD	15,000	30,808	13,354	17,453	52,760	2,366	2,392	0.05
AEUS	USD	9,510	6,924	89	6,836	181	(121)	(115)	(0.01)
AENL	EUR	43	265	118	148	786	30	25	58.14
BVLB	USD	121,171	28,844	0	28,844	0	(2)	(12,042)	(0.10)
DPHK	USD	59,485	221,134	0	221,134	0	0	2,127	212.70
DPLB	USD	92,966	224,663	0	224,663	0	(9)	953	0.01
DPSK	EUR	4,000	4,194	1,238	2,955	4,138	(1,029)	(1,030)	-
FRVI	USD	8,200	1,180	0	1,180	0	0	121	0.01
FFMI	USD	6,526	1,180	0	1,180	0	0	121	0.19
FHVI	USD	28,206	156,211	0	156,211	0	(1)	3,026	0.11
FTMI	USD	7,103	107,002	0	107,002	0	(2)	5,424	0.76
FWSA	USD	19,000	15,763	0	15,763	0	0	(1,698)	(0.09)
FLMI	USD	8,000	7,765	0	7,765	0	0	90	0.01
M.Setek	JPY	18,000	9,812,337	2,272,519	7,539,818	13,033,601	474,579	1,582,936	0.14
PMSA	USD	31,993	26,138	0	26,138	0	984	(1,787)	(0.06)
AUSJ	RMB	866,978	924,750	37,236	887,514	240,075	17,433	11,221	-
AUKS	RMB	5,948,236	13,245,095	8,885,259	4,359,836	1,034,120	(1,312,176)	(1,047,095)	-
AUXM	RMB	1,804,476	2,967,699	227,414	2,740,286	1,100,042	69,933	67,565	-
AUSZ	RMB	2,208,359	2,937,185	359,545	2,577,640	1,678,511	68,581	40,317	-
AUSH	RMB	21,787	118,839	14,088	104,750	59,398	2,667	621	-
AETJ	RMB	111,710	12,259	478	11,781	0	(360)	(274)	-
AUO Crystal	NTD	4,043,656	10,590,443	4,406,974	6,183,469	8,353,306	495,054	504,760	1.25
A-Care	RMB	5,000	5,417	421	4,997	0	(7)	(3)	-
LiGen Power	NTD	100,000	103,292	642	102,650	8,530	3,164	2,644	0.26
U-Fresh	NTD	50,000	120,784	71,578	49,206	64,969	(1,087)	(794)	(0.16)
Champion Gen Power	NTD	10,000	9,547	35	9,512	0	(491)	(488)	(0.49)
Sanda Materials	NTD	1,518,361	2,318,458	6,051	2,312,407	0	(28,995)	395,921	2.61
Konly Venture	NTD	2,843,018	5,397,169	15,362	5,381,807	0	(5,219)	336,885	1.18
Space Money	NTD	30,000	34,631	4,700	29,931	19,606	500	320	0.11
BVHF	RMB	472,327	910,722	722,815	187,907	633,065	(65,601)	(81,215)	-
BVXM	RMB	600,000	304,147	50,086	254,061	218,110	(2,305)	8,639	-
Ronly Venture	NTD	1,494,119	2,097,492	120	2,097,372	0	(129)	69,296	0.46
DPCD (Note 2)	RMB	53,916	4,869	30	4,839	0	(3)	140	-
DPXM	RMB	505,962	1,876,453	836,886	1,039,566	3,507,761	(27,186)	(14,692)	-
DPSZ	RMB	184,322	484,382	84,791	399,590	409,592	26,380	28,899	-
Darwin Precision	NTD	6,655,551	27,201,512	15,186,385	12,015,127	28,215,485	268,137	385,277	0.58
FLWJ (Note 2)	RMB	53,537	50,752	48	50,704	0	(60)	610	-
FTXM (Note 2)	RMB	107,658	130,659	(85)	130,744	0	(57)	395	-
FTKS	RMB	281,567	272,850	102,167	170,683	122,643	(17,337)	(18,693)	-
FTWJ	RMB	279,158	1,142,925	625,649	517,277	1,027,920	38,619	41,904	-
FHWJ	RMB	53,779	33,144	25,443	7,702	0	(4,483)	816	-
FPWJ	RMB	223,933	157,260	3,636	153,624	0	(24,136)	(17,486)	-

Note 1: Calculated based on the number of shares outstanding for each company on December 31, 2017.

Note 2: The DPCD, FLWJ and FTXM have been resolved by their respective of the Board of Directors and liquidation procedures are still in progress.

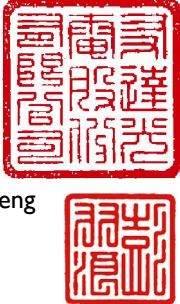
II. Consolidated financial statements of affiliated enterprises:

Representation Letter

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

Hereby declared

AU Optronics Corporation
Chairman: Shuang-Lang (Paul) Peng
February 6, 2018



III. Affiliation Report: Not applicable.

- IV. Privately placed securities handling status in the most recent year up to the publication date of this Annual Report shall disclose the date and amount passed by the Shareholders' Meeting/Board of Directors, price setting basis and reasonableness, selection method for specific people, necessary reason for organizing private placement, and the completion of fund application plan after monies and proceeds are fully collected. Fund application status in privately placed securities and plan implementation progress: no such situation.

Item	2017 Private Placement (Note)
The type of securities Private Placement	Common shares and/or overseas or domestic convertible bonds
The date and amount of the Shareholders' Meeting resolution	<p>The date of Shareholders' Meeting resolution: June 15, 2017</p> <p>Amount: It has been approved by the Annual General Shareholders' Meeting held on June 15, 2017 to authorize the Board of Directors depending on the principles approved by Annual General Shareholders' Meeting, within the limit of 950,000,000 common shares, to choose one or more fund raising instruments to issue new common shares for cash to sponsor issuance of the overseas depositary shares and/or new common shares for cash in public offering and/or new common shares for cash in private placement and/or overseas or domestic convertible bonds in private placement in accordance with the applicable laws and regulations.</p>
Basis and reasonableness for determination of the subscription price	<ol style="list-style-type: none"> The higher of (x) the simple average closing price of the Company' s common shares for 1, 3 or 5 trading days prior to the pricing date, and (y) the simple average closing price of the Company' s common shares for 30 trading days prior to the pricing date, after adjustment for shares issued as stock dividends, shares cancelled in connection with capital reduction and the cash dividends, as the reference subscription price of the Private Placement Shares. The issue price of the Private Placement Shares shall be no less than 80% of the reference price. It is proposed to authorize the Board to decide the actual issue price within the range approved by the shareholders meeting, depending on the status of finding specific investor(s) and market conditions. The issue price of the Private Placement CB shall be no less than 80% of the theoretical price. As aforementioned, subscription price of the Private Placement Shares and issue price of Private Placement CB will be determined with reference to the price of the Company' s common shares and the theoretical price in accordance with the Regulations Governing Public Companies Issuing Securities in Private Placement, thus, the price should be reasonable.
The method to determine specific investor(s)	<p>The investors to subscribe to the Private Placement Shares and/or Private Placement CB must meet the qualifications listed in Article 43-6 of the Securities and Exchange Act and are limited to strategic investor(s). Priority will be given to the investor(s) who could benefit the Company's long term development, competitiveness, and existing shareholders' rights. The Board is fully authorized to determine the specific investor(s). The purpose, necessity and projected benefits for choosing strategic investor(s) are to accommodate the Company' s operation and development needs to have the strategic investor(s) to assist the Company, directly or indirectly, in its finance, business, manufacturing, technology, procurement, management, and strategy development, etc. so to strengthen the Company' s competitiveness and enhance its operational efficiency and long term development.</p>

Item	2017 Private Placement (Note)
The necessary of issuance for private Placement	Considering the effectiveness and convenience for issuance of the Private Placement Shares/Private Placement CB and accommodating the Company' s development planning, including inviting the strategic investor(s), it would be necessary to issue the Private Placement Shares and/or Private Placement CB.
Payment completion date	Not applicable (Note)
The place information	Not appropriate (Note)
Actual subscription (or conversion) price	Not applicable (Note)
Actual subscription (or conversion) price and reference price difference	Not applicable (Note)
Impact on shareholders' equity for conducting private placement	Not applicable (Note)
The use of funds acquired from private placement and the implementation progress of the plan	Not applicable (Note)
Benefits of private placement	Not applicable (Note)

Note: The Annual General Shareholders' Meeting held on June 15, 2017 approved to authorize the Board of Directors to handle the fund raising, but it has not yet been actually issued as of the publication date of the Annual Report.

- V. Holding or disposition of the Company shares by subsidiaries in the most recent year up to the publication date of this Annual Report: None.
- VI. Other items that must be included: None.
- VII. Any event that results in substantial impact on the shareholders' equity or prices of the Company' s securities as prescribed by Subparagraph 2, Paragraph 3, Article 36 of the Securities and Exchange Act that have occurred in the most recent year up to the publication date of this Annual Report: None.

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

Representation Letter

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

Hereby declare

Company Name: AU Optronics Corp.

Chairman: Shuang-Lang (Paul) Peng

Date: February 6, 2018

Independent Auditors' Report

To the Board of Directors of AU Optronics Corp.:

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

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

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

Description of key audit matter:

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

How the matter was addressed in our audit:

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

Recognition of deferred tax assets

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

Description of key audit matter:

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

How the matter was addressed in our audit:

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

Revenue recognition

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

Description of key audit matter:

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

How the matter was addressed in our audit:

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

Other Matters

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

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

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

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

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

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

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

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

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

estimates and related disclosures made by management.

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

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

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

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

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

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

Notice to Readers

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

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

AU OPTRONICS CORP. AND SUBSIDIARIES
Consolidated Balance Sheets

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

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

(See accompanying notes to the consolidated financial statements)

AU OPTRONICS CORP. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2017 and 2016

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

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

AU OPTRONICS CORP. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

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

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

(See accompanying notes to the consolidated financial statements)

AU OPTRONICS CORP. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

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

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

AU OPTRONICS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

1. Organization

AU Optronics Corp. (“AUO”) was founded on August 12, 1996 and is located in Hsinchu Science Park, the Republic of China (“ROC”). AUO’s main activities are the research, development, production and sale of thin film transistor liquid crystal displays (“TFT-LCDs”) and other flat panel displays used in a wide variety of applications. AUO also engages in the production and sale of solar modules and systems. AUO’s common shares have been publicly listed on the Taiwan Stock Exchange since September 2000, and its American Depositary Shares (“ADSs”) have been listed on the New York Stock Exchange since May 2002.

On September 1, 2001, October 1, 2006 and October 1, 2016, Unipac Optoelectronics Corp. (“Unipac”), Quanta Display Inc. (“QDI”) and Taiwan CFI Co., Ltd. (“CFI”) were merged with and into AUO, respectively. AUO is the surviving Company, whereas Unipac, QDI and CFI were dissolved.

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

2. The Authorization of Financial Statements

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

3. Application of New Standards, Amendments and Interpretations

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

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

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

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

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

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

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

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

Annual Improvements to IFRSs 2014 – 2016 Cycle:

Amendments to IFRS 12, <i>Disclosure of Interests in Other Entities</i>	January 1, 2017
---	-----------------

New, Revised or Amended Standards and Interpretations	Effective Date Issued by IASB
Amendments to IFRS 1, <i>First-time Adoption of International Financial Reporting Standards</i> and amendments to IAS 28, <i>Investments in Associates and Joint Ventures</i>	January 1, 2018
IFRIC 22, <i>Foreign Currency Transactions and Advance Consideration</i>	January 1, 2018

Except for the items discussed below, the Company believes that the initial adoption of abovementioned standards or interpretations would not have a material impact on its accounting policies.

a. IFRS 9, *Financial Instruments*

IFRS 9 replaces the current standards on accounting for financial instruments, IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, measured at fair value through other comprehensive income (“FVTOCI”) and measured at fair value through profit or loss (“FVTPL”). This Standard eliminates the classification of financial assets under IAS 39 which are held to maturity, loans and receivables and available for sale. In addition, IAS 39 has an exception for the measurement of investments in equity instruments (and related derivatives) that do not have a quoted market price in an active market and for which fair value cannot therefore be measured reliably; such financial instruments are measured at cost. IFRS 9 removes this exception and requires that all equity instruments (and related derivatives) should be measured at fair value.

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

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

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

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

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

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

(i) Sales of goods

Under IFRS 15, revenue for the sale of goods is recognized when a customer obtains control of the goods. For certain contracts that permit a customer to return goods, revenue is recognized to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur.

For certain contracts with volume discounts to customers, under IFRS 15, revenue is recognized on a net basis of contract price less estimated volume discounts, and only to the extent that it is highly probable that a significant reversal will not occur.

Under IFRS 15, a refund liability is measured at the amount of consideration received (or receivable) for which an entity does not expect to be entitled. The refund liability shall be updated at the end of each reporting period for changes in circumstances.

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

(ii) Rendering of services

Under IFRS 15, for rendering of services, the consideration of the entire contract is allocated on a basis of a relative stand-alone selling price of the services. The stand-alone selling price is determined based on the list price of service at which the Company sells that service separately.

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

(iii) Transition

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

c. Amendments to IAS 7, *Disclosure Initiative*

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

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

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

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

New, Revised or Amended Standards and Interpretations	Effective Date Issued by IASB
Amendments to IFRS 10 and IAS 28, <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	Subject to IASB's announcement
IFRS 16, <i>Leases</i>	January 1, 2019
IFRS 17, <i>Insurance Contracts</i>	January 1, 2021
Amendments to IAS 28, <i>Long-term Interests in Associates and Joint Ventures</i>	January 1, 2019
Amendments to IFRS 9, <i>Prepayment Features with Negative Compensation</i>	January 1, 2019
IFRIC 23, <i>Uncertainty over Income Tax Treatments</i>	January 1, 2019
Annual Improvements to IFRSs 2015 – 2017 Cycle	January 1, 2019

Except for the item discussed below, the Company believes that the initial adoption of abovementioned standards or interpretations would not have a material impact on its accounting policies.

IFRS 16, *Leases*

IFRS 16 sets out the accounting standards for leases that will replace IAS 17, *Leases* and the related interpretations.

Under IFRS 16, a lessee is required to recognize a right-of-use asset and a lease liability on the balance sheet for all leases with exception for leases of low-value assets and short-term leases which the Company may elect to apply the accounting method similar to the accounting for operating lease under IAS 17. Additionally, a depreciation expense charged on the right-of-use asset and an interest expense accrued on the lease liability, for which interest is computed by using effective interest method, are recognized separately on the statement of comprehensive income. On the statement of cash flows, cash payments for the principal amount and the interest of the lease liability are generally classified within financing activities.

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

The Company has performed a preliminary assessment and identification over its current operating leases whether they are in scope of IFRS 16. The main impact to the Company may arise from its lease contracts of land and plant which are currently accounted as operating lease. Please refer to note 6(18) for the related disclosures. The Company will identify whether a contract that contains a lease meets the definition of a lease under this Standard, and if so, a right-of-use asset and a lease liability shall be recognized. The related impact for adoption of IFRS 16 by the Company will be disclosed when the Company completes the assessment.

Except for the aforementioned impacts, as of the date that the accompanying consolidated financial statements were issued, the Company continues in assessing the potential impact on its financial position and results of operations as a result of the application of other standards, interpretations and amendments. The potential impact will be disclosed when the assessment is complete.

4. Summary of Significant Accounting Policies

The significant accounting policies applied in the preparation of these consolidated financial statements are set out as below. The significant accounting policies have been applied consistently to all periods presented in these consolidated financial statements.

(1) Statement of compliance

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

(2) Basis of preparation

a. Basis of measurement

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

- (i) Financial instruments measured at fair value through profit or loss (including derivative financial instruments) (note 6(2));
- (ii) Hedging derivative financial instruments measured at fair value (note 6(2));
- (iii) Available-for-sale financial assets measured at fair value (note 6(3)); and
- (iv) Defined benefit asset (liability) is recognized as the fair value of the plan assets less the present value of the defined benefit obligation (note 6(19)).

b. Functional and presentation currency

The functional currency of each individual consolidated entity is determined based on the primary economic environment in which the entity operates. The Company's consolidated financial statements are presented in New Taiwan Dollar ("NTD"), which is also AUO's functional currency. All financial information presented in NTD has been rounded to the nearest thousand, unless otherwise noted.

(3) Basis of consolidation

a. Principle of preparation of the consolidated financial statements

The Company includes in its consolidated financial statements the results of operations of all controlled entities in which the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. All significant inter-company transactions, income and expenses are eliminated in the consolidated financial statements.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Total comprehensive income (loss) in a subsidiary is allocated to the shareholders of AUO and the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Subsidiaries' financial statements are adjusted to align the accounting policies with those of the Company.

Changes in the Company's ownership interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Company's investment and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between such adjustment and the fair value of the consideration paid or received is recognized directly in equity and attributed to shareholders of AUO.

Upon the loss of control, the Company derecognizes the carrying amounts of the assets and liabilities of the subsidiary and non-controlling interests. Any interest retained in the former subsidiary is measured at fair value when control is lost. The gain or loss is measured as the difference between: (i) the aggregate of the fair value of the consideration received and the fair value of any retained non-controlling investment in the former subsidiary at the date when the Company loses control; and (ii) the aggregate of the carrying amount of the former subsidiary's assets (including goodwill), liabilities and non-controlling interests at the date when the Company loses control. The Company accounts for all amounts previously recognized in other comprehensive income in relation to that subsidiary on the same basis as would be required if the Company had directly disposed of the related assets or liabilities.

b. List of subsidiaries in the consolidated financial statements

The consolidated entities were as follows:

Name of Investor	Name of Subsidiary	Main Activities and Location	Percentage of Ownership (%)	
			December 31, 2017	December 31, 2016
AUO	AU Optronics (L) Corp. (AULB)	Holding and trading company (Malaysia)	100.00	100.00
AUO	Konly Venture Corp. (Konly)	Venture capital investment (Taiwan ROC)	100.00	100.00
AUO	Ronly Venture Corp. (Ronly)	Venture capital investment (Taiwan ROC)	100.00	100.00
AUO	Space Money Inc. (SMI)	Sale of TFT-LCD panels; leasing (Taiwan ROC)	100.00	100.00
AUO	U-Fresh Technology Inc. (UTI)	Planning, design and development of construction project for environmental protection and project management (Taiwan ROC)	100.00 ⁽¹⁾	-
AUO, Konly and Ronly	Darwin Precisions Corporation (DPTW)	Manufacturing, design and sale of TFT-LCD modules, TV set, backlight modules and related parts (Taiwan ROC)	41.05 ⁽²⁾	51.04
AUO, Konly and Ronly	Sanda Materials Corporation (SDMC)	Holding company (Taiwan ROC)	99.99	99.99
AUO, Konly and Ronly	AUO Crystal Corp. (ACTW)	Manufacturing and sale of ingots and solar wafers (Taiwan ROC)	96.03	96.31
Konly	Fargen Power Corporation (FGPC)	Renewable energy power generation (Taiwan ROC)	- ⁽³⁾	100.00
Konly	LiGen Power Corporation (LGPC)	Renewable energy power generation (Taiwan ROC)	100.00	100.00
Konly	TronGen Power Corporation (TGPC)	Renewable energy power generation (Taiwan ROC)	- ⁽³⁾	100.00 ⁽¹⁾
Konly	ChampionGen Power Corporation (CGPC)	Renewable energy power generation (Taiwan ROC)	100.00 ⁽¹⁾	-
ACTW	AUO Crystal (Malaysia) Sdn. Bhd. (ACMK)	Manufacturing and sale of solar wafers (Malaysia)	100.00	100.00
SDMC	M.Setek Co., Ltd. (M.Setek)	Manufacturing and sale of ingots (Japan)	99.9991	99.9991
AULB	AU Optronics Corporation America (AUUS)	Sales and sales support of TFT-LCD panels (United States)	100.00	100.00
AULB	AU Optronics Corporation Japan (AUJP)	Sales support of TFT-LCD panels (Japan)	100.00	100.00
AULB	AU Optronics Europe B.V. (AUNL)	Sales support of TFT-LCD panels (Netherlands)	100.00	100.00
AULB	AU Optronics Korea Ltd. (AUKR)	Sales support of TFT-LCD panels (South Korea)	100.00	100.00
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

Name of Investor	Name of Subsidiary	Main Activities and Location	Percentage of Ownership (%)	
			December 31, 2017	December 31, 2016
AULB	AU Optronics Manufacturing (Shanghai) Corp. (AUSJ)	Manufacturing and assembly of TFT-LCD modules (PRC)	100.00	100.00
AULB	AU Optronics (Slovakia) s.r.o. (AUSK)	Repairing of TFT-LCD modules; injecting and stamping parts; manufacturing and sale of mold (Slovakia Republic)	100.00	100.00
AULB	AFPD Pte., Ltd. (AUST)	Manufacturing TFT-LCD panels based on low temperature polysilicon technology (Singapore)	100.00	100.00
AULB	AU Optronics (Kunshan) Co., Ltd. (AUKS)	Manufacturing and sale of TFT-LCD panels (PRC)	51.00	51.00
AULB	a.u. Vista Inc. (AUVI)	Research and development and IP related business (United States)	100.00	100.00
AULB and DPTW	BriView (L) Corp. (BVLB)	Holding company (Malaysia)	100.00	100.00
AUSG	AUO Energy (Tianjin) Corp. (AETJ)	Manufacturing and sale of solar modules (PRC)	100.00	100.00
AUSG	AUO Green Energy America Corp. (AEUS)	Sale and sales support of solar-related products (United States)	100.00	100.00
AUSG	AUO Green Energy Europe B.V. (AENL)	Sales support of solar-related products (Netherlands)	100.00	100.00
AUXM	BriView (Xiamen) Corp. (BVXM)	Manufacturing and sale of liquid crystal products and related parts (PRC)	100.00	100.00 ⁽⁴⁾
AUSH	AUO Care Management (Suzhou) Co., Ltd. (A-Care)	Design, development and sales of software and hardware for health care industry (PRC)	100.00 ⁽¹⁾	-
DPTW	Darwin Precisions (L) Corp. (DPLB)	Holding company (Malaysia)	100.00	100.00
DPTW	Forhouse International Holding Ltd. (FHVI)	Holding company (BVI)	100.00	100.00
DPTW	Force International Holding Ltd. (FRVI)	Holding company (BVI)	100.00	100.00
FHVI	Fortech International Corp. (FTMI)	Holding company (Mauritius)	100.00	100.00
FHVI	Forward Optronics International Corp. (FWSA)	Holding company (Samoa)	100.00	100.00
FHVI	Prime Forward International Ltd. (PMSA)	Holding company (Samoa)	100.00	100.00
FHVI	Full Luck Precisions Co., Ltd. (FLMI)	Holding company (Mauritius)	100.00	100.00
FRVI	Forefront Corporation (FFMI)	Holding company (Mauritius)	100.00	100.00
FFMI	Forthouse Electronics (Suzhou) Co., Ltd. (FHWJ)	Manufacturing of motorized treadmills (PRC)	100.00	100.00
FTMI	Fortech Electronics (Suzhou) Co., Ltd. (FTWJ)	Manufacturing and sale of light guide plates, backlight modules and related parts (PRC)	100.00	100.00
FTMI	Fortech Optronics (Xiamen) Co., Ltd. (FTXM) ⁽⁵⁾	Manufacturing and sale of light guide plates, backlight modules and related parts (PRC)	100.00	100.00
FWSA and FTMI	Suzhou Forplax Optronics Co., Ltd. (FPWJ)	Manufacturing and sale of precision plastic parts (PRC)	100.00	100.00

Name of Investor	Name of Subsidiary	Main Activities and Location	Percentage of Ownership (%)	
			December 31, 2017	December 31, 2016
PMSA	Fortech Electronics (Kunshan) Co., Ltd. (FTKS)	Manufacturing and sale of light guide plates, backlight modules and related parts (PRC)	100.00	100.00
FLMI	Full Luck (Wujiang) Precisions Co., Ltd. (FLWJ) ⁽⁵⁾	Manufacturing and sales of precision metal parts (PRC)	100.00	100.00
DPLB	Darwin Precisions (Hong Kong) Limited (DPHK)	Holding company (Hong Kong)	100.00	100.00
DPLB	Darwin Precisions (Slovakia) s.r.o. (DPSK)	Manufacturing, assembly and sale of automotive parts (Slovakia Republic)	100.00	100.00 ⁽¹⁾
DPHK	Darwin Precisions (Suzhou) Corp. (DPSZ)	Manufacturing and sale of backlight modules and related parts (PRC)	100.00	100.00
DPHK	Darwin Precisions (Xiamen) Corp. (DPXM)	Manufacturing and sale of backlight modules and related parts (PRC)	100.00	100.00
DPHK	Darwin Precisions (Chengdu) Corp. (DPCD) ⁽⁵⁾	Manufacturing and sale of backlight modules and related parts (PRC)	100.00	100.00
BVLB	BriView (Hefei) Co., Ltd. (BVHF)	Manufacturing and sale of liquid crystal products and related parts (PRC)	100.00	100.00

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

Note 2: As at December 31, 2017, although the Company did not own more than 50% of the DPTW's ownership interests, it was considered to have de facto control over the operating policies of DPTW. As a result, DPTW was accounted for as a subsidiary of the Company. Please refer to note 6(9) for further details.

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

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

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

(4) Foreign currency

In preparing the financial statements of each individual consolidated entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date and the resulting exchange differences are included in profit or loss for the year. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date when the fair value was determined. The resulting exchange differences are included in profit or loss for the year except for those arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income. Non-monetary items in foreign currencies that are measured at historical cost are translated using the exchange rate at the date of the transaction.

Exchange differences arising from the effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges are recognized in other comprehensive income.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Company's foreign operations are translated into NTD using the exchange rates at each reporting date. Income and expenses of foreign operations are translated at the average exchange rates for the period unless the exchange rates fluctuate significantly during the period; in that case, the exchange rates at the dates of the transactions are used. Foreign currency differences are recognized in other comprehensive income within equity.

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

An asset is classified as current when:

- a. The asset expected to realize, or intends to sell or consume, in its normal operating cycle;
- b. The asset primarily held for the purpose of trading;
- c. The asset expected to realize within twelve months after the reporting date; or
- d. Cash and cash equivalent excluding the asset restricted to be exchanged or used to settle a liability for at least twelve months after the reporting date.

All other assets are classified as non-current.

A liability is classified as current when:

- a. The liability expected to settle in its normal operating cycle;
- b. The liability primarily held for the purpose of trading;
- c. The liability is due to be settled within twelve months after the reporting date; or
- d. The Company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments, do not affect its classification.

All other liabilities are classified as non-current.

(6) Cash and cash equivalents

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

(7) Financial Instruments

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

a. Financial assets

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

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

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

- (b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated as available-for-sale or are not classified as receivables or financial assets measured at fair value through profit or loss. Available-for-sale financial assets are recognized initially at fair value, plus any directly attributable transaction cost. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, dividend income and foreign currency differences related to monetary financial assets, are recognized in other comprehensive income and presented within equity in unrealized gains (losses) on available-for-sale financial assets. When an investment is derecognized, the cumulative gain or loss in equity is reclassified to profit or loss and presented under non-operating income and expenses. A regular way, purchase or sale of financial assets shall be recognized and derecognized, as applicable, using trade date accounting.

Investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured, are carried at their cost less any impairment losses and presented under the heading of financial assets carried at cost.

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

(c) Receivables

Receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Receivables comprise trade receivables and other receivables. Such assets are recognized initially at fair value, plus any directly attributable transaction costs. Subsequently, receivables are measured at amortized cost using the effective interest method, less any impairment. If the effect of discounting is immaterial, the short-term receivables are measured at the original amount.

(ii) Impairment of financial assets

Financial assets not measured at fair value through profit or loss are assessed at each reporting date for indicators of impairment. Financial assets are considered to be impaired if an objective evidence indicates that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of those assets have been negatively impacted.

When an available-for-sale equity security is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss. Such impairment losses are not reversed through profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income and accumulated in other components of equity.

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

When a financial asset carried at cost is considered to be impaired, an impairment loss for this financial asset is recognized and reduced directly from its carrying amount. Such impairment loss recognized is not reversed through profit or loss in subsequent periods.

Bad debt expenses and reversal of allowance for doubtful debts for trade receivables are recognized in general and administrative expenses while impairment losses and reversal of impairment for financial assets other than receivables are recognized under non-operating income and expenses.

(iii) De-recognition of financial assets

The Company derecognizes financial assets when the contractual rights of the cash inflow from the asset are terminated, or when the Company transfers substantially all the risks and rewards of ownership of the financial assets to another entity.

On de-recognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received or receivable and any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

b. Financial liabilities

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

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

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

The Company designates financial liabilities, other than the one mentioned above, as measured at fair value through profit or loss at initial recognition. Attributable transaction costs are recognized in profit or loss as incurred. Financial liabilities in this category are subsequently measured at fair value and changes therein, which takes into account any interest expense, are recognized in profit or loss and presented under non-operating income and expenses.

(b) Other financial liabilities

Financial liabilities not classified as held for trading, or not designated as measured at fair value through profit or loss (including loans and borrowings, trade and other payables), are measured at fair value, plus any directly attributable transaction cost at the time of initial recognition. Subsequent to initial recognition, they are measured at amortized cost calculated using the effective interest method, except for insignificant recognition of interest expense from short-term borrowings and trade payables. Interest expense not capitalized as an asset cost is recognized in profit or loss and presented under non-operating income and expenses.

(ii) De-recognition of financial liabilities

The Company derecognizes financial liabilities when the contractual obligation has been discharged, cancelled or expired. The difference between the carrying amount and the consideration paid or payable, including any non-cash assets transferred or liabilities assumed is recognized in profit or loss and presented under non-operating income and expenses.

(iii) Offsetting of financial assets and liabilities

The Company presents financial assets and liabilities on a net basis when the Company has the legally enforceable rights to offset, and intends to settle such financial assets and liabilities on a net basis or to realize the assets and settle the liabilities simultaneously.

c. Derivative financial instruments and hedge accounting

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

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

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

(8) Inventories

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

(9) Noncurrent assets held for sale

Noncurrent assets are classified as held for sale when their carrying amounts are expected to be recovered primarily through sale rather than through continuing use. Such noncurrent assets must be available for immediate sale in their present condition and the sale is highly probable within one year. When classified as held for sale, the assets are measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on initial classification as held for sale and subsequent gains or losses on re-measurement are recognized in profit or loss. However, subsequent gains are not recognized in excess of the cumulative impairment loss that has been recognized.

When intangible assets and property, plant and equipment are classified as held for sale, they are no longer amortized or depreciated. In addition, once an equity-accounted investee is classified as held for sale, it is no longer equity accounted.

(10) Investments in associates

Associates are those entities in which the Company has the power to exercise significant influence, but not control or joint control, over their financial and operating policies.

Investments in associates are accounted for using the equity method and are recognized initially at cost. The cost of the investment includes transaction costs. The carrying amount of the investment in associates includes goodwill, which is arising from the acquisition, less any accumulated impairment losses.

The difference between acquisition cost and fair value of associates' identifiable assets and liabilities as of the acquisition date is accounted for as goodwill. Goodwill is included in the original investment cost of acquired associates and is not amortized. If the fair value of identified assets and liabilities is in excess of acquisition cost, the remaining excess over acquisition cost is recognized as a gain in profit or loss.

If an equity security is not acquired through cash, that is, by providing services or other assets, then the fair value of such security or the fair value of the services or assets surrendered, whichever is more objectively determinable, is the purchase price of the security. If an equity investment of associates is acquired by providing subsequent services and the cost is determined based on the fair value of such services, the Company defers and recognizes revenue using a reasonable amortization method over the future period when the service is rendered.

The consolidated financial statements include the Company's share of the profit or loss and other comprehensive income of associates, after adjustments to align the accounting policies with those of the Company, from the date that significant influence commences until the date that significant influence ceases. When an associate incurs changes in its equity not derived from profit or loss and other comprehensive income, the Company recognizes all the equity changes in proportion to its ownership interest in the associate as capital surplus provided that the ownership interest in the associate remain unchanged.

The Company discontinues the use of the equity method from the date when the Company ceases to have significant influence over an associate, and then measures the retained interests at fair value at that date. The difference between the carrying amount of the investment at the date the equity method was discontinued and the fair value of the retained interests along with any proceeds from disposing of a part interest in the associate is recognized in profit or loss. Moreover, the Company accounts for all amounts previously recognized in other comprehensive income in relation to that investment on the same basis as would be required if the associate had directly disposed of the related assets or liabilities. If the Company's ownership interest in an associate is reduced, but the Company continues to apply the equity method, the Company shall reclassify to profit or loss the proportion of the gain or loss that had previously been recognized in other comprehensive income relating to that reduction in ownership interest on the same basis as mentioned above.

If an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the Company continues to account for the investment using equity method and does not remeasure the interest previously held.

When the Company subscribes to additional shares in an associate at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Company's proportionate interest in the net assets of the associate. The Company records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus. If the capital surplus arising from investment accounted for under the equity method in associates is insufficient to offset with the said corresponding amount, the differences will be charged or credited to retained earnings. If the Company's ownership interest is reduced due to circumstances as mentioned above, the proportionate amount of the gains or losses previously recognized in other comprehensive income relating to that associate or joint venture shall be reclassified to profit or loss on the same basis as would be required if the associate or joint venture had directly disposed of the related assets or liabilities.

At the end of each reporting period, if there is any indication of impairment, the entire carry amount of the investment including goodwill is tested for impairment as a single asset, by comparing its recoverable amount with its carrying amount. An impairment loss recognized forms part of the carrying amount of the investment in associates. Accordingly, any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

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

When the Company's share of losses exceeds its interest in an associate, the carrying amount of that interest, including any long-term investments that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Company has a legal or contractual obligation, or has made payments on behalf of the investee.

(11) Investments in joint ventures

Joint venture is a joint arrangement whereby the Company and other parties agreed to share the control of the arrangement, and have rights to the net assets of the arrangement. Unanimous consent from the parties sharing control is required when decisions about the relevant activities of the arrangement. Investments in joint venture are accounted for in the Company's consolidated financial statements under the equity method.

(12) Investment property

Investment property is the property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost on initial recognition. Subsequent to initial recognition, investment properties are measured at initial acquisition cost less any subsequent accumulated depreciation. Depreciation methods, useful lives and residual values are in accordance with the policy of property, plant and equipment. Cost includes expenditure that is directly attributable to the acquisition of the investment property.

An investment property is reclassified to property, plant and equipment at its carrying amount when the use of the investment property changes.

(13) Property, plant and equipment

a. Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributed to the acquisition of the asset, any cost directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, and any borrowing cost that is eligible for capitalization. The cost of the software is capitalized as part of the equipment if the purchase of the software is necessary for the equipment to be capable of operating.

When part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item and the useful life or the depreciation method of the significant part is different from another significant part of that same item, it is accounted for as a separate item (significant component) of property, plant and equipment.

The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, and is recognized in profit or loss.

b. Subsequent costs

Subsequent expenditure is capitalized only when it is probable that the future economic benefits associated with the expenditure will flow to the Company and the cost of the item can be measured reliably. Ongoing repairs and maintenance is recognized in profit or loss as incurred.

c. Depreciation

Excluding land, depreciation is provided over the estimated useful lives of the respective assets, considering significant components of an individual asset, on a straight-line basis less any residual value. If a component has a useful life that is different from the remainder of that asset, that component is depreciated separately. The depreciation charge is recognized in profit or loss.

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

The estimated useful lives of the assets, except for land are as follows:

- (i) Buildings: 20~50 years
- (ii) Machinery and equipment: 3~10 years
- (iii) Other equipment: 3~6 years

Depreciation methods, useful lives, and residual values are reviewed at each annual reporting date and, if necessary, adjusted as appropriate. Any changes therein are accounted for as changes in accounting estimates.

d. Reclassification to investment property

A property is reclassified to investment property at its carrying amount when the use of the property changes from owner-occupied to investment purpose.

(14) Long-term prepaid rent

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

(15) Leases

a. Lessor

Lease income from an operating lease is recognized in profit or loss on a straight-line basis over the lease term. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and recognized as an expense on a straight-line basis over the lease term.

b. Lessee

Payments made under operating lease (excluding insurance and maintenance expenses) are recognized in profit or loss on a straight-line basis over the term of the lease.

(16) Intangible assets

a. Goodwill

Goodwill is recognized when the purchase price exceeds the fair value of identifiable net assets acquired in a business combination. Goodwill is measured at cost less accumulated impairment losses.

Investor-level goodwill is included in the carrying amounts of the equity investments. The impairment losses for the goodwill within the equity-accounted investees are accounted for as deductions of carrying amounts of investments in equity-accounted investees.

b. Research and development

During the research phase, activities are carried out to obtain and understand new scientific or technical knowledge. Expenditures during this phase are recognized in profit or loss as incurred.

Expenditure arising from development is capitalized as an intangible asset when the Company demonstrates all of the following:

- (i) the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- (ii) its intention to complete the intangible asset and use or sell it;
- (iii) its ability to use or sell the intangible asset;

- (iv) the probability that the intangible asset will generate probable future economic benefits;
- (v) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- (vi) its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Development expenditure which fails to meet the criteria for recognition as an intangible asset is reflected in profit or loss when incurred. Capitalized development expenditure is measured at cost less accumulated amortization and any accumulated impairment losses.

c. Other intangible assets

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

d. Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

e. Amortization

The depreciable amount of an intangible asset is the cost less its residual value. Other than goodwill and intangible assets with indefinite useful life, an intangible asset with a finite useful life is amortized over 3 to 20 years using the straight-line method from the date that the asset is made available for use. The amortization charge is recognized in profit or loss.

The residual value, amortization period, and amortization method are reviewed at least annually at each annual reporting date, and any changes therein are accounted for as changes in accounting estimates.

(17) Impairment – non-financial assets

Other than inventories, deferred tax assets and noncurrent assets held for sale, the carrying amounts of the Company’s investment property measured at cost and long-term non-financial assets (property, plant and equipment and other intangible assets with finite useful lives), are reviewed at the reporting date to determine whether there is any indication of impairment. When there is an indication of impairment exists for the aforementioned assets, the recoverable amount of the asset is estimated. If it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit (“CGU”) to which the asset has been allocated to.

In performing an impairment test for the aforementioned assets, the estimated recoverable amount is evaluated in terms of an asset or a CGU. Any excess of the carrying amount of the asset or its related CGU over its recoverable amount is recognized as an impairment loss. The recoverable amount of an asset or a CGU is the higher of its fair value less costs of disposal and its value in use.

If there is evidence that the accumulated impairment loss of an asset other than goodwill and intangible assets with indefinite useful lives in prior years no longer exists or has diminished, the amount previously recognized as an impairment loss is reversed, and the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount. The increase in the carrying amount shall not exceed the carrying amount (net of depreciation or amortization) had no impairment loss been recognized for the asset in prior years.

For goodwill and intangible assets with indefinite useful lives or that are not yet available for use, are required to be tested for impairment at least annually. Any excess of the carrying amount of the asset over its recoverable amount is recognized as an impairment loss.

Goodwill acquired in a business combination is allocated to CGUs that are expected to benefit from the synergies of the combination. Impairment losses recognized in respect of a CGU are allocated first to reduce the carrying amount of any goodwill allocated to the unit, then the carrying amounts of the other assets in the unit on a pro rata basis. The impairment loss recognized on goodwill and intangible assets with indefinite useful lives is not reversed.

(18) Provisions

A provision is recognized for a legal or constructive obligation arising from a past event, if there is probable outflow of resources and the amount can be estimated reliably. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as interest expense.

a. Warranties

A provision for warranties is recognized when the underlying products or services are sold. The provision is weighting factors based on historical experience of warranty claims rate and other possible outcomes against their associated probabilities.

b. Decommissioning obligation

The Company is subject to decommissioning obligations related to certain items of property, plant and equipment. Such decommissioning obligations are primarily attributable to clean-up costs, including deconstruction, transportation, and recover costs. The unwinding of the discount based on original discount rate is recognized in profit or loss as interest expense over the periods with corresponding increase in the carrying amounts of the accrued decommissioning costs. The carrying amount of the accruals at the end of the assets' useful lives is the same as the estimated decommissioning costs.

c. Onerous contracts

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of

continuing with the contract. Before a provision is established, the Company recognizes any impairment loss on the assets associated with that contract.

d. Loss contingencies

Provision for loss contingencies arising from claims, assessments, litigation, fines, and penalties and other sources are recognized when it is probable the present obligation as a result of a past event will result in an outflow of resources and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred. Management periodically assesses the obligation of all litigation and claims and relative legal costs.

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

(19) Revenue recognition

a. Goods sold

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognized when the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized.

The timing of the transfers of risks and rewards varies depending on the individual terms of the sales agreement.

b. Government grants

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

(20) Employee benefits

a. Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

b. Defined benefit plans

The Company's net obligation in respect of defined benefit pension plans is calculated separately for each benefit plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets. Discount rate is determined by reference to the yield rate of Taiwan government bonds at the reporting date. The calculation of defined benefit obligations is performed annually by a qualified actuary using the Projected Unit Credit Cost Method.

Remeasurements of the net defined benefit liability (asset) which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized in other comprehensive income in the period in which they occur, and which then are reflected in retained earnings and will not be reclassified to profit or loss.

c. Short-term employee benefits

Short-term employee benefit obligations, which are due to be settled within twelve months are measured on an undiscounted basis and are expensed as the related service is provided.

The expected cost of cash bonus or profit-sharing plans, which is anticipated to be paid within one year, are recognized as a liability when the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(21) Share-based payment arrangements

The compensation cost of employee share-based payment arrangements is measured based on the fair value at the date on which they are granted. The compensation cost is recognized, together with a corresponding increase in equity, over the periods in which the performance and/or service conditions are being fulfilled. The cumulative expense recognized for share-based payment arrangements at each reporting date reflects the extent to which the vesting period has passed and the Company's estimate of the quantity of equity instruments that will ultimately vest.

For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions, and there is no true-up for differences between expected and actual outcomes.

(22) Income taxes

Income tax expense comprises current and deferred taxes.

a. Current taxes

Current taxes comprise the expected tax payable or receivable on the taxable income or losses for the year and any adjustments to tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted tax rate at the reporting date.

In accordance with the ROC Income Tax Act, undistributed earnings from the companies located in the Republic of China, if any, is subject to an additional 10% surtax. The 10% tax on unappropriated earnings is expensed in the year the shareholders approved the distributions which is the year subsequent to the year the earnings arise.

b. Deferred taxes

Deferred taxes are recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax liabilities are recognized for temporary difference of future taxable income. Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent it is probable that future taxable profits will be available against which they can be utilized.

Deferred tax assets are reviewed at each reporting date, by considering nature of industry cycles, statutory tax deduction years and projected future taxable income, and reduced to the extent that it is no longer probable that future taxable profits will be available to allow all or part of the deferred tax asset to be recovered. Deferred tax assets which originally not recognized is also reviewed at each reporting date and recognized to the extent that it is probable that future taxable profits will be available to allow all or part of the deferred tax asset to be recovered.

Deferred taxes liabilities are recognized for taxable temporary differences related to investments in subsidiaries, associates and joint arrangements, however, if the Company is able to control the timing of the reversal of the taxable temporary differences and it is probable that they will not reverse in the foreseeable future, deferred taxes are not recognized.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when the reverse, using tax rates enacted or substantively enacted tax rate on the reporting date. Deferred tax assets and liabilities are offset only if certain criteria are met.

Current taxes and deferred taxes are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive income.

(23) Business combinations

The Company accounts for business combinations using the acquisition method. The consideration transferred in the acquisition is measured at fair value, as are identifiable net assets acquired. Goodwill is measured as the excess of the aggregate of the consideration transferred and the amount of any non-controlling interests in the acquiree over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, after reassessing all of the assets acquired and all of the liabilities assumed being properly identified, the difference is recognized in profit or loss as a gain on bargain purchase.

Acquisition-related costs are expensed as incurred, except that the costs are related to the issue of debt or equity securities.

Each identifiable asset and liability is measured at its acquisition-date fair value. Non-controlling interests in an acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership instruments' proportionate share in the recognized amounts of the acquiree's net identifiable assets. All other components of non-controlling interests shall be measured at their acquisition-date fair values, unless another measurement basis is required by TIFRSs.

(24) Earnings (loss) per share

Basic earnings (loss) per share is computed by dividing profit or loss attributable to the shareholders of AUO by the weighted-average number of common shares outstanding during the period. In computing diluted earnings per share, profit or loss attributable to the shareholders of AUO and the weighted-average number of common shares outstanding during the period are adjusted for the effects of dilutive potential common stock, assuming dilutive share equivalents had been issued.

The weighted-average outstanding shares are retroactively adjusted for the effects of stock dividends transferred from retained earnings and capital surplus to common stock.

(25) Operating segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenue and incur expenses (including revenues and expenses relating to transactions with other components of the same entity). Operating results are reviewed regularly by the Company's chief operating decision maker ("CODM") to make decisions pertaining to the allocation of resources to the segment and to assess its performance. Meanwhile, discrete financial information for operating results is available.

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

The preparation of the consolidated financial statements in conformity with the Regulations and TIFRSs requires management to make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed by management on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments, estimates and assumptions in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

(1) Estimate of provisions

Provision for warranty is estimated when product revenue is recognized. The estimate has been made based on the quantities within the warranty period, the historical and anticipated warranty claims rate associated with similar products and services, and the projected unit cost of maintenance. The Company regularly reviews the basis of the estimate and if necessary, amends it as appropriate. There could be a significant impact on provision for warranty for any changes of the basis of the estimate.

Provision for unsettled litigation and claims is recognized when it is probable that it will result in an outflow of the Company's resources and the amount can be reasonably estimated. While the ultimate resolution of litigation and claims cannot be predicted with certainty, the final outcome or the actual cash outflow may be materially different from the estimated liability.

(2) Impairment of long-term non-financial assets, other than goodwill

In the process of evaluating the potential impairment of tangible and intangible assets other than goodwill, the Company is required to make subjective judgments in determining the independent cash flows, useful lives, expected future income and expenses related to the specific asset groups with the consideration of the nature of industry. Any changes in these estimates based on changed economic conditions or business strategies could result in significant impairment charges or reversal in future years.

(3) Impairment of goodwill

The assessment of impairment of goodwill requires the Company to make subjective judgment to determine the identified CGUs, allocate the goodwill to relevant CGUs and estimate the recoverable amount of relevant CGUs.

(4) Measurement of defined benefit obligations

Accrued pension liabilities and the resulting pension expenses under defined benefit pension plans are calculated using the Projected Unit Credit Cost Method. Actuarial assumptions comprise the discount rate, rate of employee turnover, long-term average future salary increase, etc. Changes in economic circumstances and market conditions will affect these assumptions and may have a material impact on the amount of the expense and the liability.

(5) Recognition of deferred tax assets

Deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which those deferred tax assets can be utilized. Assessment of the realization of the deferred tax assets requires management's subjective judgment and estimate, including the future revenue growth and profitability, the sources of taxable income, the amount of tax credits can be utilized and feasible tax planning strategies. Changes in the economic environment, the industry trends and relevant laws and regulations may result in adjustments to the deferred tax assets.

(6) Estimate of allowance for sales returns and discounts

The Company estimates future sales returns and other allowances in the same period the related revenue is recognized. Estimated sales returns and other allowances are generally made and adjusted based on historical experience, management's judgment and any known factors that would significantly affect the allowance, and management periodically reviews the reasonableness of the estimates.

(7) Valuation of inventories

As inventories are stated at the lower of cost or net realizable value, the Company estimates the net realizable value of inventories for obsolescence and unmarketable items at the end of reporting period and then writes down the cost of inventories to net realizable value. The net realizable value of the inventory is mainly determined based on assumptions of future demand within a specific time horizon. Due to the rapid industrial transformation, there may be significant changes in the net realizable value of inventories.

6. Description of Significant Accounts

(1) Cash and Cash Equivalents

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

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

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

(2) Derivative Financial Instruments and Hedging Instruments

a. Derivative Financial Instruments

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

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

As of December 31, 2017 and 2016, outstanding foreign currency forward contracts were as follows:

December 31, 2017		
Contract item	Maturity date	Contract amount (in thousands)
Sell USD / Buy NTD	Jan. 2018 – Feb. 2018	USD213,100 / NTD6,377,672
Sell USD / Buy JPY	Jan. 2018 – Jun. 2018	USD304,926 / JPY34,092,055
Sell USD / Buy CNY	Jan. 2018 – Apr. 2018	USD137,000 / CNY903,800
Sell EUR / Buy JPY	Jan. 2018 – Feb. 2018	EUR65,000 / JPY8,691,815
Sell EUR / Buy CZK	Jan. 2018 – Mar. 2018	EUR3,280 / CZK83,502
Sell USD / Buy MYR	Jan. 2018 – Mar. 2018	USD931 / MYR3,811
Sell JPY / Buy NTD	Jan. 2018	JPY10,000,000 / NTD2,654,220
Sell CNY / Buy JPY	Jan. 2018 – Apr. 2018	CNY86,623 / JPY1,443,259
Sell USD / Buy SGD	Jan. 2018	USD5,480 / SGD7,366

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

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

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

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

b. Hedge accounting

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

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

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

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

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

Available-for-sale securities held by the Company were publicly listed equity shares, if the share price of these securities appreciates or depreciates by 10% at the reporting date, other comprehensive income would increase or decrease \$417,032 thousand and \$283,670 thousand for the years ended December 31, 2017 and 2016, respectively.

(4) Financial Assets Carried at Cost—noncurrent

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

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

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

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

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

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

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

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

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

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

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

December 31, 2017				
Underwriting bank	Factoring limit	Amount advanced (in thousands)	Amount sold and derecognized	Principle terms
Chinatrust Commercial Bank	USD200,000	-	-	See notes(a)~(c) and (e)
Taishin Bank	USD80,000	-	-	See notes(a)~(c) and (e)
Bank of Taiwan	USD250,000	-	-	See notes(a)~(c) and (e)
Taipei Fubon Bank	USD120,000	-	-	See notes(a)~(c) and (e)
E. Sun Bank	USD50,000	-	-	See notes(a)~(c) and (e)
DBS Bank	USD154,000	-	-	See notes(a)~(c) and (e)
Taishin Bank	USD35,000	-	USD6,382	See notes(a)~(d) and (f)
December 31, 2016				
Underwriting bank	Factoring limit	Amount advanced (in thousands)	Amount sold and derecognized	Principle terms
Chinatrust Commercial Bank	USD230,000	-	-	See notes(a)~(c) and (e)
Taishin Bank	USD80,000	-	-	See notes(a)~(c) and (e)
Bank of Taiwan	USD250,000	-	-	See notes(a)~(c) and (e)
Taipei Fubon Bank	USD120,000	-	-	See notes(a)~(c) and (e)
E. Sun Bank	USD100,000	-	-	See notes(a)~(c) and (e)
DBS Bank	USD184,000	-	-	See notes(a)~(c) and (e)
Taishin Bank	USD35,000	-	USD8,780	See notes(a)~(d) and (f)

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

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

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

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

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

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

(6) Inventories

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

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

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

(7) Noncurrent Assets Held for Sale

In December 2016, M.Setek decided to dispose part of its land and buildings to TAKEEI Corporation and other companies, and has reclassified certain of these assets for reclassification as noncurrent assets held for sale in the consolidated balance sheet as of December 31, 2016. Disposal transactions of aforementioned land and buildings were completed between March 2017 to August 2017. The selling price (net of costs of disposal) and gain on disposal were \$837,103 thousand and \$215,478 thousand, respectively.

In October 2017, in relation to compulsory imposition under regulatory plan and urban construction plan, FTKS has entered into a compensation agreement with Kunshan Economic and Technology Development District to dispose its land use right, plant buildings and related appendages with consideration amounting to RMB215,527 thousand. The relevant procedures are expected to be completed within twelve months.

In December 2017, in relation to asset revitalization plan and to increase working capital, BVHF has entered into a real estate transfer agreement with Hefei Heng Chuang Intelligent Technology Co., Ltd. to dispose its land use right, plant buildings and related appendages with consideration amounting to RMB512,770 thousand. The relevant procedures are expected to be completed within twelve months.

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

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

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

(8) Investments in equity-accounted Investees

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

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

a. Associates

Name of associate	Principal activities	Principal place of business	December 31, 2017		December 31, 2016	
			Amount (in thousands)	Ownership interest %	Amount (in thousands)	Ownership interest %
Lextar Electronics Corp. ("Lextar")	Manufacturing and sales of Light Emitting Diode	Taiwan ROC	\$3,104,955	27	\$3,082,856	25
Raydium Semiconductor Corporation ("Raydium")	IC design	Taiwan ROC	678,908	18	712,829	18
Star River Energy Corp. ("SREC")	Holding company	Taiwan ROC	533,840	34	531,805	34
Daxin Materials Corp. ("Daxin")	Research, manufacturing, and sales of display related chemicals	Taiwan ROC	573,571	25	525,835	25
SSEC	Holding company	Taiwan ROC	369,153	37	-	-
Others			<u>26,060</u>		<u>-</u>	
			<u>\$ 5,286,487</u>		<u>\$4,853,325</u>	

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

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

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

b. Joint ventures

AUO, through its subsidiary AUSG, entered into a joint venture agreement with SunPower Technology, Ltd. (“SPTL”) which is 100% owned by SunPower Corporation. In accordance with the joint venture agreement, the Company acquired its 50% ownership interests of AUO SunPower Sdn. Bhd. (“AUSP”) on July 5, 2010 (co-investment date) by contributing technology with an estimated fair value of US\$30,000 thousand and agreed to contribute additional cash over time. The total cash payments made by the Company amounted to US\$180,069 thousand. In September 2016, AUSG disposed of its entire 50% interest in AUSP to SPTL for total selling price of \$5,408,546 thousand (US\$170,100 thousand) in cash and recognized a loss on disposal, net of tax, amounting to \$382,608 thousand. The selling price will be settled with repayment of installments over the years. As of December 31, 2017 and 2016, the outstanding selling price amounting to US\$61,100 thousand, which will be received in cash at US\$1,100 thousand, US\$30,000 thousand and US\$30,000 thousand in year 2018, 2019 and 2020, respectively, are classified under other current assets and other noncurrent assets, respectively, by its liquidity.

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

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

	For the years ended	
	December 31,	
	2017	2016
	(in thousands)	
The Company’s share of:		
Profit (loss) for the year	\$ (12,693)	82,134
Other comprehensive loss for the year	<u>-</u>	<u>(314,710)</u>
Total comprehensive loss for the year	<u>\$ (12,693)</u>	<u>(232,576)</u>

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

(9) Disposal of Part of Ownership Interest in Subsidiary without Losing Control

In November 2017, the Company disposed its ownership interest in DPTW totaling of 9.99% with consideration (net of costs of disposal) amounting to \$1,776,984 thousand in cash. The effect of changes in ownership interest of the subsidiary which is attributable to owners of the parent is summarized as follows:

	For the year ended December 31, 2017
	(in thousands)
Consideration received from non-controlling interests	\$ 1,776,984
Carrying value of the equity interest disposed of	(1,190,529)
Capital surplus – changes in ownership interest of subsidiary	(12,099)
Other Equity – effect from foreign currency translation differences arising from foreign operations	<u>(56,160)</u>
Capital surplus – differences between consideration and carrying amount arising from disposal of subsidiaries	<u>\$ 518,196</u>

(10) Disposal of Subsidiaries

The Company disposed all its shareholdings in FGPC and TGPC to SSEC, an associate of the Company, in December 2017 with consideration amounting to \$480,000 thousand in cash. The gain on disposal amounting to \$76,331 thousand was recognized under other gains and losses in the consolidated statement of comprehensive income.

The carrying amounts of the assets and liabilities of the subsidiaries disposed of by the Company were as follows:

	<u>Amounts</u>
	(In thousands)
Cash and cash equivalents	\$ 203,607
Accounts receivable and other receivables	4,513
Other current assets	38,649
Property, plant and equipment	260,828
Other assets	54,397
Payable for equipment	(71,076)
Accrued expense and other current liabilities	(3,062)
Long-term borrowings	<u>(84,187)</u>
Net assets disposed of	<u>\$ 403,669</u>

(11) Property, Plant and Equipment

For the year ended December 31, 2017					
	Balance, Beginning of Year	Additions	Disposal or write off <small>(in thousands)</small>	Reclassification and effect of change in exchange rate	Balance, End of Year
Cost:					
Land	\$ 8,873,981	865,956	(675,811)	(55,467)	9,008,659
Buildings	130,595,844	433,269	(3,786,388)	(3,231,856)	124,010,869
Machinery and equipment	798,046,434	1,827,188	(14,844,436)	15,135,124	800,164,310
Other equipment	<u>32,419,736</u>	<u>4,140,108</u>	<u>(7,900,925)</u>	<u>700,229</u>	<u>29,359,148</u>
	<u>969,935,995</u>	<u>7,266,521</u>	<u>(27,207,560)</u>	<u>12,548,030</u>	<u>962,542,986</u>
Accumulated depreciation and impairment loss:					
Land	173,397	-	(54,186)	(119,211)	-
Buildings	36,028,301	3,216,571	(3,785,921)	(1,633,576)	33,825,375
Machinery and equipment	698,110,663	27,946,301	(14,694,674)	(4,027,879)	707,334,411
Other equipment	<u>26,154,173</u>	<u>5,655,026</u>	<u>(7,883,150)</u>	<u>(208,469)</u>	<u>23,717,580</u>
	<u>760,466,534</u>	<u>36,817,898</u>	<u>(26,417,931)</u>	<u>(5,989,135)</u>	<u>764,877,366</u>
Prepayments for purchase of land and equipment, and construction in progress	<u>13,272,371</u>	<u>36,289,529</u>	<u>(29,206)</u>	<u>(22,265,225)</u>	<u>27,267,469</u>
Net carrying amounts	\$ <u>222,741,832</u>				<u>224,933,089</u>
For the year ended December 31, 2016					
	Balance, Beginning of Year	Additions	Disposal or write off <small>(in thousands)</small>	Reclassification and effect of change in exchange rate	Balance, End of Year
Cost:					
Land	\$ 9,112,286	-	(14,455)	(223,850)	8,873,981
Buildings	122,156,354	1,086	(580,089)	9,018,493	130,595,844
Machinery and equipment	779,019,328	2,424,626	(24,033,087)	40,635,567	798,046,434
Other equipment	<u>34,248,005</u>	<u>4,532,365</u>	<u>(6,462,949)</u>	<u>102,315</u>	<u>32,419,736</u>
	<u>944,535,973</u>	<u>6,958,077</u>	<u>(31,090,580)</u>	<u>49,532,525</u>	<u>969,935,995</u>
Accumulated depreciation and impairment loss:					
Land	184,889	-	(14,487)	2,995	173,397
Buildings	32,791,946	3,107,870	(132,589)	261,074	36,028,301
Machinery and equipment	694,955,031	30,329,428	(23,846,019)	(3,327,777)	698,110,663
Other equipment	<u>30,215,702</u>	<u>5,130,524</u>	<u>(6,430,868)</u>	<u>(2,761,185)</u>	<u>26,154,173</u>
	<u>758,147,568</u>	<u>38,567,822</u>	<u>(30,423,963)</u>	<u>(5,824,893)</u>	<u>760,466,534</u>
Prepayments for purchase of land and equipment, and construction in progress	<u>22,397,204</u>	<u>48,931,054</u>	<u>(29,246)</u>	<u>(58,026,641)</u>	<u>13,272,371</u>
Net carrying amounts	\$ <u>208,785,609</u>				<u>222,741,832</u>

As of December 31, 2017 and 2016, a non-irrigated farmland located in LongTan plant amounted to \$23,671 thousand was registered in the name of a farmer due to regulations. An agreement of pledge had been signed between the Company and the farmer clarifying the rights and obligations of each party.

In 2017, the Company wrote down certain machineries and equipment with low utilization resulting from the decline in the application for certain products associated with its display segment and recognized an impairment loss of \$895,954 thousand.

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

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

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

(12) Investment Property

	For the year ended December 31, 2017				Balance, End of Year
	Balance, Beginning of Year	Additions	Disposal	Reclassification and effect of change in exchange rate	
					(in thousands)
Land	\$ <u>465,868</u>	<u>-</u>	<u>-</u>	<u>251,955</u>	<u>717,823</u>
Fair Value	\$ <u>1,402,040</u>				<u>2,213,184</u>
	For the year ended December 31, 2016				Balance, End of Year
	Balance, Beginning of Year	Additions	Disposal	Reclassification and effect of change in exchange rate	
					(in thousands)
Land	\$ <u>465,868</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>465,868</u>
Fair Value	\$ <u>1,145,098</u>				<u>1,402,040</u>

In relation to the cessation of polysilicon production, M.Setek leased part of its lands to third party in 2017, and has reclassified those lands amounting to \$251,955 thousand from property, plant and equipment to investment property.

The fair value of investment property is based on a valuation performed by a qualified independent appraiser who holds a recognized and relevant professional qualification and has recent valuation experience in the location and category of the investment property being valued. The valuation is performed using income approach, market valuation approach and land development analysis approach with reference to available market information.

Income approach determines the fair value of the investment property based on the projected cash flows from the Company's estimated future rentals collected and discounted using the capitalization rate of the property. Market valuation approach is through comparison, analysis, adjustment and other means of value for comparable properties to estimate the value of the investment property. Land development analysis approach determine the fair value of investment property based on the value prior to development or construction, after deducting the direct cost, indirect cost, capital interest and profit during the development period, and also consider total sales price of properties after completion of development or construction. It also incorporates the possibility of changes in utility of land through development or improvement in accordance with legal use and density of the land.

The significant inputs in valuation techniques used are set out below:

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

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

(13) Intangible Assets

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

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

For the purpose of impairment test, the following table shows the information of the operating business that the Company's goodwill allocating to.

	December 31,	
	2017	2016
(in thousands)		
Display business	<u>\$ 11,280,595</u>	<u>11,280,595</u>

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

The key assumptions used in the estimation of the recoverable amount are discount rate and terminal growth rate. The annual discount rates for the year 2017 and 2016 are 11.35% and 11.70%, respectively, based on industry weighted average cost of capital. The cash flow forecast is based on the financial budgets covering the future five-year period with terminal growth rates of negative 1% and 0% for the year 2017 and 2016, respectively. The key assumptions abovementioned represents the management's forecast of the future for the related industry by considering the history information from internal and external sources.

Based on the impairment assessments for the years ended December 31, 2017 and 2016, no impairment losses were recognized as the recoverable amount of cash-generating unit was higher than its carrying value.

(14) Other Current Assets and Other Noncurrent Assets

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

(15) Short-term Borrowings

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

(16) Long-term Borrowings

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

The Company entered into the aforementioned long-term loan arrangements with banks and financial institutions to finance capital expenditures for purchase of machinery and equipment, and to fulfill working capital, as well as to repay the matured debts. A commitment fee is negotiated with the leading banks of syndicated loans, and is calculated based on the committed-to-withdraw but unused balance, if any. No commitment fees were paid for the year ended December 31, 2017.

These credit facilities contain covenants that require the Company to maintain certain financial ratios, calculating based on the Company's annual consolidated financial statements prepared in accordance with Taiwan Financial Reporting Standards, such as current ratio, leverage ratio, interest coverage ratio, tangible net worth and others as specified in the loan agreements. As of December 31, 2017 and 2016, the Company complied with all financial covenants under each of the loan agreements.

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

(17) Provisions

	<u>Warranties</u>	<u>Litigation and claims</u>	<u>Others</u>	<u>Total</u>
	(in thousands)			
Balance at January 1, 2017	\$ 1,528,898	1,027,328	265,445	2,821,671
Additions (Reversals)	315,760	90,945	4,346	411,051
Usage	(297,829)	(1,025,032)	-	(1,322,861)
Effect of change in exchange rate	<u>131</u>	<u>(3,721)</u>	<u>(20,308)</u>	<u>(23,898)</u>
Balance at December 31, 2017	1,546,960	89,520	249,483	1,885,963
Less: current	<u>(725,366)</u>	<u>(89,520)</u>	<u>(4,346)</u>	<u>(819,232)</u>
Noncurrent	<u>\$ 821,594</u>	<u>-</u>	<u>245,137</u>	<u>1,066,731</u>
Balance at January 1, 2016	\$ 1,819,519	4,018,880	297,937	6,136,336
Additions (Reversals)	(24,699)	597,325	(25,839)	546,787
Usage	(265,917)	(3,405,923)	-	(3,671,840)
Effect of change in exchange rate	<u>(5)</u>	<u>(182,954)</u>	<u>(6,653)</u>	<u>(189,612)</u>
Balance at December 31, 2016	1,528,898	1,027,328	265,445	2,821,671
Less: current	<u>(756,079)</u>	<u>(1,027,328)</u>	<u>-</u>	<u>(1,783,407)</u>
Noncurrent	<u>\$ 772,819</u>	<u>-</u>	<u>265,445</u>	<u>1,038,264</u>

a. Provisions for warranties

The provisions for warranties for the years ended December 31, 2017 and 2016 were estimated based on historical experience of warranty claims rate associated with similar products and services. The Company expects most warranty claims will be made within two years from the date of the sale of the product.

b. Provisions for litigation, claims and others

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

(18) Operating Leases

a. Lessees

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

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

AUO entered into various operating lease agreements for land with Hsinchu Science Park Administration Bureaus beginning from March 1, 1994 for a period of 20 years, with renewal option upon expiration. AUO had on July 2003 and November 2006, entered into various operating lease for land with Central Science Park Administration Bureaus for period from July 28, 2003 till December 31, 2023 and November 9, 2006 till December 31, 2025. All lease amounts are adjusted in accordance with the land value fixed by the government from time to time.

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

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

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

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

b. Lessor

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

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

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

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

(19) Employee Benefits

a. Defined benefit plans

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

M.Setek has established defined benefit pension plans providing for retirement benefits to retiring employees based on years of service, position, and certain other factors in accordance with the regulations of its country of establishment.

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

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

(i) Plan assets

AUO and DPTW contribute an amount based on a certain percentage of employees' total salaries paid every month to their respective pension funds (the "Funds"), which are administered by the Bureau of Labor Fund, Ministry of Labor and supervised by the Labor Pension Fund Supervisory Committee (the "Committee") and deposited in the Committee's name with Bank of Taiwan. Under the ROC Labor Standards Law, the minimum return on the plan assets should not be lower than the average interest rate on two-year time deposits published by the local banks. As of December 31, 2017, the Funds deposited in the Committee's name in the Bank of Taiwan amounted to \$2,213,018 thousand. Information on utilization of labor pension funds, including the yield rate of funds and the component of plan assets are available at the Bureau of Labor Funds, Ministry of Labor website.

Under the defined benefit plans in Japan, M.Setek is responsible to pay to employees when they are retired.

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

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

(iii) Movements in the fair value of plan assets

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

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

(iv) Expenses recognized in profit or loss

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

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

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

(vi) Principal actuarial assumptions

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

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

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

(vii) Sensitivity analysis

Reasonably possible changes at December 31, 2017 and 2016 to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below.

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

In practical, the relevant actuarial assumptions are correlated to each other. The approach to develop the sensitivity analysis as above is the same approach to recognize the net defined benefit liability in the balance sheet.

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

b. Defined contribution plans

Commencing July 1, 2005, pursuant to the ROC Labor Pension Act (the "Act"), employees who elected to participate in the Act or joined the Company after July 1, 2005, are subject to a defined contribution plan under the Act. Under the defined contribution plan, AUO and its subsidiaries located in the ROC contribute monthly at a rate of no less than six percent of an employee's monthly salary to the employee's individual pension fund account at the ROC Bureau of Labor Insurance. The Company's foreign subsidiaries have set up their retirement plans, if necessary, based on their respective local government regulations.

AUO and its subsidiaries in the ROC have set up defined contribution plans in accordance with the Act. For the years ended December 31, 2017 and 2016, these companies set aside \$1,003,063 thousand and \$936,923 thousand, respectively, of the pension costs under the pension plan to the ROC Bureau of the Labour Insurance. Except for the aforementioned companies, other foreign subsidiaries recognized pension expenses of \$892,109 thousand and \$1,127,958 thousand for the years ended December 31, 2017 and 2016, respectively, for the defined contribution plans based on their respective local government regulations.

(20) Capital and Other Components of Equity

a. Common stock

AUO's authorized common stock, with par value of \$10 per share, both amounted to \$100,000,000 thousand as at December 31, 2017 and 2016.

AUO's issued and outstanding common stock, with par value of \$10 per share, both amounted to \$96,242,451 thousand as at December 31, 2017 and 2016.

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

b. Capital surplus

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

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

According to the ROC Company Act, capital surplus, including premium from stock issuing and donations received, shall be applied to offset accumulated deficits before it can be used to issue common stock as stock dividends or distribute cash as cash dividends according to the proportion of shareholdings. Pursuant to the ROC Regulations Governing the Offering and Issuance of Securities by Securities Issuers, the total sum of capital surplus capitalized per annum shall not exceed 10 percent of the paid-in capital.

c. Legal reserve

According to the ROC Company Act, 10 percent of the annual earnings after payment of income taxes due and offsetting accumulated deficits, if any, shall be allocated as legal reserve until the accumulated legal reserve equals the paid-in capital. When a company incurs no loss, it may, pursuant to a resolution to be adopted by a shareholders' meeting, distribute its legal reserve by issuing new shares or by cash, only the portion of legal reserve which exceeds 25 percent of the paid-in capital may be distributed.

d. Distribution of earnings

In accordance with AUO's amended Articles of Incorporation approved in the annual shareholders' meeting held on June 15, 2017, where 10 percent of the annual earnings, after payment of income taxes due and offsetting accumulated deficits, if any, shall be set aside as a legal reserve until the accumulated legal reserve equals AUO's paid-in capital. In addition, a special reserve in accordance with applicable laws and regulations shall also be set aside. The remaining current-year earnings together with accumulated undistributed earnings from preceding years can be distributed after the earnings distribution plan proposed by the board of directors is approved by resolution of the shareholders' meeting.

AUO's dividend policy is to pay dividends from surplus considering factors such as AUO's current and future investment environment, cash requirements, domestic and overseas competitive conditions and capital budget requirements, while taking into account shareholders' interest, maintenance of balanced dividend and AUO's long-term financial plan. If the current-year retained earnings available for distribution reaches 2% of the paid-in capital of AUO, dividend to be distributed shall be no less than 20% of the current-year retained earnings available for distribution. If the current-year retained earnings available for distribution does not reach 2% of the paid-in capital of AUO, AUO may decide not to distribute dividend. The cash portion of the dividend, which may be in the form of cash and stock, shall not be less than 10% of the total dividend distributed during the year. The dividend distribution ratio aforementioned could be adjusted subject to shareholders' approval in annual shareholders' meeting after taking into consideration factors such as finance, business and operations, etc.

Pursuant to relevant laws or regulations or as requested by the local authority, total net balance of items which are accounted for as a reduction to the other components of shareholders' equity shall be set aside from current earnings as special reserve, and not for distribution. Subsequent decrease pertaining to items that are accounted for as a reduction to the other shareholders' equity shall be reclassified from special reserve to undistributed earnings.

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

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

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

AUO's appropriations of earnings for 2016 had been approved in the shareholders' meeting held on June 15, 2017. The appropriations and dividends per share were as follows:

	For fiscal year 2016	
	Appropriation of earnings	Dividends per share
	(in thousands, except for per share data)	
Legal reserve	\$ 781,894	
Cash dividends to shareholders	<u>5,389,577</u>	\$0.56
	<u>\$ 6,171,471</u>	

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

Information on the approval of board of directors and shareholders for AUO's appropriations of earnings are available at the Market Observation Post System website.

e. Other components of equity

	Cumulative translation differences	Unrealized gains (losses) on available-for- sale financial assets	Unrealized gains (losses) on cash flow hedges	Total
	(in thousands)			
Balance at January 1, 2017	\$ 536,819	224,299	18,254	779,372
Foreign operations – foreign currency translation differences	(1,882,545)	-	-	(1,882,545)
Effective portion of changes in fair value of cash flow hedges	-	-	(21,992)	(21,992)
Net change in fair value of available-for-sale financial assets	-	1,146,422	-	1,146,422
Equity-accounted investees – share of other comprehensive income	(68,637)	6,310	-	(62,327)
Related tax	<u>293,394</u>	<u>-</u>	<u>3,738</u>	<u>297,132</u>
Balance at December 31, 2017	\$ <u>(1,120,969)</u>	<u>1,377,031</u>	<u>-</u>	<u>256,062</u>
Balance at January 1, 2016	\$ 5,612,885	(539,653)	12,279	5,085,511
Foreign operations – foreign currency translation differences	(5,510,836)	-	-	(5,510,836)
Effective portion of changes in fair value of cash flow hedges	-	-	7,199	7,199
Net change in fair value of available-for-sale financial assets	-	769,410	-	769,410
Equity-accounted investees – share of other comprehensive income	(342,162)	(2,582)	-	(344,744)
Realized gain on sales of securities reclassified to profit or loss	(265,849)	(2,876)	-	(268,725)
Related tax	<u>1,042,781</u>	<u>-</u>	<u>(1,224)</u>	<u>1,041,557</u>
Balance at December 31, 2016	\$ <u>536,819</u>	<u>224,299</u>	<u>18,254</u>	<u>779,372</u>

f. Non-controlling interests, net of tax

	For the years ended December 31,	
	2017	2016
	(in thousands)	
Balance at the beginning of the year	\$ 18,390,483	22,651,183
Equity attributable to non-controlling interests:		
Loss for the year	(2,100,929)	(1,212,227)
Adjustment of changes in ownership of investees	(6,262)	(191,239)
Foreign currency translation differences	(355,700)	(1,867,168)
Remeasurement of defined benefit plans	201	(98)
Effect of disposal of interest in subsidiary to non-controlling interests	1,258,788	-
Effect of acquisition of non-controlling interests	-	37,036
Redemption of subsidiary treasury shares	-	(865,633)
Others	<u>(95,834)</u>	<u>(161,371)</u>
Balance at the end of the year	\$ <u>17,090,747</u>	<u>18,390,483</u>

(21) Share-based Payments

The Company's employee stock option plans were as follows:

a. DPTW Option Plan

DPTW 2011 Employee stock option plan was fully expired on January 6, 2017.

Information about DPTW's outstanding stock options is as follows:

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

b. ACTW Option Plan

- (i) The key terms and conditions related to the grants under ACTW's outstanding employee stock option plan were disclosed as follows:

	Grant date	Total number of options issued (units in thousands)	Contractual life of options	Exercisable period	Exercise price (per share)
2014 Employee stock option plan	Sep. 1, 2014	20	Sep.1, 2014 – Aug. 31, 2019	After Aug. 31, 2016	\$10

ACTW 2012 Employee stock option plan was fully expired on August 31, 2017.

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

- (iii) The fair value of the employee stock options granted by ACTW was measured at the dates of grant using the Binomial option pricing model. The valuation information was as follows:

	2014 Employee Stock Option Plan
Expected volatility	38.88%
Risk-free interest rate	1.1648%
Expected duration	5 years
Fair value at the grant date	NT\$0.20/per share

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

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

(22) Revenue

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

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

(23) Remuneration to Employees and Directors

According to AUO's Articles of Incorporation, AUO should distribute remuneration to employees and directors not less than 5% and not more than 1% of annual profits, respectively, after offsetting accumulated deficits, if any. Only employees, including employees of affiliate companies that meet certain conditions are subject to the abovementioned remuneration which to be distributed in stock or cash. The said conditions and distribution method are decided by board of directors or the personnel authorized by board of directors.

AUO accrued remuneration to employees based on the profit before income tax excluding the remuneration to employees and directors for each period, multiplied by the percentage resolved by board of directors. For the years ended December 31, 2017 and 2016, AUO estimated the remuneration to employees amounting to \$4,062,114 thousand and \$1,107,486 thousand, respectively. Remuneration to directors was estimated based on the amount expected to pay and recognized together with the remuneration to employees as cost of sales or operating expenses. If remuneration to employees is resolved to be distributed in stock, the number of shares is determined by dividing the amount of remuneration by the closing price of the shares (ignoring ex-dividend effect) on the day preceding the board of directors' meeting. If there is a change in the proposed amounts after the annual consolidated financial statements are authorized for issue, the differences are accounted for as a change in accounting estimate and adjusted prospectively to next year's profit or loss.

Remuneration to employees and directors for 2016 in the amounts of \$1,107,486 thousand and \$24,226 thousand, respectively, in cash for payment had been approved in the meeting of board of directors held on March 22, 2017. The aforementioned approved amounts are the same as the amounts charged against earnings of 2016.

Remuneration to employees and directors for 2015 in the amounts of \$665,815 thousand and \$13,316 thousand, respectively, in cash for payment had been approved in the meeting of board of directors held on March 10, 2016. The aforementioned approved amounts are the same as the amounts charged against earnings of 2015.

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

(24) Additional Information of Expenses by Nature

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

(25) Other Income

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

(26) Other Gains and Losses

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

(27) Finance Costs

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

(28) Income Taxes

The Company cannot file a consolidated tax return under local regulations. Therefore, AUO and its subsidiaries calculate their income taxes liabilities individually on a stand-alone basis using the enacted tax rates in their respective tax jurisdictions.

a. Income tax expenses

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

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

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

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

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

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

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

b. Deferred tax assets and liabilities

Deferred tax assets had not been recognized were as follows:

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

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

Tax loss carryforwards is utilized in accordance with the relevant jurisdictional tax laws and regulations. Net losses from foreign subsidiaries are approved by tax authorities in respective jurisdiction to offset future taxable profits. Under the ROC tax laws, approved tax losses of AUO and its domestic subsidiaries can be carried forward for 10 years to offset future taxable profits.

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

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

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

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

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

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

c. Assessments by the tax authorities

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

d. The integrated income tax system

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

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

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

(29) Earnings per Share

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

(30) Financial Instruments

a. Fair value and carrying amount

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

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

	December 31, 2017		December 31, 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in thousands)			
Financial assets:				
Financial assets at fair value through profit or loss:				
Foreign currency forward contracts	\$ 70,366	70,366	65,669	65,669
Available-for-sale financial assets—noncurrent	4,170,319	4,170,319	2,836,696	2,836,696
Loans and receivables:				
Long-term receivables	1,790,400	1,790,400	1,974,271	1,974,271
Refundable deposits	515,148	515,148	133,221	133,221
Financial liabilities:				
Financial liabilities at fair value through profit or loss:				
Foreign currency forward contracts	106,597	106,597	896,998	896,998
Derivative financial liabilities for hedging:				
Interest rate swap contracts	-	-	3,540	3,540

	<u>December 31, 2017</u>		<u>December 31, 2016</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
	(in thousands)			
Financial liabilities measured at amortized cost:				
Long-term borrowings (including current installments)	110,608,010	110,608,010	124,262,620	124,262,620
Guarantee deposits received	838,482	838,482	838,263	838,263

b. Valuation techniques and assumptions applied in fair value measurement

The fair values of financial assets and financial liabilities with standard terms and conditions and traded in active markets are determined with reference to quoted market prices. The fair values of other financial assets and financial liabilities without quoted market prices are estimated using valuation approach. The estimates and assumptions used are the same as those used by market participants in the pricing of financial instruments.

Fair value of foreign currency forward contract is measured based on the maturity date of each contract with quoted spot rate and quoted swap points from Reuters quote system. Fair value of interest rate swap contract is measured based on reasonable valuation model and assumptions with reference to market valuation information provided by counterparties, i.e. financial institutions.

Fair value of long-term receivable is determined by discounting the expected cash flows at a market interest rate.

The refundable deposits and guarantee deposits received are based on carrying amount as there is no fixed maturity.

The fair value of floating-rate long-term borrowings approximates to their carrying value.

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

c. Fair value measurements recognized in the consolidated balance sheets

The Company determines fair value based on assumptions that market participants would use in pricing an asset or a liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels:

- (i) Level 1 inputs: Unadjusted quoted prices for identical assets or liabilities in active markets.
- (ii) Level 2 inputs: Other than quoted prices included within Level 1, inputs are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- (iii) Level 3 inputs: Derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value measurement level of an asset or a liability within their fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The Company uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	(in thousands)			
December 31, 2017				
Financial assets at fair value through profit or loss:				
Foreign currency forward contracts	\$ -	70,366	-	70,366
Available-for-sale financial assets—noncurrent	4,170,319	-	-	4,170,319
Loans and receivables:				
Long-term receivables	-	1,790,400	-	1,790,400
Financial liabilities at fair value through profit or loss:				
Foreign currency forward contracts	-	106,597	-	106,597
December 31, 2016				
Financial assets at fair value through profit or loss:				
Foreign currency forward contracts	-	65,669	-	65,669
Available-for-sale financial assets—noncurrent	2,836,696	-	-	2,836,696
Loans and receivables:				
Long-term receivables	-	1,974,271	-	1,974,271
Financial liabilities at fair value through profit or loss:				
Foreign currency forward contracts	-	896,998	-	896,998
Derivative financial liabilities for hedging:				
Interest rate swap contracts	-	3,540	-	3,540
There were no transfers between Level 1 and 2 for the years ended December 31, 2017 and 2016.				

(31) Financial Risk Management

a. Risk management framework

The managerial officers of related divisions are appointed to review, control, trace and monitor the strategic risks, financial risks and operational risks faced by the Company. The managerial officers report to executive officers the progress of risk controls from time to time and, if necessary, report to the board of directors, depending on the extent of impact of risks.

b. Financial risk information

Hereinafter discloses information about the Company's exposure to variable risks, and the goals, policies and procedures of the Company's risk measurement and risk management.

The Company is exposed to the following risks due to usage of financial instruments:

(i) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's exposures to credit risk are mainly from:

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

The Company's potential credit risk is derived primarily from cash in bank, cash equivalents and trade receivables. The Company deposits its cash and cash equivalent investments with various reputable financial institutions of high credit quality. The Company also entered into reverse repurchase agreements with securities firms or banks in Taiwan covering government bonds that classified as cash equivalents. There should be no major concerns for the performance capability of trading counterparts. Management performs periodic evaluations of the relative credit standing of these financial institutions and limits the amount of credit exposure with any one institution. Management believes that there is a limited concentration of credit risk in cash and cash equivalent investments.

The majority of the Company's customers are in high technology industries. Management continuously evaluates and controls the credit quality, credit limit and financial strength of its customers to ensure any overdue receivables are taken necessary procedures. The Company also flexibly makes use of prepayments, accounts receivable factoring and credit insurance as credit enhancement instruments. If necessary, the Company will request collaterals or assurance from its customers in order to reduce the credit risk from particular customers.

Additionally, on the reporting date, the Company reviews the recoverability of its receivables to provide appropriate valuation allowances. Consequently, management believes there is a limited concentration of its credit risk.

For the years ended December 31, 2017 and 2016, the Company's five largest customers accounted for 39.0% and 36.3%, respectively, of the Company's consolidated net revenue. There is no other significant concentration of credit risk.

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

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

(ii) Liquidity risk

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

Liquidity risk of the Company is monitored through its corporate treasury department which tracks the development of the actual cash flow position for the Company and uses input from a number of sources in order to forecast the overall liquidity position both on a short and long term basis. Corporate treasury invests surplus cash in money market deposits with appropriate maturities to ensure sufficient liquidity is available to meet liabilities when due, without incurring unacceptable losses or risking damage to the Company's reputation. As at December 31, 2017, the Company's working capital together with existing unused credit facilities under its existing loan agreements will be sufficient to fulfill all of its contractual obligations. Therefore, management believes that there is no liquidity risk resulting from incapable of financing to fulfill the contractual obligations.

The following, except for payables (including related parties) and equipment and construction payable, are the contractual maturities of other financial liabilities. The amounts include estimated interest payments (except for short-term borrowings) but exclude the impact of netting agreements.

	<u>Contractual cash flows</u>	<u>2018.1.1~ 2018.12.31</u>	<u>2019.1.1~ 2020.12.31</u>	<u>2021.1.1~ 2022.12.31</u>	<u>2023 and thereafter</u>
			(in thousands)		
December 31, 2017					
Non-derivative financial liabilities					
Short-term borrowings	\$ 3,424,376	3,424,376	-	-	-
Long-term borrowings (including current installments)	119,344,944	10,941,692	68,455,501	33,892,568	6,055,183
Refundable deposits	838,482	33,510	9,902	-	795,070
Derivative financial instruments					
Foreign currency forward contracts – inflows	(22,124,574)	(22,124,574)	-	-	-
Foreign currency forward contracts – outflows	22,170,245	22,170,245	-	-	-
	<u>\$ 123,653,473</u>	<u>14,445,249</u>	<u>68,465,403</u>	<u>33,892,568</u>	<u>6,850,253</u>
	<u>Contractual cash flows</u>	<u>2017.1.1~ 2017.12.31</u>	<u>2018.1.1~ 2019.12.31</u>	<u>2020.1.1~ 2021.12.31</u>	<u>2022 and thereafter</u>
			(in thousands)		
December 31, 2016					
Non-derivative financial liabilities					
Short-term borrowings	\$ 526,723	526,723	-	-	-
Long-term borrowings (including current installments)	133,125,692	21,116,908	75,423,482	27,662,194	8,923,108
Refundable deposits	838,263	75,970	3,078	7,275	751,940
Derivative financial instruments					
Foreign currency forward contracts – inflows	(37,819,838)	(37,819,838)	-	-	-
Foreign currency forward contracts – outflows	38,625,310	38,625,310	-	-	-
Interest rate swap contracts	3,446	3,446	-	-	-
	<u>\$ 135,299,596</u>	<u>22,528,519</u>	<u>75,426,560</u>	<u>27,669,469</u>	<u>9,675,048</u>

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

(iii) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, which will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable range, while optimizing the return.

The Company buys and sells derivatives, and also incurs financial liabilities, in order to manage market risks. All such transactions are executed in accordance with the Company's handling procedures for conducting derivative transactions, and also monitored by internal audit department.

(a) Currency risk

The Company is exposed to currency risk on foreign currency denominated financial assets and liabilities arising from operating, financing and investing activities such that the Company uses forward exchange contracts to hedge its currency risk. Gains and losses derived from the foreign currency fluctuations on underlying assets and liabilities are likely to offset. However, transactions of

derivative financial instruments help minimize the impact of foreign currency fluctuations, but the risk cannot be fully eliminated.

The Company periodically examines portions exposed to currency risks for individual asset and liability denominated in foreign currency and uses forward contracts as hedging instruments to hedge positions exposed to risks. The contracts have maturity dates that do not exceed six months, and do not meet the criteria for hedge accounting.

I. Exposure of currency risk

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

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

II. Sensitivity analysis

The Company's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, trade receivables, loans and borrowings and trade payables that are denominated in foreign currency. Depreciation or appreciation of the NTD by 1% against the USD, EUR and JPY at December 31, 2017 and 2016, while all other variables were remained constant, would have increased or decreased the net profit before tax for the years ended December 31, 2017 and 2016 as follows:

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

III. Foreign exchange gain (loss) on monetary items

With varieties of functional currencies within the consolidated entities of the Company, the Company disclosed foreign exchange gain (loss) on monetary items in aggregate. The aggregate of realized and unrealized

foreign exchange gains (losses) for the years ended December 31, 2017 and 2016 were \$(1,364,929) thousand and \$770,325 thousand, respectively.

(b) Interest rate risk

The Company's exposure to changes in interest rates is mainly from floating-rate long-term debt obligations. Any change in interest rates will cause the effective interest rates of long-term borrowings to change and thus cause the future cash flows to fluctuate over time. The Company enters into and designates interest rate swaps as hedges of the variability in cash flows attributable to interest rate risk.

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

For the Company's floating-rate debts, assuming all other variables were remained constant, an increase or a decrease in the interest rate by 0.25% would have resulted in a decrease or an increase in the net profit before tax for the years ended December 31, 2017 and 2016 by \$277,612 thousand and \$307,464 thousand, respectively.

(c) Equity price risk

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

(32) Capital Management

Through clear understanding and managing of significant changes in external environment, related industry characteristics, and corporate growth plan, the Company manages its capital structure to ensure it has sufficient financial resources to sustain proper liquidity, to invest in capital expenditures and research and development expenses, to repay debts and to distribute dividends in accordance to its plan. The management pursues the most suitable capital structure by monitoring and maintaining proper financial ratios as below. The Company aims to enhance the returns of its shareholders through achieving an optimized debt-to-equity ratio from time to time.

	December 31,	
	2017	2016
	(in thousands)	
Total liabilities	\$ 216,206,169	230,134,069
Total equity	225,245,115	199,635,182
Interest-bearing debts	114,032,386	124,789,343
Debt-to-equity ratio	96%	115%
Interest-bearing debt-to-equity ratio	51%	63%
Net debt-to-equity ratio ⁽¹⁾	4%	22%

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

7. Related-party Transactions

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

(1) Name and relationship of related parties

<u>Name of related party</u>	<u>Relationship with the Company</u>
Lextar Electronics Corporation (“Lextar”)	Associate of the Company
Lextar Electronics (Suzhou) Co., Ltd. (“LESZ”)	Subsidiary of Lextar
Lextar Electronics (Xiamen) Co., Ltd. (“LEXM”)	Subsidiary of Lextar
Wellypower Optronics (Suzhou) Corporation (“AOC”)	Subsidiary of Lextar
Raydium Semiconductor Corporation (“Raydium”)	Associate of the Company
Dazzo Technology Corporation (“Dazzo”)	Subsidiary of Raydium ⁽ⁱ⁾
Star River Energy Corp. (“SREC”)	Associate of the Company
Sungen Power Corporation (“SGPC”)	Subsidiary of SREC
Evergen Power Corporation (“EGPC”)	Subsidiary of SREC ⁽ⁱⁱ⁾
Star Shining Energy Corporation (“SSEC”)	Associate of the Company
Fargen Power Corporation (“FGPC”)	Subsidiary of SSEC ⁽ⁱⁱⁱ⁾
TronGen Power Corporation (“TGPC”)	Subsidiary of SSEC ⁽ⁱⁱⁱ⁾
Daxin Materials Corp. (“Daxin”)	Associate of the Company
Ichijo Seisakusyo Co., Ltd. (“Ichijo”)	Associate of the Company
AUO SunPower Sdn. Bhd. (“AUSP”)	Joint venture of the Company ^(iv)
BVCH Optronics (Sichuan) Corp. (“BVCH”)	Joint venture of the Company
Evonik Forhouse Optical Polymers Corp. (“EFOP”)	Joint venture of the Company
Wibase Industrial Solutions Inc. (“WIS”) (formerly iSAFE Technology Inc.)	DPTW represented as a director of WIS

<u>Name of related party</u>	<u>Relationship with the Company</u>
Qisda Corporation (“Qisda”)	AUO’s director
Qisda Japan Co., Ltd. (“QJTO”)	Subsidiary of Qisda
BenQ Corporation (“BenQ”)	Subsidiary of Qisda
BenQ Materials Corp. (“BMC”)	Subsidiary of Qisda
Qisda (Suzhou) Co., Ltd. (“QCSZ”)	Subsidiary of Qisda
Qisda Electronics (Suzhou) Co., Ltd. (“QCES”)	Subsidiary of Qisda
Qisda Optronics (Suzhou) Co., Ltd. (“QCOS”)	Subsidiary of Qisda
BenQ Europe B.V. (“BQE”)	Subsidiary of Qisda
BenQ Asia Pacific Corp. (“BQP”)	Subsidiary of Qisda
BenQ America Corporation (“BQA”)	Subsidiary of Qisda
Mainteq Europe B.V. (“MQE”)	Subsidiary of Qisda
BenQ Medical Technology Corp. (“TMC”)	Subsidiary of Qisda
BenQ Australia Pty Ltd. (“BQau”)	Subsidiary of Qisda
BenQ Co., Ltd. (“BQC”)	Subsidiary of Qisda
BenQ Logistic (Shanghai) Co., Ltd. (“BQls”)	Subsidiary of Qisda
BenQ Guru Software Co., Ltd. (“GSS”)	Subsidiary of Qisda
BenQ Guru Corporation (“GST”)	Subsidiary of Qisda
BenQ Material (Suzhou) Co., Ltd. (“BMS”)	Subsidiary of Qisda
Daxon Biomedical (Suzhou) Co., Ltd. (“DTB”)	Subsidiary of Qisda
Nanjing BenQ Hospital Co., Ltd. (“QCHN”)	Subsidiary of Qisda
Suzhou BenQ Hospital Co., Ltd. (“QCHS”)	Subsidiary of Qisda
BenQ Foundation	Substantive related party

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

(2) Compensation to key management personnel

Key management personnel’s compensation comprised:

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

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

a. Sales

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

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

b. Purchases

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

The payment terms for purchases from related parties were 30 to 120 days. The pricing and payment terms with related parties were not materially different from those with third parties.

c. Acquisition of property, plant and equipment

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

d. Disposal of property, plant and equipment and others

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

Proceeds from disposal		Gains on disposal	
For the years ended		For the years ended	
December 31,		December 31,	
2017	2016	2017	2016
(in thousands)			
\$ <u>3,352</u>	<u>926</u>	<u>2,212</u>	<u>22</u>

e. Other related party transactions

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

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

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

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

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

The Company leased portion of its facilities to related parties. The collection term was 15 days from quarter-end, and the pricing was not materially different from that with third parties.

For the years ended December 31, 2017 and 2016, cash dividends declared by related parties of \$420,547 thousand and \$307,481 thousand, respectively, were received by the Company.

8. Pledged Assets

The carrying amounts of the assets which the Company pledged as collateral were as follows:

Pledged assets	Pledged to secure	December 31,	
		2017	2016
		(in thousands)	
Restricted cash in banks ⁽ⁱ⁾	R&D projects, oil purchases and guarantees for foreign labors and customs duties	\$ 87,105	93,379
Land and building (including investment property)	Long-term borrowings	42,031,020	52,076,840
Machinery, equipment and prepayments for equipment	Long-term borrowings	<u>17,143,591</u>	<u>27,058,442</u>
		<u>\$ 59,261,716</u>	<u>79,228,661</u>

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

9. Significant Contingent Liabilities and Unrecognized Commitments

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

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

Currency	December 31, 2017
(in thousands)	
USD	15,029

<u>Currency</u>	<u>December 31, 2017</u>
JPY	2,761,778
(2) Starting 1998, AUO has entered into technical collaboration, patent licensing, and/or patent cross licensing agreements with Fujitsu Display Technologies Corp. (subsequently assumed by Fujitsu Limited), Toppan Printing Co., Ltd. (“Toppan Printing”), Semiconductor Energy Laboratory Co., Ltd., Japan Display Inc. (formerly Japan Display East Inc./Hitachi Displays, Ltd.), Panasonic Liquid Crystal Display Co., Ltd. (formerly IPS Alpha Technology, Ltd.), LG Display Co., Ltd., Sharp Corporation, Samsung Electronics Co., Ltd., Hydis Technologies Co., Ltd., Seiko Epson Corporation and others. AUO believes that it is in compliance with the terms and conditions of the aforementioned agreements.	
(3) In April 2011, AUO signed a long-term materials supply agreement with Korean OCI Company Ltd. (“OCI”), under which, AUO and OCI agreed on the supply of certain polysilicon. Purchase prices were determined and adjusted through negotiation on each order basis between both parties. AUO paid proportionate prepayments in three installments to OCI in 2011. In May 2015 and December 2016, the supply agreement was amended and the amended effective term is from April 15, 2011 to December 31, 2020.	

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

United States

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

Antitrust Civil Actions Lawsuits

There were over 100 civil lawsuits filed against AUO, AUUS and various manufacturers in the TFT-LCD industry in the United States and Canada alleging, among other things, antitrust violations. As of February 6, 2018, AUO and AUUS have reached settlement agreements with the relevant plaintiffs. In addition to the above cases in the United States and Canada, a lawsuit was filed by certain consumers in Israel against certain LCD manufacturers including AUO in the District Court of the Central District in Israel (“Israeli Court”). The defendants contested various issues including whether the lawsuit was properly served. In December 2016, the Israeli Court overturned the original decision and revoked the permission for this case to serve out of Israeli jurisdiction. The plaintiffs lodged an appeal to the Israeli Supreme Court but the Israeli Supreme Court overruled the appeal in August 2017. In January 2018, the parties reached a settlement agreement and agreed to commence the required proceedings for withdrawing the lawsuit.

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

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

As of February 6, 2018, the Company has made certain provisions with respect to certain of the above lawsuits as the management deems appropriate, considering factors such as the nature of the litigation or claims, the materiality of the amount of possible loss, the progress of the cases and the opinions or views of legal counsel and other advisors. Management will reassess all litigation and claims at each reporting date based on the facts and circumstances that exist at that time, and will make additional provisions or adjustments to previous provisions. The ultimate amount cannot be ascertained until the relevant cases are closed. The ultimate resolution of the legal proceedings and/or lawsuits cannot be predicted with certainty. While management intends to defend certain of the lawsuits described above vigorously, there is a possibility that one or more legal proceedings or lawsuits may result in an unfavorable outcome to the Company. In addition to the matters described above, the Company is also a party to other litigations or proceedings that arise during the ordinary course of business. Except as mentioned above, the Company, to its knowledge, is not involved as a defendant in any material litigation or proceeding which could be expected to have a material adverse effect on the Company's business or results of operations.

10. Significant Disaster Losses: None.

11. Subsequent Events

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

According to the amendment to the ROC Income Tax Act passed by the Legislature of ROC on January 18, 2018, an increase in the corporate income tax rate from 17% to 20% is applicable upon filing the corporate income tax return starting from fiscal year 2018 onwards. This increase does not affect the amounts of the current and deferred taxes recognized on December 31, 2017. However, this amendment will increase the Company's current and deferred tax charge accordingly in the future. Assuming the new tax rate is applied in calculating the taxable temporary differences and unused tax losses carryforwards recognized on December 31, 2017, the deferred tax assets and deferred tax liabilities would increase by \$998,697 thousand and \$546,504 thousand, respectively.

12. Others

There have been environmental proceedings relating to the development project of the Central Taiwan Science Park in Houli, Taichung, which AUO's second 8.5-generation fab is located at and which has been established since 2010. The proceedings were initiated by six residents in Houli

District, Taichung City (the “Plaintiffs”) to object the administrative dispositions of the environmental assessment and development approval issued in 2010 by the Environmental Protection Administration (“EPA”) of the Executive Yuan of Taiwan to the third phase development area in the Central Taiwan Science Park (the “Project”). On August 8, 2014, the Plaintiffs reached a settlement with the defendants (i.e. the governmental authorities, including the EPA of the Executive Yuan of Taiwan, the Ministry of Science and Technology (former National Science Council of the ROC Executive Yuan) and the Central Taiwan Science Park Development Office) in the Taipei High Administrative Court. The second phase environmental impact assessment for the Project continues to proceed. On December 14, 2017, the EPA of the Executive Yuan of Taiwan held the third review meeting of the investigation group. The review meeting reached the conclusion of suggesting approval for the Project. The Central Taiwan Science Park Bureau is now reviewing the comments and conclusion of the review meeting and will reply to the Environmental Impact Assessment Committee of the EPA for further discussion. After approval, the Project will be submitted to the Environmental Impact Assessment General Meeting for review. Currently management does not believe that this event will have a material adverse effect on the Company’s operation and will continue to monitor the development of this event.

13. Segment Information

(1) Operating segment information

The Company has two operating segments: display and solar. The display segment generally is engaged in the research, development, design, manufacturing and sale of flat panel displays and most of our products are TFT-LCD panels. The solar segment primarily is engaged in the design, manufacturing and sale of ingots, solar wafers and solar modules, as well as providing technical engineering services and maintenance services for solar system projects.

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

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

Segment assets \$ 441,451,284

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

(2) Geographic information

a. Net revenue from external customers

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

 b. Consolidated noncurrent assets⁽ⁱ⁾

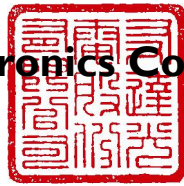
<u>Region</u>	December 31,	
	2017	2016
	(in thousands)	
Taiwan	\$ 165,377,866	160,109,961
PRC (including Hong Kong)	67,846,109	68,356,214
Others	11,037,333	15,383,473
	<u>\$ 244,261,308</u>	<u>243,849,648</u>

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

(3) Major customer information

For the years ended December 31,			
2017	% of consolidated net revenue	2016	% of consolidated net revenue

AU Optronics Corporation



Representative: Paul SL Peng

